M. Carrier, BAML: All right, good morning. We're going to get started with our next company. Before we do that, I do have one polling question that we're going to throw up on the projection. I mean, this is more for the industry, but let's see if we can put that up there. It's going to be what is your expectation for the strongest returns over the next 12 months? We'll give it a minute. Okay, so what is your expectation for the strongest returns over the next 12 months? 1) US equity is driven by growth; 2) US equities driven by value; 3) Global equities; 5) Fixed income; 5) Alternatives; and 6) Cash. So we'll give you a few seconds to log in your vote and then we'll get the results.

Loren Starr: Cash.

Colin Meadows: I was going to say, will be Invesco.

M. Carrier, BAML: All right, a lot of answers there, but a third of you think US equity is driven by value and then in second, global equities, and then tied for third would be alternatives and US equities driven by growth. No one thinks fixed income, not too surprising, and a few bears out there with the cash, obviously. All right, well thanks for that.

Now it's my pleasure to introduce our next company, so Invesco. With us today is Loren Starr, Invesco's Chief Financial Officer. At Invesco, Loren has worked to meet growth and regulatory initiatives, efficiency programs to improve the operating margin, and maximizing their capital management strategy. Prior to Invesco, Loren Starr spent time at Lehman, Morgan Stanley, Putnam, and Janus. Also with us today is Colin Meadows, Chief Administrative Officer and Head of Private Markets in Global Institutional, where he oversees Technology, Operations, Corporate Development, M&A, as well as Real Estate and Private Investment Products. Prior to Invesco, Colin was at GE, Wells Fargo, and McKinsey.

So Invesco is one of the largest US asset managers that serves a global client base in a host of different ways. They're one of the leaders in the ETF space, with PowerShares and then in 2017 they bolstered that with two acquisitions with Source and Guggenheim. But they're also a leader in the active management business across equities, fixed income, alternatives and solutions.

So with that, we'll get started. We have one more polling question that I want to do that's specific to Invesco, and then we'll get into the Q&A. So at Invesco, what would get you more interested in investing in the stock? So 1) Consistent above average organic growth; 2) Further operating leverage and a rising margin; 3) Deleverage and a focus on capital return; and 4) Less regulation for the industry. And again, we'll give you a few seconds to log in your vote. Okay, and the results, not too surprising, about 70%, I think consistent, above average organic growth in an industry that's pretty challenged. But any thoughts? I mean it's probably in line.

Loren Starr: Not surprised. No.

Colin Meadows: Not surprised.

Loren Starr: We would agree.

M. Carrier, BAML: Yeah.

Loren Starr: Less regulation would be nice, but we like number one.

M. Carrier, BAML: Yeah. So maybe on that in terms of the consistent organic growth, so if I look at it from a year-to-date standpoint, Invesco's results have been fairly strong and when we stack it up relative to the industry, strong as well. How do you think about how Invesco's position or what's that long-term organic growth kind of target; and then maybe any color on October, or even though it's one month, but it was a little bit more muted versus that year-to-date in the trend.

Loren Starr: Yeah, so I think we still are firmly in the belief that we can grow somewhere between 3 to 5% organically. That target is something that we're working hard to achieve. We haven't quite hit that yet. We've been a little bit below it, but in terms of the products and the areas that we're investing behind, they tend to be at a higher growth parts of the business. So we've been investing heavily around some of our passive capabilities, which are certainly growing at a very rapid rate for the industry as a whole and for ourselves as well. Alternatives, fixed income are very important to asset classes that we think are going to allow us to grow more than we have grown today as we build out those capabilities. Because we've been more equity oriented as they shop and we've continue to build around those initiatives.

And then there are parts that I think, around our business, in terms of the distribution channels, Retail versus Institutional, we have been retooling our Institutional business, continuing to provide more dedicated resources to be more effective with those clients and I think we're still probably in early innings in terms of what we can do there; and so that's another engine for future growth that we haven't fully seen kick in; and Colin Meadows obviously will be able to talk more about that either now or later.

