INVESCO INC

Moderator: Marty Flanagan
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Coordinator: Good morning, and thank you all for joining us. As a reminder, this conference call and the related presentation may include forward-looking statements, which reflect management's expectations about future events and overall operating plans and performance. These forward-looking statements are made as of today and are not guarantees. They involve risks, uncertainties and assumptions, and there can be no assurance that actual results will not differ materially from our expectations.

For a discussion of these risks and uncertainties, please see the risks described in our most recent Form 10-K and subsequent filings with the SEC. Invesco makes no obligation to update any forward-looking statement. We may also discuss non-GAAP financial measures during today's call. Reconciliations of these non-GAAP financial measures may be found at the end of our earnings presentation.

Coordinator: Welcome to Invesco's fourth quarter results conference call. All participants will be on a listen-only mode until the question-and-answer session. At That time, if you'd like to ask a question, please 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; and Greg McGreevey, Senior Managing Director, Investments.

Mr. Flanagan, you may begin.

Marty Flanagan: Thank you very much and thanks everybody for joining. This is Marty Flanagan, along with Loren Starr, our CFO, and Andrew Schlossberg, Head of the Americas.

And if you're so inclined, the presentation is on the Web site if you want to follow along. That said, we're going to follow the format that we did last quarter where much shorter prepared remarks so we can get to Q-and-A. Loren will hit a brief overview of the business results before we get into the questions though.

And as we've discussed on previous calls, we view this combination with Oppenheimer as a multi growth - multi-year growth story that deepened our relationship with Invesco clients, expanded the capabilities offered globally, scaled the business for both the benefit of our clients and shareholders, and we're already seeing that. This expansion meaningfully enhances our ability to grow our business, achieve very strong operating results, and compete in the ever-increasing dynamic market environment.

Importantly, this is a long-term growth story. That said, we are seeing real and meaningful signs of the power of the combined firm. We ended the year with just over $1.2 trillion in assets under management. That's a 38% increase year over year. That's a record high for the firm. We also have higher assets under management across all channels and all regions as we ended the year.

Long-term outflows for the year were $34 billion. That's 11% improvement from the prior year. We hit record levels of revenue and record levels of operating profits for the year ended 2019. We also achieved significant expense savings delivering ahead of schedule and at $551 million is more than $25 million ahead of the synergy target that we talked about at the time of the combination. And we'll continue to look for additional synergies in 2020.

Lastly, and importantly, we did return $1.2 billion to shareholders in 2019.

And looking ahead, we believe we are well on the path to continue to make progress to move into positive flows in 2020. The key factors that we look at are improving equity performance and several capabilities where they're in high demand, continued very strong fixed income performance, meaningful progress in the integration of our U.S. sales team, strong momentum in our growing China and ETF business, a very strong institutional pipeline, including large ones and solutions, and finally, the clarity on Brexit will help investors move back to a risk-on mindset and now we are beginning to see that.

So I'm going to turn it over to Loren (to go through) our results.

Loren Starr: Thank you, Marty. So I'd like to spend the next few minutes highlighting some of the key items for you on the topic of flows, expenses and capital management.

So, starting on flows, as you can see on Slide 7, we're seeing year-over-year and quarter-over-quarter long-term net inflow improvements in the regions of

EMEA ex-U.K. and our Asia-Pac area. The Q4 net flow growth in EMEA ex-U.K. was driven largely by our ETF business as well as our direct real estate business. We saw, for example, 0.9 billion in the S&P 500 UCITS ETF and 0.7 billion in real estate.

The Q4 growth in Asia-Pacific is largely centered in Greater China and is driven by strong flows into our joint venture. The JV flows were 2.6 billion across many asset classes, with fixed income contributing 1.7 billion followed by a balanced 0.8 billion. We are also seeing quarter-over-quarter improvement in our U.K. business.

We had positive net flows in our institutional business, and that was driven by direct real estate primarily, but also fixed income where we had 1.3 billion in real estate and 1.1 billion in fixed income. Our retail flows do remain somewhat challenged. You'll see the majority of the 16 billion in net outflows in Americas was attributable to the retail business, and that was driven by a 9.4 billion in outflows from some of the legacy OFI funds, some of the largest outflows included, OFI global equities, there was 3.9 billion there and the OFI senior loans $2.2 billion.

We did see a natural redemption out of the maturity of our BulletShares. There was 1.7 billion out of that activity. Point-eight billion came from Invesco International Growth, 0.7 billion from stable value, and 0.6 billion from global asset allocation. I'd like to note though that about 2 billion of these outflows is due to the previously disclosed New Mexico 529 plan. It was a deal-related redemption that we discussed earlier.

So, on the next page, let's drill down a little bit on net inflows in the Americas. So you'll see on Slide 8 we show the 2019 history of AUM monthly gross sales and net flows for the Invesco and the OFI U.S. active retail products combined, which includes periods both pre and post close. So, another way, this reflects the two firms together over the entire period, including the pre-acquisition period.

So these tables highlight a few points. So, first, both the legacy Invesco and Oppenheimer funds have maintained AUM levels aided by the market. Net revenue yields are stable across the timeframe.

Second, you'll see our gross sales post close are still well below the pre-close levels, and they did dip in Q4, although we did see a stronger December. We've made progress with the integration of the two sale teams and we worked to provide the teams with the tools that they need to hit the ground running in 2020, but we are not fully operational yet. We do have Andrew Schlossberg, as Marty mentioned, the Head of our Americas business here with us on the call today and he'll be able to elaborate on this during the Q-and-A session.

