INVESCO INC

Moderator: Marty Flanagan
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Coordinator: Welcome to Invesco's Fourth Quarter Results Conference Call.

All participants will be in a listen-only mode until the question-and-answer session.

At that time, to ask a question, press star 1.

Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I would like to turn the call over to your speakers for today, Marty Flanagan, President and CEO of Invesco; Loren Starr, Chief Financial Officer.

Mr. Flanagan, you may begin.

Marty Flanagan: Thank you very much and thank you for joining us, everybody. And if you're so inclined, you can follow the presentation that's available on the Web site.

So I will spend a few minutes reviewing the full-year results and the fourth quarter results of 2017, give an update on where we are with the two acquisitions that we're involved in, and Loren will go into the financial results and we'll open up to Q&A.

So let me start by talking about - highlighting firm's operating results for the full year. And I'm Page 4 if you're following along.

So investment performance continued to be very strong throughout the year. And really on the back of very strong investment performance, really our movement of focus on outcome-oriented solutions contributed to long-term net inflows of 1. - excuse me, $11.5 billion during the year. Organic growth rate was 1.7%.

I do want to highlight that 2017 represents the ninth consecutive year of positive long-term net inflows from Invesco. And I'll come back to that in a minute.

But again, the combination of all these efforts, performance, the capabilities and delivery for clients resulted in achieving record earnings per share for Invesco of $2.70 per share. That's up 21% year-over-year. The adjusted operating margin was 39.4% for the year, up from 38.7%. We did return $472 million of dividends throughout 2017.

So if you turn to Page 5, this is where I want to come back to, the consistency and the diversity of our long-term flows which really is in the context of nine years of net inflows.

So this chart on Page 5 shows the relationship between organic growth rate and the variability of that growth. The vertical axis is the average organic growth rate over the prior five years through 2017. And it's the public company peers. The horizontal axis was the standard deviation of those flows, and it reflects the sustainability or the variability of the organic growth rate.

So if you look at Invesco against our peers, it’s evident that the diversification is benefitting Invesco. Invesco has the lowest standard deviation of flows of the group, reflecting a high level of flow consistency. And additionally, we are just outside the top third of the average organic growth rates of that peer group -- something that we absolutely intend to close.

Having strong and diversified sets of offerings and assets under management really does put us in a position to better serve our clients. But as a business, it absolutely makes us stronger by not being overly reliant on any one geography - excuse me, any distribution channel or asset class. So again, diversification is good for portfolio. It’s a great for business. And this is not a concept anymore. This was proven in these results.

We do believe that this diversification of the business does lead to better flow consistency and represent a strong opportunity for us to reach that targeted growth rate of - organic growth rate of 3% to 5% in the near future.

And lastly, I do want to point out, despite our continuous inflows and the low volatility of those flows, Invesco continues to sell at a discount versus peers. We do not believe that our current valuation fairly reflects our ability to grow organically as measured by history or what we think is based on the future potential of Invesco.

So now let me turn to Page 6 and take a minute to talk about the achievements over the past year, all of which were intended to strengthen our ability to help our clients meet their needs and further advance our competitive position.

Investment performance is very strong during the year, as I mentioned -- 64% of our assets, beat peers on a three-year basis and 75% on a five-year basis. And this was really what was one of the principal drivers -- good performance over the past nine years -- that generated the flows that we've talked about, and in particular, in this year, the record earnings per share of $2.70.

But throughout 2017, we continued to build our competitive range of active, passive and alternative capabilities. We - that is really important for future success of any money manager. We did complete the acquisition of Source and announced the acquisition of Guggenheim Investments ETF business, both of which I'll talk about in just a minute.

In 2017, we continued to expand our Solutions business, which brings together the full capabilities of the firm to provide outcomes for clients. And, again, this is a really developing and very important thing that we're seeing what clients are looking for from money managers.

One of the things that highlighted that closed within the year, as everybody knows, was Rhode Island 529 accounts. But also importantly, we are seeing success with Solutions and traction within the Wealth Management platform, and our different opportunities in different parts of the world institutionally also.

Regarding our digital advice platform, Jemstep, we announced partnerships with a number of large enterprises in 2017. And we're well down the implementation path with several of them. And the sales and onboarding pipeline continues to be very, very robust. In particular, we saw strong demand for banks, which view digital advice as a really important means for them to strengthen the relationship with their clients as they build comprehensive wealth management services.

Jemstep differentiates itself by offering an advisor-powered technology, enhancing the human touch, not replacing it, but enhancing them. So the partnership with our partners is really very, very important and it works, you know, quite well.

We also continue to drive savings through our business optimization program, delivering more than $43 million in annual run rate savings as of the end of 2017. We will use the savings to offset investments in key initiatives that help us better meet client needs, strengthen our competitive position and help us grow the business as we look to the future.

A handful of the initiatives I might highlight, for example, would include factor-based investing, which would also include things like self-indexing -- a complement to our ETF business. We have continued effort to advance our institutional business globally and expansion in China, all of which we have talked about in 2017 or we'll get further updates in 2018.

So now let me take a minute to update you where we are on our acquisitions in 2017. Again, both of which we're focusing on expanding and improving our global ETF program - platform. Both of which, we think can enhance our competitive position in the upper-growing ETF business. And the EMEA platform has been - helped with the closure of Source and Guggenheim, also here in the United States.

Our EMEA ETF business totaled $27.9 billion at the end of 2017, up from $26 billion at the time of acquisition. This really is a strong result of our efforts to successfully manage the integration post acquisition, which typically we did not see any of the integration issues that often happen with acquisitions. The EMEA acquisition expands the diversity of our ETFs across equity, fixed income and commodities, smart beta and active ETFs. So really broad complementary to our platform.

We did launch ten new ETFs in the fourth quarter. The point being, we look to take advantage of the platform in a very rapid fashion.

The Guggenheim Investment ETF business continued to expand assets under management and had strong performance within that platform. We still intend to close in the second quarter of this year. And again the Guggenheim platform will add equity, fixed income, alternative ETFs, again, enhancing the range of capabilities we have and also will be able to create client-directed proprietary indexes through self-indexing capabilities.

Spending a minute on the fourth quarter results on Slide 10, you'll see again the strong investment performance helped drive assets under management to $937 billion, up from $917 billion in the prior quarter. We had solid retail and institutional demand led by the long term net inflows of $4.4 billion and organic growth rate of 2.3% during the quarter.

Adjusted operating income was $399 million as compared to $397 million in the prior quarter. The adjusted operating income was up - excuse me, operating margin was up slightly to 40.7%, and we had earnings per share of $0.73. We did return $119 million to shareholders through dividends during the quarter, and the quarterly dividend remains constant at 29 cents per share.

I've talked about performance. So why don't we turn to flows on Page 13?

We saw solid demand for active and passive capabilities during the quarter. Gross sales and net inflows of active capabilities in the fourth quarter, building on solid demand in the prior quarter. You saw solid flows in a taxable fixed income, international equity firms and domestic equity.

Turning to passive, we saw strong flows into domestic equity, fixed income, international equity ETFs. And as noted in the presentation, our ETF acquisition in EMEA is contributing to net flows and building up strong demand for ETFs in that region.

We did see very strong retail and institutional demand during the quarter, as you'll see on Slide 14. And as an example, this was a sixth consecutive quarter of net positive flows for EMEA, led by strong institutional and cross-border flows. And as you can imagine with markets continuing, ever rising as they have over the last number of months, demand for risk mitigation strategy remains strong, particularly amongst institutional investors. And the pipeline of one, but not funded institutional mandate also remains very strong.

We saw strong flows into - in the Global Targeted Return Funds, led by institutional investors. And we also saw solid flows in the Pan-European High Income as well as commodity in emerging market ETFs.