But the only other point I'd say is in terms of kind of current, October was not a great month. We talked a little bit about flat flows. There was a very large sub-advised outflow that flattened out any growth that we saw in the month. But generally, the things that are flowing are still very much flowing. We're seeing very strong flows into Europe, both on the Retail and the Institutional side, the PowerShares capability in the US in particular are growing, as well as Fixed Income and Alternatives. And Asia continues to sort of kick in as well. So I'd say generally, very optimistic. Institutional pipeline at record highs still, so nothing has moved away from there, so we're really looking to, despite the challenging market, be able to hit those growth targets.

Colin Meadows: The two other growth areas that I would add in would be solutions, where we continue to build out our capabilities, both as a service and as a product for clients, and then services in general. And so Jemstep I think falls within in there where we're looking to build out our digital advice capabilities to advisors as well.

M. Carrier, BAML: So maybe just on the recent deals, both Guggenheim and Source, just wanted to get your take on what it provides or why do them. I mean I think scale on the business makes kind of sense, and between the two, it seems like two very different strategies, meaning one, scale, very accretive. The other one, it seems like positioning for maybe like a shifting market and more growth opportunity, but just some insight on both of those transactions.

Loren Starr: Yeah, I mean they absolutely are achieving sort of different outcomes, so in Europe, maybe talk about the first one that we did, which was about $25 billion of assets under management; very diversified set of ETF capabilities across fixed income equity alternatives, commodities. We had not established any strong presence on the ETF side in Europe, despite our best efforts. For several years had been a little bit more Retail sort of approach to that market, which wasn't being successful, and so we needed a different way to sort of leg into the opportunity. We think it was going to be very important to the future. Europe generally is several years behind the US. It's about we think like seven years behind. I mean the market itself is about a quarter of the size of the US ETF business, but it's definitely one of the fastest growing.

And so we believe with MiFID II and the regulations and the continued opportunity for solutions to be provided to clients and providing better outcomes, that we needed that to be successful in Europe over the long term. So that provided a basis for us to grow upon and it's going to take a little time to get to where we want and get the scale, but it's the right beginning for us. So that's a different story than in the US where we've got a lot of scale already, but the Guggenheim opportunity provided even more set of diversified smart beta offerings with a very I'd say unique and helpful component around fixed income, which we have not been as strong. Some of the largest and greatest flows in the ETF space has been in fixed income right now and we have not been able to participate as fully, so we think the BulletShares which we get with that is going to be very helpful for us.

And then in terms of the margin aspect and a much different accretive margins since we're bringing over a lot of the assets and we don't need a lot of the cost that comes with it.

M. Carrier, BAML: And how do you think about, it seems like at this point, from a scale standpoint, you have it, but it also seems like in parts of the ETF industry you continue to see some level of competition and price pressure. When you look at kind of the out years, how do you think about managing some pressure versus the growth and maybe the incremental margins in that business.

Loren Starr: Yeah, so I mean if you look at the business overall, I think the business has lost about a basis point in fees every year over the last five years, so in Europe that was the case. It was about seven basis points over the last five years and in the US it was about five basis points. And that has been largely been though focused on the cap weighted space. It hasn't so much been in the smart beta space. Very different dynamic there in the cap weighted space. It's fairly commoditized. I mean you really have only one thing to compete against and it's on price. Whereas in the smart beta space, it is very much more differentiated in terms of the types of products, innovative products that are coming out.

And you'd look at the flows into the smart beta. More than 70% are in the 20 to 60 basis point range and that has not changed. And so it is something where, yes, I think there's probably going to be some degree of price competition as there is on all these products, but I don't think it's going to be nearly as dramatic as you've seen in the pure cap weighted space. So in our models, I mean we have assumed some leakage of fees in the Guggenheim thing, just generally, but I don't think it's going to be at the same level just because of the first-mover advantage. The way that that business is won is through innovation and 70% of the assets come to the first mover. You have the whole total cost of ownership discussion that goes on in terms of the clients who decide to use these products. So it's not just a fee discussion. It's on the liquidity and the bid-ask spread. So all that kind of comes into play, which is a very different discussion than just the commoditized large liquid kind of cap weighted ETF.

