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IVZ - Q3 2015 Invesco Ltd Earnings Call

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OVERVIEW:

Co. reported 3Q15 net revenue of $903m, operating income of $373m and adjusted EPS of $0.61.

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PRESENTATION

Unidentified Company Representative - *Invesco Ltd.*

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You may obtain these reports from the SEC's website at www.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 third-quarter results conference call.

(Operator Instructions)

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

Now I would like to turn the call over to 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 & CEO*

Thank you very much and thank you for joining us today. I'm on the call with Loren Starr, our CFO, and we'll be speaking to the presentation that's available on the website if you're so inclined to follow.

Today, as we typically do, we'll review the business results for the third quarter. Loren will then go into greater detail on the financials, and the two of us will then answer any questions you all might have.

So let me begin by highlighting the Firm's operating results for the quarter, and you'll find that on slide 3, if you're following along. Long-term investment performance remained strong during the quarter.

73% and 83% of actively managed assets were ahead of peers over three and five years respectively. Strong investment performance and continued focus on meeting clients' needs were not enough to offset the impacts of the volatile market and a single large institutional client withdrawal, which resulted in net long-term outflows of $3.9 billion for the quarter.

Adjusted operating margin for the quarter was 41.4% versus 41.7% in the prior quarter. The quarterly dividend remains at $0.27 per share, which is up 8% over the prior year. We also returned $292 million back to shareholders during the quarter through a combination of stock buybacks and dividends.

Assets under management were $755 billion at the end of the quarter, down from $803 billion in the prior quarter. Operating income was $373 million in the quarter; this was down from $390 million in the prior quarter, but roughly in line with the operating income in the first quarter of this year.

Earnings per share were $0.61, down from $0.63 in the prior quarter. We repurchased $176 million of stock during the quarter.

Before Loren goes into the details on the financials, let me take a minute and review the investment performance. That's on Slide 6.

Our commitment to investment excellence and our work to build and maintain strong investment culture helped maintain solid long-term investment performance across the organization during the quarter. Looking at the firm as a whole, 73% of assets were in the top half on a three-year basis, and 83% were in the top half on a five-year basis.

The one-year number results partially reflect increased exposure to energy by certain of our equity teams, who also during the quarter took the opportunity to make investments in those positions, which position them very well for the future. The results also reflect our European corporate fixed income portfolios which shortened duration during the period and corporate bonds to position themselves again for continued long-term success.

Our investors are taking advantage of the short-term market dislocation for the benefit of the long-term results for clients. I'm highly confident our clients will continue to benefit from this high conviction approach to investing.

On page 7, you'll see active flows reflect the macro environment during the quarter as investors reacted to the volatility in the markets. Within ETFs 60% of year-to-date net flows have come from international ETFs and 50% of the international flows have come from currency hedge products to areas where we do not have that offering.

This narrowing of client demand impacted demand for passive capabilities in the short term year to date. Also during the third quarter, specifically traditional cap-weighted ETFs captured 80% of the net flows, again an area that we do not focus on.

So the combination of these is a unique, abnormal thing that we've seen. We suspect it's short term in nature.

We saw positive institutional flows during the quarter, in spite of the volatile markets and a large single institutional client withdrawal. We view this withdrawal as an isolated event.

Retail flows were impacted by the macro environment, as investors weighed their options during the volatile quarter. We did see continued strength in a number of asset classes as the categories seen global total returns, European equity, investment rate fixed income, diversified dividend to name a few.

Additionally, it's early in the fourth quarter, but quarter to date we have net flows of about $700 million, and in the different areas we've seen ETFs come back quite strongly. Traditional ETFs -- or net inflows of about $1 billion in total, about $2.1 billion from the QQQs, which is more interesting from a market investor sentiment point of view.

Core retail flows continue to be challenged, but we're expecting them to be better than they were in the month of September. Asia-Pac, EMEA continue to be in net flows. In the institutional pipeline of one but not funded remain near all-time historic highs.

We feel good about the results of the quarter, see new strong investment performance. Our focus on meeting client needs contributed to solid operating results, despite what we saw in the markets. We continue to see strength across the global business, in particular within Asia-Pac, EMEA, and the institutional business globally.

Our focus remains on strengthening our efforts to deliver strong long-term investment performance that help clients meet their investment objectives in running a very sound, good business. With our comprehensive range of capabilities and broadly diversified business, we believe we are well positioned to succeed over the long term, regardless where the markets take us in the short term.

That said, we continue to see numerous short-term opportunities to -- which will advance our business. Given the strength of our capabilities and the disciplined manner in how we run our business, we believe we are uniquely positioned to take advantage of these opportunities, including, for example, ETFs after investing institutional business globally, alternatives and solutions, to name a few.

Now I'll turn the call over to Loren so he can review the financials before we answer your questions.

Loren Starr - *Invesco Ltd - CFO*

Thanks very much, Marty. Pardon me.

Quarter-over-quarter, total AUM decreased $47.8 million, or 5.9%. This was driven by foreign exchange translation of $5.9 billion, long-term net outflows of $3.9 billion, and a negative market return of $35.6 billion combined with outflows from money market and from the QQQs of $1.5 billion and $0.9 billion respectively.

