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PRELIMINARY TRANSCRIPT

IVZ - Q2 2015 Invesco Ltd Earnings Call

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OVERVIEW:

IVZ reported 2Q15 net revenue of $936.6m, operating income of $390m and adjusted EPS of $0.63.

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CORPORATE PARTICIPANTS

Martin Flanagan *Invesco Ltd. - President and CEO*

Loren Starr *Invesco Ltd. - CFO*

CONFERENCE CALL PARTICIPANTS

Michael Carrier *BofA Merrill Lynch - Analyst*

PRESENTATION

Unidentified Company Representative - *Invesco Ltd.*

This presentation and comments made in the associated conference call today may include forward-looking statements. Forward-looking statements include information concerning future results of our operations, expenses, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, AUM, acquisitions and divestitures, debt, and our ability to obtain additional financing or make payments, regulatory developments, demand for and pricing of our products, and other aspects of our business or general economic conditions. In addition, words such as believes, expects, anticipates, intends, plans, estimates, projects, forecasts, and future or conditional verbs such as will, may, could, should, and would, as well as any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees, and they involve risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements, and urge you to carefully consider the risks described in our most recent Form 10-K and subsequent Forms 10-Q filed with the SEC. You may obtain these reports from the SEC's website at SEC.gov. We expressly disclaim any obligation to update the information in any public disclosure, if any forward-looking statement later turns out to be inaccurate.

Operator

Welcome to Invesco's second-quarter results conference call.

(Operator Instructions)

Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now, we'd like to turn the call over to the speakers for today, Mr. Martin Flanagan, President and CEO of Invesco, and Mr. Loren Starr, Chief Financial Officer. Mr. Flanagan, you may begin.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Thank you very much, and thank you everybody, for joining Loren and myself. And those that wish to follow the presentation, it is on our website, if you are so inclined.

Today, I'll review the business results for the second quarter. Loren will go into greater detail around the financials. And as our practice, both Loren and I will answer any questions that anybody might have. So, let me start by highlighting the firm's operating results for the quarter, you'll find this on slide 3 of the presentation.

Long-term investment performance remained strong during the quarter. 75% and 79% of actively-managed assets were ahead over a three- and five-year basis respectively. Strong investment performance, combined with a comprehensive range of strategies and solutions we offer to help clients achieve their desired investment objectives contributed to long-term net inflows of $5.9 billion for the quarter. Adjusted operating income was up 4.2% compared to the first quarter. The quarterly dividend is $0.27 per share, which is up 8% over the prior year. We also returned $198 million to shareholders during the quarter through the combination of dividends and stock buybacks.

Turning to the summary of the results for the quarter, assets under management were $803 billion at the end of the second quarter, up from $798 billion in the prior quarter. Operating income was $390 million in the quarter versus $374 million in the prior quarter. Earnings per share were $0.63 per share, the same as the prior quarter.

Before Loren goes into details on the financials, let me take a moment to review investment performance during the quarter inflows. Turning to slide 6, investment performance remained are strong across the enterprise, in spite of the volatility later in this past quarter. Looking at the firm as a whole, 75% of the assets were in the top half on a three-year basis. 79% were in the top half on a five-year basis.

I am now on page 7. I think we all recognize that every client has a unique set of investment objectives with a desired set of outcomes that can be achieved in a variety of ways. We believe the greatest opportunity for clients to achieve those investment objectives is by using a well-constructed portfolio that is needs-based, spans asset classes and considers both active and passive strategies. One of the greatest strengths of Invesco is the broad range of active and passive capabilities we offer our clients. It's a key differentiator for us in the marketplace. Our focus on meeting client needs with a broad range of active and passive capabilities drove solid flows into our business during the second quarter. Active and passive flows we saw across the globe, reflecting continued efforts to deliver strong investment performance and provide excellent outcomes for clients. Although retail flows were impacted by the macro event, we saw strong flows in our institutional channel during the quarter.

The figures on slide 8 reflect a broad diversity of flows we saw across our global business during the quarter, which included strength in fixed income, namely investment grade, stable value, global total return, real estate, and other asset allocation products. Despite significant funding during the quarter, the institutional pipeline of won but not funded mandates remains strong and diversified across asset classes. We feel good about the results for the quarter. In spite of the late volatility we saw in the second quarter, we continue to see strength in Asia Pacific and EMEA particularly, and across the broad range of asset classes. These flows were the result of the continuing strong investment performance, and our ability to meet client needs with a range of strategies and solutions, which positions us well for long-term success.

And from my perspective, this quarter really represents the value of being broadly diversified by channel, asset class, investment capabilities, and the value of the investments we have made over a number of years. Smart data in ETFs, European cross border investments, the institutional business globally, alternatives, fixed income. We have a history of advancing our business during uncertain times, whether it comes through markets or more recently the impact of such developments coming from the regulatory changes. We believe we are positioned very well. We believe we are making the investments to continue to strengthen our business, while at the same time, we recognize we are in an uncertain time, and we will be thoughtful during this period. Loren?

Loren Starr - *Invesco Ltd. - CFO*

Thanks, Marty. So now we'll go through the asset roll-forward and operating income. So quarter after quarter, you'll see that our total assets under management increased $5.3 billion, or 0.7%. This was driven by FX translation of $8.5 billion, and long-term net inflows of $5.9 billion. These gains were partially offset by negative market returns of $6.2 billion and outflows from money market and the QQQs of $2.6 billion and $0.3 billion respectively.