M. Carrier, BAML: Right. So maybe on the total other end of the spectrum on Alternatives, so when I look at what we're seeing in the Alternative industry, away from just Invesco, it seems like fundraising has been really pretty phenomenal. And whether it's increased allocations, too much QE in central banks, making the public market returns relatively low and so allocations going to the private markets. But like where is Invesco on that front in terms of what products, where are you seeing demand, and is there more potential to grow that business over time?

Colin Meadows: So alternatives continues to be a growth focus for Invesco and just to give you a little bit of a shape of it. We have about $170 billion in assets in Alternative categories; everything from real estate through bank loans through private equity and some balanced products, which act in some ways as a hedge fund alternative product. So it continues to be a growth area for us. If you look at our Institutional business, Alternatives was the single fastest-growing category for us in the third quarter and that's been consistent over the last number of years so we continue to see a lot of demand from clients in terms of growing out Alternative products just for the reasons that you mentioned.

Our product suite today is quite diversified. I think if there was any place that we would continue to have aspirations, it might be in the infrastructure side of real assets, where we would look to continue to augment our capabilities there, but it's a fairly diversified suite today.

M. Carrier, BAML: And then on the product side, and this is pretty broad, it seems like Invesco's got, and especially with the two ETF transactions, you're pretty broad on the ETF side or the passive side. You've got the alternatives, you got the traditional. You've been working on solutions. So when I think over the next one to three years, is there much from like a product standpoint that needs to be done or is the focus now, we have this from a distribution more of a focus on getting the products into each of the channels and making sure that you're penetrating as much as you can.

Loren Starr: Well, I think on the ETF side, it's always going to be around innovative products. If you stopped innovating in the smart beta space you're probably going to lose over time, so that's got to be the cornerstone of success. And so I'd say that and I just went through the plan on the products and I was just blown away in terms of the number of ideas. You'd think how many ideas there are, and it's like can there be more? Yes, there are lots of ideas around what we're going to be launching. So I think that one in particular. I think maybe around what we're focused on, like Jemstep is probably an example of a product or a service that is definitely new and is going to create some opportunities for us and...

Colin Meadows: A lot of our product activity is innovation around the existing products suite, and so as Loren Starr mentioned right there, there's no shortage of ideas. In terms of absolute gaps, we don't really have many. But so in our global targeted return product, we introduced an income-oriented version earlier this year. That's an example of what we look to do on the product side. But in terms of absolute gaps, there's really not a ton.

Loren mentioned one of our areas of focus is in the digital advice space. I think when you combine that with solutions, you actually have a new service that you're now providing to clients, in this case, advisors. It allows us to target a client segment that we haven't historically targeted with a suite of products. In some cases they are single securities, and ETFs, in some cases, they are model portfolios that we can bring the entire firm to bear. And so that's where we're seeing a fair bit of demand from a product standpoint.

M. Carrier, BAML: So just with Jemstep, it seems like there's a few, not too many, but a few firms that have some type of a digital offering. When you look at what else is new out there in terms of the competition, how is Invesco with Jemstep trying to differentiate? Because you kind of get these trends in the industry where there's a lot of options out there. How do you differentiate and what traction are you seeing in terms of the clients that you're working with?

Colin Meadows: So it's a competitive space. I think we're fairly well-positioned. We made the decision early on to really focus on supporting advisors, so the early stages of digital advice was robo advisors are going to replace human advice. We were quite skeptical about that as an outcome and decided that we would partner with Jemstep, which is really a way for advisors to augment their practices and digitize many elements of it. So really it improves their value proposition.

We also made a decision to make sure that our product was both open architecture, from a technology standpoint, so it fits within their existing technology stack; so they can use their own CRM system, they can use their own custodian, they can use their own TAMPs, etcetera. Also open architecture from a product standpoint. So if they have model portfolios that they've created internally or from other providers that they like to use, we support those as well.

Obviously, on the backend, Invesco is an investment manager. So our view is if we can build a relationship with these advisors, target a set of advisors that historically we haven't been able to really serve overall, and be able to stay in the background and offer a product suite, there will be benefits to us on that end as well; and that's certainly proven to be the case. We had two, two of our first big wins this year in KeyBank and Advisor Group. We have a pretty deep pipeline of firms that we're working through right now and a few that have been won but not yet announced. We think next year we'll have access to 20,000 advisors that we didn't historically have access to before and so those all create opportunities for us as a firm.