Average AUM for the third quarter was $788.9 billion, which was down 2.7% versus the second quarter. Our net revenue yield was 45.8 basis points, a decrease of 0.4 basis points versus Q2. Other revenues accounted for a decline of 0.5 basis points, and a change in mix reduced the yield by 0.1 basis points.

These were offset by an increase in performance fees in the quarter, which added 0.2 basis points. Now, turning to the operating results, you'll see that net revenues declined by $33.6 million, or 3.6% quarter-over-quarter to $903 million, which includes a negative FX rate impact of $1.4 million.

Within the net revenue number, you'll see that investment management fees fell by $45.2 million, or 4.2%, to $1.04 billion. This reflects the lower average AUM during the quarter, and FX decreased third-quarter management fees by $1.8 million.

Service and distribution revenues decreased by $4.8 million, or 2.2%, also in line with lower average AUM during the quarter. FX reduced service and distribution revenues by $0.5 million.

Performance fees in the quarter came in at $17.6 million, and they were earned from a variety of different investment capabilities, including $9.4 million from UK equities. Foreign exchange decreased performance fees by $0.1 million.

Other revenues in the third quarter were $27.6 million, and that was a drop of $10.3 million due to lower transaction fees from real estate and UIT activities. Foreign exchange decreased other revenues by $0.1 million.

Third party distribution service and advisory expense, which we net against gross revenues, fell by $22.2 million, or 5.3%. The movement was in line with the lower revenues derived from retail AUM, and foreign exchange decreased these expenses by $1.1 million.

Moving on down the slide, you'll see that our adjusted operating expenses at $529.6 million declined by $16.8 million, or 3.1%, relative to the second quarter. FX decreased operating expenses by $1.6 million during the quarter.

Employee compensation came in at $346.9 million, a decrease of $4.5 million, or 1.3%. The decrease was due to a reduction in variable compensation for the quarter. FX decreased compensation by $0.9 million.

Looking forward, assuming AUM flat to current levels, we would expect compensation to run between $340 million and $345 million for the fourth quarter. Marketing expenses decreased by $4.9 million, or 16% to $25.8 million.

The decline was driven by seasonally lower expenditures for advertising, literature, travel and client events. FX decreased marketing expenses by $0.1 million in the quarter.

Marketing costs will ramp back up in Q4 as it usually does, coming in somewhere we believe between $32 million and $35 million. Property, office, and technology expenses were $79.9 million in the quarter, which was down $2.3 million.

The decrease was the result of reduced property-related expenses and lower outsource administration costs in EMEA. FX decreased these expenses by $0.2 million. In Q4, we would expect property, office, and technology to be around $80 million to $83 million.

G&A expenses at $77 million decreased $5.1 million, or 6.2%. The decrease in G&A was the result of nonrecurring fund and regulatory costs in the prior quarter, as well as lower professional services expenses.

FX decreased G&A by $0.4 million. Our Q4 G&A expense we believe should be in the range of $77 million to $80 million.

Continuing on down the page, you'll see that nonoperating income decreased $15.8 million compared to the second quarter. The third quarter had unrealized mark-to-market losses on our trading investments and on our consolidated sponsored investment products, compared to gains that we saw in the prior quarter.

The firm's effective tax rate on pretax adjusted net income in Q2 is 26.5%, down from 28.7% in the second quarter, and consistent with the guidance that we provided in the second quarter call, which then brings us to our adjusted EPS at $0.61 and our adjusted net operating margin at 41.4%.

With that, I'm going to turn things back over to Marty.

Martin Flanagan - *Invesco Ltd - President & CEO*

Operator, can we take questions, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question coming from Michael Carrier of Bank of America.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. Marty, maybe first just on the flow trend in the quarter, but then probably more importantly just the outlook, you mentioned on the institutional side the pipeline being really strong. I want to get a sense on the retail side.

Obviously, the quarter was pretty volatile. Just given your guys' exposure both in the US and then outside the US, just some of the trends that you're seeing, some of the products that are still gaining some traction or there's still demand for versus the areas where you've seen the letup.

And you kind of mentioned the October trends. What do you see shifting, particularly the areas where you feel like the performance is still there and in a more volatile environment there's going to be demand? Just wanted to try to get a sense of which products can work in this environment.

Martin Flanagan - *Invesco Ltd - President & CEO*

So more retail focus, was that right?

Michael Carrier - *BofA Merrill Lynch - Analyst*

Just because it sounds like the institutional, it was good. If you had that lump amount or the one institutional outflow number, that too, but just wanted to get a sense on the outlook.

Martin Flanagan - *Invesco Ltd - President & CEO*

Good question. So what we're seeing, and I can't speak for other organizations, but it really has been moving very rapidly. September being just a very volatile quarter in particular.

Where you saw it impact the most I would say would be the US retail business, and even not just mutual funds but ETFs. It was a really different environment. It feels like it's changing already in October and we're seeing that, as I said, sentiment.

You're seeing traditional ETFs again really looking quite strong for us. And again, I use QQQs as an example of follow that for sentiment. That was actually pretty strong.

We are definitely in the United States, where the flow is you're seeing it still in things like diversified dividend. I think it's confidence, international equities, and the like, but I think as confidence comes in there's a broad range of things that I think could work.