Third point I'd like to make is net outflows have been elevated post close. And this is largely a function of the abnormally low gross sales levels in conjunction with performance challenges we have in some of our active equity portfolios. As you can see on the chart, in Q4, outflows were impacted due to the previously announced 2 billion deal-related redemption of the New Mexico 529 plan. As we get to the second half of 2020, we expect the U.S. retail net flows to be on an upward trend, and this should be driven by improved gross sales levels and moderating redemption rates on many of our portfolios that have recently seen a significant step-up in investment performance.

So, next, let's get to expense management and the P&L. So, on Slide 9, we set out our revenues and expenses. You'll see revenues included 52.2 million in performance fees in the period, compared to 18.7 million in Q3. And that was largely from our real estate business. Of particular note, expenses were up 36 million in the quarter. That was driven by several factors, among which the most significant was the movement in foreign exchange rates and global markets in the quarter. Despite these factors, we've maintained our focus on expense management and achieving our expense synergy targets discussed last quarter.

So, on Slide 10, we provide additional information about our expenses to highlight the foreign exchange and market impacts and the other factors that drove Q4 expenses above Q3 levels. I'd like to walk you through briefly on these variances that are shown in each of the columns on Slide 10, before turning to the impact of these items on our 2020 expense run rate.

So, first, foreign exchange and market. The FX and market both increased expenses in the quarter by 21 million. We saw a strengthening of the pound and the euro against the U.S. dollar during the quarter. Pound was up 7%, euro is up 3%. We also saw other currencies like the renminbi up 3% in the quarter. Additionally, markets increased significantly where we had the S&P 500 up 8-1/2%, MSCI Emerging Markets Index up 11.4%, Russell 2000 up 9-1/2%, MSCI All Country Index up 8-1/2%. All that impacted our variable expenses.

The next column is our integration impacts, and you'll see that we realized 3 million in integration savings in the quarter. And there were 9 million more in savings related to compensation that was largely the result of the decline in our bonus pool related to the transaction and integration departures in connection with the confirmed exits of employees in Q4. These savings, however, were offset somewhat in the period by about $6 million in property, office and technology costs. That's related to the step-up in outsourced admin costs, some of which will go away when we get to a single operating platform by the end of 2020.

The third column to talk about is seasonal expenses. We had about 9 million of our operating expenses in Q4 were due to elevated seasonal expenses, primarily related to marketing spend. And then, the fourth item is non-recurring items. So we saw about $9 million of expenses following that quarter or occurred in the quarter that were non-recurring, and that's largely in the G&A area, with the small amounts in property, office and technology. These expenses included regulatory, legal settlement, security-related expenses, as well as product launch costs.

So let me next move to the 2020 expense run rate. So if you'll recall, we indicated in the Q3 - in the third quarter that our operating expense levels of 726 million would be a good expense run rate for 2020, but that was assuming FX and market levels consistent with those at the end of the third quarter.

So, if FX and market levels remain consistent with the 12/31/19 levels or end-of-year levels, our revised 2020 quarterly expense run rate will be 755 million per quarter. And that's comprised of starting with the baseline of 726 million as discussed from the third quarter, adding in the fourth quarter FX and market impacts of 21 million, you add in an incremental full quarter run rate expense impact of 9 million resulting from the FX and market levels at the end of yearend 2019.

Then you add in the savings related to integration of 3 million, and then one quarter of the impact of the seasonally high expenses that occurred in Q4 since that will probably happen again since they're seasonal. So the resulting 755 represents an average quarterly run rate for the operating expenses for 2020, and realistically -- I mean, there will be some quarterly variation around this average -- a good example of the quarterly variation is the Q1 increase that we often see, or we always see, in compensation expense due to the seasonal payroll taxes, which we'd expect to be about 15 million to 20 million for the combined organization in Q1 of this year.

So the full year 2020 guidance for operating expenses based on yearend 2019 market and FX levels is 3.02 billion. And we're confident with our ability - confident in our ability to maintain this level of expense based on yearend 2019 market and FX levels, which means that we're achieving our targeted cost synergies of more than 500 million. And we will continue to update you with respect to our ability to generate more and greater cost savings as we move through 2020.

So, next, let me move to Slide 11 and talk about the increase in operating income quarter over quarter. That was offset by some large movements below the line. In fact, non-operating net expenses impacted our EPS about 7 cents quarter over quarter, driven in large part by two big non-cash items.

So the first was that we recognized 15 million in negative valuation adjustments on our co-investments related to our CLO holdings. These marks are booked on a one-month lag. And so, the pickup that we actually saw on the bank loan market in the month of December was not reflected in these results. But importantly, this is a non-cash item. This is really just mark-to-market activity.

And then additionally, we saw positive market gains on our seed portfolio as you might expect with the strength of the markets in the quarter. But that was offset in other gains and losses by the FX impact of the settlement of an economically hedged cash transaction we had in place related to our intercompany dividends. Basically this item is really just the FX impact on an intercompany loan. This represents about a $27 million swing quarter over quarter, and once again this is a non-cash item.

So, let me move to capital management, and you'll see on that slide, Slide 12, I think, that we did have - did not have a significant buyback activity in the quarter. I'd also like to note that we paid down our credit facility balance to zero. And then, after completing about 975 million in stock buybacks since the announcement of the Oppenheimer deal in October 2018, you'll see that we've transitioned to a more balanced approach to our capital management with a greater focus on our - strengthening our balance sheet.

So let me just in summary say we remain diligent in our approach to expense and capital management. We continue to pursue greater cost synergies related to the Oppenheimer transaction. We are focused very much so on increasing (new) sales in the U.S., and we believe that our sales teams are now positioned for 2020 with the tools that they need to succeed.

