INVESCO INC

Moderator: Marty Flanagan
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Woman: 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 expectation about future events and overall operating plans and performance. These forward-looking statements are made as of today and are not guaranteed. 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 Third Quarter Results Conference Call. All participants will be in a listen-only mode until the question-and-answer session. At that time to ask a question, please press star 1. To allow more participants to ask question, only one question and a follow-up can be submitted per participant as this call will last one hour. Today's conference is being recorded. If you 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; Allison Dukes, Chief Financial Officer; and Greg McGreevey, Senior Managing Director of Investment. Mr. Flanagan, you may begin.

Martin Flanagan: Thank you, Operator, and thank you everybody for joining us this morning. So over the past decade, we've undertaken several strategic initiatives and made meaningful investments in key capabilities that have positioned us well to deliver for our clients and compete in what is now highly dynamic and competitive industry. Looking forward, we continue to be very focused on executing our long-term strategy, which is intended to further strengthen our ability to meet client needs while returning the firm to sustainable organic growth.

With the continued uncertainty in the economic environment we saw during this third quarter driven by the global pandemic, again we remain very focused on our clients and ensuring that we're meeting their investment objectives while also being really focused on running a very disciplined business in this uncertain time.

These efforts, combined with strong investment performance and high demand capabilities, led to long-term net inflows of $7.8 billion during the quarter across a broad variety of channels, geographies and asset classes. Retail flow significantly improved during the quarter. And our Solutions-enabled institutional pipeline remains robust. Long-term flows into fixed income capabilities continued to be strong, and we saw net inflows in Asia Pacific and the EMEA regions during the quarter, and net outflows in the Americas improved significantly. Net flow - inflows in Asia Pacific during the quarter were $8 billion, up significantly from the $2 billion we saw in the prior quarter.

As we noted during the second quarter call, we've undertaken a strategic evaluation of our business. And this evaluation has several objectives, including enhancing client outcomes and improving organic growth, reducing complexity and streamlining our operating environment. We see opportunities to invest in areas of growth, aligned with our strategic plan and supported by data and analytics. And these include areas such as ETFs, China, solutions, alternatives, global equities, as we also look to optimize primarily in areas of the business that do not directly touch clients. We expect this optimization will reduce our normalized annual operating expenses by a net $200 million by the end of 2022. And Allison will speak more to this in just a moment.

In addition, during the quarter, we continued to manage our balance sheet by reducing the outstanding borrowings under the revolver while improving cash balances.

Invesco has built a global diversified business with depth and breadth and resiliency to deliver positive outcomes for our clients through various market cycles. We have invested ahead of several macro trends that are shaping the future of our industry. As a result, we are now highly competitive in areas with strong demand with the majority of our investment capabilities aligned with key future growth areas.

These include a significant (and) growing Solutions effort, leadership positions and fixed income ETFs, factors, global equities which would include emerging markets, alternatives in the fast-growing China market. And again, we remain very focused on meeting the needs of our clients in this very volatile environment while running a disciplined business and working toward sustainable organic growth.

Before I turn the call over to Allison, let me comment on the 13D that was filed by Trian on October 2. We value shareholder input and regularly engage with our major shareholders in a constructive dialogue aimed at further strengthening our business and driving sustainable growth. We welcome Trian as a shareholder and are in active and constructive conversations with them. And as you appreciate, given we are still in the process of engagement, we are not in a position to comment further on this topic during the call today.

With that, let me turn it over to Allison.

Allison Dukes: Thank you, Marty. Good morning everyone.

Slide 5 summarizes our investment performance. We had 63% and 68% of actively managed funds in the top half of peers on a five-year and a ten-year basis, reflecting strength in fixed income, global equities, including emerging markets and Asian equities, all areas where we continue to see strong demand from clients globally.

Moving to Slide 6, we ended the quarter with $1.218 trillion in AUM. Of the $73 billion in AUM growth, approximately $53 billion as a function of increased market values over the quarter.

Turning to Slide 7, our broad-based platform generated long-term net inflows in the third quarter of $7.8 billion, representing 3.3% in annualized organic growth. Notably, we generated positive net inflows and active AUM of $1.8 billion and passive AUM of $6 billion.

Our ETFs experienced net inflows of $12.4 billion, including $6.8 billion in long-term ETFs and $5.6 billion in our QQQs, representing the second largest net flows in the industry for Q3. The QQQ ETF delivers significant marketing benefits that drive brand awareness and it increases Invesco's footprint, leadership and relevance in the ETF market.

Including the success of the QQQ, our US-listed ETFs had their best quarter in their 15-year history with those flows representing 10% of the overall industry flows in the quarter, which is two times our industry ETF market share. Long-term ETF flows in the US and EMEA were diverse across asset classes in the third quarter, including broad equity and commodities, fixed income, ESG-oriented equity and sector equity.

Positive ETF flows were contributors to the meaningful improvement in our retail net outflows, which narrowed to $300 million in the third quarter. On the institutional side, we had net inflows of $8.1 billion. And I'll provide a little more color on those flows on the next few slides.

Looking at flows by geography, you'll note net outflows of $4.4 billion in the Americas, an improvement of $10-1/2 billion in the quarter. This improvement was driven by net inflows into ETF, various fixed income strategies, our stable value capability, our balanced risk capability and improvement in redemption rates, particularly in our international growth and value funds.

Flows turned positive in the UK, generating $1.4 billion for the quarter, which was driven primarily by flows into our institutional quantitative equity capability. EMEA net inflows were $2.8 billion, driven by the strong flows into our gold, S&P 500 and EQQQ exchange-traded funds.

And finally, Asia Pacific delivered one of its strongest quarters ever, with net inflows of $8 billion driven by institutional fixed income mandates in Japan and significant net inflows into balanced fixed income and equity funds and our China JV. Our JV has been in operation since 2003, and our early investment in China has positioned us uniquely to take advantage of this long-term macro growth opportunity.