Our average AUM for the second quarter was $810.9 billion. That was up 1.9% versus the first quarter. However, as Marty mentioned, due to the market declines in June, our end of period AUM came in at $803.6 billion, which is in fact 0.9% lower than our Q2 average AUM. Our net revenue yield was 46.2 basis points, which represented an increase of 0.1 basis points versus Q1. The drop in performance fees quarter over quarter accounted for a decline of 1.9 basis points, which was more than offset by a variety of factors, including an improved mix, which added 0.7 basis points, one extra day during the quarter, which added 0.6 basis points, favorable FX and higher other revenue, each of which added 0.3 basis points.

Let's turn to the operating results now. Net revenues increased $19.1 million or 2.1% quarter over quarter to $936.6 million, which included a positive FX rate impact of $5.1 million. Within the net revenue number, you'll see that investment management fees increased by $59.7 million or 5.8% to $1.08 billion. This was a result of higher average AUM, one extra day during the quarter, and the impact of the growth in higher yielding product.

FX increased investment management fees by $7.2 million. Service and distribution revenues increased by $6.2 million or 2.9%, also in line with higher average AUM, and the increased day count. FX increased service and distribution revenues by $0.2 million. Performance fees came in the quarter at $13.1 million, and they were earned from a variety of different investment capabilities, which included bank loans, real estate, Asian equity and quantitative equity. Foreign exchange had no impact on our performance fees.

Other revenues in the second quarter were $37.9 million, which was an increase of $6.7 million, and that line item benefited from a higher level of real estate transaction fees. Foreign exchange decreased other revenues by $0.1 million. Third-party distribution service and advisory expense, which we net against gross revenues, increased by $14.9 million or 3.7%, and this increase was in line with our higher average AUM and higher day count. FX increased these expenses by $2.2 million.

Moving further down on the slide, you'll see that our adjusted operating expenses at $546.4 million grew by $3.3 million or 0.6%, relative to the first quarter. Foreign exchange increased operating expenses by $2.3 million during the quarter. Employee compensation came in at $351.4 million, a decrease of $11.3 million or 3.1%. The decrease was consistent with the decline in seasonal payroll taxes and a reduction in variable compensation linked to performance fees earned in the first quarter. These declines were partially offset by a full quarter of higher base salaries that went into affect on March 1. And foreign exchange increase compensation by $1.7 million.

Marketing expense increased by $3.3 million or 12% to $30.7 million. FX increased marketing expenses by $0.2 million in the quarter. Property, office, and technology expense were $82.2 million in the second quarter. That was up $4.4 million. This increase was the result of higher property-related expenses, and foreign exchange increased these expenses by $0.3 million.

G&A expense came in a little bit higher this quarter at $82.1 million. That represented a $6.9 million increase or 9.2%. The increase in G&A was the result of $3.6 million of additional fund and regulatory costs, as well as higher professional service expenses associated with technology initiatives, which amounted to $2 million. Foreign exchange increased G&A by 0.1 million.

Moving on down the page, you'll see the non-operating income decrease $6.7 million compared to the first quarter, and that was largely driven by lower equity and earnings from unconsolidated affiliates. The firm's tax rate on a pre-tax net income basis in Q2 was 28.7%, which was consistent with the guidance that we provided in the first-quarter call. Looking forward, our tax rate will return to the lower level of 25.5% to 26.5%. Which you brings us to our adjusted EPS of $0.63 and our adjusted net operating margin of 41.7%.

Let me just take a few minutes to discuss Invesco's financial outlook, before turning things back over to Marty. At the end of Q2, clearly negative market sentiments and risk-off behavior on the part of many clients occurred, and was driven the situations in Greece and China. As a result, as I mentioned, we find ourselves starting the last half of the year at a level of AUM that is, in fact, lower than what we average in Q2, and roughly flat to the average AUM we had across the first half of the year. We continue to believe that Invesco is very well positioned for success, and we face many significant growth opportunities, many of which do require further investment on our part, in order to realize. At the same time, we are aware of our needs to manage our expenses in a disciplined way, especially when markets are particularly volatile and uncertain.

So as of today, our expense guidance is still roughly in line with what we discussed with you in the first half of the year. Nothing has changed. However, we will be looking closely at other areas of spend and investment with an eye to prioritize and look at certain non-critical projects and initiatives to see if we can delay certain events, particularly until the market has stabilized.

However, on a positive note, in the last half of July, we have seen some improvements in the markets, and a significant positive turn around in the retail sentiment in Europe and our ETF business. In fact, just in the last two weeks of July, we generated more than $1 billion of net inflows. In addition, we continue to see very strong institutional demand across a variety of our investment capabilities, and we would say that should this improvement continue, we do believe that our organic growth rate is on track to meet our plan of 3% to 5% of the year, and our incremental margin target of 50% to 65% is achievable. With that, I will now turn things back over to Marty.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Thank you, Loren. Operator, any questions?