And with that, operator, I think I'll now ask you to open up for Q-and-A.

Coordinator: At this time, if you would like to ask an audio question, please press Star 1. You will be announced prior to asking your question. If you queued up prior to the call starting, please press Star 1 again. Please pick up your handset when asking your question. To withdraw your request, you may press Star 2. And again, one moment for our first question

Our first question comes from Robert Lee with KBW. You may ask your question, your line is open.

Robert Lee: Great, thanks. Good morning guys. Thanks for taking my questions. You know, maybe despite the sort of - with the - in talking about the trajectory of new sales in the U.S., I mean, obviously talked about, you know, the integration of the sales force and product performance. But could you maybe - I'm just kind of curious, you know, how long do you think the lag is between - you've had the combined forces now for, I guess, going on about six months, and, you know, what's kind of the lag between when you get it together and you get out in the field and they start talking to advisors that you think, you know, you can really start to see get back to where you - the combined firms were pre-deal.

And then maybe you also have a little more granularly, if there's in the U.S. kind of the handful of products that you'd think could really kind of drive that demand, where you think you could really kind of leverage sales?

Marty Flanagan: Right. Andrew?

Andrew Schlossberg: Yes, hi. Thanks for the question. Maybe it's, Robert, important to kind of take a step back for a minute. While we did put the two companies together six months ago, it was one of the largest asset management transactions in history, as you know. And we started putting the teams together then and we're just kind of getting them on the field now.

One of the really important strategic decisions that we took when we integrated the companies was to rapidly change the distribution force to meet where client needs are moving to. So we took a very holistic look at all of our resources and took a real sense of urgency to make change and to fully integrate them, systems and people. So that was something we wanted to do swiftly and right at close.

For the last six months we've made a lot of - we've had a lot of progress since then, and we positioned ourselves to start to hit the ground running here in

2020, start to see the progress throughout the year. And as Loren said, I think get into the back half of 2020 in a real way.

Maybe to get a little more specific about your question though, I think there's three key reasons why we're confident in the progress we've made. I think, firstly, we've established what we believe is the leading distribution force in the U.S. wealth management intermediary industry. As I said, the second reason is that we've built out a single fully integrated team and product line by end of 2019, and that's pretty important that we were able to do that.

And then, lastly, I think we created a truly relevant platform for top U.S. wealth managers that we serve. And as you know, they're consolidating those relationships pretty rapidly at the asset management level. Let me just put a little color around each of those, and then I'll pause and get to your second question.

In terms of establishing a leading distribution force, at close we selected the team and we were about 50/50 from Oppenheimer and from Invesco. So we've got the top talent. We also achieved the synergy targets that you're familiar with, but we also repositioned the firm toward growth trend. So we positioned towards high net worth, (IRAs), wealth centers, digital data, things like that, while focusing on core key clients and segments like regional broker-dealers, home office platforms.

So we think we've got that leading team in place now, resources repositioned toward the things I mentioned. I think we feel like we've built out an integrated team and product line by 2019. We announced the mergers of our products, ETFs and mutual funds, in December. That was a big milestone. I gave clarity to analysts that cover our products on where we're going, and I think that was an important thing to do. We've also got territories and training in place. We did a lot of that during the back half of last year to get running for 2020.

And then, lastly, in terms of having relevance at the top of U.S. wealth managers, we have a significant seat at the table. I mean, now we have over 600 billion with client AUM. With U.S. wealth managers we have half-dozen clients greater than 25 billion in AUM and a, you know, top ten position in the largest active fund categories and the largest sort of alternative beta ETF player out there. So we've got everything served up we think for success into 2020.

Robert Lee: Maybe just a quick - I mean maybe this is a little old-fashioned way to look at it, but I guess I've always historically thought that, you know, any distribution forces, I know, some number half-dozen, ten strategies, products that you can kind of focus on and really drive. So, just kind of trying to get a sense of what you think those are this coming year?

Andrew Schlossberg: Yes. No, thanks. Probably three things I'd mentioned. I think the first and biggest driver of our net flows success in the U.S. is going to be in the fixed income space, and that's both active and passive. So, as Marty mentioned, we can see in the deck, our fixed income performance is quite strong across the board. Those products are capable and ready. And in particular in the muni space, core plus, multi-sector, again across active and ETFs, that's a big area of focus for us and where we think we'll see success.

I'd say the second is ETFs in general and factors. We had strong momentum in 2019, then we did around 16 billion positive net flows globally in ETFs. In both income and volatility mitigation strategies, that we believe is going to continue to be important, so it's probably the second area.

And then lastly, I'd say, on the redemption side, slowing the redemptions on the active equity strategies, improving performance with common international equity, certain U.S. equity strategies. And we think, coupled with that product integration clarity that I mentioned, and the sales team focus on those redemptions, you know, that should be a point of improvement in 2020.

Robert Lee: Great. Thanks for taking my questions. I'll get back in the queue.

Marty Flanagan: Thanks, Rob.

Coordinator: Thank you. Our next question comes from Patrick Davitt with Autonomous Research. You may ask your question, your line is open.

Patrick Davitt: Hey, good morning. Thank you. I think there's been a little confusion on the comment you made in December on inflows and kind of what you said today. So, is the view that you could be in inflow by the end of 2020 or the full year could actually be an inflow year? And more specifically, I think you mentioned earlier, you know, a strong pipeline and solutions wins. Could you maybe help frame that a little bit more specifically? And within that, how should we think about the $11 billion solutions win coming through over the next few months?