So, again, the flow picture continues to be quite robust and ever-increasing as we look to the future.

Let me turn it over to Loren, so he can give you more specifics and then we'll open up to Q&A.

Loren Starr: Thanks a lot, Marty.

So quarter-over-quarter, we saw total AUM increase $20.1 billion or 2.2%. That was driven by market gains of $14.9 billion, long-term net inflows of

$4.4 billion, which included $5.9 billion of reinvested dividends and capital gains in the quarter. We saw a positive foreign exchange translation of $2-1/2 billion and inflows into non-management fee earning AUM of $1.6 billion. These factors were somewhat offset by outflows from institutional money market products of $3.3 billion.

Our average AUM for the fourth quarter was $930.3 billion. That was up 4.4% versus the third quarter. And our annualized long-term organic growth rate in Q4 was 2.3% compared to 3% in the third quarter.

Before turning to net revenue yield as I do typically, I wanted to provide one quick update on the change this quarter and how long-term inflows are being calculated.

Beginning with the fourth quarter, our flows and AUM of our Unit Investment Trusts, or UITs, as they are known, as well as changes in product leverage are no longer going to be classified as long term and instead are being presented with - alongside with the Invesco PowerShares QQQ product as flows - categorized as flows and non-management fee earning AUM.

Since these products - none of these products earn management fees, similar to the QQQ, we thought it was more accurately reflecting the nature of long-term flows in AUM to exclude these products from those flows going forward. All prior periods have been restated to allow for a consistent presentation and comparability.

So now let me get to the net revenue yield.

Our net revenue yield came in at 43.2 basis points and our net revenue yield, excluding performance fees was 41.3 basis points, so that was a decrease of

0.6 basis points versus Q3. The impact of a full quarter of results for the acquired European ETF business reduced our yield by 0.5 basis points. And we also saw a non-recurring reduction in service and distribution revenues in the quarter. That decreased the yield by 0.2 basis points. These were then somewhat offset by the positive impact of foreign exchange and on mix which added 0.1 basis point.

So ultimately, the mix improvement that was anticipated when we provided our net revenue yield guidance last quarter did not fully materialize, to the extent that we expected, as we did see higher outflows from some of our US retail equity products, as well as a somewhat modest slowdown in flows versus what we were expecting from our cross-border fund range in the fourth quarter.

Let me move to Slide 17 just quickly. That provides our US GAAP operating results for the quarter. As is customary, my comments today will focus exclusively on the variances related to our non-GAAP adjusted measures, which are found on Page 18.

So let’s move to that page.

Net revenues increased by $28.3 million or 2.9% quarter-over-quarter, just over $10 billion, which includes a positive foreign exchange rate impact of $2.6 million. Within the net revenue number, you’ll see that adjusted investment management fees increased by $37.3 million or 3.4% to $1.12 billion. This primarily reflects higher average AUM for the quarter.

Then we had adjusted service and distribution revenue, which decreased by $0.1 million compared to the third quarter. Adjusted performance fees came in at $43.3 million in Q4 and were primarily earned from real estate and bank loan products.

Going into 2018, we want to give some guidance here. We do expect that performance fees will be up versus our prior guidance. And we would say roughly $10 million to $15 million per quarter. Our adjusted other revenues in the fourth quarter came in at $18.4 million. That was an increase of $1.7 million from the prior quarter, and that was primarily due to increased real estate transaction fees.

Looking forward to 2018, again providing guidance here, we would expect other revenues to remain at a similar level to the fourth quarter at around $16 million to $18 million per quarter through the remainder of 2018.

Next, dropping to the third-party distribution service and advisory expense line item, which we net against gross revenues, that increased $10.6 million or 2.8%, which was consistent with the increased revenues derived from our related retail AUM.

Pardon me. Before turning to expenses, let me just summarize all the revenue guidance I just provided in terms of yield.

Looking into 2018, we would expect to see our net revenue yields, excluding performance fees, decline modestly by approximately 1/2-basis-point year-over-year to about 41 basis points. This decline was driven by our full-year results from the acquired European ETF business, as well as inclusion of the Guggenheim ETF assets that we would expect beginning in the second quarter of 2018. And that will reduce yield by roughly 1-1/2 basis points. These impacts will be somewhat, but not fully offset by the improving foreign exchange rate that we're seeing, as well as the sales mix trend that is occurring in the business.

So let me then move onto expenses. So moving on down the slide you'll see that our adjusted operating expenses at $605.7 million. That increased by $26-1/2 million or 4.6% relative to the Q3 foreign exchange, with an impact on our adjusted operating expenses of roughly $0.9 million during the quarter. Our adjusted employee compensation came in at $376.3 million. That's a decrease of $70.6 million or 2%. This was driven by lower variable compensation and the $5.5 million non-cash charge related to company's UK defined benefit plan, which we recognized in Q3.

Looking ahead into 2018, again providing guidance here, we would expect compensation expense of roughly $410 million to $415 million per quarter. The increase in the first quarter reflects the seasonality of payroll taxes, as well as the one month impact from the base salary increases, as well as the impact of higher foreign exchange.

The seasonal taxes should then drop off in Q2, but they'd be offset by the costs for the Guggenheim ETF business, as well as variable compensation being reflected.

So note that this guidance of course is based on flat markets, consistent net foreign exchange and as well as the revenue guidance that I provided earlier around fee rates.

So our adjusted marketing, moving to that line in Q4, increased by $9.7 million. That's 32.2% higher or $39.8 million. That was related to marketing campaigns, related to the acquired ETF business, as well as the cross-border funds and normal seasonal increases in advertising, client events and other marketing costs. So looking into - forward to 2018, we would expect marketing expenses to come in at roughly $32 million per quarter.

Dropping down to the adjusted property, office and technology line item that came in at $100.8 million, that was an increase of $7.1 million or 7.6% over the third quarter. This reflects increased outsourced administration costs associated with MiFID II reporting, as required, and other regulatory compliance costs, as well as higher software costs.

Looking forward to 2018, we would expect property, office and technology expenses roughly in line with the fourth quarter levels, around $102 million to $104 million per quarter.

And next, our adjusted G&A expenses came in somewhat higher than we had guided. As we know, $88.8 million, that was an increase of $17.3 million or 24.2% more than Q3. The fourth quarter reflected an increase of $9.3 million, primarily related to regulatory - or preparing for regulatory changes. There were business growth initiatives, which included product costs and legal, consulting, and professional services costs within that line item. These increased costs also led to increase overall of $1.7 million in irrecoverable taxes as compared to the third quarter.

In terms of the guidance, while we would expect to see our G&A run rate decrease going into 2018, this decrease will of course be partially offset by the costs incurred related to the MiFID II hard dollar payments that we have talked about in the past. But, overall, the guidance is that quarterly rate should be around $80 million to $83 million per quarter for 2018.

So based on the guidance provided today and assuming flat markets and foreign exchange, we believe our margin is certainly sustainable at current levels into 2018 and our incremental margin target for the year remains at that 40% to 50% level, consistent with our prior guidance. Looking into 2019 and beyond, we certainly believe that our incremental margin could return to the 50% to 65% level consistent with our historical guidance.

So back onto the current results, going down the page, let me just quickly finish this out. You'll see that our adjusted non-operating income increased $3.2 million compared to Q3, driven by mark-to-market gains on seed money investments. And then moving to taxes, the firm's effective tax rate in the quarter came in at 26.8%. As expected, our 2018 effective tax rate will be impacted by the Tax Cut and Jobs Act which was enacted last month.