I will say what's also interesting is the broad range of alternatives, retail alternatives that we have perform extremely well during this period. So things like GTR and the like, again it really -- you test those things in these periods and so that would be an area within the US.

Outside, as you frankly, Loren and I, we're in Frankfurt, Germany now and so you really get a pulse on the ground. The retail business continues to really look strong.

European equities actually in particular, there's a core retail focus here, has been an area, and also Asia-Pac retail is back in net flows. It tends to be pretty broad, but it feels like, again, it's really that confidence seems to be coming back more quickly in Europe and in Asia than in the United States in the retail market.

Loren Starr - *Invesco Ltd - CFO*

Yes. I mean I would also -- just a couple points too on flows. The other thing around flows, I think there's about $700 million of the institutional outflows that was just related to fundings in, or dispositions in real estate. So that's good news.

It's also part of the process as we provide returns to our shareholders. It had nothing to do with performance. It's really part of a lifecycle of some of these funds.

The things that are really showing up in October more recently, and we're seeing good positive flow activity in October to date, is around GTR. We're seeing pan European equities continue to flow nicely. It continues to be of interest.

Fixed income is a very strong driver generally both on the retail in the US, as well as outside of the US. So it's sort of broad-based in terms of what's coming back in October.

And certainly Marty mentioned it, but it's important, the ETFs are back significantly, the traditional ones, which were an outflow. We're now seeing strong inflows, close to $1 billion of continued inflows. And that's across a variety of different capabilities within the ETF spectrum.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks for the color. And then just as a follow up, Loren, just on the guidance that you gave, I think you mentioned the comp in that range.

Obviously, the markets are a bit stronger than maybe flat for the AUM. So any color on that?

And on the revenues, just given the volatility that we saw this quarter, maybe relative to the expectations in performance fees and other, any color on the outlook? I know both are tough to gauge, but just any sense.

Loren Starr - *Invesco Ltd - CFO*

The comp estimates were based on current asset levels as of today. So we're in the a little bit above $790 billion in AUM.

Obviously, that could go up or down depending on day-to-day activity. But it's sort of based on current levels.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Got it.

Loren Starr - *Invesco Ltd - CFO*

Which is obviously above where we ended in September. I think again, the management around our comp base and expenses will be in line with what you would expect.

In terms of the revenue outlooks and performance fees, traditionally not seeing one area produce performance fees in the fourth quarter. And so again, we would probably tend to guide conservatively in that space for Q4.

But it probably, without knowing much, we're talking about $5 million, something like that. The other issue on other revenues, definitely saw a slowdown in Q3, just given the volatility of what was going on.

That happens around transaction fees. We could see a pick up on that line item in Q4. Could get it back to the $30 million, $35 million range in Q4.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Martin Flanagan - *Invesco Ltd - President & CEO*

Sure.

Operator

Thank you. Our next question coming from Luke Montgomery of Bernstein Research.

Luke Montgomery - *Bernstein Research - Analyst*

Good morning, guys. Just on the operating margin, I think you speak to incremental margins in the 65% range. Average AUM was down about I think 3% on a period end, 6% on an average basis.

Revenue was down 4%, and yet the margin held in really well. I guess I'm wondering how we think about incremental margins on the downside?

It seems like you've been pretty successful at controlling comp in spite of I think some significant head count growth over the last couple years. So not sure what that says about your ability to ramp it down in lower markets. And then maybe how we think about other expense levers to pull in lower markets?

Loren Starr - *Invesco Ltd - CFO*

I think, as we've said in the past and I'll reiterate again, in a declining revenue situation it's hard if next to impossible to -- smartly to have expenses go down in line with revenue declines. We saw this a little bit in advance in the quarter, and we might have even talked a little bit about it at our last call.

But we ultimately did put out some signals within the business to try to slow things down, think about prioritizing our investments within the quarter, because we just didn't know what it was going to -- what was going to happen. And so I think we were successful in terms of holding off certain discretionary elements of our spending in the quarter.

We gave some guidance obviously to the fourth quarter. Some of those expenses are going to be in line with this last quarter, but perhaps up a little bit.

I mean, there are investments that we continue to need to make, want to make, which will help improve our success and positioning strategically going forward. Again with that said, we're going to continue to work really hard to think about our investments, and we'll continue to watch the volatility of the assets.

And so the pressure is still on internally in terms of thinking about how to be smart around our investments, just given the uncertainty of our revenues and AUM. So we can't really say we're doing a better job now. I think we're doing a good job, as we've always done, in light of volatile markets where we're trying to pause and take a breather on certain investments that can be paused without doing much damage.

Luke Montgomery - *Bernstein Research - Analyst*

Okay, thanks. And then just a technical question about how you mark AUM for FX. Is it once at the end of the quarter? Is it month end or some kind of daily average approach?

Loren Starr - *Invesco Ltd - CFO*

It's done monthly.

Luke Montgomery - *Bernstein Research - Analyst*

Okay. Thank you very much.

Martin Flanagan - *Invesco Ltd - President & CEO*

I just do want to reiterate Loren's comments. We have -- we are, as we always have, very focused on running a thoughtful business and we're always looking to what we call a crate capacity to continue to invest.