Marty Flanagan: Yes. Great question. So we're not talking about the end of the year. We look at it as, you know, 2020. We see the line of sight for inflows for the year with everything that we've just been talking about today. So it's not - you'll start to see it pretty quickly here.

Loren Starr: Yes. And I think in terms of the institutional pipeline, we've seen continued growth in the pipeline. Quarter over quarter it grew about 4% to 5% both in

AUM and revenue basis. A lot of that is being driven by, you know, real estate and other traditional areas. But we're now competing in RFP businesses or opportunities around solutions that we haven't in the past. And so, as a result, we're actually seeing larger-scale win opportunities than we've ever - never - you know, haven't seen those in the past.

The one that you referenced, the 11 billion, is going to happen probably in the second quarter of this year. I think it was (something) we said in the first half, it's probably more likely to happen in the second quarter. We are seeing similar opportunities like this of similar magnitude, plus or minus, that we expect to also, you know, be generated as an inflow in this year. So, more to come on the solutions, but we really I think are seeing significant success now bringing our solutions capability to clients in a way that we hadn't in the past.

Patrick Davitt: Thank you.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question comes from Kenneth Lee with RBC Capital Markets. Your line is open, you may ask your question.

Kenneth Lee: Hi. Thanks for taking my question. Just a follow-up on, wondering whether you have any update thoughts on potential incremental expense synergies. Just want to gauge any relative confidence you have potentially on achieving incremental synergies. And also as well, you know, when you originally broke out the categories for the synergies, there are some, you know, longer tailed categories such as property and office, as well as G&A. Just wondering whether those are the particular areas where you could see some potential incremental synergies? Thanks.

Loren Starr: Yes. So, Ken, thanks very much for asking. Yes, absolutely. Because when we first talked about this transaction, as you remember, we said that there was a long tail to the integration that would take us through the full year 2020. And they were related largely to some of these technology and back-office elements. And I even referenced, obviously, there was 6 million that stepped up in this quarter related to outsourced admin cost, and some of that will go away as we get through the end of this year, full expectation.

So, order of magnitude is, you know, there's something there. Probably if you look at the numbers, it was in the order of magnitude of sort of 10 million to 14 million that could be possibly generated. We still feel very confident that those numbers will get delivered.

I think, as we said in the past, we still are evaluating how much of that might drop to the bottom line versus getting reinvested in some of the high-growth areas that we've talked about like China or digital. But we are absolutely, through the course of 2020, going to give you full line of sight as to what we think can drop versus what we feel, you know, we absolutely need to use for reinvestment.

Kenneth Lee: Great. And just one follow-up question, if I may. Just on that slide showing the U.S. retail active net revenue yield ex performance fees, it looks it's been pretty stable recently. Wondering if you could just give us some color on any relative impacts from either mix shift or changes to gross fee rates? Thanks.

Loren Starr: Yes. Again, so the one thing I would say, that obviously this is just ex ETFs. This is really just the core mutual fund products, additional products. There isn't a huge amount of shift that happens between the mutual funds. The biggest, you know, shifting that we've seen really has been the mix between mutual funds versus ETFs. This we don't think is going to change, I mean, even with the sale of more fixed income, I don't think it's going to have a massive or sort of material impact on these types of fee rates.

But probably, you know, as we do sell and continue to look at ETFs, that will have a bigger impact overall. And so, I do think there's still, you know, some amount of expected fee decline for the firm as a whole as we continue to sell, you know, ETFs at a higher rate.

Marty Flanagan: Yes. But I think an important point that often gets lost is, don't correlate levels of fee rates to profitability. The ETF business is very, very profitable for us.

Kenneth Lee: Understood. Thank you very much.

Coordinator: Thank you. Our next question comes from Ken Worthington with JPMorgan. You may ask your question, your line is open.

Ken Worthington: Hi, good morning. Can you talk a little bit about the balance sheet? Loren, I think you mentioned the pay-down of the credit facility and you talked about reprioritizing the balance sheet with regard to capital management. What does that mean? How aggressive do you want to be here on the balance sheet? Are there any targets or goals that you can share with us in terms of, you know, deleveraging or debt pay-down or capital ratios? That'd be great.

Loren Starr: Yes. So I think you should expect us to live up to our commitments of the buybacks, you know, which we've talked about, 1.2 billion. You know, we've got about 950 completed through when we first announced. So there's, you know, some 200, you know, left that we're looking to complete in this year 2020. Again, we can do more or less depending on how markets react. But in terms of kind of what you should expect from us, it's probably a much more, you know, sort of steady normalized buyback pattern along the lines I'm just mentioning versus sort of the very accelerated front-end loaded buyback that we were doing when the deal was announced.

You know, what we want to do is be able to build up some cash. As we've said, we want a billion dollars in excess of regulatory capital levels, generally. You know, we're not quite there yet. So there's still opportunity for us to build some more cash. And we do want to have some flexibility, you know, come 2022 when some debt is coming due, there's 600 million, you know, to potentially allow that to be paid down or we might roll it. But having that financial flexibility by continuing to build little cash is we think prudent.

Ken Worthington: Okay, great. And then just following up on some earlier questions on the Oppenheimer deal. I think the original target was organic growth of, say, 1% to 2% for Oppenheimer for 2020. Is that still a realistic target? And if it is, can you kind of walk us through either by, you know, distribution channel or maybe a couple of the big products, like, how do you get from sort of the bigger outflows that we've seen more recently, you know, to that flip to, you know, 1% to 2% organic growth?