Given our domicile in Bermuda, we have always paid tax under territorial system in the jurisdictions where our income is earned. But we will benefit from the lower US tax rate on our US-generated earnings. And therefore, our current analysis guides us to an overall effective tax rate for Invesco that is going to be between 20% to 21% for 2018. This estimated rate could be impacted as we continue to review, of course, the rules and if there are additional guidance provided on the legislation.

Other point is just on the GAAP results. You will note that we had a one-time benefit of $130.7 million in the quarter. That was reflecting the revaluation of our deferred taxes at the new lower corporate tax rates. This amount of course was adjusted out for purposes of our non-GAAP results.

And our intention, just in general, as these questions come up, about the cash related to the benefit on the tax rate is to use this cash to reduce our anticipated outstanding balance on the credit facility, which will be used to fund the majority of the Guggenheim acquisition, beginning of Q2. After the acquisition is completed and our leverage ratios are reduced to the preacquisition levels we see today, any residual excess cash will certainly just follow our stated capital priorities. And as a reminder, these priorities are that we will reinvest cash back in the business, as needed through seed money and co-investments, but then it goes to dividends and finally share repurchases.

So that brings us back to the current quarter. Generally, EPS 73 cents, adjusted operating margin of 39.7% for the quarter.

And before I turn things back to Marty, I just wanted to offer an update on net flows as we've always done. In January, we continue to see significant strength in our EMEA business, as well as Asia-Pacific, both on the retail and institutional side. This has been somewhat offset by some weakness in the US flows, largely in the retail space. But overall, we've seen through January 29th, $1 billion of long-term net flows. So we're not done with the month and certainly there is an institutional activity that happens during the month. So that number hopefully could improve from the number I just gave you.

And with that, I'm now going to turn it over to Marty.

Marty Flanagan: Thank you, Loren.

So operator, can you open it up for questions please?

Coordinator: Thank you, speakers.

At this time, if you would like to ask an audio question, please press star 1. You will be announced prior to asking your questions. Please pick up your handset when asking your question.

To withdraw your request, please press star 2.

One moment for the first question.

And, speakers, our first question is from Ken Worthington of JPMorgan.

Your line is open.

Ken Worthington: Hi, good morning and thank you for taking my questions.

I guess maybe first in terms of ETFs in Europe, has MiFID II impacted the conversation on ETFs and factor-based investing yet? You know, how is the conversation changing now that rules are in place? And then can you talk more about the marketing effort you're putting behind Source in the UK? And then maybe lastly, what are the lessons you've learned so far from Source that you could apply to Guggenheim? Thanks.

Marty Flanagan: Thanks, Ken.

So, look, everything at the time of the announcement that, you know, we talked about, you know, the landscape in Europe advancing, MiFID being very supportive of ETFs being even a more important part of the investing landscape, it's all in place, right? So we think it's going to result in, you know, a very important business for us. So nothing has changed there. We're just moving strongly ahead.

As I mentioned earlier, the integration has gone very, very well. It's a very talented group of people. It really is complementary to what we have. So we think we're going to see the results that we talked about.

And from, you know, a marketing point of view, again, it just extends what we have been doing as an organization, you know, using the combination of active, passive and alternatives, so again, very, very supportive.

But let me back up even more before I come back down to it. So, you know, as a firm, I talked about the flows and the consistency of the flows. You know, we have a stated target of 3% to 5% organic growth rate. We are absolutely focused on driving gross sales to get the net flows that we want. And we're pulling every lever that you can imagine. So focus on distribution excellence, so not just limit it to Source, but throughout the organization -- retail, institutional -- and also looking very much at, you know, the brand positioning of the firm and anything that we can do to further strengthen, you know, ultimately the outcomes for clients, you know, resulting net flows is what we'll do.

But, again, Source becomes a very important part of our overall global ETF business, and again, nothing has changed from what we thought at the time of the announcement.

Loren Starr: And one thing I would mention, too, is I know our institutional salespeople are extremely excited about the prospect of using ETFs within the Solutions context. You know, it's something that we've not really had available to them. And so as we've added more resources around Solutions and being able to provide Solutions to institutions, the ETF business is absolutely factoring into those conversations.

So, again, it's a little bit early days to say, you know, where it's going. But it's absolutely becoming a different part of the conversation than we've been able to have in the past.

Ken Worthington: Okay. Thank you.

And then, Marty, you've highlighted a couple of times in recent calls the investment made in Europe, Asia, and US institutional sales. I believe that Asia institutional sales have weakened somewhat. But we're not yet seeing kind of the improved net or gross sales in the institutional side yet, at least it's not material. And it seems like gross sales are sort of flat-lined around this $8 billion, $8-1/2 billion level.

So is the good news coming? When the good news comes, you know, what level of gross sales would you expect - we should expect? Is it - are you thinking like nine, ten? Like how good is good when good comes? Thank you.

Marty Flanagan: Yes. So I'm going to make a couple of comments and turn over to Loren.

So good is coming, and it's real and we expect the - if you look out a couple of years, quite material. You know, our aspiration and intent is to have a very different set of outcomes than what you're seeing. And from my perspective, everything is in place to have that happen. Again, it's things that we've been talking about, just, you know, the factor capability, the alternative capability, the Solutions capability, the quality of the team and where we are. And, again, it's not a plan; we're actually executing a plan.

So, Loren, do you want to make a couple of comments?

Loren Starr: Yes. Ken, I mean, if there's any indication - I know we don't get into exact numbers. But our one, but not funded pipeline is up 34% through the course of 2017. The fee rate is well above the firm's overall fee rate, I think about 35% higher than the firm's overall fee rate. I think, again, good news; we've seen outflows have been a little bit of a topic around the institutional business. The sort of things that we see in terms of termination are down 33% versus last year, so down significantly. And by the way, the fee rate on what is likely to terminate is about 45% lower than the overall firm's fee rate, so significantly lower impact in terms of outflows versus the ones coming in.

So, I mean, based on what we're seeing -- and by the way, that is robustly distributed across all our regions, both US, Asia and Europe -- it's extremely good.

The other thing I'd say that's even more exciting just to look at is another category of things that we track around qualified opportunities. And so those are active dialogues that we're having with our clients. And that is at an all-time record, double, literally versus where it was last year, and probably the largest growth right now is happening in Europe and then Asia as well. So very, very exciting, what's happening. A lot of resources have been - continue to be added to our institutional business, and it is certainly seeming to pay off.

So, again, I can't tell you exactly which quarter other than I think the line of sight to things flowing in, which we saw a lot of things in the fourth quarter moved into the first quarter just because, you know, we thought that might happen with some volatility, and I believe it is happening. So we certainly would expect to see some near-term benefits on some of those mandates going into Q1.

Ken Worthington: Okay. Thank you very much.

Loren Starr: Yes.

Coordinator: Thank you.

Next question is from Jeremy Campbell of Barclays.

Your line now is open.

Jeremy Campbell: You guys changed your inflows to contemplate kind of reinvested dividends and capital gains. I'm just wondering, is it - are you going to separate out what's kind of gross sales and what's reinvestments? I know you have the footnote for the total, you know, flow profile, but not really stratified on a product or active-passive basis. And I think the incremental disclosure is probably pretty extremely helpful for us on the sell and buy side.

Loren Starr: I think the first part of your question got a little bit cut off. But I heard your question about providing detail around capital gains and dividend reinvestments at a more detailed level. We can certainly look at that. Some of it is hard to actually obtain, because of - you know, we are sold through third parties. And so getting the data that we just got took a long time. So it is something that we can aspire to, to try to give you more detail.

We did do that, of course, because we felt it was more consistent with, you know, some of the largest industry peers that we've done. And we'll look to see if we can get more details if that's helpful.