QUESTIONS AND ANSWERS

Operator

We have a first question coming from Michael Carrier, Bank of America Merrill Lynch.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. Maybe the first questioner maybe for both of you. Just given what you said in terms of the shifting in July. You mentioned the last two weeks. I don't know if you have a full-month picture but more important than that, you gave some color on the institutional pipeline. Just on the retail. When you think about up through April, kind of all the momentum and the progress that you guys have been seeing and some of the pull-back that we have seen in the past couple of months. We want to get a sense on which products continue to work. Where you are seeing that demand. In the cross border we have seen huge swings early in the quarter verses what we are seeing now. I just wanted to get an update now since that is a big driver for you.

NEW SPEAKER

I'll answer maybe the first and Marty you and have. In terms of July, we are roughly flat in July on that flows. So obviously the first two weeks were DOSed and they have been completely offset by the last two weeks. The daily flows continue to be strongly positive from where we are today. That is the good news. In terms of products that are absolutely on track and continue to be in high demand, we're seeing alternatives generally as a class flow very well. GTR in particular. A bank loan. Fixed income continue to be a strong provider real estate. Those are going to be continued trends. Those didn't slow down that much. Balance also continues to be a strong area of growth for us. We have balanced product in CE as well. What we really saw was equity. That took the hit from that April, may time frame, and that was around very much a target of domestic equity, got hurt pretty bad. China got hit. That was the real element that took the flows away. The things that are still flowing and we think very positively are going to continue to flow. I mentioned fixed income which is another area where we have spent a lot of time and effort and investment to build out our capabilities and to allow our clients to understand those capabilities and we're seeing a lot of demand at both retail and institutional for those products. The themes are going to continue. Hopefully the equity element which is really the part that hurt us in stabilizing and now we're going to see more continued interest in those products. The ETF as well clearly stalled for us for a while, and that was because most of the flow going in ETF was really centered on either the -- either the foreign exchange hedge product or the international product which we don't have a presence in to a sense that some of our competitors do. We have seen that turn around. Our products are across many of our capabilities in our ATF range.

NEW SPEAKER

That's helpful. And Loren, just on the expenses. It sounds like keening an eye on things.

NEW SPEAKER

In the past you have given some guidance on the line items and just particularly the G&A. You called out a couple of items that you have seen maybe were more elevated. But I just want to get some sense going forward where these things should be running and anything that was maybe more noisy this quarter.

NEW SPEAKER

I think G&A did pop up. There were a lot of things that you would definitely circle as being one time in nature. Probably? -- somewhere you could easily circle three to four million that was unnonrecurring. The issue is that other things may fall off, but other things may come on. So there is a recurring, nonrecurring situation in the G&A. We are managing that line item looking very closely at it trying to manage. It's probably at an elevated level in the second quarter. We would hope to see it decline. In specific guidances to where it lands, hard for us to say exactly where it would be. I would say it's somewhere in the 75 to 80 range is probably the right level, but it is hard to really manage and forecast that line item just because there are certain things that are going to be product launches or certain needs around, you know, regulatory situations where we're just going to need to spend money to deal with those situations.

NEW SPEAKER

Okay, thanks a lot.

NEW SPEAKER

Than k you. Our next question coming from Glen shore of EVERCORE of ISI. Your line is open.

NEW SPEAKER

Maybe we could get a little more color on the Asian franchise. I heard your comments on equity in china, but in general, that is 60 billion now. A billion in positive flows, and I think there was 7 million in performance fees from the region. If you could just get a high level what is working. What do you still need to do? I think it held up a lot better than people might have naught.

NEW SPEAKER

We look at it as the fundmennal strengths of the organization. Lots of commentary about china. If you look three to five years, it is a very important place to be. We look at our presence maybe both retail and institutional. And it may go through a challenger period. We think -- and we talk about the institutional business. The leadership in Asia Pacific. The institutional leadership is new this year, very, very strong. We think that, and we are seeing greater results already which is frankly hard to believe, and we're seeing it in Australia along also Japan is a very strong institutional market. Historically, that's not been the case. We are seeing a-- again, we're looking for continued positive contributions from that region for us.

NEW SPEAKER

The things that are really working for us. We have seen a lot of demand for fixed income product in Japan. We're seeing institutional business generally. Real estate continues to be a theme. A lot of things working for us in many different regions for that Asia category.

NEW SPEAKER

Thank you.

NEW SPEAKER

The one not yet funded was at an all-time high. Any color. I hear the pipeline. I'm just curious on how good.

NEW SPEAKER

The same level it was last quarter which is very, very good. I think the question for all of us. Again, we could.

NEW SPEAKER

What will institutions do? When will they fund? And we anticipate we don't have any indication otherwise, but we have seen over the years markets get unsettled sometimes institutional are low slower to funded. And the one that not funded continues to be record highs for us.

NEW SPEAKER

And thanks very much.

NEW SPEAKER

Thank you.

NEW SPEAKER

And we have another question coming from Ken worthingTON of JPMorgan.

NEW SPEAKER

Hi. Good morning. Hopefully I got in right. It looks like you won a larger series of large active US institutional fixed income mandates in the quarter. Generally not an asset I think of first when I think of Invesco, and I mean no offense there. Can you flush out what is happening, kind of where the mandates are being won and any color you can provide.