I will say the space itself is quite competitive and crowded, so there are a number of firms that are pure play in the digital advice space. There are others that are technology providers that are looking to move into the space. But we think because we decided to take this open architecture viewpoint, that we're as well positioned as anyone.

M. Carrier, BAML: That's good. Maybe spending a few minutes on the outside the US markets. So just in the UK, it seems like on the performance short term a little weaker. Long term still remains strong. You've got Brexit on the horizon. Now you have the Source deal, so when you think about maybe that opportunity over the next couple years, how does the growth outlook look for that market?

Loren Starr: I think, I mean, the UK is about $110 billion in assets under management right now, mostly retail oriented. About 90% of that is retail. We have diversified well beyond what historically had been the predominant offering there in terms of Equity Income to offer Fixed Income and Alternative offerings, GTR. So I'd say we have a much broader line up than we had in the past and that's continuing to broaden out. So I think to me that sounds very positive for us being able to appeal to clients over different types of market cycles and being able to grow beyond just the traditional UK Equity Income offering. So we're pretty optimistic about that.

I think the idea of being able to use ETFs, for example, in the UK as well, even though right now it's not as strongly adopted as certainly in the US; but it is something that I think certainly we have the ability to be able to do. And then probably the biggest growth opportunity just in the UK is going to be in the Institutional space where we have added a lot of resources. As I mentioned, we really haven't done as much as we think we could in the UK. So and a lot of the Institutional pipeline that we talk about is actually centered around the UK and Europe. So I think that's where the greatest opportunity is.

The Brexit thing is not going to create a negative to our business there. We feel very comfortable with our position in Europe and the UK, quite honestly, around Brexit. It could create volatility still around currencies, as we know; and so the idea of a hard Brexit is not very helpful for the pound. It's starting to put a little bit of a, more of a headwind around the pound story. So that's the only thing we're really looking at just generally on a short-term basis for the next year is to see how that kind of shapes out.

M. Carrier, BAML: And then maybe just broader throughout the EU, just given that Brexit can create some changes, it seems like, at least for Invesco, you guys are fairly well-positioned. We've seen the cross-border flows for the whole industry pick up this year. So just when you think about from like a competitive standpoint, how your positioned, particularly if the demand for the products, ex-anything from a market standpoint.

Loren Starr: Yeah, I mean we're really, continue to be really pleased with the progress that we've seen on our cross-border business. I mean the continental European business is bigger than the UK business. It has about $120 billion. That includes Source, just FYI. But we have seen the flows into our cross-border range continue to be at a very fast rate. The growth rate is 25% year-over-year. And our performance in that range is extremely strong. I think where you have 80 to 90% of the products beating peers on a three and five year basis, so we don't think it's going to slow down. It's very diversified across a lot of different asset classes, and the cross-border industry, just generally the range, not our range, but as a market is now the largest of Europe. It's bigger than the domestic fund ranges and so we think that's going to continue and we're going to benefit from that. And our market share within that is certainly in the top 5%, or in the top five of winners.

M. Carrier, BAML: And then maybe just shift into Asia. You guys have had, over time it seems like Invesco's had fairly good results there. And just I guess more strategic, it seems like China, just given some of the recent announcements in terms of that market, potentially opening up and ownership for financial institutions. So when you think about where Invesco is today, maybe the growth opportunities, and does that change any priorities over the longer term?

Loren Starr: I mean Asia has always been a priority in terms of our growth potential and we've added, continue to add resources there to be successful in China, Japan, Australia, Taiwan, and we've seen a huge amount of growth in Asia. It slowed a little bit more recently, but certainly it's still in growth mode and we would believe that it will continue to be an engine for growth for us. Been a little bit more centered on the Institutional business than Retail for us. We think Retail will be an opportunity for us, perhaps at a higher level than it is today. Overall, continue to take advantage of the opening of the markets. Sort of getting the licenses that we need to be successful in China, both on an Institutional and the Retail side.