Jeremy Campbell: Sure, yes. I mean, even something simple as like using what your old disclosures were and then adding that extra line…

Loren Starr: Yes.

Jeremy Campbell: …to get to what you're defining as flows now would be great…

Loren Starr: Yes, we have - absolutely. We're not trying to do anything cute by just doing this. I think, you know, we'll see if we can get you more detail.

Jeremy Campbell: Yes. And then I just wanted to know - I don't know if I missed this or not, but what do you guys expect for kind of full year MiFID expenses in 2018?

Loren Starr: Well, we said in terms of the payment of hard dollars for research, we've said tens of millions, which is the quantification, not very specific, because it is a very dynamic and fluid discussion as we go through this process. So I think, you know, I'll leave it at that other than, you know, it is our hope. And certainly, you know, early indications may prove out that it's not just a hope, you know, that some of the costs associated with the payments for hard research may decline over time as the industry kind of corrects and adjusts and reaches an equilibrium level in terms of pricing for research.

Marty Flanagan: Right. I think the point is also, though, the full impact is included in the guidance that you gave in G&A for the year…

((Crosstalk))

Loren Starr: Absolutely. Yes. So we've included that tens of millions impact in the G&A line item, which is where it sits today.

Jeremy Campbell: Perfect.

Loren Starr: And that's, you know, at a reduced level versus Q4.

Jeremy Campbell: Great. And then just finally, I guess, you know, relating to Guggenheim, you know, how has that been performing as a group since we had our last call here that talked about kind of the flows at AUM level? Is it kind of tracking in line with what you guys expected as sort of like that compound growth?

Loren Starr: It's certainly grown. I think it's at 4 - roughly $40 billion in size versus $27 billion-something when we announced.

Marty Flanagan: Thirty-seven.

Loren Starr: I'm sorry, $37 billion. Thirty-seven, excuse me.

I think in terms of flows, since announcement, it's about $700 million of long-term flows, which is roughly in line with where it was historically. I think it actually, prior to the announcement, it was - it may have gone negative, and then it seems to have improved a little bit. Obviously, there's not anything we can do to do - you know, to improve the flows right now. We certainly believe that once it becomes part of Invesco, we're going to be able to accelerate its growth trajectory significantly. And that is certainly our hope and our plan. But right now, it's more than tracking what we hoped in terms of a higher AUM level.

Jeremy Campbell: Great. Thanks a lot.

Loren Starr: Yes.

Coordinator: Thank you.

Next question is from Craig Siegenthaler of Credit Suisse.

Your line now is open.

Craig Siegenthaler: Hey, good morning Marty, Loren.

Loren Starr: Hey, Craig.

Craig Siegenthaler: So just starting on Jemstep - and I know you already announced a few wins here, and some of these wins are already on the path to implementation. But can you help us just on timing, when will the related business win start to show up in flows and revenues?

Marty Flanagan: Yes. So I think you have to look to 2019, right? So I keep coming back to - it's very exciting. We think it's a strategic competitive strength that we're developing. We think it will be -- really enhance our business in the future. But again, these are just - it's just low. I mean, from the standpoint of implementation, it is - you know, this is the nature of, you know, of what it is. But again, we couldn't be more excited about what's developing.

Craig Siegenthaler: Got it. And then I saw some of the comments in the slide deck on Jemstep and, you know, the sales pipeline you noted as especially robust among banks. I'm just wondering, what is the characteristic of sort of the average bank in that pipeline? Like what does it look like in terms of size, client base, things like that?

Marty Flanagan: Yes. I would be a little careful because, you know, they're not all announced. But, I mean, from, you know, regional banks to very large banks, you know, it is really quite broad. So it's, you know, again, something that we think is, you know - they're very important development for us and, you know, the partnership between ourselves and the banks seem to line up very, very nicely.

Craig Siegenthaler: Got it. Thanks, Marty.

Coordinator: Thank you.

Next question is from Patrick Davitt of Autonomous Research.

Your line now is open.

Patrick Davitt: Good morning. There's been a little chatter about, I guess, troubles with the new all-in expense reporting with MiFID II. I'd like to get your thoughts on that and within that theme, how you think you came out on those metrics.

Marty Flanagan: I'm sorry, I've not kept up with the chatter. But what I can tell you is…

Loren Starr: We haven't heard about it. I don't…

Marty Flanagan: … - yes. And I don't think we have a problem because we've not heard about it. So, yes.

((Crosstalk))

Patrick Davitt: That's good.

Marty Flanagan: Sorry about that.

Patrick Davitt: Okay.

Marty Flanagan: So I wish I had more color. I just don't.

Patrick Davitt: Yes, sure. And then just as a followup on the earlier color, all of the, I guess, institutional pipeline data you just went through, was that just Europe and Asia or is that the total pipeline?

Loren Starr: That's the total pipeline for…

Patrick Davitt: Okay.

Loren Starr: …all of Invesco. But as I mentioned, it's about a third in each region.

Patrick Davitt: Great. And then the $1 billion of long-term net flows in January, is there a lot of reinvested dividend and capital gains in that?

Loren Starr: None. None that - right, reflected right now in that number.

Patrick Davitt: Perfect. Thank you.

Loren Starr: Yes.

Coordinator: Thank you.

Next question is from Bill Katz of Citigroup.

Your line now is open.

William Katz: Okay. Excuse me. I apologize for the voice here, getting a little flu.

Just coming back to some of the expense guidance, parse out for us how much was being contributed by Guggenheim versus how much is just sort of core investment into the business? And then relatedly, as you think about the drivers for the incremental margin to '19, is it a function of bending down the expense curve or is it bending up the revenue growth? I'm just trying to get a better understanding of what the driver will be?

Loren Starr: So Guggenheim is, you know, as we said, coming in at an incremental margin of about 85%. We're assuming that's coming in really at the beginning of Q2. Total expenses associated with Guggenheim are a little in excess of $10 million for that period of time. So that's one element of the spending that's coming through.

The other amounts of investment are sort of incremental to that, related to funding the growth in Jemstep, institutionals, factor-based, these are the things that Marty was talking about earlier, as well as further growth of our existing ETF business above and beyond just the Guggenheim business, to name a few. And that's ultimately what's driving down the incremental margin, by roughly, you know, no more than 10 percentage points for the year.

So, hopefully, that gives you some color of what that is.

I do think our revenue trajectory, because of the mix of the products that we're selling also, our hope to accelerate the growth is what's going to be driving, you know, our margin expansion going into 2019 and beyond.

William Katz: Okay, that's helpful. And then, Marty, just a question for you a little bit off the run from today's topics. But how are you thinking about the institutional cash business at this point in time? How critical is it to you and how do you sort of think that that business, more broadly, evolves for the industry? Is it more of a commoditized service or is there a real growth opportunity here?

Marty Flanagan: Look, I it's an important business for us. We think it's a, you know, a growth opportunity for - if there's a need. There always has been a need. There will continue to be a need. But really what's happened then, though you know as well as anybody, you know, the consolidation of the players has just been striking with, you know, the money fund reform. And so they're just - I lost track of the numbers, but it's down by 50% of the people - probably down more than that right now. So, anyway, you know, to be in the business, you have to be, you know, you have to be really committed to it. You have to have some scale, you - and we think it's an important business for us. We do it very well.

William Katz: Okay. Excuse me. Thank you very much.

Marty Flanagan: Yes.

Coordinator: Thank you.

Next question is from Brennan Hawken of UBS.

Your line now is open.

Brennan Hawken: Good morning. Thanks for taking the question, guys.

First, Loren, a followup on your effective tax rate guide. Does the 20% to 21% here in 2018 include the impact of the share-based comp accounting change that went into effect last year?