And we just see that there are a number of areas where we think we can continue to create an advantage for us and our clients, whether it be an ETF fact or investing in global institutional businesses, we've been talking about alternative solutions. So we're working that balance very diligently and we will continue to do that.

Luke Montgomery - *Bernstein Research - Analyst*

Thank you.

Operator

Thank you. Our next question comes from Patrick Davitt of Autonomous.

Patrick Davitt - *Autonomous Research - Analyst*

Good morning. Historically when you ramped up repurchases like you did in the third quarter, it's been a one or two-quarter event. Could you speak to how you're thinking about the sustainability of this level, or is it purely just where the price is?

Martin Flanagan - *Invesco Ltd - President & CEO*

So, look, we do like the approach that we've had. We think we have strength in the financial position of the Firm, while at the same time focus on these capital returns.

Where the stock is priced, you just can't help but buying the stock, and it looks like still where the stock is right now we think it's very, very attractive. Probably something seems more consistent this quarter to what you saw last quarter.

Patrick Davitt - *Autonomous Research - Analyst*

Okay, thanks. And then just to clarify, the $700 million, did that include or exclude the QQQ?

Loren Starr - *Invesco Ltd - CFO*

That excludes it.

Patrick Davitt - *Autonomous Research - Analyst*

Okay. Thank you.

Loren Starr - *Invesco Ltd - CFO*

The QQQs were like $2 billion, $2.1 billion, and the traditional ones were close to $1 billion.

Patrick Davitt - *Autonomous Research - Analyst*

Great. Thank you.

Operator

Thank you. Our next question coming from Craig Siegenthaler of Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks. Good morning, everyone.

Loren Starr - *Invesco Ltd - CFO*

Hi, Craig.

Craig Siegenthaler - *Credit Suisse - Analyst*

So we ran the new guidance numbers and it looks like the adjusted margin may dip down into the 39% range versus the strong 41% result this quarter. And I realize you didn't provide any adjusted operating margin guidance today, but would you make any additional steps to protect the margin in 4Q if it trended down into the 49% (sic - see press release) range?

Loren Starr - *Invesco Ltd - CFO*

So yes, we definitely are continuing, as I mentioned, to focus on this as a topic. The guidance is somewhat of a, based on what we know right now, we would like to do better. But again, based on what we know right now, the guidance makes sense for us to provide.

We would agree generally with what you're identifying. We don't think it's a great result. So we're obviously trying to do better.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks, Loren. Just as my follow up, Asia flows slowed but remained positive. I'm wondering if you can provide us a quick update in terms of what Andrew Lo and team are seeing across Asia from a product demand standpoint?

Loren Starr - *Invesco Ltd - CFO*

I think -- Asia is definitely in the numbers that we're seeing through October. Asia is quite strong, quite positive in terms of its flow pattern.

It's very much driven by the institutional business, which continues to take on significant follow-on fundings as well as new fundings across fixed income, bank loans, equities as well. So it's a pretty well diversified element.

They now have GTR in Asia as well, so that's very interesting. So I'd say the level of optimism around the fourth quarter for Asia-Pac is at a much, much higher level than it was in Q3.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks, Loren.

Loren Starr - *Invesco Ltd - CFO*

Sure.

Operator

Thank you. Our next question coming from Michael Kim of Sandler O'Neill, your line is open.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Hi, guys. Good morning. First, can you maybe talk at a high level about the business with sovereign wealth funds?

Just trying to get a sense of the risk of attrition, assuming commodities pricing remains under pressure. And then any sense on relative fee rates versus the overall weighted average for the Firm?

Martin Flanagan - *Invesco Ltd - President & CEO*

Let me hit part of that, Loren, and chime in. So just generally an area that we don't talk about specifically, the clients.

That said, we have no indication that there will be redemptions in that area. And I know it's very topical within the industry, but that's what we would know right now.

Loren Starr - *Invesco Ltd - CFO*

In terms of relative fee rates, obviously we saw a little bit of a mix impact, which was negative, I think it was 0.1 basis points in the quarter. That was largely due to just the market impact on our percentage of assets that are equity based. We still are seeing good flows coming in from cross border, so we don't think the story around fee rates is -- we think it's going to continue to march forward as we grow.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. And then, Marty, I know you've been quite vocal in terms of the DOL's fiduciary standard proposals. And I understand the broader concerns around less advice, less options, and maybe even higher costs at the end of the day for investors. But just curious to get your take on some of the consequences for asset managers, specifically in terms of potential changes to the economics of distribution as well as maybe from a product development standpoint.

Martin Flanagan - *Invesco Ltd - President & CEO*

It's a fair question. I'd say it's too early to know because we're not exactly clear what the outcome is. That said, I will tell you obviously I think the people that are going to be more strongly placed are those organizations that have a really broad range of investment capabilities.

Those organizations that have ETFs, those organizations that are strong in smart beta factor investing and also have the ability to create share classes that are very stripped down that will be really investment fee-type share classes only that will be probably much more sought after, and what will ultimately be unified accounts on the retail side. So that's been our focus.