Colin Meadows: I'd add Asia is an emerging region for us in Alternatives, particularly in the Private Real Estate and Private Equity space in China, both from a deal flow standpoint and from a fundraising standpoint. And so it's certainly a growth area for us in alts.

M. Carrier, BAML: And then you mentioned Institutional. So on the Institutional side there's been a lot of activity. It seems like the pipeline has consistently been healthy. You mentioned some of it being driven by the UK. When you look at that on a global basis, where are you seeing maybe the demand? What's the fee rate outlook for that part of the business, just given that there's a lot of different products and initiatives you guys are working on?

Colin Meadows: So just I'll speak globally. Institutional is a growth area for us. We were in net flows in the third quarter. First half of the year was a little bit tougher, but we certainly rebounded. We're seeing demand really across the product suite, in particular, Fixed Income, Alternatives and balanced. A little weakness, honestly, in the Active Equity space but I don't think that's uncommon for the industry overall. It's a growth focus for us. Historically, our Institutional business has been, frankly, smaller than we'd like it to be. It's been about a third of Invesco's AUM. The industry is about half, so it's certainly an aspiration for us.

In terms of what we've been doing, we've really focused on retooling the organization, new leadership in each of our three regions. They've retooled their organizations as well. We've done what we think would be some very smart things from a technology standpoint so that we can share information and serve clients better, and so that's really been the focus for us. From a product standpoint, we feel pretty good about the product suite and lineup. Don't feel that there's really many gaps there, and then from a pipeline standpoint, we're seeing strength across each one of the three regions, but Loren mentioned in particular in EMEA. There's some substantial…

Loren Starr: Yeah, the fee rate is definitely well above the firms overall fee rate, so it's accretive to fee rate as these products come through.

Colin Meadows: And actually, the fee rate ticked up in the third quarter as the product mix shifted to higher fee products, as well in Institutional.

M. Carrier, BAML: Maybe just on the US retail, probably one of the tougher markets, not for Invesco, but just for the industry, just given some of the trends. And even weightings, in terms of how big equities is in that channel. But just like strategically, when you look at whether it's initiatives like Jemstep that has some potential there, but just what's the outlook for that channel over the next couple years, as there's different dynamics there and they're shifting around?

Colin Meadows: We continue to be fairly energized and excited about the retail market in the US. We think products like Jemstep allow us to target a set of advisors that, as I mentioned before, that we haven't historically been able to target. And in some ways that's a market share gain. When you put a digital advice tool on an advisor's desk top, they're going to have one of those. And so our real focus is really building out our presence in share in that space, because we think that's ultimately accretive to our business over the long term. A fair bit of what we're doing also in the Retail space is working smarter, so using tools like predictive analytics to better target advisors who are likely to buy, or on the other hand likely to redeem products, and so we think that's effective as well.

And we also think that the continued institutionalization of Retail platforms stands to our benefit, so our ability to serve the technical buyers that sit on the kind of large distribution platforms with a full suite of products, we think ultimately is helpful to us. We're seeing round after round of provider rationalization, certainly on the platform side. We think that firms like ourselves, which are diversified from a product standpoint, but also institutionalized from a compliance and a risk and a reporting standpoint stand to benefit, and frankly, succeed in that environment. So we feel pretty good in general.

M. Carrier, BAML: Maybe one, we talked a little bit on pricing with ETFs, but just for the overall business, there's a lot of focus on pricing trends and part of it's driven by regulation and part of it's just competitive dynamics that we've seen over the years. But where do you look at Invesco in terms of stacking up with the different products and the different strategies and how much product pricing has been reviewed? Where does that stand today?

Loren Starr: We've been through product pricing reviews. We always review our prices ongoingly to see if they're competitive and certainly is there the value for money promise, that you can't charge an active fee if you're not active. So the good news is, I mean, most of the products are very active. We want to, there's a lot of oversight on the investment process to make sure that we remain active in what we do; and ultimately, those products are priced for the value that they're intended to provide in terms of alpha. In the US, which is where you've seen a lot of the discussion around fees with the DOL, I mean the vast majority of our products are, active products, are actually very well-priced in the sense that they're around 38 basis points for active equity, so it's not certainly standing out as an area of having to reduce in order to get competitive.