Loren Starr: Yes, it does. And good that you bring that up because I do think there's typically a first quarter impact that you see there. And that will happen again this quarter.

Brennan Hawken: Okay, terrific. And then if we were to back that out, what would be - how - what sort of order of magnitude do you have embedded into that 21$ - or excuse me, 20% to 21% for 2018, just so we can think about, you know, longer run, run rate, ex that noise?

Loren Starr: Well that noise always will be there, every year. So I'm not sure, if that's something to factor in. So, again, unfortunately, I don't have the exact calculation. That's certainly something we could develop. But, you know, I can't imagine it's more than a percentage point.

Brennan Hawken: Sure. And we can follow up later on that. That's no problem.

And then the guidance, just a quick question here. So the rev guide was better than we were looking for; expense guide, maybe a bit worse. And so I just wanted to - being the optimist I am, I wanted to follow up on the expense guide.

It seems like the tens of millions that you spoke to, included in G&A. But I think you also referenced -- and might just have not heard it correctly -- that the property and tech line also included an uplift from MiFID. So was the idea that tens of millions guide was more purely to fund the research and then incremental investment and expense for technology from MiFID was exclusive of that, so all-in cost is going to be a little bit above that baseline. Is it the right way to think about that?

Loren Starr: Well on the G&A, I mean that's a run rate element around (paying) for research. Again, that may - there may be some benefit over some period of time as those numbers drop. But that includes the tens of millions.

In the property, office and tech, this is really related to what we need to ultimately pay our third party provider who helps us with a lot of the transfer agency services and so forth. And unfortunately that does not go away. That is a run rate as well. That gets just - you know, the cost of business has gone up due to MiFID II. So that's reflected in that guidance that we gave you of $102 million to $104 million per quarter.

So unless the regulations themselves change or get, you know, sort of - made less stringent, I think that number is a good one.

Brennan Hawken: Okay. Thanks for the color.

Coordinator: Thank you.

Next question is from Robert Lee of KBW.

Your line now is open.

Robert Lee: Great, thanks. Thanks for taking my questions, guys.

Marty, could you just update us maybe on - you know, we've - a lot of the large intermediaries and others continue to kind of whittle down their shelf space. I guess Morgan Stanley is going through another round soon. So could you maybe just update us on how you kind of feel like you're faring in that and also maybe to what extent, you know, your ETF platform is helping you kind of sustain shelf space or giving you opportunities in those distributors?

Marty Flanagan: Yes. So your question almost summarized it very well. Yes, we continue to - yes, again, that is a fact, you know. You know, the big platforms are narrowing who they're working with in the number of funds. You know, so far, we've done, you know, quite well through that. We expect to do that in the future. That's not to say that, you know, our smaller funds, our underperforming funds won't suffer during that. But it tends to be a very, very small percentage of our assets under management.

So you then contrast that to our ETF business. I think really what's important is, you know, as you would imagine, we have a very strong conviction. I mean, the opportunity of factoring (unintelligible) in our, you know, smart-beta - and that has really not been fully embraced by the platforms yet. And - but we are already starting to see more of our ETFs, you know, just really in the last quarter start to go onto these platforms.

And so again, we are early days in the opportunity. And so we really do strongly believe that the strength of the firm is really going to be the range of the factor capability with our alternatives and, you know, traditional active capabilities to these platforms.

So, you know, so far so good. We're confident about the future.

Robert Lee: Okay. And maybe a followup on the Guggenheim transaction. I mean, as you pointed out since you've announced the deal, assets are up some. But at the same time, you've also had a decline in the go-forward tax rates. Now that that clearly will reduce the value of the tax shield. But can you maybe update us on, you know, how you're thinking about the incremental accretion from Guggenheim at this point or does some of that get kind of priced away, so to speak, you know, in terms of your purchase price? I'm just trying to get a sense on where that stands?

Loren Starr: Yes, I mean, it largely offsets one another. The value of the tax shield is half the value. Obviously, that was like I think roughly $30 million in tax benefit a year. But, obviously, the value of the purely US-based operating income is significantly more. So it ultimately is not impactful to the full value of the business to us (unintelligible).

Robert Lee: Okay, great. And then one last simple question. I'm just curious with the US changing to a more territorial tax system, still a benefit from being domiciled in the Bermuda?

Loren Starr: I mean, I think there's no impact really. They're both territorial, you know. So it's an equal level playing field now, which I think is absolutely fine. It doesn't impact us; it doesn't make us need to change where we are.

Ultimately, you know, I think we need to continue to look at what happened with legislation, understand it fully before, you know, there's any reconsideration of, you know, do we like where we're domiciled or do we think about changing it. But it is something that certainly is on our radar screen.

Robert Lee: Great. That was it. Thanks for taking my questions.

Marty Flanagan: Sure. Thanks, Rob.

Loren Starr: Yes.

Coordinator: Thank you.

Next question is from Michael Carrier, Bank of America.

Your line now is open.

Michael Carrier: Thanks, guys.

Loren, just on the expense guidance; if I, you know, put that, you know, in, you know, (unintelligible) to the outlook, it seems like, you know, the expense growth, you know, is maybe in the low double digits, if you call it 10%, 11%. I just wanted to break that down. And you gave us some color. But I'm just trying to figure out; you've got the deals, you've got some of these investments, and then you kind of have your core run rate. And I know 2019 is a ways out. But when I think about, you know, like the core, you know, run rate of, you know, what you think the business needs, you know, post the deals in some of these investments, is there any way for us to think about, you know, that versus, you know, maybe the elevated level that we're seeing in, you know, in 2018?

Loren Starr: You're asking me to really look out in the future a lot. I mean, all I can say is in terms of our forecast and what we see, I mean, the expenses - the good news is, I mean, expenses aren't accelerating through the course of 2018. We think they're roughly stable and fixed. I think that's very good news in terms of the expansion that we would expect to see in margin through the course of 2018, without any further benefit of market or foreign exchange.

So I think for us, as it's always been, you know, we see a fairly large incremental margin, more fixed than variable expenses. You know, we have said and stated that we've invested heavily around certain things. This is building out a run rate. But I'd say, you know, that run rate, we think we're going to manage it. So it's going to be roughly sort of flat expenses through the course of 2018, and you know, you're into margins that are well above 30% by the end of that year assuming, you know, no, you know, no market increase from here.

Michael Carrier: Okay. And then, Marty, just on the opportunities in Asia, and I guess particularly with China, just given that the market, you know, continues to, you know, look like it's opening up, you know, more and more, just how are you guys positioned and how do you see that playing out, you know, over the next few years?

Marty Flanagan: Yes, look, I think we're as well-positioned as any manager in China. If you look at the institutional business, you'd probably point to China as being one of the absolute strengths. We have multiple mandates with all the organizations there, institutions you would want. The joint venture is very, very strong in China, and it just continues to get stronger. And we have the same view that you do. We look at the next, you know, three to five years as a huge opportunity. And, you know, we've been there for, you know, almost 20 years now and, you know, longevity and knowledge and experience really does matter in that market. And we think this is very important opportunity for us and, you know, we intend to continue to pursue it.

Michael Carrier: Okay. Thanks a lot.

Marty Flanagan: Yes.

Coordinator: Thank you.

Next question is from Brian Bedell of Deutsche Bank.

Your line now is open.

Brian Bedell: Great. Thanks for taking my questions.

Just back on MiFID II, I think if I recall correctly, the tens of millions was based on the adoption for European clients only. And correct me if I'm wrong on that. But if you were to adopt that globally, how would that impact the, you know, the tens of millions run rate and over what kind of, I guess, timeframe are you looking at that as potentially adopting (unintelligible)?