NEW SPEAKER

We are seeing it across a broad fixed income stable value and we are seeing it both in terms of corporate activity. And hardly a business. It is spread across the variety. It's the one that we are probably most pleased with is the growth in the corporate side. It is the strongest area we have played in. We continue to have resources to be more meaningful to the corporate clients we are working with. It's really in broad fixed in and stable value where the largest wins took place.

NEW SPEAKER

If you look add our fixed income performance, it's very strong. And the client results are frankly sooner than I would have thought. As we talked in pryer years, we thought we were going to miss this whole fixed income cycle and just really making sure we had the capabilities for the next one. That said, you know, I would say we're making progress before I thought would have happened. So it's all very good for my perspective.

NEW SPEAKER

Great. And then maybe my follow-up. Invesco made a large push in product development in marketing into alternative products in the US and Europe. I guess over the last 18 months. So the track records are still young and developing but Q2 would seem to put these products to the test. How are the products performing? Are we meeting expectations. And given maybe the chain to the sentiment, how are conversations involving with the intermediaries to really sell the products both in the US and the Europe.

NEW SPEAKER

Thanks. Very good. If you are taking feedback from the clients. Quite clear whether it be retail. Retail in particular is really new. Five% to 15 to 20%. Whether they get that high, who knows, but let's just say they go to 10%. That is just quite an opportunity. We have had the investment capabilities internally largely for institutions. We put probably the broadest range of alternatives into the retail market beginning at the end of last year. Our view always was think of no shorter than three years before you're going to get results because as you say, developing the track record and the light. And every once in a while, you get some success before it's time. The first one that came on was IBRA. You all know how successful that has been. It continues to be successful. The one is GTR in the UK in the United States. Asia, the derivative's component show slows that down in that region on a retail basis. So we any it's going very, very well and it's nice to have another early surprise if you want to call it that from a client response and GTR.

NEW SPEAKER

With regard to your question, the volatility of the markets. Did we see this portion of flow into the alternative bucket on the retail side? We did not. I think that's too early. I think if we continue to have a couple more quarters of this, the intention is going to be there. One limiting you components -- component continues to be the distribution channel's ability to get alternatives on their platform. There is high desire, but the mechanics of getting them on the platform are still slow. It's not a criticism, but just being very, very cautious. Just recently, GTR has been added to a couple of very important Plattforms here in the United States. That should be a good development in the future.

NEW SPEAKER

And just on GTR. The good news is GTR is now at 6.5 billion. If you add in the one but not yet funded component, it would be at 9 billion. It continues to grow. A very attractive rate on that product. Roughly 100 basis points. Good to know.

NEW SPEAKER

Great, thank you.

NEW SPEAKER

Thank you. Our next question coming from the line of Patrick Davitt.

NEW SPEAKER

Hey. Good morning. Thank you. You know, in the past quarters where there was a pretty significant kind of decline in the stock price, you have ramped up your me purchase quite a bit. It didn't seem like that happened this quarter. Could you walk through the thought process given the weakness of the last quarter?

NEW SPEAKER

Patrick, I think we have a debate internally for some time how to react to certain markets, dislocations and it's always unclear. We have to have a very strong view on the market and tactically, you can get in and do some. We did buy more this quarter than we did last quarter. At the same time we are still seeing some large products of the large feed. Capital needs because we need to ball across buy-back opportunities. And we are still looking to maintain a billion dollars in excess of what we have from the regulatory capital perspective. And so there's a balancing act that continues to drift in our prioritization of how to use capital. The first call on our capital is always going to be the internal one in terms of organic needs which would be deciphering and so I think given the size of the seating, this is probably the largest element of being more circumspect of doing more on the buyback. We will continue to be very systemic in our buyback. And the stock may go off. We're going to continue to buy. Stock may go down. And so, we have seen the ability of forecast markets is challenge. And it's probably better on our part to be more systemic as opposed to trying to time the market in a big way.

NEW SPEAKER

More broadly it seems every day there it is regulated talking about bond liquidity. And you guys kind of always enter that conversation given your size in the bank loan market. And all of that kind of noise is bleeding into your conversations of clients and to what extent you feel like that conversation is going positively for you.

NEW SPEAKER

The public commentary is too shallow of a commentary quite frankly U. money managers including ourselves have been constructing portfolios for decades. It's the fundamental strength of what we do as an industry. In the portfolio construction, you are always looking at liquidity needs and the like. In is an assumption if you are in bank loans, you have 100%. Hard to trade bank loans and in is false so if you look at the combination of our bank loan products and others, there is a high liquidity component to it. They are back-up lines of credit. The clients actually understand that. And the public commentary doesn't. But I will say the industry is working things likable shortened settlement periods in the like and bank loan markets and doing the things that we should just to continue to make the markets more efficient, more effective for the benefit of our clients. That is our perspective.

NEW SPEAKER

Thank you so much.

NEW SPEAKER

Thank you. Our next question from Bill Katz. Of city.

NEW SPEAKER

I f you are feeling good. And July is basically a push we know the first half of the year. It would suggest the theme here is the institutional business of doing pretty well, but sort of thrust of the question is I think you have to have some pretty big numbers coming through at the second half of the year. Are you at a point where you are starting to really take advantage of scaling some of the products. Obviously, you gave the disclosure on GTR in terms. But more broadly, one of the pushbacks has been small funds, but nothing that is really sizable. You think you're at a point where you are scaling some assets globally.