That said, otherwise it's going to be a guessing game to see where they end up. But those would be the areas that I would look at, that we've been focused on and how we are positioned and what might come out of this.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. And then just one minor clarification, so you mentioned the $700 million of inflows quarter to date. I know you said that does not include the Qs, but does that include the traditional ETF inflows?

Martin Flanagan - *Invesco Ltd - President & CEO*

Yes, it does.

Loren Starr - *Invesco Ltd - CFO*

Yes.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. Great. Thanks for taking my questions.

Martin Flanagan - *Invesco Ltd - President & CEO*

Thank you.

Operator

Thank you. Our next question comes from Glenn Schorr of Evercore ISI.

Glenn Schorr - *Evercore ISI - Analyst*

Hi, thanks. I think in your prepared remarks you mentioned some money is going into products that you don't have capabilities, and I think you mentioned cap weight and currency hedge. I'm curious on two fold.

One, is it too late to start investing in things like that just to continue to constantly broaden the product suite? And then other parts where you think you might have blind spots where you might be investing?

Martin Flanagan - *Invesco Ltd - President & CEO*

It's a good question. I guess at one level you don't know the blind spots until you're blind. So the currency hedge deal, international capabilities, it really has been quite the area over the last year or so.

And I will say within the ETF world, it's hard to have more than a handful of firms with offerings that are successful. So being pretty quick matters a lot. That said, we won't ignore it.

But I will say if you look at the fundamental strength that we have is the longevity and breadth of all the smart beta products we have and low volatility offerings in particular. So again, we are always asking ourselves what are we missing, what are clients needing and trying to respond. So hopefully that's helpful.

Glenn Schorr - *Evercore ISI - Analyst*

Absolutely. And then on the -- overall performance is in very good shape. Three- and five-year you pointed out.

And the one-year, there's some slippage, particularly in equity. I didn't know if you mentioned or if you could mention any specific factors that you think are particular to your business that a certain market might respond better to?

Martin Flanagan - *Invesco Ltd - President & CEO*

Yes, so good question. I was trying to address it a little bit in my comments and this is a better way to get to it. The one-year performance, quite frankly a handful of capabilities are just under 50%.

I mean, maybe 50 basis points off. So the dispersion from the top half is very, very little. And it tends to be those areas where people have invested in energy in particular.

I personally think it's going to be a great investment. Timing is always a question. That said, I also take confidence that they have been continuing to have add-on investments in those areas during this period.

And I think probably, I don't have the numbers, but from September 30 on I think that could only be a good thing. So we have really good, high level of confidence in what our investment teams are doing and where they are positioned as opposed to probably what you're trying to get to is are we concerned about the quality of one of the products, and we don't feel that at all right now.

Glenn Schorr - *Evercore ISI - Analyst*

Okay. Appreciate it. Thank you.

Operator

Thank you. Our next question coming from Bill Katz of Citi.

Bill Katz - *Citigroup - Analyst*

Thanks so much. So I certainly appreciate the tactical volatility of the markets and your expense guidance within that. Just sort of stepping back as you look out into 2016, what's your latest thoughts on incremental margin opportunity?

Are we at the end of the incremental margin opportunity based on some of the quarter-to-quarter guidance? Or is that just more timing around market impact?

Loren Starr - *Invesco Ltd - CFO*

So again, where we are right now, Bill, if you -- like $790 billion in AUM, we would be right in line with our average AUM for 2015, maybe even a little bit below. So we would actually, all things equal, expect revenues -- you could be, if you're just flat, right, no market impact, which is the way we tend to look at things, you can see revenue is down year over year if we didn't have any organic growth or anything like that going on.

So the topic of margin, incremental margin is an important one. But it's not necessarily one that applies perfectly in this environment. Obviously, we want our assets to grow with market.

We want -- and our assets will grow with organic growth. Both those things said, we're absolutely going to see that 50% to 65% incremental margin impact be there.

If revenues are down, you would want it to be as little as possible. If revenues are up, you want it to be as high as possible. We certainly get that point.

We're obviously working hard to position the Firm for results in terms of margin that the street will certainly respect and appreciate. We're still working it through.

And you're going to get a lot more color in terms of thoughts around guidance for 2016 on expenses at the next call. I mean, just know that we're very aware, we're very tuned to it and we're working hard to try to manage the expenses in light of this volatile market.

Martin Flanagan - *Invesco Ltd - President & CEO*

Bill, what I would add though, I would say subject to this short-term volatility that we have in the downdraft, nothing has changed in our long-term outlook. In fact, couldn't feel more confident about that in that in a more normal market that is where we are.

And also at the same time, what we are absolutely trying to do is deliver the financial results that would be expected of us while at the same time not be penny-wise and pound-foolish and not investing in things that really separate from us a competitive advantage in the marketplace, and also be able to generate the results for the client. So we are trying to do both and we're very focused on doing that.

Bill Katz - *Citigroup - Analyst*

Okay. And then just as a follow up, I appreciate your update for the October flows. So it sounds like the active business is in still slight outflow mode.

From your comments it sounds like Asia is doing pretty well and maybe European equity. Is it US that continues to be the bug-a-boo? And if that's the case, any strategic thoughts on how you try to ramp that to maybe more of a positive market share opportunity?