Loren Starr: I think, you know, the route is we've certainly looked at the potential of this regulation being applied on a more global basis and what that impact might be. Similar to what we did in Europe, when we saw this potentially happening, I mean we had started to rationalize and effectively optimize our use of research in advance of that. We are doing that right now in the US and elsewhere, again, without full view of that this actually will happen, but ultimately it could.

And so I think it'd be premature to put out a big number that, you know, really had no bearing on reality at this point. I mean, obviously it's more than my tens of millions. But, you know, I don't think it's anything that it all would be, you know, enormously material to our financial position. And if we see the sort of benefit of being able to take, you know, what was a pretty large number when we first started in Europe and bring it down to something, you know, maybe half the size, you know, that would have - that would make me feel pretty comfortable that it's not going to be a big deal if it were to happen in the US..

Brian Bedell: So in other words, yes, it sounds like you're able to scale some of that investment essentially?

Loren Starr: Absolutely.

((Crosstalk))

Loren Starr: So the same rigor and discipline that we're using in Europe, we're now applying into the US. And there's more to come and more work to be done. I don't want to declare victory at all. But it is something that we believe and everyone agrees makes sense for us to do here.

Brian Bedell: Okay, great. And then, Marty, just maybe a broader question, just on factory-based investing broadly, obviously there's a lot of compelling components of that. But, you know, more recently, we've seen a lot of the ETF flows really be a beta-rally. I think it's about - I want to say smart beta, about 20% of the ETF industry and you only captured about 10% of ETF flows in 2017 in January, according to our measures, more like just 1%. So I mean just broadly speaking, what do you think it's going to take to get factor-based investing to become a, you know, stronger flow category broadly?

Marty Flanagan: Yes, no, it's a good question. I mean, look, you know, the flows since, you know, whatever, you know, the market bottom in '09 has really been, you know, cap-weighted indexes. And, you know, we can all identify the issues with cap-weighted indexes in this market, too. I think, you know, back to this, you know, concern that I have and I think others that too many people aren't understanding the risks that they're taking within the cap-weighted indexes today.

That said, back to your question; you know, more and more, what are we seeing clients do? And it doesn't matter if it's a retail client or a, you know, large institution. You know, more and more, they are building their portfolios with a combination of, I just want to call it, cap-weighted factor based, high-conviction active and alternatives, and they are moving, you know, up the risk return spectrum. And what correlates to that is the level of fees. And so it is the way of the future. And that's very consistent with our effort with

Solutions also. So it's really a combination of the breadth of capabilities we have, the Solutions capabilities, put them together, and really just, I mean, the clients, not just to build the portfolios they want, but it's also being responsive to the totality of the effective fee rate that they want to build.

So what we are seeing and coming back to what I said earlier, the bulk of, if you want to say, in the ETFs in particular and the retail channel specifically, the platforms have been focused on cap-weighted indexes over the past decade. Every single one of them have turned their attention to factor. They look at it as important tool and building blocks for their advisors going forward. But it is really having, you know, the muscle memory and the skill to - it's one thing to intellectually understand it; it's another thing to put it in a manner that the financial advisors can build the portfolios that they want.

And again, this gets back to our factor capability that I mentioned and we have some of the - excuse me, the Solutions capability, and we're actually seeing success with it on the Wealth Management platforms because, you know, there is a need to do that. And, again, you know, we're seeing something - you know, we're seeing this type of thing actually in China, honestly. Some of the insurance companies are, you know, looking for organizations that can help them, you know, build these portfolios very holistically.

So I'd say early days with the success and again within factors in particular or smart beta within ETFs. You know, by the time Guggenheim closes, you know, we will, you know, be the second largest factor player, very close to the, you know, the top player, and we think it's, again, an important part of our future.

Brian Bedell: And do you think Jemstep could be a material contributor to flows in the, you know, in 2018 or is that also more like a 2019?

Marty Flanagan: I think it's 2019. And again - so, again, this is really the point of connecting all the dots. And, you know, what is, you know, Jemstep? It is open platform for the platforms. It really helps these digital - you know, helping the financial advisors within our partner clients. But also what they've asked for, many of them we've built many, many models, a combination of active and passive and just factor based alone. So again, it's going to be these models that are available, you know, on these platforms through Jemstep.

So, again, it's a combination of all of these things that really put us uniquely in a position to where we think, you know, our clients are moving. And I think it's very hard to turn a switch and catch-up to do all the things that we are doing right now.

Brian Bedell: Great. Great. Thanks for taking my question.

Marty Flanagan: Yes, thank you.

Coordinator: Thank you.

Next question is from Chris Harris of Wells Fargo.

Your line now is open.

Chris Harris: Thanks. Can you guys remind us how your fixed income business is positioned with respect to higher rates? And then a related question to that, I believe you have a lot of income and dividend strategies. So how might higher rates affect the demand for those strategies in particular?

Marty Flanagan: Yes. And maybe I'll take, you know, the equity piece.

Loren, do you want to take the fixed income?

I think what you're seeing, largely, if you look at our value suite, you know, it is from where there's been historically a lot of investments in the dividend strategies. You know, what you've seen, you know, with some of the markets with the relative performance falling off that's been traded off to really the deep value capabilities, just getting much stronger. And again, we've said that all along. It is something that we've anticipated and, you know, we would anticipate the flows to switch accordingly. Though, again, as you would predict, that's what we're beginning to see.

Loren Starr: Yes. I think in the fixed income discussion, we were fortunate that we have a substantial amount of our assets, money markets, bank loans, all, you know, on a more floating type of basis. So they won't be necessarily, you know, significantly impacted by a rising interest rate.

I think the part of our business that is more long duration would be in Europe where we have the corporate bond offering, but they tend to position their portfolio with lower duration. So on a relative basis, if everyone's rate starts to rise in Europe, that would be well positioned. So there isn't any significant exposure.

We do have some core longer-term picks, although there's none - you know, that could be affected, but it's not a substantial part of our business. The majority of our business is actually more short term and floating than it is, and stable value is not a component of that, by the way, which is an excess of (40 billion too). So also that helps.

Chris Harris: Yes, it does. And the other question I had really is just on your organic growth. I mean, you guys absolutely do rank very competitively versus peers. You pointed that out. But I'm just wondering where you guys think you are in terms of organic revenue growth? That's, well, then, harder for us to see.

Loren Starr: Yes. I mean, I think we have a lot of things moving around in our mix and - but we do believe given the significant growth on the institutional pipeline as we talked about and certainly our cross border fund range which is the fastest-growing part of our business - it's certainly one of the fastest-growing part of the business is at a much higher fee rate than the firm overall.

Our mix impact on revenue yield is actually positive. But, obviously, we're sort of going through some large step function changes with this acquisition that crowd trend lines. But I would say the overall mix of the flows of the assets that are coming in will still provide a higher lift on our fee rates over the course of, you know, the years to come, than being driven by, you know, more commoditized low fee product.

Martin Flanagan: Well, let me add to that. The way to think about it for us as an organization and I have talked about this earlier, I mean - so if you just think of, you know, the continuum of the investment capabilities from, you know, cap-weighted index has been very low fee certainly to what you pay for and the factor of higher fee, high conviction, active higher alternative, higher fee again.

And so when you see the mix of our business changing where - you know, with the acquisitions of Guggenheim and Source, and inter-factors that lower effective fee rate. But it's the response of the clients and it is much more scaled business where there're limited capabilities, you know, at some point with active capabilities, yet you close them down.

So it's really - we think what's important about our business is there's range of capabilities. And the fees that we have, they're competitive fees and I think that's the other point, right? So you need that competitive fees and you have to have that continuum to meet the client needs.