It's worth noting that we continued to see strength in fixed income across all channels and markets in the third quarter with net long-term inflows of $8.8 billion, this following net long-term inflows of $6 billion in fixed income in the second quarter.

Now moving to Slide 8, our institutional pipeline remains strong at $31.9 billion on the heels of a strong pull-through in the institutional pipeline during the third quarter. This pipeline remains robust across asset classes and geographies and our Solutions capability has contributed to meaningful growth across our institutional network. Our investments thus far into our Solutions team have been impactful to the dialogue we are having with institutional clients as evidenced by the pipeline.

Turning to Slide 9, as Marty mentioned in his opening remarks, we are well positioned with investment capabilities aligned to key future growth areas. These include a growing solutions effort, capabilities in fixed income, ETFs, factors, global equities, including emerging markets, alternatives and the fast-growing China market. These are high-performing capabilities and are illustrative of the breadth and diversification of our product offering. In addition, these are capabilities that present tremendous opportunity in large and growing parts of the market.

On the left side of this slide, we highlight certain capabilities in China where we have seen strong demand and good performance as well as our deep and varied fixed income offerings.

Through the Oppenheimer transaction, we broadened our platform with sizable global equity offerings including developing markets and the OFI International Growth capability. We have good performance in these areas and we're well positioned for client demand to return. Additionally, we offer a range of real estate investment strategies across risk spectrums and geographies.

On the right side of the slide, we illustrate ETF capabilities, upon which we will look to expand. The QQQ ETF is one such example. As announced earlier this month, we've expanded the QQQ product suite which will allow us to market the capability to new and different investors. In addition, we're seeing client demand for ESG capabilities. Year-to-date, the industry ESG ETFs have gathered over $20 billion in net flows. We manage over $5 billion in ESG ETFs. The Invesco's Solar ETF is our top-selling ESG ETF with net inflows of $400 million in the third quarter.

We will continue to invest in these areas and we believe there's opportunity to take market share and that these capabilities will be important contributors to our organic growth.

Turning to Slide 10, you'll note that our revenues increased $59 million or 5.6% from the second quarter, driven by higher average AUM in Q3. Net revenue yield, excluding performance fees was 36 basis points, down 8/10 of a basis point from the second quarter. Seventy-five percent of the decline in the yield was largely driven by the growth in our non-fee QQQs. Outside of this, the fee rate declined modestly due to other mix shift we experienced across products in the quarter.

Total adjusted operating expenses increased 1.7% in Q3 against a 5.6 increase - 5.6% increase in revenue, creating positive operating leverage. The $11-million increase in operating expenses is driven by higher compensation as a result of strong market growth in the quarter. Operating expenses continue to be lower than historic activity levels due to pandemic-driven impact to discretionary spending, travel and other business operations.

Now turning to Slide 11 for a little more color on our expenses overall. Having successfully completed the integration of OppenheimerFunds and delivering savings of $501 million against the combined organization's expense base, we see additional opportunity to optimize our model. As I noted in our earnings call on July 28, we've conducted a strategic evaluation across four key areas of our expense base -- our organizational model, our real estate footprint, management of third-party spend and technology and operations efficiency.

Through this evaluation, we see an opportunity to invest in key areas of growth aligned with our strategic plan and supported by data and analytics, including ETFs, China, Solutions, alternatives and global equities while creating permanent net improvements of $200 million in our normalized operating expense base. A significant element of the savings will be generated from realigning primarily our non-client-facing workforce to support key areas of growth and repositioning to lower-cost locations.

On January 29th, we guided to a 2020 operating expense run rate of $3.02 billion, which included the full realization of the Oppenheimer synergies. Our annualized operating expense run rate as of the third quarter is at $2.74

billion, which reflects COVID-induced business impacts and market-driven expense reductions from the guide we provided at the beginning of this year.

Our normalized operating expense base assumes a return eventually to normal business conditions once the pandemic subsides globally. This normalization of largely marketing expense, G&A and the seasonality of our payroll taxes within compensation expense would add an additional, roughly, $134 million to our third quarter annualized operating expense base. And that would bring our normalized operating expense run rate to $2.88 billion. We see an opportunity to reduce this run rate further by $200 million net of reinvestments.

We expect $150 million or about 75% of the run rate savings to be achieved by the end of 2021 with the remainder recognized in 2022. The savings represent low double-digit accretion to EPS in each of the next two years. We expect total onetime transaction costs for the realization of this program to be in the range of $250 million to $275 million over the next two years with roughly 40% of those charges occurring in the fourth quarter, 40% in 2021 and the remainder in 2022.

With respect to fourth quarter 2020 operating expenses, I would expect them to be modestly higher than Q3, driven primarily by increased marketing spend, reflecting higher promotional and client activity in the quarter.

Consistent with our past practice, this expense guidance is based on September 30, 2020 assets under management, market and FX levels and therefore may fluctuate with these items and any discrete non-operating expenses going forward.

Now moving to Slide 12. Adjusted operating income improved $47 million to $407 million for the quarter, driven by the positive operating leverage in our core business. Adjusted operating margin improved 240 basis points as compared to the second quarter to 37.2%. Adjusted EPS was 53 cents compared to 35 cents a share in the second quarter, driven by lower non-operating expenses and higher non-operating income.

Non-operating income included $29.2 million of net gains in equity and earnings in Q3 compared to a $53.2 million net loss in the second quarter. The increase in equity and earnings was driven by noncash market valuation increases, primarily in our CLO Holdings, which demonstrated some recovery in value in the third quarter as compared to the second quarter.

Interest expense of $33.8 million was lower by 2.9% in the quarter, reflecting the reduced credit facility balance during the period. I would note the third quarter was the final quarter in which we paid dividends related to our forward purchase agreements, which settle in January and April of 2021. As a result, we expect interest expense will decrease by approximately $9 million in the fourth quarter.

Our tax rate for the third quarter was 24.2%. And for the fourth quarter, we estimate our tax rate to be between 24% and 25% while the actual effective tax rate may differ due to nonrecurring or discrete items.