Martin Flanagan - *Invesco Ltd - President & CEO*

Much of it -- if you look at the overall industry results, that really is frankly where the US mutual fund industry is. Now, that doesn't make anybody happy in the short term.

I still have a high degree of confidence in they being great products and great things for clients. And we continue to generate the performance that will ultimately serve clients very well, and serving the distribution partners in a way that will be more important to them moving forward. So I think we're doing all the right things.

Loren Starr - *Invesco Ltd - CFO*

I would also say we're continuing to make good traction with some of the liquid alternatives getting put on platforms. Some of the performance on these products, again like GTR, we have this market-neutral product, it's spectacular. So it's exciting.

We're seeing the daily flows around GTR even in the US grow every single month. So there's definitely some element of potential here.

Then the other products, like div div, diversified dividend, has been positive I think every single month for the last year and definitely growing in its traction too. There's definitely some positive things, despite the market overlay, which has been somewhat negative for domestic equity.

Bill Katz - *Citigroup - Analyst*

Okay. Thank you, guys.

Martin Flanagan - *Invesco Ltd - President & CEO*

Thanks, Bill.

Operator

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

Dan Fannon - *Jefferies LLC - Analyst*

Thanks. Just wanted to highlight the -- or discuss the institutional pipeline. It seems like a lot of the same names in terms of the funds are in there in terms of the strength.

I guess is there anything that's maybe fallen out, given some of the implications of the third quarter? Or maybe the outlook isn't as good? And also just walk through the funds that obviously are in there.

Loren Starr - *Invesco Ltd - CFO*

Dan, I think nothing has fallen out. Everything is sort of moving in line with what we've been seeing. Probably, again, the biggest grower continues to be GTR.

Real estate continues to do very, very well. We're seeing broad fixed income really move, a big mover, and so that continues. The general multi-asset IBRA as well continues to flow well.

International does well. Quant is also -- so it's pretty diversified across many, many different capabilities and also across all the regions, too.

So we don't feel at all like the institutional story is weakening. If anything, it may be that something is funded, but we're near the all-time high and we expect to see those all-time highs continue to get hit going forward.

Dan Fannon - *Jefferies LLC - Analyst*

Great. And then I guess just on GTR, could you give us some specifics on where that AUM sits in terms of the overall complex, and where that product is being marketed today?

Loren Starr - *Invesco Ltd - CFO*

So it's probably mostly focused in the UK. That's where the greatest asset base is, retail as well as institutional. Europe, it is absolutely getting traction now.

Asia, very early days, so nothing really to talk about. Then as I mentioned, in the US getting viewed and rated by the consultants, which is important.

And then on the retail platform, growing every single day. I think of the total assets right now, $10 billion pipeline, $1.4 billion on top of that.

So again, it's definitely continued to impress. And the very encouraging thing is in this last market environment, performance has been outstanding. So I think people are really paying attention to it.

Dan Fannon - *Jefferies LLC - Analyst*

Great. Thank you.

Operator

Thank you. Our next question coming from Robert Lee of KBW.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Thanks. Good morning, guys. Just a question on Capital Management. Marty, I heard earlier, and I think it was -- maybe it was Loren, on the share buybacks obviously accelerated this quarter, you find the stock at a level that probably is still prone to buyback more than you average.

But if I think back this quarter, you did the debt offering. I think you more or less reached the liquidity levels you have long talked about wanting to maintain on the balance sheet.

So in light of that and the fact that you really have -- aren't too interested in M&A I guess going forward, is it reasonable to assume that notwithstanding the near-term pick up in share repurchase that we could see just an ongoing higher level of repurchase going forward than maybe we've seen the last couple years, as you don't have to build cash on the balance sheet to get to your targets?

Martin Flanagan - *Invesco Ltd - President & CEO*

Let me make a couple comments and Loren can chime in. It's exactly the right question, the reasonable question to ask. Part of what we said with the target zone, it's also getting some clarity in the regulatory environment.

And I don't think we've come to the end of that, honestly. So we just want to continue to be a little bit cautious there. We're feeling better than we felt 12 months ago, for sure.

We also continue, as I said a couple times on this call, that we really do see some really important investments that we can make in the business that frankly will generate better returns than us buying back the stock and limiting our ability to make those investments that we need. But we like buying our stock in, that's for sure. Loren?

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

I was going to ask the follow up to that. I know the last couple years your level of seed capital has risen, has gone up. Do you feel like that's starting to get to a point where it's more about recycling, or do you see that there's, just given the opportunity, do you see that actually is going to continue to grow somewhat in the next year or so?

Loren Starr - *Invesco Ltd - CFO*

I guess I can comment on it. It is -- because alternatives continue to be such a point of focus for investors and the need to co-invest alongside important parts of our business that really require co-investment, it probably has continued to be a theme for us.

It's a competitive advantage in many ways, the fact that we can do this, where others may be more capital constrained and not able to do it. So it's something that's part of our planning process, and we look at the products that we know we're going to need to put capital behind and ear mark some of that for those types of activities, which again leads us to be perhaps just a little bit more conservative than some others who may not be using their capital in that way or don't have the capabilities that need capital the way the real estate and others do.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, and then maybe one last question, and thanks for your patience on ETFs. You touched on earlier flows rebounded quarter to date. That's great.