We did reduce fees on a handful of products through this whole DOL process, so there's some Liquid Alternative products and maybe Fixed Income and some of the core Fixed Income products. But that was minor in terms of the assets affected and in terms of the actual impact was just a handful of millions of dollars. So again, we don't ever fall asleep and say everything's good, but ultimately, we don't feel like we're -- that's a major topic for us.

By far and away, the bigger kind of point is, in terms of the mix and the flow is and what the impact is on our overall fee rate; and there's definitely been a greater propensity for people to buy a lower fee product and that has had some impact I think for the industry in terms of fee rates overall. But we generally feel that because we have Alternatives being at a high, selling at a high rate and a lot of our fastest-growing products is in Europe where the fee rate is at a higher level; and our expectations and our overall net revenue yield is it's going to go up over time. It's not going to go down just because of the mix. And we talked about the Institutional pipeline as well. So again, we'll continue to look at fee pressures and so forth, but it's not, none of our prices stand out, our products stand out as having sort of too heavy a price.

M. Carrier, BAML: It seems like from a new product offering or the initiatives, it seems like whether it's on the Alternative side, whether it's the European side, whether it's on the Solutions side, it seems like it's generally going to be focused on a product that's differentiated in the fee rate. It's going to be higher than say an index cost.

Loren Starr: Commoditized.

M. Carrier, BAML: You know what I mean?

Loren Starr: Yeah, right.

M. Carrier, BAML: All right, that makes sense. Maybe just shifting over to regulation, which is always fun…

Loren Starr: Good, ready, let's rock, let's get in.

Colin Meadows: Loren gets that question. Let's go.

M. Carrier, BAML: We just had a panel on it, which was interesting. But just in terms of the outlook, and I know things are still in, moving around, but when you think about managing through that process, maybe where things are today, and it seems like at least initially it will likely be contained to Europe, but then longer term it could spread globally. So just how you're thinking about any potential impacts. And then I know you guys have been busy from like a business optimization standpoint. And just this quarter, you guys upped sort of the synergies or the benefits. So are there more things that can be done over time, if you do see new pressure points in the business?

Loren Starr: I mean on the first part of the question on the MiFID II, so yeah, so I think we talked about sort of tens of millions, so it's not that material overall. And certainly it's a process that we're well underway in terms of trying to further manage the impact down as we negotiate prices and sort of figure out which research we actually need and want to use and how to use it effectively within our teams. So that same discipline or what we put into place in Europe, we're putting into the US, not because we necessarily believe that it's going to sort of translate to the same regulation in the US, but certainly it is better to be safe than sorry. So we're working ahead of that and, again, the sort of tools that we're using where we're actually looking at who's using the research, who's opening up the email, all that stuff that we're doing in Europe now we're bringing into the US so we can really be smart about how we're managing research, because it certainly has the potential to go that way.

So that's kind of one aspect. And then just in terms of general cost saving and optimization, I mean we never stop at this. I mean it's something that we just continue to drive more deeply. More than a, I know it was like a year and half ago we did, probably two years ago, we did a significant benchmarking of our internal operations, both the middle and the back office. Again, it's best providers of these services to see were we being as effective as we thought we were; and we actually found in many cases that we were not being as effective.

And in that review, several decisions were made to, could we do something to become more effective internally, and if not, would we consider outsourcing to a better third-party provider? So all that work has sort of been going underway over the last couple years and I think we're sort of really down, getting close to the final points on some of the large discussions around outsourcing and what gets outsourced. But in that discussion we're finding more savings than we had originally anticipated, hence, the fact that our target run rate savings is about $50 million higher this quarter than when we last talked about it.

We are continuing to look at other opportunities to reduce cost, just be more effective, not just in the middle and back office, but even in the front office. So there's opportunity, as we talk about research, as our teams work together, maybe there are ways we can be more effective generally around data and other things that are very expensive. And then I think on the operational side, the use of robotics and automation and technology is something that's just going to always be there and surprising how just doors keep opening up in terms of what you can do that you didn't think you could do earlier.