A few comments on Slide 13. We reduced our revolver balance by $236 million to $90 million in the quarter, consistent with our commitment to improve our leverage profile. In addition to using excess cash to reduce leverage, we seek to improve liquidity and our financial flexibility. To that end, our balance sheet cash position improved to $1.067 billion in Q3 from $987 million at the end of the second quarter. Our goal remains to build cash to $1 billion in excess of regulatory capital requirements. And at September 30th, we were holding approximately $340 million in excess of regulatory requirements.

As we've indicated, we're building financial flexibility in these uncertain times and we believe we're making solid progress in our efforts. We remain committed to a sustainable dividend and to returning capital to shareholders longer term through a combination of modestly increasing dividends and share repurchases.

In summary, we're focused on our strategic evaluation and reallocating our resources to position us for growth. And we remain prudent and cautious in our approach to capital management. Our focus on driving greater efficiency and effectiveness into our platform, combined with the work we have done to build a global business with a comprehensive range of capabilities puts Invesco in a very strong position to meet client needs, run a disciplined business and to continue to invest in and grow our franchise over the long term.

And with that, I'll turn the call back to Marty.

Martin Flanagan: Thank you, Allison. So, Operator, can we open up to questions please? And Greg, myself and Allison will address them.

Coordinator: Certainly, Mr. Flanagan. 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. Please pick up your handset when asking your question. To withdraw your request, please press star 2. One moment for the first question. Our first question is from Dan Fannon with Jefferies. Your line is open, sir.

Dan Fannon: Thanks. Good Morning. I was hoping you could expand a bit on…

Martin Flanagan: (Hey, Dan).

Dan Fannon: …the areas of the cost cutting. You gave some buckets but I think you also mentioned it is really not client-facing. So I just want to see, you know, what might be the disruption from some of these changes in cost cuts, and then also if you could just kind of size the areas in terms of percentages maybe of where that $200 million is going to come from.

Allison Dukes: Sure. Thanks, Dan. I'll start and I might let Greg or Marty chime in on the client-facing impact.

Of the $200 million that we've noted, about 50% to 60% of that I would expect to come through compensation expense. And of that, I'd say about 75% will occur in 2021 and the remainder of that would fall off in 2022. The other 40% to 50% would be split across occupancy, tech expense and G&A. And that occupancy expense, I expect that's going to be kind of evenly split across '21 and '22. I think the G&A component will fully recognize in '21 and the tech expense will probably be pushed closer to 2022.

On the compensation side, it is primarily realigning our workforce to lower-cost locations and reallocating and reorganizing across our business to make sure we're investing in our highest capabilities. There were some announcements that have already been made publicly. I'm happy to let Greg comment a little bit more on that. But that's largely behind us at this point.

Did that help, Dan?

Dan Fannon: Yes, it does. But - so just then on the client-facing side, I, you know, just - was just thinking about AUM at risk or anything that you could put when you think about the investment professional components of what changes might happen?

Gregory McGreevey: Yes. Let me talk, Dan. Really good question. So that strategic evaluation did include investment teams as you would expect. The total assets impacted is a relatively small one. It's about $26 billion. And even though that's a small amount, we really believe that the changes really improved the overall organization, improved our focus, prioritization.

Maybe just to put a little bit of perspective from a high level, the changes were really designed on the investment side to accomplish a couple of objectives. One is to enhance our investment teams and processes so we can continue to drive performance. Two was to enhance and simplify our global equity offerings. We can talk more about that if you want to. Three was to reassign certain capabilities to stronger teams, with frankly better processes and performance. And then for the noninvestment professionals, really was to reduce complexity and eliminate redundancy and adjust the service levels where we needed to.

So on the investment side, we talked to employees. We've had detailed conversations with clients. And by and large, those changes are complete and behind us. And the feedback internally and externally has been very well received, very thoughtful and I think everybody said it made a lot of sense from a strategic standpoint.

Dan Fannon: Great. Thank You.

Martin Flanagan: Good. Thanks, Dan.

Coordinator: Thank you for your question. Our next question is from Craig Siegenthaler with Credit Suisse. Your line is open, sir.

Craig Siegenthaler: Hey, good morning everyone.

Martin Flanagan: Good morning, Craig. Good Morning.

Allison Dukes: Good morning.

Craig Siegenthaler: This question is actually for Marty. Marty, do you believe Invesco at $1.2 trillion of AUM now has enough scale to be successful? And I was especially interested in your comments on the distribution side.

Martin Flanagan: Yes. So, Craig, great question. So let me - you know, the answer is yes and let me step back to probably the core of the question. And as we've talked about for the last few years, you know, there is clearly a very different dynamic going on in the industry and it's driven by something very simple. Clients around the world are choosing to work with fewer money managers. And it - that's whether it's a retail channel, the institutional channel and again every geography in the world.

And so what they're looking for from clients is clients are expecting more from money managers, so it's that broad range of capabilities that we have from passive all the way to alternatives. But beyond that, they want a solutions capability. They want thought leadership. They want the ability for us to build models for them, help in any way. And so that has been, you know, a core focus for us as a firm and you can see it in just the growth - gross inflows, the net inflows now of, you know, that impact there.

So you have to be relevant to clients. You have to make a difference for clients. And that's really important. So it's capabilities. It's also depth and breadth of capabilities and services. And also I think what you have to do, too, is, yes, you want to have scale so you can drive efficiencies into the organization, which we've proven to do, you know, over any number of years and just our conversation today, you know, proves that once again.

But it's really so you can reinvest back in things like technology to create a better experience for your clients. And again, ourselves and, you know, I'd say the other larger firms have done very well doing that during the global pandemic. The client interactions have never been better and, you know, much of that was driven by historical technology investments. And again, not unique to us and - but I think we've all been surprised that if you have scale and capability, you can really create a difference for your clients.

Craig Siegenthaler: Thanks, Marty.

Martin Flanagan: So hopefully that - oh, yes.