NEW SPEAKER

It's a good question. You get scaled by doing good things for clients, and I think you start by if you look at a performance, it's really very strong. That said, you have to do something about it. We as a firm for the last couple of years in particular have refocused again on making those capabilities that can become offered globally for clients and taken to clients globally. -- globally. That is what we have done. Whether it was risk parody, GTR, real estate. And that is an absolute focus of the firm where it makes sense to do that. We have been making progress. And we are focused on accelerating the progress. And I think you're seeing that.

NEW SPEAKER

The opportunity around the products that are global demand whether it's GTR or some of the bond progress. We're making progress. It's not something for fixed income. It is happening faster than we thought actually but We're probably not at a level where you would say we're at the same scale of some of our larger competitors. We value the diversification too. I make that point. We don't want to be probably as large as our competitors in certain products. We like to have a series of diversified capabilities for all that work on a global basis.

NEW SPEAKER

That's helpful. And I mention you mentioned that the regulatory pressures are building. Is that more of an industry dynamic? Where are you seeing it? And if you feel pretty good about the margin range and we know the GA. Does that suggest more operating leverage from here.

NEW SPEAKER

Let me take the first part. The regulatory. It is hitting everybody. Not like the banks, but we think it's come -- it's quite overwhelming the amount of regulations that have come this way. We're hitting the most, so again the firm global or not. If you are a global firm, the UK was possible the most dramatic in it change in its regulatory environment. The investments we have made around that are, you know, material. You also have impact on things like RDR and what does that do. We talk about that over the years. We thought we would be a winner. We are a winner, but by the way, you have to make changes on the way. The continent is another area where again much more complex regulation in the impact in the bids and the Lukes. Yes, we're spending money. But what I would say it incrosses the entry which I think is fine for us. It's probably too bad for the market. But, you know, longer term, you know, the bigger stronger firms that can make investments will and will frankly probably do better than the mid-sized smaller firms. You come to the United States. We have had an awful lot of regulation come out. It wouldn't be to the same magnitude there. I think someone paid close attention to which what happens with fiduciary rule. That could have some incredibly negative consequences ultimate to all of our clients. Well-intended but currently proposed not very thoughtful. That said, we think we are going to be one of those firms that is quite well positioned as some version of this rule comes out. I think others are going to be at quite a disadvantage. It really is an influence of businesses like I have not seen in my career, and we do feel that we can take advantage of opportunities that emerge as sort of business models get sort of changed through the regulatory dynamic.

NEW SPEAKER

To answer the last part of your question, the answer is yes. And all the line items. We are seeing with now renewed strong growth in cross border flows. The trend on the fee rate should be more positive. And you know, and have improved slightly as well which is very important in terms of getting that operating leverage in some of our most scaled products. I think those elements will help, and as you know, our come pen station line item is probably most strongly driven by investment performance. It's probably reasonably stable so there isn't sort of a sense to change compensation. For those reasons, we think that 50 to 65% opportunity on incrementAL margin is there as long as the trend sort of comes back. Continues where we are seeing the flow to come back.

NEW SPEAKER

Okay. Thank you.

NEW SPEAKER

Thanks, bill.

NEW SPEAKER

Our next question coming from Eric Berg of RBC Capital Markets.

NEW SPEAKER

Thanks very much this morning.

NEW SPEAKER

Why do you think there is such a difference between the behavior of institutions and individuals during the quarter. And by that, I mean if one sort of pieces together the different pieces of information that you are giving us in the different tables that show the flow of assets, you know, it looks like it was a fixed income-lead, institutional lead, US-lead advance. And that enactive advance. And there wasn't nearly as much refail -- retail activity. I should say fixed income and alternatives. But so heavily institutional. What is your sense. Obviously you can't get up to the heads up of individual investors everywhere. That's impossible. Through talking to your colleagues and distributers, what is your best sense of why there is such a difference of behavior by retail investors.

NEW SPEAKER

That is a really good question. I think this is something we have all studied over our careers here. For all the education that we all try to put into the market with clients, et ceteraE not just us but distributers and consultants and the like, you continue to have different behaviors. Institutionings frankly do a better job of being consistent investing for the long term and I think what you have seen on the retail side. The bigger element that was never exactly in front of me was not so much redemptions as much as retail envesters stopping. Instead of making the decision I'm going to put more money. I'm committed into in monthly investment plan. They are until they're not. They get really scared with what is going on in Greece and what was going on in china and even with advisers and I think advisers are really, really important for our retail clients. And the idea of just holding off is very, very common. And it is as simple as that. It was pronounced.

NEW SPEAKER

If I could ask another high level question to you, Marty. During the course of this call, we have talked about all of the many businesses in which Invesco competes other than acted equity investing. Global total return of bank loan, other alternatives, real estate and so forth. My sense is that there is a view in this business by many people who follow it that somehow ac tiffin vesting is the holy grail, the good business and everything else, fixed income is not as good. What are thepercentages of whether people believe that. What is the truth about your business. By that, I mean that as invest Coe -- Invesco transitions to.

NEW SPEAKER

this other quarters? Should I feel good about it or -- should I feel bad about it.