Marty Flanagan: Yes. Let me make a couple of comments and then maybe Andrew can pitch in. So it's really - we still think it's - that is very - the issue will be timing, right? So you can't foresee when you, at the beginning of these things, of relative performance. You know, Loren hit on two important areas, the headwinds around bank loans that came over and one of the international funds. The performance in international is improving. I think it was - Andrew was talking about, you know, you first come up with slower redemptions. But when you look through the totality of what's on that platform, we feel very confident about the opportunities.

And we're also seeing opportunities outside of the United States already institutionally and also retail in EMEA. So, again, what we saw at the beginning is something we still feel very confident, and it's going to be an issue of timing.

Andrew Schlossberg: I mean, maybe the only two things I'd add is, you know, we saw, I think through some of the disruption that we mentioned earlier in combining the distribution forces, and you can look back on Page 8, we're still operating pretty well below our gross sales that we had as two individual companies. And just getting back to that level, which we think will happen sooner than later, then lets us sort of go into that acceleration mode. So I think you'll see it - we're going to see it on the gross sales side I think to make that pickup happen.

The other thing I would mention is, we've been focused a lot on the active U.S. retail position on Page 8, but the ETFs are going to be a really important accelerator. And with this stronger distribution force together, you know, we have a lot more energy and resource against growing that business rapidly as well.

Loren Starr: Yes. And obviously some of this has to do with the performance of the products. And we've seen some improvement. Obviously we continue to see an improving trend on some of the core products like international growth, is a good example. That's going to really help us achieve those levels. But probably realistically within 2020, getting to 1% or 2% is probably not realistic at this point, and, you know, I think we have a path to it.

Ken Worthington: Okay. Okay, great. Thank you very much.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question comes from Mike Carrier with Bank of America. Your line is open, you may ask your question.

Shaun Calnan: Hi guys. This is actually Shaun Calnan on for Mike. Just going back to the product offerings. In 2019, we saw a significant pickup in industry ESG flows. And it looks like more of a - there's going to be more focus on this from competitors and investors. So I'm just wondering what your current offering is there and what your plans are going forward. Thanks.

Andrew Schlossberg: Yes. Hey, it's Andrew Schlossberg. I'll jump in on the first instance. You know, we've been, you know, like many others in the asset management space, investing in the ESG space for some time. So our first focus really is making sure that sustainability and other ESG factors are incorporated into our active strategies as a factor that they look at. You know, most of the demand we see from clients, including in places like Europe, is for inclusion portfolios, not exclusion. So our first protocol is to make sure that, you know, we're contemplating that.

Where we anticipate seeing some increased demand though is in ESG portfolios and things that that's the core focus of it. We've incubated and put strategies in place across our entire platform.

You know, one area of note, and then maybe Marty can pick up more fully, but in the ETF space in the U.S., we've been sort of running sustainability focused ETF since 2005. And they're in place. We have I think six or seven of them, and we're starting to see more demand. We expect to see more demand into next year. And likewise in Europe, we listed a set of strategies last year to address the same set of challenges and opportunities.

Marty Flanagan: Yes. Okay. If you look at where the impact is, where it's been real, it has been on the continent. You know, if you're not absolutely engaged and focused on, you know, ESG inclusion, you have a real business problem regardless of what you think about it. And you can tell in the United States where, from my perspective has been more of a conversation (unintelligible) pick up. So it is, you know, definitely a real opportunity and really frankly something that is going to be absolutely pervasive I would say throughout the whole industry globally, which is a good thing.

Loren Starr: I would just say, I mean, in Europe in particular, I mean, we just launched some new ETFs that were ESG focused in Q4. I know we have a bank loan capability that's all ESG focused that is also being sold and doing well. And the big solution win we had in the U.S. that we talked about was actually focused around ESG offering. So we have the capabilities to deliver on ESG and we're actively pursuing those.

Shaun Calnan: Okay. Thanks.

Coordinator: Thank you. Our next question comes from Brian Bedell with Deutsche Bank. You may ask your question, your line is open.

Brian Bedell: Great, thanks. Good morning, folks. Maybe just to go back to the organic growth trajectory and put the positive in sort of the timing of that. So you mentioned, Marty, the institutional pipeline, with strengthening. Of course, we've got the - I think you've announced an 11 billion mandate that's funding in the second quarter, if you could just sort of go into the different components of that. Obviously, you mentioned Brexit is a little bit more - the situation there is a little bit more favorable.

And if you combine the new - maybe if you can talk about actually the new products that you plan to launch on the Oppenheimer strategies during the year in terms of the institutional products and then the launching of maybe euro down the sales front, how that plays into that trajectory of positive organic growth. Certainly it looks like the second quarter you can achieve that with the funding of the mandate. Do you think you can possibly achieve that in the first quarter given the trends you're seeing so far?

Marty Flanagan: The answer is yes. So let me try to hit the highlights. So you're seeing continued rapid growth in China, we expect that to continue. The ETF business, what Andrew talked about, globally, we continue to see that positive flows and increasing. There's more to do with Brexit, but round one has actually been very important. You can already start to see more positive activity on the continent. You did see some improvement in our U.K. business just in the fourth quarter.

So those are two areas where they were very strong contributors to our business a couple of years ago, but as Brexit became very real, we just saw an incredible drop-off in any real activity as people went to the sidelines. So those are all very positive, along with the institutional business that you talked about.

So, again, this is - you're going to start to see, you know, very quickly here, all these things starting to show up in the numbers. And it's quite broad, it's not one area.

Loren Starr: And I mean, what we're just seeing is, I mean, solutions is by far and away the fastest growing part of our institutional pipeline. The other parts that continue to grow -- direct real estate and bank loans are - the fixed income as well, would be the areas that we see growth and interest.