Craig Siegenthaler: And I actually just had one - Marty, I had one follow-up…

Martin Flanagan: Yes.

Craig Siegenthaler: …for Greg on the strategic expense initiatives.

Martin Flanagan: Yes, please.

Craig Siegenthaler: So when you say that changes will enhance the global equity offering, does this mean merging funds into other funds, removing teams? Does this mean shrinking the number of investment professionals and also reducing the number of products?

Gregory McGreevey: Yes. So it's combination of some of those things, Craig. So we'll, you know, we will - you know, the global equity capabilities that we have right now, especially that we've acquired from Oppenheimer was very strategic in terms of filling some gaps within our portfolio. But we had other capabilities on the global side that were kind of nascent to that overall effort, if you will. So some of the things we're going to be doing is reassigning our Atlanta-based global core equity team to our Canadian global equity team and then realigning that Canadian global equity team into our New York team. It's going to simplify not only our overall offerings and capabilities but it's going to be able to streamline our messaging and our branding into the kind of marketplace over those.

So it'd be those types of things that we're going to be doing under that umbrella, simplifying our global equity offerings.

Martin Flanagan: And can I just - I just want to be very clear and both Greg and Allison made those points. Those changes have been made. And we're done with the changes. The clients' contacts have been made and, you know, we're moving forward now. So I just want to make sure that there's no mystery there.

Gregory McGreevey: Craig, did I address your question?

Martin Flanagan: Yes, great.

Craig Siegenthaler: Yes. Great job, Greg. Thank you.

Coordinator: Thank you for your question. Our next question is from Brian Bedell with Deutsche Bank. Your line is open, sir.

Brian Bedell: Great, thanks. Good morning folks.

Maybe, Allison, just to start out with the expense question, so just I think you said this but just to confirm. The expense base assumptions, the dollar amounts exclude any impact of market appreciation based on September 30 data. So if we - just playing with numbers, if we normalize market returns from, say, the end of the year, you know, get around to $400 million or so of additional revenue, so would it be fair to just put a comp to revenue number on the compensation line on that to think about how the expense base might grow in that market return dynamic and therefore - and then just take the $200 million off of that?

Allison Dukes: Yes. It's a great question. And obviously, there're a couple of ways you could think about it. So let me just to bring a little bit of clarity to it.

One, yes, all the expense guidance both the fourth quarter guidance and the $200 million target beyond that is all based on September 30th asset levels, market, FX.

As you think about the $200-million reduction, again I expect 50% to 60% of that comes from compensation. And that would be the component that is, you know, as you reduce compensation that has the most variable component to it and obviously fluctuates the most with any change in asset levels or market performance.

The balance is really tied to discrete items across our occupancy, tech and G&A expense. And so it doesn't have quite the same dependency on market or asset levels.

Brian Bedell: Okay. Okay. Fair enough. Yes, thanks.

And then on - maybe just to talk on the sales side, Marty, if you can - or you, Marty, or Allison, if you could just talk about some of the key drivers that you saw for improved flows in terms of the sustainability, your confidence of the sustainability of that into 4Q. I don't know if you want to comment on October flows so far but, you know, do you think the - that you can continue to generate positive flows both in the near term and over the long term? And maybe if you can talk on a couple of initiatives that give you confidence on that.

Martin Flanagan: Yes, let me make a couple of comments and I'll let Allison and Greg chime in.

So yes, the answer is yes, right? And you saw a marked change in flows. And again, we continue to point to look at the gross number always as really the health indicator, always. And what you've seen over the last period of time, the institutional business continues to just be very strong. And again, we pointed, you know, the pipeline. Again, it is strong.

And if you look to - you know, Asia Pac continues to be, you know, a very strong (business), EMEA coming back on track and the Americas improving dramatically.

So what's behind it? ETFs generally continue to just be quite powerful. Fixed income is the area of absolute strength right now. And it's not just performance; it's the quality of the team; it's the breadth of the team. But it's also client demand. That's really important, you know, element for our flows. And you saw a marked improvement in the US.

The biggest headwind continues to be where we have great confidence in the long term - you know, the global equity capabilities, you know, including emerging markets. You know, that is something of strength as we look forward. But the headwinds when clients don't want something and, you know, you're going against - so if you use the US retail channel, it's just a proxy because it's, you know, so public information. The outflows in US equities are, you know, a strong headwind.

The second largest category of out is global equity capabilities. And those are two areas. We have some real strength and we have some challenges in some of our capabilities there. But it's hard to overcome that. So what you're seeing is the rest of the powerful part of the organization overtaking that, I think that's really important.

But, Allison or Greg?

Gregory McGreevey: Yes. The only thing I'd add is, look, if you look at our business on a vantage perspective, we saw significant improvement in our flows in every broad investment category on a quarter-over-quarter basis. So in sustainability I think, assuming we have continued strong performance, I think is there. In fact, if you look at our flows in the third quarter, they were positive in every category except retail equities and retail bank loans where bank loans were essentially slightly negative for the quarter.

So when you kind of look at the overall business, institutional and retail fixed income, institutional equities, institutional alternative and institutional and retail balance products, all contributed to, you know, the positive flow number. So we're encouraged by that trend. But we're probably more encouraged by the magnitude…

Martin Flanagan: Yes.

Gregory McGreevey: …of improvement in every broad asset category. That really is much more of a testament to the sustainability we think of our flows moving forward.

Martin Flanagan: And I'd add one other thing. So we continue to see a lot of success coming out of Solutions and, you know, the factor capabilities and some of the passive. And as you know, they are big mandates but they are lumpy, right? So you could probably see some more lumpiness than historically we've seen in the past. But, you know, on balance, you know, that's a good thing, you know, from my perspective.

Brian Bedell: And do you see this continuing in October, the trend from the third quarter? And it's a short-term measure but...

Martin Flanagan: Yes, that - we're not going to do that. That's not served us very well (unintelligible) talking month to month, so.