NEW SPEAKER

The comment that I made earlier. Every single client has a unique set of investment objectives, and you can get there with a voir dire -- through a variety of ways to meet the outcomes. What we are committed to and how we have built the firm is having a broad range to meet those needs. High conviction capabilities whether they are active or passive. -- active. We believe in smart data. It is a better data and you get better information for your clients. The combination is how we think we can generate results to clients over time. I can't pass on my individual judgment on how somebody can build their portfolio. That said, I'll put on my personal advice. Over time, always active management will give you the greatest returns for the level of risk of investment. That is affability. That is not common wisdom. The period we have come out from '09 on. Bounce off the bottom, et cetera, et cetera. It is a mistake to be giving up on active equity investing. And I will say you go passive investing, the best you can do is an average minus fees. I don't think that is how you serve your clients best.

NEW SPEAKER

And just on the purely invest doe specific financial point, the margins on those capabilities, fixed income or alternatives are certainly as good as what we have seen in active equity. And there isn't a financial give-up of giving us from one active class to another. As long as we have scale and those capability.

NEW SPEAKER

I come back, Eric, just to read the point. Our view is if you are looking to invest in Invesco, our absolute focus is on our clients first and we think if you do a good job for clients and run a business, Invesco is going to do really well. That is an important thing to understand.

NEW SPEAKER

Thank you.

NEW SPEAKER

Thank you. Our next question coming from Daniel Fannon of Jefferies.

NEW SPEAKER

Thanks. Good morning. My question is again on the institutional side. Just curious with the strength you are seeing there. Are you having success cross-selling to existing institutional clients or are these new relationships mostly. Just trying to get a sense.

NEW SPEAKER

Quite frankly many of them are new. And frankly in areas that we are focused on to improve is having a greater number of relationships with each of our institutional clients. Not just within countries. A number are multinationals and just doing a better job of serving around the world and again, we think we are one of very few organizations that can go through that. We look at those as an opportunity for us.

NEW SPEAKER

Great. And then just also just thinking about the backdrop, volatility and what that presents opportunity icicle for you. Has your views around MNA change at all. Do you think about potentially being more aggressive in a market like this where maybe some peers or others aren't in as good a position as you are.

NEW SPEAKER

Our views haven't change. The criteria is still focused on what are the skill gaps or product gaps we are missing. That is the first criteria. We try to build the first internality -- internally, but again I wouldn't say we're there. In challenged markets, it's amazing what presents itself and again, we're not there, but we're not -- we'll just have to see what happens.

NEW SPEAKER

Go t it. Thank you.

NEW SPEAKER

Than k you. Our next question coming from Luke Montgomery of Bernstein.

NEW SPEAKER

Good morning, guys.

NEW SPEAKER

Good morning.

NEW SPEAKER

S o coming to the ETS business, you have a foothold. It's a number four position. Still a small fraction of the overall market. A few products. But you have taught a lot about growing the platform of smart data. Seems like more and more of your competitors are talking about it too. I thought perhaps you could speak of whether you feel you have a comfortable lead. What your competitive advantages or if you -- you think there's a first advantage of these product ideas. Any thoughts on your competitive landcape.

NEW SPEAKER

I think others coming into it is just verifies that it's a good idea and that there is -- that it's a good thing for clients. So, you know, the others coming in, that's a good thing. There is absolutely an ETF market in particular. Very differently than institutional manned Cates or another retail mutual fund. So product development becomes really important so it's really what two or three of the same products and that really sort of takes up the shell space and so being first or second really matters. And way also think our competitive management smart data is if you look at our product range, it's the broadest smart data product range out there. It's also the oldest. When you look at track models. It's the product range that has the longest experience in the marketplace, and that is valuable over time. So coming new into the market, you are disadvantaged by those facts.

NEW SPEAKER

Coming back to the fiduciary rule. Most of the folks has been on how this impacts intermediaries. There's been a little bit of talk about how this could be more challenging for contribution providers. In my view, it seems rarely supported by anything specific in the legislation that would accelerate pressures that existed or introduce new pressures. As you think about the opportunity in DCIO, any thoughts on how the rule changes for competitive landcape for the legacy providers.

NEW SPEAKER

Yes, it's a good question, and I think everybody is searching exactly for what the right answer is. I think if it does go through in this current form which I doubt because it is unworkable. But if it did, I think it would be quite unsettling to the whole marketplace. It could be quite frankly one of those catalysts for combinations that you would not have imagined previously. It also in some of the commentary, it's very specific in sending people towards types of investment strategies, types of investment products, types of vehicles that will send consequences for investors. We have the unique position from being in the United Kingdom and with RDR and those correlation lairs there. So trying to create purity is a wonderful goal, but what you have seen in the United Kingdom is individual investors. There are more people not taking at vice right now because of RDR, and their total cost has gone up. I believe your going to have that same type of thing here. The people that most need advice won't get advice and they'll be disadvantaged by the whole process. So it's hard to answer the question until we know what comes out at the other end. Currently, I think it would be quite disruptive.

NEW SPEAKER

Okay, thanks so much.

NEW SPEAKER

Thank you. Our next question coming from the Brendan haw kin from PBS.