And so that's really what Loren is getting to where if you're just looking at our overall effective fee rate, it's quite difficult to ascertain and to really get factor. The thing that Loren has pointed out is our overall margin, you know, as we, you know, building the business.

Loren Starr: Yes. And we said this before, but, I mean, the fee rate is one measure. But, I mean, obviously, the margins on some of these lower fee products are good, if not better than this - from overall margin. So it requires scale and growth which is what we're trying to do with these products.

So there are really a lot of things going on that will drive cash flow and our value going forward, and we're not trying to maximize fee rate as a single, you know, kind of objective. If we were, we would probably not be, you know, purposely going into ETFs and some institutional areas. But we do know that if we get good scale and growth, these things are going to provide huge upside on our margin.

I dropped the mic there. Anybody else?

Coordinator: Thank you. Next question speakers is from Glenn Schorr of Evercore. Your line now is open.

Glenn Schorr: Hi, just two quick follow-ups, on the whole Mifid cost conversation, I just want to make sure, have you seen any evidence, have you had any client dialogue that would suggest it would take on a more global nature in the coming two years?

Martin Flanagan: No. Look, we know what you know, probably you’ve seen the public dialogues. I think - you know, as just back to what Loren said, it created a complicated situation, the MiFID regulation versus the U.S. regulation, that’s where you had really, you know, all the debates, you know, publicly.

I would just come back to, you know, what do we do? You know, we are a responsible consumer of research. We will continue to be - we're well aware of the possibility of becoming a global event. If it is, it is something that, you know, we think we will do very well.

And I’ll come back to, you know, the good news is, you know, a firm like us, you know, wants to position to do quite well with changes like that. The bad news is if you're not a firm with scale, you're disadvantaged. I don't think that’s a great outcome, but it is a fact of the matter.

So we really don't know what the outcome is going to be, but we are adapting all the - you know, techniques that we did during MiFID globally for us a firm, though I wish I could be more specific.

Glenn Schorr: No, that’s helpful. I appreciate it, Marty. The last one I have is I'm just curious on how the rebalancing dialogue is or is not happening with clients and consultants after, you know, such a divergence of returns in 2018 between equity and fixed income. I know it's more complex than that.

I'm just curious if that is hot and heavy right now as we expect, given the growth outlook for people to let equity allocations run higher. I'm just curious what you're seeing.

Martin Flanagan: Yes, it's a good question. I can’t say that I have any - I've not picked up sort of the energy that you're, you know, describing. But, you know, I think a lot of the institutional clients, I mean, they tend to have, you know, longer-term view and do not react that quickly, you know, to environments like this. So I wish I have some insights but I really don't.

Loren Starr: But the only thing I could say, I mean, there seems to be just an increased appetite both on the retail and the institutional sides for asset allocation products…

Martin Flanagan: Yes.

Loren Starr: …that ultimately provide the flexibility and the nimbleness to navigate to these changes which, you know, certainly are occurring in different ways, in different parts of the region that we operate in.

And so that is factoring in a big way in terms of our pipeline of, one, not funded and potential opportunities internally in terms of some of our sort of recent positive activity around the retail side in the U.S. and elsewhere. I think asset allocation is…

Martin Flanagan: That’s a very good point. That’s probably a good way to scan your opportunity with your GTR and the like. So I guess in some level outside the conversations, you know, individuals or institutions are really - sort of want to see I guess, as you what you said, you know.

Loren Starr: Right.

Glenn Schorr: All right, thank you both. That’s awesome.

Coordinator: Thank you. Next question is from Kenneth Lee of RBC Capital Markets. Your line now is open.

Kenneth Lee: Thanks for taking the question. Just stepping back, looking at the low volatility, organic growth chart, how do you think about any potential trade-off between attaining higher organic growth rates and, you know, the impact on low volatility potentially? And relatedly, I'm wondering if, you know, the shift towards increasing exposure to institutional clients would potentially impact the low volatility down the line. Thanks.

Martin Flanagan: Yes, it's a good question. We would look forward to that problem. But - so, look, our intention is - so we have an underlying - look, the fundamental fact is the global diversification of the institution, the global diversification, you know, retail institutional channels and the asset mix, you know, those are underpinnings that will not change. And I think that is really what's going to continue to, you know, keep this low volatility.

You know, our focus is really by - if we do a job for clients, driving that - you know, the gross number up and - you know, that is our focus. But I really don't think you're going to all of a sudden see, you know, a switch to a very volatile environment.

Now, we all do know the good news is when you - when a large institutional mandate, you're pretty excited about it. And then when you get terminated, you're less excited about it because the magnitude of it, whether it’s the nature of what it is…

Loren Starr: The only thing I would say is we're - obviously, in terms of the low standard deviation that’s a function of just the breadth of the capabilities that we offer in the different regions. And I would say we probably have one of the greatest breadths of capabilities of the peers that we compete with.

And we also have, you know, very focused approach around managing the portfolios. And you know, the investment teams will close them down when they see that performance is being impacted by too much growth or - you know, and so you're not going to have huge concentration of assets in any particular capability just because of the nature of, you know, some diminishing returns to client.

So we do think you will probably always be already the low end of the volatility side. What we're really trying to do is - through greater capabilities and effectiveness on our institutional platforms, and also scaling the capabilities that we have on a more global basis, that we can move the growth rate up.

Kenneth Lee: Great. And just one bit about the performance fees, I think in the past, you mentioned that, you know, real estate bank loans, private equity, you know, these kinds of products generally allow the performance fees. I'm just wondering what drove most of the fees in this quarter. And also what's, you know, potentially driving the potential increase in guidance for performance fees in 2018? Thanks.

Loren Starr: Yes. So in terms of this quarter, we saw mostly coming from real estates, about half of it. Bank loan was about, you know, the rest of it between non-global asset allocations. So those are the primary drivers.

In terms of the buildup for 2018 and the guidance that we gave, it's going to be very similar profile. We believe it will be coming from the similar places that we've seen in the past. And so, again, we continue to grow each of these areas in a very nice way.

Kenneth Lee: Okay, great. Thank you very much.

Loren Starr: No problem.

Martin Flanagan: Thank you.

Coordinator: Okay, your next question is from Alex Blostein of Goldman Sachs. Your line now is open.

Alex Blostein: Thanks for taking the questions, guys. Just one around the product-specific issue, the, you know, performance in the U.K. business faced some challenges recently and I know they had a tough 2017 as well.

Can you remind us, I guess, when you look at the equity business in U.K., what the asset base today, sort of - kind of what are the fee rate channels, and more importantly I guess the sensitivity you think the customer base there could have to do such, you know, meaningful underperformance, albeit of other short-term basis?

Loren Starr: Yes. So I think U.K. retail is about 65 going in total and that is not all equity income. I think maybe about less than half is equity income, so there’re about 30 of that.

Obviously, we have some other places where that - those products and teams operate. But it has become a much smaller part of the overall business.

And in terms of, you know, impact, it's actually been really stable. The performance, even though it's a little bit challenged, it has not really driven outflows in the business in any material way. I mean, just - I think, you know, it's more than offset by what's going on in terms of the cross-border situation.

So, you know, ultimately, there is some underperformance in those - in that equity income capability, but it is certainly not stopping the growth of the overall U.K. retail business, given the GTR capabilities, the fixed income capabilities, 10-year equity capabilities. So we're not - at this point, it's certainly not creating enough business topic for us.

Alex Blostein: Got it, great. And then just biggest picture, going back to the flow discussion, so - and this is really more a clarification. But I guess when I look at your target of 3% to 5% organic growth, I'm assuming that follows the new convention of disclosing flows. And I guess based on '17 results, reinvested dividend at about a percentage point or so to the organic growth, the way you guys described it now.