Brian Bedell: Yes. Yes.

Martin Flanagan: So…

Brian Bedell: That's fair. That's fair.

Martin Flanagan:: …we'd like to be helpful but I don't think it's been constructive, so.

Brian Bedell: Okay. Yes. Thank you.

Coordinator: Thank you for your question. Our next question is from Glenn Schorr with Evercore. Your line is open, sir.

Glenn Schorr: Hi, thanks very much. I wonder if you could expand a little on your comments about the significant growing Solutions effort (and) the combined company. And I guess I want to talk about the construct and how you deliver, you know, what you think it takes to be great and how you measure that success because as you mentioned, with clients of all types, consolidating providers, that seems to be the secret sauce that's going to help you deliver everything that you've built here. So I'm curious if you could expand on that a little bit. Thanks.

Martin Flanagan: Yes. I'm going to make a couple of comments and I'm going to have Greg. So the way that we've built our Solutions business - so, you know, obviously a very talented group of people. But what it does is it sits, if you want to call it, across all of our investment teams globally. So they don't compete with the investment teams. They literally use the content from the investment teams. And I think that's somewhat of, you know, a minority approach, you know, in the marketplace but also it's the analytical tools that have been built by the team that really enable these conversations.

And we've seen the conversations with very sophisticated institutions that have resources to do their own work, and they do but they're wanting to get a different view from organizations that have these capabilities. And again, it just changes the depths of the relationship that we have with these organizations. And again, it's taken all spectrums from, you know, creating models through our self-indexing capabilities, you know, creating, you know, indexes for client for them to use for their own purposes to, you know, the more, you know, well-known, you know, Solutions outcomes that people want with - across different asset classes.

But, Greg, do you want to make some…

Gregory McGreevey: Yes, maybe just to kind of add to Marty's comments, look, our Solutions business really has two primary segments. One is an enabling - enablement capability where we're going to help with - in conjunction with distribution, to determine client needs and the best individual capability to align to those needs. And so what you need, you know, to be great in that is really strong client engagement skills…

Martin Flanagan: Yes.

Gregory McGreevey: …and really strong analytics.

And then the second is where we're going to provide customized outcomes tailored to specific client needs across a number of different asset classes. And so there to be great, you need very strong asset allocation skills.

And so what we've done over the last five years has really made probably one of the most significant investments in the company to build capabilities in those three areas. And I think what we're seeing off of that investment that really started four years ago is a significant improvement in both our assets under management, our assets under advisement, both in the institutional channel which is up significantly. You saw that on the pipeline chart that Allison had talked about where Solutions is enabling over half of that business. But we've also seen a significant level of engagement and portfolio reviews in the retail side.

So we've got a strong pipeline within Solutions. I think with that in concert with more favorable market conditions in the third quarter is going to provide additional tailwinds to the business. And so we're pretty excited about, you know, just the opportunities both, you know, in the near term and in the long term.

Glenn Schorr: Thanks for all that. Appreciate it.

Martin Flanagan: Great. Thank you.

Coordinator: Thank you for your question. Our next question is from Brennan Hawken with UBS. Your line is open.

Brennan Hawken: Good Morning. Thanks for taking my question.

I was curious about how you view - I know that you've spoken in the past about the fact that you're - you have a fairly small footprint, retail SMA. And particularly given the fact that, you know, US retail has been a bit of a headwind for you, you've got so much momentum in other parts of the business but that one has been a bit more slow to turn around. Retail SMAs have been sort of the bright spot in that channel. How do you think about potential investment there?

You've also got a dominant provider that will no longer be independent in the future. And so there might be increased demand for another independent provider from some firms and some FAs. So how do you view that opportunity? Where are you as far as capabilities in that market? And is that worth your while when you start to think about investment dollars here?

Martin Flanagan: Yes. It's a great question. And I think the core of where you're going which we've always agreed with, you know, separate investment capabilities from delivery mechanisms and you have to have, you know, different vehicles to deliver because it's different in different parts of the world, different channels. And you're highlighting a trend where SMAs have become important in segments of the wealth management channels. And the good news is when - with Oppenheimer, they have had - they brought over a strong SMA capability, largely aligned to fixed income. And as we've turned our attention to it, that's where we're starting to see flows.

We'll continue to, you know, expand that as, you know, in response to client demand. I think the other area that we've talked about over time is, you know, the size of nontransparent ETFs. We still have our application in. We're excited that we're working with Fidelity who's a very strong partner on bringing a nontransparent capability into the market before the end of the year. We'll see where that goes. As I've said, I think that's longer dated but I'm just really highlighting the need to - we have to respond to client needs with the vehicles also.

Gregory McGreevey: Yes. The only thing I'd add to that, Marty, a little bit is, look, we are spending time with our SMA business. We had a legacy business and then one that we were able to acquire with the Oppenheimer acquisition. We recognize it's a bright spot in the retail market. So I agree with all of kind of Marty's points.

Our team and capabilities is strong in fixed income. We're spending time right now in technology to really in the areas of operations of tax efficiency and the things that are going to be requirements to kind of support that business overall. So we understand the essence of your question and we're spending time to make sure that we address that bright spot into the market.

Brennan Hawken: Excellent. Thanks for that color, Marty and Greg.

You also made a few comments, it sounded like, although I might have misinterpreted that you're looking to make some investments in some of the ETF product lineup, trying to expand into a flag ESG. It sounded like there might be some further development of QQQ-related products. Did I read too much into that or is that the case? What kind of opportunity set do you think that that will actually result in for Invesco? And if you're going to expand on the Qs, is that going to allow for Invesco to generate better economics on some of that innovation? How should we think about that? Thank you.

Martin Flanagan: Yes, so in the last couple of weeks, we introduced sort of an expansion of the Q, you know, the Q suite from NASDAQ who is a fantastic partner and it's really following, you know, the great success with the Qs. They're complementary in nature to the, you know, the QQQ and again they are more typical structures with more typical economics than, you know, what we have with, you know, the marketing allowance with the Qs.