Colin Meadows: My sense is that's really the next wave of operational improvement. There's been a wave of rationalization of systems. We've been through that. There's been a wave of outsourcing to best practice providers. We're, frankly, nearing the end of that. Automation actually is, I think, the coming wave, both in other forms of operations(?), so using robotics to take out human processes, but also basically, building systems to do straight-through processing will certainly saves effort and money and improves risk in most cases, frankly.

M. Carrier, BAML: Just on the I guess location management, you guys have been active on the operations side. Where does that stand now? I mean from a headcount standpoint, I mean like how many employees are you in low-cost locations?

Loren Starr: I mean we have I think in excess of 1,000 people in Hyderabad…

Colin Meadows: Hyderabad.

Loren Starr: …at this point. India continues to be an area of growth for us and it's all parts of the organization are all in on using that as an opportunity. And so there's still a significant amount of sort of cost benefit to having centralized operations, one roof, and certainly India as a general sort of location is lower cost. So I think that's one aspect. And then there are other aspects where you have multiple location, you have multiple offices in a single location and trying to consolidate those to one office provides a lot of benefit. Instead of having two of everything, you can get to one of everything.

So I think we're – still there's opportunities for us to do more on location strategy, but I think a lot of the really heavy lifting around having a presence in like India, for example, that's done. It's just we're now more just business as usual.

Colin Meadows: I would note, we also have another enterprise center in Nova Scotia, which has a similar flavor…

Loren Starr: PEI.

Colin Meadows: PEI, so it doesn't have quite the cost save as India, but is certainly a benefit versus the rest the firm. That's another 300 people or so.

M. Carrier, BAML: Got it. This is I guess a combination of distribution but also related to some of the changes like DOL. When you look at – and maybe even with like Jemstep – but when you look at sort of that tool and even ETFs, if more of the business is going in that direction versus like historically, how say a mutual fund was sold in the distribution channels, what does that do from like a distribution cost standpoint? I mean is that part of the equation coming down over time?

Loren Starr: Well, I mean I think one, I would just say obviously the DOL stuff, all the cost was passed through. We never had any distribution economics that we got ourselves, in terms of the trailers all pass through. So the DOL has not changed any economics to us. I do think we're -- the cost of distribution in some ways may be getting more centered on Solutions oriented and Institutional kind of processes, more around the models and the risks of the products and less focused necessarily on sort of the traditional wholesaling to the local offices. And so I think that's one kind of dynamic going on in the industry just generally.

Where that goes on a cost basis I can't really tell you because it's just kind of different, as opposed to sort of, that means you don't have to spend so much on distribution. I think the idea of digital advice, though, is an interesting one as to what does that mean for us. Because once you get these platforms on the advisor's desk and you've got models in there, it isn't really, those things are just kind of locked in. And so it is sort of -- has the potential to be a very low-cost distribution element for us.

Colin Meadows: The other thing I would add is I think for us digital advice is much more about accessing new client segments versus replacing existing ones. And so if you look at both the ones we've announced and the ones that are certainly in the pipeline, these are advisors and groups of advisors that we've historically not had access to before, because they were fragmented or small or whatnot. Our wholesaling model, frankly, it wasn't efficient for us to work with those business – that's now a new client segment. The cost to serve them because it is essentially digital. It's much lower, but I don't know that that has a big effect on our existing kind of Retail wholesaling platform business right now.

M. Carrier, BAML: We'll put one more polling question up and this is more for the industry and then I'll open it up for Q&A. So do you see improving cyclical demand for active management despite structural headwinds, and if so, where do you think active/passive share settles? So one is yes, with the shares selling near the current 70 active/30 passive; two, yes, but structure will persists with share heading to 60% active/40% passive; and then third is no, and structure will persist, with share heading to 50/50 over time. We'll give you a few seconds…

Colin Meadows: To vote.

M. Carrier, BAML: Okay, and the results. All right, two. [laughter]

Colin Meadows: Wow. [sighing]

M. Carrier, BAML: Great, a great outcome. Over 60% of you say no, and structure will persist with share heading to 50/50; and then we'll just say a close second, structure will…

Colin Meadows: Half. [laughter]

M. Carrier, BAML: … structure will persist, yeah, with share heading to 60 and 40. All right, any questions from the audience?