There is -- but also it feels like competition's kind of coming out of the woodwork, particularly in the I guess the so-called smart beta space where you operate. And some of those competitors seem intent to compete on price.

I'm just curious if you're seeing that have any impact on demand? I mean, apparently not since your flows are good. But just your thoughts around that dynamic and how you think about responding if you need to.

Martin Flanagan - *Invesco Ltd - President & CEO*

So I just take a step back and I think when you put on your US hat, we tend to think smart beta, we tend to think of ETFs as one thing. We have separated them as a Firm in the way that we approach it, and it's a combination of [I ex US] we saw that quantitative team actually here in Frankfurt who we're with, who have a very, very long track record in systematic factor investing.

Outside of the US, the continent in particular in Asia, you're starting to see it more, different, separate account-type mandates in the area. So it's the combination of that and the vehicle, the ETF being -- so we look at it as important parts of the world there's an opportunity for us.

And when you look at the breadth of team, the depth of team, the length of track record, and I think that's the other thing that people need to pay attention to, you are much better positioned when you have a long track record in anything, right? If you look at the track records of our smart beta capabilities in ETFs, it's the broadest capability.

It's the longest tenured capability with the results. I think that more people coming in is just confirmation that we're doing something right and that there's demand for it.

And we just look at it as a very important part of our business going forward. And to the pricing conversation, it's -- we're not seeing much different than what we've seen over the last number of years.

Robert Lee - *Keefe, Bruyette & Woods, Inc. - Analyst*

Great. That was it. Thank you for taking my questions.

Martin Flanagan - *Invesco Ltd - President & CEO*

Thanks, Rob.

Operator

Thank you. Our next question coming from Ken Worthington of JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Hi, good morning.

Martin Flanagan - *Invesco Ltd - President & CEO*

Good morning.

Ken Worthington - *JPMorgan - Analyst*

Continuing the theme. So first PowerShares; can you talk about what you're seeing in terms of ETFs outside the US? And to what extent are you seeing evidence of a ramp in the UK with RDR getting under way?

And then in line with that, our understanding is smart beta is gaining momentum, especially in Europe, especially with institutional investors. So is there a way to link what's happening with PowerShares in the US in ETFs to what may be demand by institutional clients in Europe for smart beta? Thanks.

Martin Flanagan - *Invesco Ltd - President & CEO*

So good question. That's what I was trying to get to, so I'll try to be more clear, Ken. ETFs outside -- so RDR, it really has not taken off like we thought it would take off.

That said, our focus with our ETFs, the US-listed ones, it really tends to be through the capital markets. That has been a helpful thing. But we've not yet seen the uptake of it with RDR.

We're thinking about it that actually smart beta factor investing, however you want to call it, it might make more sense to be bringing in a different type of vehicle, more an open-ended fund for RDR. And our engine is not limited to PowerShares, but it's our quantitative team again, who I keep -- who have this very long, deep track record.

And you're right. So we're seeing it in particular on the continent and we're actually seeing it in Asia, Japan, China. So it is really -- but again, it's not limited to the ETF package. I think that's also what's very important.

Ken Worthington - *JPMorgan - Analyst*

Got it. Okay. And --

Martin Flanagan - *Invesco Ltd - President & CEO*

I hope that answered your question.

Ken Worthington - *JPMorgan - Analyst*

That gets to the heart of it. And then we'll try this. Talk about the changes going on in the Japanese postal service. And if it's appropriate, would you tie what seems to be changing opportunities there to what is your very big presence in Japan?

Martin Flanagan - *Invesco Ltd - President & CEO*

Yes, so I hear the question. I'm not going to speak specifically of institutions, but what I will say is that Abenomics has changed things.

It is creating real opportunities outside of local JGBs and pension plans. It's been an expansion into Japanese equities, it's been an extension into fixed income, investment-grade type fixed income, bank loans. So it is really broadening.

And it looks like for the foreseeable future -- it's always dangerous to say, but let's put it this way. It continues to be quite an opportunity I would say within Japan.

Loren Starr - *Invesco Ltd - CFO*

I would also just say because of the investments and the time that we've spent building out our fixed income capabilities and our teams, there's a lot of interest in the products, the fixed income products that we're now offering that I think may be displacing others to maybe at levels of concentration that the clients don't feel comfortable with. So I mean, there may be some of that's going on too that's helping us now that we have a very, very strong offering.

Ken Worthington - *JPMorgan - Analyst*

Got it. Okay. Thank you.

Martin Flanagan - *Invesco Ltd - President & CEO*

Thanks, Ken.

Operator

Thank you. Our next question coming from Chris Harris of Wells Fargo.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Thanks, guys. First question on IBRA. You guys sound like you're pretty constructive on that particular product. But the data we're tracking, which given it's very limited, it's limited to just US retail, is showing outflows there.

So just wondering if you guys can expand a little bit on where you're seeing the demand for IBRA? Is it institutionally oriented at this point?

Then if the US retail is an outflow, I'm wondering why that is. It seems like this quarter, given all of the risk off, would have been a good quarter potentially for that product. So any color you could provide there would be helpful.