So we see client demand there. It's a natural extension of the Q suite. And as Allison spoke to, we showed some of the ETF-related ESG capabilities. They've been in the market for a good number of years, so track record does matter. And there are track records there. And the assets are now just really beginning to grow as people are turning, you know, more seriously to ESG. We have, you know, other focus areas in ESG as, you know, everybody is turning their attention there. But again, we have a very strong capability internally there and will - you know, product will, you know, follow those capabilities as we look forward.

So does that kind of get to your point?

((Crosstalk))

Martin Flanagan: Yes. Okay.

Brennan Hawken: Yes. Yes. Thank you, Marty.

Martin Flanagan: Yes.

Coordinator: Thank you for your question. Our next question is from Ken Worthington with JPMorgan. Your line is open, sir.

Ken Worthington: Hi, good morning. Given consolidation is a theme for traditional asset managers these days and given where Invesco is with the integration of Oppenheimer and its efficiency program, is Invesco interested in pursuing - further pursuing large-scale M&A? And if so, would it be practical to pursue large-scale M&A in the near-term if an opportunity presented itself given the goals you've pointed out for the balance sheet?

Martin Flanagan: Yes. Ken, that's a great question. So let me put it in the context of how we think about things. We have acquired over time, obviously. The principles have not changed. It needs to be additive to the organization. It has to have complementary investment capabilities. They need to be strategic. They need to be differentiated. It has to be something clients want.

And I would contrast that to some of the things I've read that the notion of, you know, financial roll-ups is, you know, going to be the order of the day. We don't believe in that. It's disruptive, it's risky and, you know, clients are not supportive of it. So we will not - you know, we will continue to be on the area if it makes sense for us; you know, we will pay attention to it. And again, always to your point, it's got to be strategic and it also has to be financially sound.

So our thoughts and beliefs have not changed there.

Ken Worthington: Yes. And if everything made sense, is Invesco in a position to pursue something near term? Like longer term, you know, it would make sense if you find the right fit after everything is digested, et cetera. But are - is Invesco in a position to do something, you know, now or in 2021 if that opportunity that fit all the criteria you mentioned presented itself?

Martin Flanagan: Yes. Ken, I can't address the hypothetical. What I can tell you right now is we feel really good about the organization. We feel really good about what we've accomplished. You know, for us like many other organizations, you know, COVID was not a welcome experience. It sort of knocked us off our plan for 2020, factually. We're now back on it. You can see it in these results. And we took very seriously during this period of time, you know, making sure that we have the resources against the right opportunities and we believe we do right now.

So again, I - we're - heads are down and we're executing with what we're doing and we feel really good about it.

Allison Dukes: And I'd underscore our commitment to our balance sheet objectives. We are committed to continuing to improve our financial flexibility, reducing our leverage profile and making sure we're in a very strong position to weather any uncertainty that comes our way and to continue to invest in our business and can invest in our capabilities for growth. And I'd tell you that our scale is what gives us the opportunity to announce the cost target that we announced today. And we're going to take advantage of that.

Martin Flanagan: And, Ken, let me come back in more - you know, I just want to step back, you know, just our basic belief. So the word "consolidation" is thrown around a lot in the industry. And, you know, what we said in the past and what I do believe is the stronger gets stronger, there's no question about that just because of the dynamic we talked about of what, you know, clients are looking for from organizations. But consolidation doesn't mean that, you know, organizations are going to be buying everything. I just think - I think there're many firms that no one will buy. The consolidation will happen, you know, organically. You know, clients leaving some money managers for others where they are better served.

So I think that's how we think about it. And again, anything we'll do will be very, you know, very thoughtful and consistent with the principles we've laid out. But that is not our focus at the moment.

Ken Worthington: Awesome. Thank you so much.

Martin Flanagan: Yes. Thank you.

Coordinator: Thank you for your question. Our next question is from Alex Blostein with Goldman Sachs. Your line is open.

Alex Blostein: Great. Thanks. Thanks for the question. I was hoping you guys could expand a little bit on the $32-billion pipeline you highlighted on the institutional side. So maybe a little more color on the revenues or the fee rates associated with that and any notable redemptions that you're also aware of, again on the lumpier side of things.

Allison Dukes: Sure. Thanks, Alex. You know, the pipeline, it actually looks very strong, obviously, as compared to prior quarters; pretty balanced, I would say across regions and asset classes as you could see. In terms of the fee rate, it's perhaps maybe modestly higher than the pipeline at the end of the second quarter -- I'd call it very modest. It continues to be consistent and it's really a strong mix of equity capabilities and fixed income that probably drive the fee rate just a little bit higher. And we're continuing to see growth from the United States as well, which is a really strong indication, the highest we've seen from them in a number of quarters.

So overall, I'd say it's a good, healthy pipeline. In terms of redemptions, nothing notable, nothing unusual. And I think we continue to be very focused on redemptions. If anything, it's really as our clients just continue to look at mix within their own mandates.

I would note in terms of the institutional flows in the third quarter, about 2/3 of those were from the pipeline itself, about another 1/3 or so was from client activity. So the institutional flows we're seeing are not just coming from the pipeline. They come from augmentation of existing relationships. And I think that really underscores just the strength of the franchise overall.

Alex Blostein: Got you. And then my second question just around China JV. I was hoping maybe taking a step back, if you guys could talk a little bit about what sort of the total AUM base and maybe operating income contribution to Invesco from that relationship today. So if you could break it out kind of revenues, expenses, that would be helpful. And as you're thinking about scaling this over time, what are some of the products that are resonating most? How can you sort of grow this to be a more meaningful contributor to the organization?

Martin Flanagan: Let me just talk, you know, conceptually at a high level about, you know, China for us. If you just look at what's happening, the inflows generated by China for us, they're, you know, they're at all-time highs and largely driven by the JV. And it's just its depth and breadth of capabilities and it just continues to get stronger and we anticipate that going forward.