Audience: Circling back to Jemstep. So this is your key entre as you said to Retail to the financial advisors, which are really the new gatekeepers. So right now it seems that you're talking about going for a land grab, trying to get as many financial advisors as possible. At what point do you think it will evolve into developing deeper relationships or more attach points, deepening that relationship with the FA?

Colin Meadows: So we're trying to do both at the same time. So you guys, we understand you don't get a chance to deepen a relationship if you don't have it in the first place. This is early days of this space and advisors are going to choose one technical provider. Because the integration with existing systems is a substantial effort. Just to give you an example, when we sign up a new advisor group, that integration process is as long as six months, because you're connecting to all their internal systems. Once you have that, though, the next process becomes sell through.

The way we – our value proposition with Jemstep is that it's not just a technology. You get access to all of Invesco. So if you're an advisor, obviously we will supply the digital technology which streamlines your operations, but we can also provide model portfolios as well. We've got 90+ models on Jemstep right now. We can also provide other types of solutions and practice management efforts as well.

So as we think about this, we think early days. Our bit of market share game, building relationships with multiple advisors and having more than our fair share of that; and then over time, that gives you the opportunity to have ongoing conversations with advisors about delivering investment content to them. So we're trying to do both at the same time. Probably more emphasis on market share though at this point.

M. Carrier, BAML: Any other questions? All right, I'll do one more just because it's topical. Just on tax reform, given that we've got a few plans out there and sort of hourly changes, but how do you see that impacting Invesco, but then I guess just broader, anything from like a product standpoint? Again, it's early, but anything that's tax efficient that could potentially have some impact?

Loren Starr: I mean from an Invesco perspective, we're already subject to the territorial tax regime. We're domiciled Bermuda company. But we definitely get a benefit in terms of the corporate tax cut. On the US side is about 50% of operating income/ So you could see somewhere just, I mean if there were no takeaways, so is our tax rate going from 27 to 20, just doing the math. There's probably some leakage on that because of withholding taxes and excise taxes and other things to – sort of as the penalty side. But still, it's going to be a net good guy if it were to pass based on kind of even where we are. Either the Senate version or the House, it will all be positive for us.

On the product side, I mean there may be some implications on some of the products, particularly the one around tax deductibility on leverage and so that might have some impact on a small part of our business, the distressed private equity or some of the bank loans, really translating into maybe a little bit of an impact on performance more than the product not being interesting. But I'd say there are a lot of dynamics within that conversation as to how that might pan out, because there's some good guys too that could happen. So overall, I think it's something we're just watching closely. On the product side it doesn't seem like a major topic one way or another. Generally going to be a good thing for equity markets if that were to happen. Certainly bad if it doesn't happen. You're saving dough, futures, whatever, I guess now though. But in terms of an Invesco perspective, it'll be a positive.

M. Carrier, BAML: Any other questions? One in the back over there. We'll get you the mic.

Q: Earlier you were talking about these data analytics to sort of anticipate advisor behavior. Can you expand on specifically what that means? Are you getting it from third-party providers or is this something you guys have developed internally?

Colin Meadows: So this is really using existing tools to do a better job of essentially client segmentation. So, which I think is a little late to this industry, in general. So we get a lot of data on advisor behavior -- this is from our platform partners -- in terms of numbers and what they're using and how they're using it, etcetera. And so now we're essentially applying the technology tools to actually analyze that so that we can be a better partner to them, in terms of segmentation targeting and in terms of products, understanding their own portfolios, how their clients are likely to behave, etcetera. And so those are the things that we're doing from a…

Loren Starr: But it's all internal.

Colin Meadows: … So I's all internal, our own people, our own data.

Loren Starr: Our own people, our own data scientists doing the work. We're not using a third party.

Colin Meadows: Nope. We've actually hired data scientists at Invesco. That's a whole new employment category for us and now they work for us and look at this across domains, not just in terms of advisor segmentation.

M. Carrier, BAML: Okay, we're out of time, but we'll wrap it up there. Thanks.

Loren Starr: It's a pleasure. Thank you very much.

END