NEW SPEAKER

First off, congrats on the quarter in particularly what has proven to be a really difficult challenging environment for a bunch of your peers. So I just had one question left at this point. You highlighted that towards the tail end of July, volatility in Europe subsiding. Now that you are seeing flows and trends come back, what is different in recent experience verses earlier in the year or is it just a return to the products that were popular and working before and is there any difference between retail and institutional. Just some color that would be helpful.

NEW SPEAKER

It peoples largely like a return to the previous part of the year regardless of some return emerging. That's different from what we saw before. Maybe there's a little less interest in corporate bond product than we saw before. That is being offset. Fixed income. That is about the only thing that I can point to that feels a little bit different.

NEW SPEAKER

And then one small one. There was a little noise around New York tax in the quarter. Is that going to have any impact on the tax rate going forward?

NEW SPEAKER

No. It was just a one-time situation that is no longer going to affect our PNO.

NEW SPEAKER

Okay, thanks.

NEW SPEAKER

Thank you.

NEW SPEAKER

Thank you. Our next question coming from Michael Kim from sandLER O'Neal.

NEW SPEAKER

A little bit more about the opportunities you see to sort of leverage the bredth of product across the franchise to build customized offerings across both active and passive strategies as well as maybe other alternative, quantitative or allocation services, and I know it's still relatively early days, but any read into relative economics of what I would assume would be chunkier mandates if you will.

NEW SPEAKER

And you got cut off at the beginning, but I think I got the gist of it. It really served the question around solutions and how you put together the various -- the various capabilities. It is an area that we are very, very focused on. I would say we're early days of success. It depends on where in the world, probably opportunities are probably greatest at the moment for us in ahawaii probably in china in particular. We're also seeing it on the continent. We also believe it should also be an opportunity here in the United States. It has just been relatively slower than in those two -- than those two regions.

NEW SPEAKER

And early read on relative economics of chunkier mandates. We have seen no change in terms of the attractiveness of the mandate that will stay around stable value. The broad fixed income was one where we don't have as much scale, so it's improving significantly as we generate more AUM in that category. So that's kind of the two big moves in terms of GTR, you know, the economics are excellent similar to what we see across border range. So other than that, I think we sort of discussed the other elements. They are all at margins that are very attractive to -- should be attractive and acreative to our margin overall.

NEW SPEAKER

Got it. That's helpful. And then just in terms of some of the newer vehicles we are seeing on the actively managed ETF front just given your market presence with power shares. And as you communicate with your client, how important is it -- is nontransparent actively managed ETFs. Is that something that investors are really looking for, or is transparency in terms of portfolio holdings not really that high on the list for your clients.

NEW SPEAKER

The conversation has been going on for some period of time. We have introduced two or three active ETF five or six years ago. One terms ahead the exception. And I think I have said in the past, we still have them. They might have $3 million in them across the board, and it's probably our CTFO.

NEW SPEAKER

And those are transimportant.

NEW SPEAKER

Those are transparent. So I'm just a big believer that at the end of the day, people don't invest in vehicles per se. They invest in investment strategies first to meet the desired outcome. The mutual fund vehicle is a spectacular vehicle for a long-term investors and we all know that there's a closer period on it in the light, and I just -- we have just not seen a lot of demand for nontransparent ETF from our client base. And some of the things that we look at. The things we are appointed to of the advantages. That said we are different because if we could do active ETF ourselves, we could do existing ETFs in mutual funds. So we're just really. We study it, and we're capable, but we're just not seeing demand which is very conscious of the commentary we might be reading in the papers.

NEW SPEAKER

Got it. Thanks for taking my questions.

NEW SPEAKER

Thank you. Next question coming from Robert Lee of KBW.

NEW SPEAKER

Thanks. Good morning, guys. Most of my questions have been asked, but I did have one. This hasn't come up on your calls in a while. But relating to a potential MNA. You guys have done most of your product building and have for the last several years post the -- I can't remember the name of the acquisition. I haven't really done much, and you talked about it being a low priority. But I am just curious as you kind of went through the product build-down cycle, have a lot of words in the water, so to speak. Is there anything that you would have liked to have built this and for whatever reason maybe wasn't capable. That in all kind of shape your thoughts about maybe going back and looking at some MNA here and there. Obviously maybe nothing large, but just kind of your updated thoughts on that. Good question.

NEW SPEAKER

They have not changed too much. I think you're right. And as already remember -- Loren has said. We first looked to advance. Looking internally, organic. Organic development, and that is what we have done. If you look at the range of capabilities right now, we don't see a lot of gaps, and during that process, we thought the gaps we have we did solve internally. We don't see gaps right now. That said, continuing why it puts MNA, you know, on the back burner because we looked at MNA when we can solve the problem with the capabilities that we have. You know, where we have done it though, Rob, it's more -- that was a market. We look over the very long term. A good thing to do when we saw a way to get into India and relatively small investments and it's a good investment over the long term. So it was more country than capabilities. But as I said earlier on the call, nothing looks obvious at all right now. That said, if the market does get very challenging, it's amazing what pops up in those periods, but it's not apparent.

NEW SPEAKER

All right. That was all I had. Thanks for taking my question.

NEW SPEAKER

Thank you.

NEW SPEAKER

Thank you.

NEW SPEAKER

And we have another question coming from Betty of Morgan Stanley.