Again, institutionally, we continue to have great experience there. And, you know, it's been broad-based of - through, you know, launches in China and existing products going forward. So again, we just are in very strong position there and we anticipate it'll just be a material contributor, you know, as, you know, we move forward.

Alex Blostein: Any numbers around that?

Gregory McGreevey: Yes. So we have - you know, I'll give you a couple of numbers. We have about $66 billion in kind of Mainland, China overall. That footprint is across a variety of different kind of asset categories. If you look at the $8 billion of kind of flows from an asset category standpoint, they were quite diversified and positive in just about every area within Asia Pacific. Balanced products, obviously the largest driver of overall flows in Asia Pacific in the third quarter.

But I wouldn't, you know, just relate it only to balanced products. I think the thing you have to think about there is there's a lot of diversification given the broad-based nature of needs within China. And I think there's a broad-based set of investment capabilities with very strong performance that relate to that.

Alex Blostein: Great. Thank you.

Martin Flanagan: Thank you.

Coordinator: Thank you for your question. Our next question comes from Michael Cyprys with Morgan Stanley. Your line is now open.

Michael Cyprys: Hey, good Morning. Thanks for taking the question. Just coming back to the expense saves for $200 million of net savings, I understand that's net of investments. So I was just hoping you could talk about how much exactly is embedded in there for investments back in the business. Maybe you could talk about how you're approaching that, how you're sizing that, what gives you confidence that's the right amount and what would you say are the top three areas that you're investing in.

Martin Flanagan: So let me just talk again. So we're not going to get into specifics. You know, I think as we've all said, the work that we did was very comprehensive and very broad. So there was a lot of movement to, you know, realignment of resources and against the areas that we care about. And we were just talking about China, is going to continue to be a contributor. So we're making sure that we have all the resources there that we need.

ETF continues to be, you know, a driver and, you know, we continue to see that, you know, as a very important area for us. If factors continue, you know, a subset of that continues to be very (unintelligible) Solutions, all the areas that we've talked about.

So again, most of the assets under management now we think are - that we have are in support of right resources and they are in high demand areas as we go forward.

Allison Dukes: And, Michael, the way I'd - I just add to that is we're focused on creating positive operating leverage and sustaining that operating leverage. And so looking at these cost targets, it gives us the opportunity to realign our investments or permanently alter or take out some expenses so that we have the flexibility and the capacity to continue to invest in all those capabilities Marty spoke of.

Michael Cyprys: Okay. And just on the uplift, $134 million on that slide with normalized business conditions, I guess just how do you think about the drivers there? How does that break down? And how would you describe what normalized is relative to, say, pre-COVID? So for example, is it like 80% on, say, T&E versus pre-COVID? How should we be thinking about that?

Allison Dukes: Yes. Sure. Good question. So, you know, again there are a couple of ways to think about this. So the $134 million is a rather specific number, I know, but, you know, I'd tell you about $25 million or so is really - is purely a function of seasonality and compensation expense. So it has nothing to do with COVID. It's just third quarter would not be the right quarter to really create a run rate there.

The remainder $100 million or so plus is very COVID-induced. And, you know, it's hard to figure out for any of us how much of that comes back and the way in which it comes back and the time frame in which it comes back. I couldn't tell you if we're running at, you know, 80% or 20%. I mean, I can tell you we're not traveling. And I can tell you that most of our offices either remain closed or at somewhat of a 20% or so capacity. And so if you just think about the expenses that would be tied around that, we're not having in-person engagements with clients, you know, consistent with what you would expect everywhere.

So I mean, in some respects, you could assume it's - you know, we're at 5% of what it used to be. We don't expect we'll stay there forever. We just don't know when it would come back. We do believe it comes back. We do believe there is an environment someday where we're largely back in the office, where we are traveling to see clients again, that we are in person together again. And we do think it's reasonable to expect some of that to come back over time. I just don't know when.

And then the point I made earlier, the $200 million is largely independent of that. It's really tied to discrete line items that have all been identified and really has nothing to do with COVID environment.

Michael Cyprys: Great. Thank you.

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

Mike Carrier: Good morning and thanks for taking the question.

Martin Flanagan: Yes.

Mike Carrier: First, the trend in flows is great. I realized that the quarter fee rate was impacted by some of the rise in the non-fee AUM. But excluding that, I think it's still ticked down despite strong equity markets. If you can you provide some color on the fee rate on that institutional solution inflows more versus the overall fee rate, you know, versus the prior pipeline just to gauge, you know, the trend line for the outflow?

Allison Dukes: I would say the fee rate for the institutional pipeline and the component that is driven by Solutions, it's very consistent. So I would just think of it very consistent to what we've experienced in - certainly in the third quarter and, you know, a couple of quarters prior to that.

Mike Carrier: Okay, thanks. And then, Allison, just given the efficiency initiatives and where your guide as adjusted margin is right now at 37%, roughly in line with the existing sector, when you're looking at the efficiency initiatives, is it a way to improve the margin further, like free up money to invest in the business longer term, offset some of the structural headwinds in the industry? I'm just trying to get a sense because each firm has very, you know, I would say different strategic, you know, kind of initiatives or outlooks in the industry. And then if we do get a 5% rise in the market, if you can just, you know, let us know how you think about the variable component of cost and how that could impact just the core expense, you know, level.

Allison Dukes: So I would say the way we're thinking about it is we want to be able to create positive operating leverage. It's hard to create positive operating leverage quarter after quarter after quarter but that's, you know, longer term. Over the medium term, that's what we're trying to do so that we actually have the capacity to reinvest. And we can't underscore enough our commitment to reinvesting in our business and reinvesting in those growth capabilities because we really believe that's what drives the longer-term flow dynamics and value of the firm.

And so as we think about operating leverage, you know, and we think about the fact that the fee environment is one that is - there is downward pressure. It is not the same downward pressure quarter after quarter but in general, at a macro level, the pressure is more down than anything. And so as we seek to maintain the fee level, as we continue to see just the growth in our ETF business and the QQQ suite, we are looking at really creating profitability across the broad platform and thinking of these expense levers as a way for us to create capacity to continue to reinvest to drive the top line. And that's where we think we get the operating leverage.