Marty Flanagan: And you talked about the Oppenheimer. So, right now, I think it was Q4, introduced four different Oppenheimer capabilities into the UCITS products on the continent, and they were offered in roadshows in Q4. So again that's the beginning of that. And also where we've seen interest is, in the global equities, emerging markets equities, emerging markets debt, all outside of the United States institutionally. So, again, you know, they're longer tailed engagements institutionally but they're well known, well recognized, and there is real demand for the asset classes.

Brian Bedell: Great, that's helpful. And then maybe just to flip to expenses real quick. I missed the comment about the incremental cost saves in 2020 on that $3.02 billion. Maybe if you can just re-highlight the, first of all, the 3.02 billion, does that include additional market returns in 2020? And then, I know you're still wrestling with when you get cost, incremental cost (unintelligible) you may reinvest them. So, maybe just a little bit more color on if that 3.02 billion could be improved by additional cost saves from Oppenheimer.

Loren Starr: Yes. So, on the first question you had, it does not include any incremental market returns that have already happened in 2020, so there may be some lift depending on where, what and how the quarter comes through. It's really based on yearend levels, so, December 31st levels.

In terms of incremental cost saves, again there's probably 10 to 14 that we easily see in terms of opportunity to deliver more synergies. And so that is something that we will, as I mentioned, sort of be able to talk through as we get through 2020 as to how much of that could drop to the bottom line versus not. But the 3.020 does not include any incremental saves at this point. It is really consistent with the (501) that we originally talked about.

Brian Bedell: Good. Thank you very much.

Coordinator: Thank you. Our next question comes from Chris Harris with Wells Fargo. You may ask your question, your line is open.

Chris Harris: Thanks. Just to follow up on the 2020 expense guide, how would, you know, equity markets up say 8% or so affect the outlook?

Loren Starr: So, again, I mean, you can kind of look at what happened in this current quarter to get a gauge where we did have equity markets, you know, sort of similar levels. So, again, you know, there may be some parallel there.

Now, about the market and FX, about half of that was market and half was FX, of the 21 that we are showing. So you can get a sense of sort of roughly 10 million that could be due to an 8% lift.

Chris Harris: Okay, great. Helpful. And then, did want to talk to you guys a little bit about Brexit. So on the one hand, you know, actually signing a deal would remove a layer of uncertainty, but I guess there's additional uncertainties regarding, you know, how the new Brexit situation might affect the local economy. So, like what are you guys seeing and hearing from your investors? I mean, are you actually seeing some folks saying, hey, look, once this deal is inked, that that might, you know, remove so much uncertainty that we can, you know, get involved in equities again? Or I guess I was kind of hoping to get some thoughts about what's driving the confidence there.

Marty Flanagan: Yes. It's a very good question, and, you know, people are quick to point out, you know, the second part of Brexit is a trade deal and, you know, how that's all going to turn out. You could absolutely sense incredible sigh of relief, you know, on the continent and in the U.K. with just round one of Brexit being agreed. You can start to see that in the activity on the continent in particular and fund flows. It's trailing in the U.K., but again it's just a total sense of relief that there's a pathway forward.

How high would that enthusiasm be is unclear, but everybody that you talk about - talk to, there are record levels of cash, you know, on the sidelines in the U.K. and on the continent. And you're not making very much money at all, needless to say, with the rate environment and negative rates in particular. So, you know, that's why you're starting to see some sort of activity emerge.

Yes, I can't predict how disruptive this next round of trade talks will be, but everything that we're seeing is round one was actually a very, very important positive step.

Chris Harris: Got it. Thank you.

Coordinator: Thank you. Our next questions comes from Dan Fannon with Jefferies. You may ask your question, your line is open.

Dan Fannon: Thanks. Good morning. So, a follow-up on expenses, and I understand you're talking about synergies and incremental savings. But if I were just to look at core Invesco and we're sitting here today after the kind of the results and the flows you're seeing, I think we would be talking about cost cutting or other ways to curtail investments. So, could you talk about, you know, obviously you have the integration in what you've outlined and you've achieved that. But at the end of the day, the businesses are doing worse than you expected. So, what are you doing, I guess, when we think about incrementally, to adjust for an environment that we are now?

And I think you've talked about any additional savings or expenses being have to be reinvested into the business. So, can you help us think about, you know, a market backdrop maybe that's not as favorable what you can do, or other things beyond just the integration that are keeping expenses under control?

Loren Starr: Yes. Great question, Dan. So, I mean, we have been very focused on this deal and the synergies coming out of this deal, but I want to say it's not where our focus stops, you know. So there is a greater, larger focus about what happens, sort of day two kind of ideas around how can we make the entire firm more effective, more efficient. And there is work being done, completely separate from the Oppenheimer transaction, about looking at, you know, how can we simplify some of our, you know, technology and systems, particularly sort of some of the systems that, you know, may not be directly back office or middle office, but others that sort of get more into investment support and other things that could simplify the way we manage our various, you know, capabilities?

And that's just as an example of something that is, you know, interesting to us, because obviously we do have a fair amount of, you know, technical debt associated with supporting multiple teams. There may be opportunities for us to sort of streamline some of that infrastructure. So that's a good example of an area that could be quite large.

Other things that, you know, have been clearly talked about beyond Invesco but we're actively pursuing is how can we move more to the cloud? You know, having things that are on-premise is very expensive. There is a lot of maintenance and, you know, support required for that kind of physical maintenance. And so, if we can move more to the cloud, there really is a significant opportunity to sort of eliminate a lot of, you know, cost, data centers and other things, that are just not necessary, you know, anymore.