So, apples to apples, is this really kind of 2% to 4% if we're to compare that to the way you guys used to talk about flows?

Loren Starr: Yes, I mean, we will put this probably at the higher end of our aspirations of that range sort of immediately versus the lower end because of that. So, yes, we have certainly factored that into our thinking about trying to get in that target.

I mean, we have not reached that target even with the capital gains reinvestment so we're filling in terms of getting to that level. So that, I mean, we still think 3% to 5% would be a good place for us to get to.

Alex Blostein: Right. But the 3% to 5% is with the reinvested dividends?

Loren Starr: It is, yes.

Alex Blostein: Yes, got it. Great, thanks.

Coordinator: Thank you. Your next question is from the Dan Fannon of Jefferies. Your line now is open.

Dan Fannon: Thanks. Just a follow-up on the institutional, I guess looking at the slide on - Slide 14, I just want to reconcile this year, you know, kind of quarterly growth sales being down each quarter year-over-year. But if I recall your comment generally being, you know, close to record backlogs or backlogs all being up just throughout the year. So I'm just curious as to kind of what the - just to connect the dots there for us.

Loren Starr: Well, I think the flow picture as I mentioned, you know, we have a lot of - one that's upon the business that we thought was going to come in to fourth quarter that has - that got moved into 2018. And so it was actually surprising how many things moved. And I think it was just a little bit of the volatility around tax rates and knowing what was going to happen versus not.

So that’s my explanation, is that there was uncertainty which caused the slowdown which should then be offset by a pick-up in Q1.

Dan Fannon: Okay, but I just - I guess that’s the 4Q. But if I recall throughout the year, you guys did talk about kind of high or record levels of backlog and the growth sales were down throughout the year. I guess I'm just looking at the year-over-year dynamics. And so is - are the funding periods across the board just taking a lot longer to materialize?

Loren Starr: Well, I mean, it's a good question. I mean, a lot of the funding will take six months. It could be longer in terms of what they ultimately require to get on. So there has been some movement within the pipeline around timing that was probably more than we had expected generally.

So granted, I think, yes, we do not see as much materialize on the sales side on the institutional business in 2017 that we would have originally expected based on the pipelines that we were looking at. You could say, well, that's still maybe the case and possibly it is, other than I'd say our teams seem, you know, far more feeling like their line of sight that the business is going to fund in 2018.

Dan Fannon: Great, thank you.

Coordinator: Thank you. Your last question is from Greggory Warren of Morningstar. Your line now is open.

Greggory Warren: Yes, good morning, guys. I just want to follow up a little bit on the retail distribution platforms. You know that you weren't having that much of an issue. But I'm just kind of curious how much pressure is there on you guys or the industry on, say, fees and performance especially with a lot of the calling we've seen in the last two years both from Merrill and Morgan Stanley.

And then just, you know, on top of that, how much of your actual platform is really exposed to what's going on within that particular part of the business? I mean, you've had 68% of your business in retail, but I know it's not that much as exposed to say what’s going on with the U.S. third party platforms.

Martin Flanagan: Let me try to address some of it. You know, as I said, so, you know, one of the factors that - you know, of the platforms they're looking at is really what they determine as, you know, the asset classes that they want, you know, on their platforms.

You know, they are looking at, you know, the quality, the managers, the historical performance and, you know, competitive fee rates. And you know, that is the criteria generally that is, you know, used. And also once they get beyond the specific, if there is a - if they can end up using fewer providers, that is also a factor.

And so those are the criteria that we are judged on and we have done quite well. I think on top of just the fund-by-fund analysis and I'm going to lose track of the magnitude, but, you know, the last update I had on some of the platforms, more than a third of the managers in total have been terminated. So it's just not a fund consolidation…

Loren Starr: Yes, yes.

Martin Flanagan: …but an (initial) consolidation at the same. So, you know, that is - and so I'd be repeating myself a little bit from the prior conversation. So it is, you know, the totality of the offerings. So it's just not mutual funds, it is ETFs. It is also alternative capabilities, all of which that we have.

So, again, if we continue to have high quality capabilities and we can serve clients, which I think we do well, and you know, we will continue to be one of the firms that will, you know, do quite well out of this.

And I think the other part of the focus that - where the focus is not turned to, those managers that remain on the platform will be net beneficiaries because of the obvious, there'll be fewer managers and fewer, you know, money roll that will go to the managers who remained on.

Now, that's not going to happen quickly because you're not rightfully - you're not - if you've been taken off the platform, the client is not forced out of their holding.

Greggory Warren: Right.

Martin Flanagan: It is exactly the right way to do it. So, again, I don't know if I'm telling you anything you don't know, but that's our…

Greggory Warren: No, I was just kind of curious, you know, if there was any real pressure at all on you guys on that side. And I guess to follow up on that, you talked about the smart beta products being sort of a newer entry for you guys on a lot of these platforms.

And I'm just curious you were kind of earlier to the market with a lot of these products, but there have been a lot of additional competing products that have come on the markets since you guys brought PowerShares in the beginning. I'm just wondering do you feel like you're appropriately priced relative to what's going on.

I mean, the fee compression hasn't been as dire and that part of the business has been the plain vanilla index. But I just, you know, wonder if you guys feel you're well positioned, you know, with those products as well.

Martin Flanagan: Yes, we do. Look, and I think back to my comments, you know, if you just follow the notion of, you know, think of the investment capability and what is the return set that is meant to generate, fees follow up, right?

Greggory Warren: Yes.

Martin Flanagan: So, you know, cap-weighted index, it shouldn't take much longer. It doesn't do much, right? It is in exposure. It's important. A lot of money has gone into it, and probably too much money has gone into it. And I think also, importantly, just because you monitor ETF, it doesn't mean you're good at it.

Greggory Warren: That's true.

Martin Flanagan: And I think there has been a lot of ETFs that will just fail, right? It's a - there is a low, you know, barrier to entry, a very high barrier to success and it's much more than just launching the ETF.

And if you look at our smart beta ETFs, it's one of the broadest range of ETFs with long track records, so 10-year track records and I think that's also what is important. And it's just not the fee itself, it's also liquidity with the ETFs and I think that is also what gets lost on a lot of people.

So it really makes it difficult for new entrants. And you know, if you have a long track record and some liquidity, it is really, you know, an important set of combination, you know, when you consider what clients are often looking for. And so I think that goes very well for, you know, factor investing as you look through the future on these platforms.

Greggory Warren: Perfect, Marty. That's good insight on that side. I just have one quick follow-up too on the MiFID II stuff, how much of your AUM is - can you tell what tens of millions in cost? But how much of that AUM does it really sort of relate to - does it relate to everything that's in Europe-U.K. and Europe exclusive?

I mean, it's also part of institutional and part of that is exposed. But I'm just sort of curious how much of your AUM is really sort of exposed to the MiFID II rule that's going to cost you more to pay for the research.

Loren Starr: Yes, it's largely the European business, so you have to look at the full value of that AUM which is, you know, several hundreds of billions.

Greggory Warren: So probably about - you have 236 million right now.

Loren Starr: Yes.

Greggory Warren: So I'd assume maybe 5% of that is institutional or…

Loren Starr: It's probably - it's about 10% that's institutional in that business.

Greggory Warren: Okay, it's perfect. Thanks, guys.

Martin Flanagan: Thanks very much.

Greggory Warren: Great quarter.

Martin Flanagan: Thank you very much.

Coordinator: Thank you. At this time, there are no further questions in the queue.

Martin Flanagan: Great. Well, thank you very much for everybody's time and happy 2018. We'll be in touch soon.

Coordinator: Thank you, speakers. And that concludes today's conference call. Thank you all for joining. You may now disconnect.

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