In terms of the variability, I mean, I just point to the fact that our expense base in general is about 1/3 variable, 2/3 fixed. And so as you think about a rise in markets, that's a reasonable data point to use.

Mike Carrier: Got it. Thanks.

Coordinator: Thank you for your question. As a reminder before we take our next question, we have about five minutes left in today's conference call. Our next question will come from Bill Katz with Citigroup. Your line is open, sir.

Bill Katz: Okay, thanks. Just one clarification. A lot of my questions have been asked. On the $26 billion of AUM that had been sort of identified with some team changes, is that money sort of sticky at this point in time or do you think that there could be some subject to runoff? And what might be the associated revenues with that?

Gregory McGreevey: Yes. We think that it's quite sticky, Bill. We've had conversations, as I mentioned before, both with the teams and our clients. And I think, you know, like I mentioned, the feedback was quite positive for the changes that we made, both why we did them and strategically the rationale behind them. So, you know, we just don't expect there to be a significant amount of runoff related to those assets under question.

Remember, what we're trying to do is use those things to strengthen areas where we really think there is strong demand in the marketplace or move assets to stronger teams with better processes and performance overall. So clients, you know, should perceive that as being a good thing kind of overall, not, you know, look at - it's tough to go through those things but they were the right things to do strategically for the business.

Bill Katz: Okay. And then just one quick follow-up. Marty, you mentioned in your prepared commentary that you're looking to take share within the ETFs. I was just sort of wondering, you know, where that share might come from. Is that within the passive bucket broadly? Is that relative to active, some of the existing players? I'm trying to get a sense of, you know, how that share would transpire.

Martin Flanagan: Yes. And, Bill, it's going to be a combination, right? I think, you know, we talked earlier about the QQQ suite. It's a strong spot for us. You know, when you look at that will be an area. We have a very strong factor capability and that's sort of fundamental to our ETF suite. And so, we'll continue that area. I also mentioned a relatively small, about $5 billion in ESG-related ETFs right now. You know, it is an area of - you know, as market demand is moving there, having those longer track records are, you know, are important when - so we look at that as an area of growth also.

So, you should think broadly about it. And again, I still think it's longer dated but, you know, paying attention to what happens with nontransparent ETFs is something to have on, you know, as we look out into the future. And again, you know, we'll start to get some sense of it as, you know, we launch nontransparent along with Fidelity by the end of the year. So pretty broad, Bill.

Bill Katz: Okay. Thank you very much for taking the questions.

Martin Flanagan: Much appreciate it.

Coordinator: Thank you for your question. We have a question from Robert Lee with KBW. Your line is open, sir.

Robert Lee: Great, thanks. Thanks for your patience (with) all the questions. First, so thanks for the added product disclosure, appreciate it. Most of my questions were asked but, Marty, you touched on - and I apologize if I missed this earlier but on ESG, I mean, can you elaborate a little bit more on kind of how you're thinking it more broadly? Is really the strategy mainly focused on the ETF business where you'll have more ESG-specific strategies within that? And how are you really looking to incorporate into the broader, you know, active business? You know, is it just the investment process? Are you anticipating rolling out a broader suite of kind of thematic (balance) of strategies? I'm just trying to get a sense of that.

Martin Flanagan: Yes. Let me make a couple of comments and Greg can chime in. So it's multi-tier. So our principal activity right now is, you know, embedding ESG across all of our strategies throughout the world. We're well into it. You know, some will take longer but that's - you know, it is just a reality and that's well underway. And again, I think different parts of the world are at different stages. If you aren't embedding ESG in your investment capabilities, you know, in Europe, you know, you're just not competitive. And we anticipate that, you know, across the world.

And then just looking at our product suite, this is not ETFs alone, it continues to be - you know, we'll look at active capabilities. I'd say we're probably leader in the fixed income area with ESG being embedded in that process. And then the other thing, we have a ESG capability and, you know, thought leadership there is an area that is an area of strength for us and again, we've taken it, you know, very, very seriously.

But, Greg, what would you add?

Gregory McGreevey: Yes. I think that - you know, look, I think we're well positioned, Robert, from an ESG perspective. The market is, to Marty's point, moving very quickly. We need to move quickly. We're prepared to do that.

If you kind of think about our book right now, we have roughly about $30 billion of ESG mandates by the narrowest of market definition. And that's across 90 (bonds) and mandates, varied by strategy and geography and client type. So, you know, we view ESG strategically as something that will continue to grow in importance in every region, will be a significant growth area for the firm. We have a desire to be a top-tier global ESG manager.

And to Marty's point, we've kind of prepared to have ESG systematically integrated across our entire platform, which is, you know, a big kind of undertaking. And then we'll support that with a ray of sustainability and impact products overall.

So strong performance I guess is really key in all areas. It's critical to ESG moving forward and that's why our model is very investment-led. You asked about how we manage this. It's investment-led. We make sure our teams incorporate ESG requirements into each team-specific processes. And then we support that by a global ESG team that provides expertise and a comprehensive set of tools. So a lot of work there but I think it gives you a little bit of understanding of the seriousness of how we're taking ESG and how (I fully) believe this opportunity is going to be moving forward.

Martin Flanagan: Does that answer your question?

Robert Lee: Yes, it does. Thanks so much for taking my question.

Martin Flanagan: Good. Thanks, Robert. And so, we'll wrap up the call again. You know, thank you very much for all the questions, very thoughtful. Again, we feel good about the quarter. We feel good about the undertakings that we described today. They're all meant to make us a better, stronger firm. And we'll continue to be very focused on that as we move forward and look forward to ongoing conversations.

So thank you very much and have a good rest of the day.

Coordinator: This does conclude today's conference call. We thank you all for participating. You may now disconnect. And have a great rest of your day.

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