So those are things that we're working on through 2020. Probably as we get through it, it's more of a 2021 opportunity for us. But we absolutely will want to talk further through 2020 about some of these ideas as well, not just the Oppenheimer ones.

Dan Fannon: Okay. And then, can you expand upon the MassMutual relationship and what has happened or what you are planning in terms of 2020 from a contribution through that channel of those advisors and what, you know, kind of the potential could be there?

Marty Flanagan: Yes, I'll make a couple of comments and Andrew can chime in. So, obviously, the first quarter call is, you know, there are 8500 advisors and literally it's, you know, onboarding capabilities that they couldn't make available historically, looking at areas of, you know, alternatives that could be made available to that sales force. Also, and some conversations going on looking at the general account around the portfolios, capabilities that we have, that they will take on as mandate. So, again, it's a very strong relationship and we're expecting it to be beyond the important shareholding that they have but also, you know, doing business together.

Andrew Schlossberg: Yes. The only thing I'd add is, on the advice insurance side, you know, one of the bigger opportunities we usually see is with model portfolios and solutions into that channel, open architecture but also, you know, highly inclusive of our active and passive strategies. And so that's what we see as maybe one of the larger opportunities in the advice channel.

Dan Fannon: And is that in 2020 or is that beyond?

Andrew Schlossberg: Through 2020 and beyond.

Dan Fannon: Thank you.

Coordinator: Thank you. Our next question comes from Brennan Hawken with UBS. You may ask your question, your line is open.

Adam Beatty: Thank you and good morning. This is Adam Beatty in for Brennan. Just want to focus in on China a little bit more and your business there. It sounds like things are going well. Appreciate the breakdown on the flows. Just wanted to get a sense in terms of the financial contribution, the magnitude and timing that you might be expecting. Also, any regulatory updates and when you might increase the stake in the JV? And finally, any thoughts on the competitive there? Thank you.

Loren Starr: Yes. So in terms of the financial, again, I'd point you to our press release. We do provide detail in the footnotes that allow you full transparency in terms of the revenues and the expenses in our joint venture. What you've seen is that the margins sort of range somewhere between 40% to 55%. I mean it moves around a little bit quarter to quarter. I think it dipped down a little bit this quarter. But generally they're, you know, well in excess of the firm's margins. And it is a business that, you know, has the same kind of very positive incremental margins, you'd expect for something that has generally higher fees, and, you know, there's been a lot of infrastructure necessarily required to support the growth.

So, financial, I think it is one that is going to help accrete our margin as we continue to see that business grow.

I forgot the other part of your question.

Marty Flanagan: Yes, I'll pick it. So, the shareholding, so, you know, we continue to be, you know, there's a meeting of the minds that will increase the shareholding. We're not, you know, we've not come to final terms. But I think a very important point is it's less relevant for us than others because the point is we have management control and we have had management control of the joint venture. And so we operate in China as a, you know, really combined firm because of that. And that's what's unique about it.

If you look at, you know, the competitive nature of it, you know, there's estimates that, you know, half the flows in the industry over the next 10 years can come from China. You know, we've, you know, been managing Chinese securities since 1992. The joint venture was 2004. Very strong expertise, you know, managed clients in China, $50 billion of Chinese, whether it'd be large institutions or the retail business. And we continue to see growth.

So it is people look at as an opportunity. The fundamental fact, it's very competitive. And to me, my sense is, you know, the startup time to become successful is quite long-tailed. So, having, you know, the depth of capabilities and tenure and experiences, what we look at is a very important competitive advantage for us.

Loren Starr: Yes. I think I also would say, just the investment performance of the products that they're managing is spectacularly strong. And so they really do have a wonderful position in the market right now, and which has allowed them to be able to launch products probably more rapidly than others just because they're seen as being experts in this area when regulators are looking at, you know, kind of who's equipped to do these product launches.

Adam Beatty: That's great. Appreciate all the detail and the nuance on control. That's all we had. Thanks very much.

Marty Flanagan: Thank you. Yes.

Coordinator: Thanks. Our next question comes from Alex Blostein with Goldman Sachs. Your line is open, you may ask your question.

Alex Blostein: Hi, good morning, guys. Wanted to pivot the discussion on organic growth from AUM to fees for a second. I guess, first, maybe you could talk a little bit about the fee rates on the $11 billion win you expect to fund in the second quarter. And then, Marty, just given your comments around line of sight on positive flows for the year, what are the fee rates you guys expect to get on that pipeline? And I guess just taking a step-back, you know, if you could talk about organic fee growth for 2020 as opposed to organic AUM growth, that'd be helpful.

Marty Flanagan: Yes.

Loren Starr: So I think what we said for solutions, it's a solutions kind of typical fees, I think single digits. So it is not, you know, higher fee. It tends to be at a lower fee, which is generally what we're seeing. I mean, a lot of the capabilities are going to be in the ETF space as well. So, again, it's somewhat consistent with, you know, the overall index strategy, so.

In terms of, you know, overall fee progression, I think we said we're not into forecasting kind of fee rates just because it is so hard with mix and hard to figure out, you know, different things around foreign exchange and market that moves that around. But clearly, you know, with ETFs growth, you know, you'll continue to see some, you know, focus on fee rates coming down as ETFs become a more prominent part of our overall mix.

But as Marty mentioned, you know, it's not a margin, you know, sort of dilutive. This is a very positive margin - high incremental margins for that growth. So we absolutely have no issue with, you know, sort of our fees coming down due to ETFs growing.