NEW SPEAKER

Oh, hey, good morning. A couple of quick questions. One is on the distribution. You mentioned earlier in the conversation that there is a high bar on the distributer's side to accept all. At least that is what you said. I am just wondering is it simply a matter of time and performance over time to prove out to get on platforms or is there other things going on?

NEW SPEAKER

So I think it's a good question. The reality is although the desire is there, it's complicated; right? So really distributers are working through a mechanism of what do they want on the platform? How do they get it on the platform? Education into the sales force is critical. There's a lot of focus on making sure suitability and so these are -- to me those will all really good developments. We don't want to be on a platform, and none of us want a bad outcome for our clients, so it has really been an educating sales force. What are they trying to accomplish? And the distributer saying what capabilities do we have confidence in from the money manager. There are just a handful of alternative capabilities on the various platforms. We probably have as many as anybody in the market.

NEW SPEAKER

Right.

NEW SPEAKER

Lit change though. It will pick up the pace as people get more confident.

NEW SPEAKER

So it's dedicated sales team into distributers as well as just helping them understand the various products.

NEW SPEAKER

Yes. To be clear, I am also saying the distributers themselves like Morgan Stanley are spending a huge amount of time on education for the sales force there.

NEW SPEAKER

Right.

NEW SPEAKER

They want them to focus on suitability. It's jointly solving that problem. That is really the element that is taking an awful lot of time.

NEW SPEAKER

I got it.

NEW SPEAKER

I think it's appropriate, by the way.

NEW SPEAKER

Right, okay.

NEW SPEAKER

And then separately. There has been -- I know your customer kind of requirement, regulatory requirement in the community as well. I. I'm wonder if that had any indication. Not only in this quarter but the second quarters. I know it wasn't live July 1s. Is that something you have been benefiting from?

NEW SPEAKER

We have been working on that for two years now. It has not been anything that has surfaced in any of our conversations with any of our distributers or regions about clients being disturbed or displaced or acting differently than the other -- than they otherwise would. So at least from today and what I have heard it's sort of been a nonevent. It's probably been a lot of work and it's not created a different demand behavior.

NEW SPEAKER

Okay. Thanks.

NEW SPEAKER

Thank you very much. Thank you. Our next question coming from Chris Shutler of William Blair.

NEW SPEAKER

Hey guys. Good morning. The long term that influence continued to average somewhere in the mid to upper single digit bowel movements per quarter is quite encouraging. Just looking out over the next couple of years recognizing it's tough to predict. What do you think there the biggest opportunities and risks? What do you think from an aspect. Seasonally recognizing you have the diversification to be where the demand is. I just wanted to get your take there.

NEW SPEAKER

I think the biggest opportunity for us is pool coming back to equities. It's been a long time, and I think they will. You can go back to the same percentage because of demographics, et cetera. Et cetera. If you look at us as a firm, it's a historic strength of the firm. When you get any active movement back into active equities, it's going to be quite a difference for us. What is the risk. You get into a far market right now, that could extend that outcome for quite a period of time. Everything we have been talking about today is a broad range of capabilities that put us into an easy position.

NEW SPEAKER

And you mentioned that maybe you are pulling back on what we are spending here. What are you maybe delays in terms of projects you are spending. And what manage any Tuesday of dollars are you looking at? Thanks.

NEW SPEAKER

It's an active discussion right now, so we are not at a point where I would say we provide any different guidance than we have in the past. As I said our current guidance is in line with what we said before. Are we in a real turn around where flows are coming back. I just say it's one that way are looking at day-to-day. And things that you could be delay. Things that are prioritized and delayed relative to other things you have to do because of client need or the regular are will tour need. That is the kind of thing that we are looking at delays three months or six months. And not really affect clients or regulatory situation.

NEW SPEAKER

Again, thank you.

NEW SPEAKER

Than k you. And we have a last question coming from Gregory Warren of Morningstar.

NEW SPEAKER

Yes, thanks, guys. Although a lot of them have already been asked here. I may have missed it. We talked about the fixed income flows being heavily influenced by some mandates. Was that the same case for the balance, so that would -- that was spiked up during the quarter.

NEW SPEAKER

Well, the balance -- we saw a lot of interest in balance. That was really a continuation of interest of Europe. We have a very well-performing balance product that is managed combines the capabilities of our equity teams and our fixed income. We also saw a lot of interest in china. And in the balance camera, we have -- we talked about institutionally has been great interest and winning some good interest there.

NEW SPEAKER

You had mentioned the fact that organic growth target that our longterm assets that the three and five percent range for the year. You had a bit more clarity. Is there more institutional stuff in the pipeline. I think right now we are sitting in the 2 to 2.5% range.

NEW SPEAKER

I think we absolutely see interest in the big institutional pipeline as everybody said all-time high plus with retail coming back. Obviously, July was a bit of a lost month, and we are making good headway, but if we stay -- even if we stay at this $2 billion a quarter. $2 billion a month type of rate, you know, we're going to be at that -- probably at 4% just doing the math.

NEW SPEAKER

That's good to hear. Thanks for the color.

NEW SPEAKER

Thank do you. As of right now, we don't have any more questions.

NEW SPEAKER

Thank you very much. And thank you, everybody for joining Loren and myself. Is and have a good rest of the day. Thank you.

NEW SPEAKER

Thank you. And that concludes today's conference. Thank you all for joining. You've may now disconnect.