The bigger topic has been outflows in the higher fee product. And so that's the wildcard in terms of productiveness. And we've talked a little bit about how quickly can we sort of stem what we've seen around some of those higher fee redemptions. We're hopeful that we can get there through some of things we've talked about. But that's the bigger part to forecast and is the hardest one to say how quickly that's going to happen.

Alex Blostein: Got it, thanks. And then the second question I had for you guys was just around the non-U.S. growth dynamic, particularly U.K. and Europe. So, clearly lots of money on the sidelines. You mentioned that, we obviously see some of that as well. As you think about prospect of some of that money coming back into the investment products, can you share some of the perspective of whether or not you think it's going to be more of a, you know, money flowing back into the active products or the passive products? So, just some flavor what you're actually hearing from the distribution channels in the U.K. and on the continent would be helpful.

Marty Flanagan: Yes, I'll make a comment and Loren can pick up. So, you know, what you saw last year, you know, our ETF flows were record flows, right? So the second largest inflows, you know, in Europe into our ETFs, that's going to continue. Look, it's early days post the Brexit, but, you know, the focus on active is actually picking up and, you know, we're seeing that early trend. And again, I mean, we're not even - we're almost done with January, so I don't want to extrapolate too much, but, you know, there has been, you know, a change already.

Loren Starr: Yes. I mean, I would just say, I think probably it's going to be a mix, but probably there is going to be a heavy component of ETFs flowing into Europe. Really we've seen that and we don't expect that to change. What we do think is probably helpful is that some of the actives is going to start coming back. We have some great products that are performing really well, European balanced high income, European corporate bonds, are examples of products that are doing really well from a performance perspective.

So, our European lineup on active is actually pretty strong. And so, any sort of improvement on sort of the risk-off, you know, getting more risk-on is going to be helpful for some of those cross-border flows coming back to us.

Man: I might just add two quick things. One is that initially cash balances being high, the equity demand has been so depressed for the last few years, that's just a pickup back into equity strategies off low bases, both active and passive, we expect.

And then the other thing I'd mention, which is relevant in EMEA but also globally, that we didn't talk about, was we're seeing more demand come into alternative strategies throughout the world. Institutionally, I'm in emerging retail, so I probably look for flows to return there as well as people come off the sidelines.

Alex Blostein: That's helpful color. Thanks.

Coordinator: Thank you. Our next question comes from Craig Siegenthaler with Credit Suisse. You may ask your question, and please standby, your line is open.

Craig Siegenthaler: Thanks. Good morning. First, I just wanted to come back to the positive net flow commentary earlier in Q-and-A, where you specifically called out the Oppenheimer international fund. Just given the trailing performance of that fund, I wanted to hear why you thought flows would be improving over the next several quarters.

Loren Starr: Yes. So the performance, the one-year performance has significantly improved on that particular product. And I'm scramming a little bit to see if I can find it right now so I can actually tell you. But I think we've seen, you know, a real pickup in…

Man: Thirty-second.

Loren Starr: Thirty-second percentile on a one-year basis.

Man: One year.

Loren Starr: Okay. So it's definitely improved from where it was. So it's not so much that it's going to, you know, turn it around dramatically, but it'll help allow us to protect it and sort of maybe stem redemptions a little bit better. So that's going to be a big, you know, help to the flow story overall.

Man: It's a well-established team with high conviction, and as again money comes back also into the international equity space, with some of the headwinds changing, or continues to come in, you know, with the performance improvement, you know, we feel better about the redemption rate.

Loren Starr: I mean just anecdotally, I know it's a short period, but I think, you know, on a three-month basis it's 8th percentile. So it's really, you know, come up well, and so near term it's definitely performing well.

Craig Siegenthaler: Thanks, Loren. And then just my follow-up on Jemstep. Can you provide us an update on this business? And also do you know what the current AUM contribution is from Jemstep, which I assume would mostly be inside of PowerShares?

Marty Flanagan: Yes. So, yes, the total digital platform right now there is $900 billion in assets under administration. So it is really starting, you know, to come online. Pretty quickly you'll see some advancements of, you know, clients into Jemstep here in the next little while. The business on the continent continues to be very, very strong. This fourth quarter, we've talked about the model portfolio launch, clients are starting to come online, and that we suspect probably midyear before you start to see meaningful flows into that. But again we feel really good about the strategy and you'll start to see some good things happening here, but we'll talk holistically about.

Loren Starr: Yes, I think, other than - I don't have much more to add other than, yes, it's a huge opportunity, I think it's less than 2% of Invesco AUM, the share of AUA just mentioned, so it's not material at this point. But the opportunity that is before us in terms of being able to actually penetrate the AUAs is a very real one. So I think it's a story for 2020 that we hope we're going to be able to tell more fully.

Marty Flanagan: And to put that in a context. So with the active model portfolios that were introduced in the U.K., about 18% to 20% of that content is Invesco products. And so you put in the context of open architecture and the other distribution platform, if you had 18% to 20% of the market share, that would be - is basically 4 to 5 times higher than having a successful position in a traditional platform.

Craig Siegenthaler: Great, thank you. That was it for me.

Marty Flanagan: Thank you.

Loren Starr: Thank you, Craig

Coordinator: Thank you. Our final question comes from Robert Lee with KBW. You may ask your question.

Robert Lee: .Actually my follow-ups were asked and answered. Thank you.

Marty Flanagan: Great, good. Well, thank you everybody and have a good rest of the day and we'll be chatting with you soon.

Loren Starr: Thanks everybody.

Coordinator: Thank you. And this does conclude today's conference. We thank you for your participation. At this time you may disconnect your line.

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