Loren Starr - *Invesco Ltd - CFO*

So you're right. Retail is out in the US on IBRA. Institutional is positive, so we're seeing a continued take on IBRA.

Obviously in the retail space IBRA is competing with a whole variety of different types of funds with different capabilities. For the institutional investor it's much more specific.

Someone is looking for a risk parity product, they are going to come to us because we have one of the best capabilities that's available. And the risk parity offering is one that's getting more and more acceptance in the consultant community.

So that's why IBRA is doing well I think in institutional. I think the fear right now for IBRA on the retail side is what's going to happen with the fed raising rates and how will it form.

And again, we feel quite comfortable that our product will perform well under a rate hike increase. But people are skittish at this point, and generally the market is skittish about that one topic overall, which is keeping people a little bit off side.

The product still has a very good, strong long-term performance of around one, three, five years. And so it's not a performance topic. It's entirely I think just an investor apprehension topic at this point.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Okay. And did you guys disclose the large institutional redemption that you had this quarter? And if you haven't yet, can you disclose it? And maybe a little color on why that particular redemption occurred?

Loren Starr - *Invesco Ltd - CFO*

So all we're really going to say about that particular thing, because we don't talk about clients, it's our policy not to talk, is about $2 billion in size. Asian equity was the mandate.

It wasn't at the highest fee level. It was sort of certainly below a normal retail product, well below. And we felt, as Marty said, it was an isolated event.

Chris Harris - *Wells Fargo Securities, LLC - Analyst*

Got it. Thank you.

Operator

Thank you. Our next question coming from Ken Hill of Barclays.

Ken Hill - *Barclays Capital - Analyst*

Good afternoon to you guys there.

Martin Flanagan - *Invesco Ltd - President & CEO*

Hello.

Ken Hill - *Barclays Capital - Analyst*

Last quarter I think you discussed a little bit on the liquidity for your products. I'm wondering if you've had discussions with regulators regarding maybe some of your more alternative style ETFs and PowerShares franchise.

And has it sparked any concern internally or with the SEC, and how might you think about that moving forward I guess really? Are you looking at regulation being -- causing any disruption going forward?

Martin Flanagan - *Invesco Ltd - President & CEO*

It's a good question. I think we've just seen the beginnings of the liquidity framework coming out from the SEC. The industry is very involved, had been very involved, will continue to be very involved and so at a specific Company level too we are very involved in those conversations, wanting to get to the right place with those.

So it would be too early to describe the point of view. Obviously, we know what the regulations are trying to get to.

At the same time, we want to make sure that they understand the framework they put in place doesn't cause unintended consequences. I still think we're a good number of months away before having a view on the exact end game there.

I want to answer your question but I think I'm not. It's just an unknown at the moment.

Ken Hill - *Barclays Capital - Analyst*

Fair enough. I guess then just a little bit more generally on Europe, I know you guys have worked very hard to build a strong platform there and we've seen some more positive sentiment around some further easing today.

How would you characterize the opportunity for higher flows in Europe? And on the back of some of the monetary thing, what are you trying to do to capture that longer term?

Martin Flanagan - *Invesco Ltd - President & CEO*

So look, we have been quite successful the last number of years here, but it came from multiple years of improving the range of capabilities, the service levels, et cetera. We are still relatively early innings on the impact that we can have on the continent.

Strong team in place, strong products in place, good performance. What we are now getting through and improving is the acceptance of our products as top tier partner-type recognition within the number of the big distributors.

We've made good progress, but we're not done. So that makes us feel that the future will be quite bright.

Ken Hill - *Barclays Capital - Analyst*

Okay. Thanks for taking my questions.

Martin Flanagan - *Invesco Ltd - President & CEO*

Sure.

Operator

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

Chris Shutler - *William Blair & Company - Analyst*

Hi, guys. First, based on the product mix, where you sit today and where you're seeing flows, just want to get your thoughts on the fee rate going forward.

Loren Starr - *Invesco Ltd - CFO*

Yes, so Chris, again, the product will have some impact. So will the geographies in which they're being sold.

We think overall the product mix is leaning more towards alternatives and that's helpful. We have never been traditionally an enormous provider of lower fee fixed income products, for example, or in our ETFs as you mentioned, or as we know is kind of at the higher fee range.

There's a lot of expectation that Europe and Asia will continue to grow. And they have certainly significantly higher net revenue yields in aggregate relative to the US. So all that said, I think we would believe our fee rate will continue to march up from where it is based on mix.

Chris Shutler - *William Blair & Company - Analyst*

Okay. That makes sense. And then secondly, just wanted to get an update on the Wilber Ross business.

Haven't talked about that in a while, and just the outlook for performance fees there over the next few years. Thanks. So I think, again, without -- because I'm terrible at predicting performance fees. I know that. The performance on the products have been good.

It's been a very volatile market, though, so things can move around quite dramatically. Based on everything that we know, the embedded performance fees and carry within the products that we would be able to access in terms of performance fees, which would be fund 4 and fund 5, are significant and probably an aggregate something on the order of nature of something you've seen for a full year for us in the past, right.

So it's a pretty significant element. Timing-wise is a big unknown. Very unlikely to be realized in 2016.

More likely than not 2017, just given the fact that the dispositions that would have to take place in those portfolios would be significant before we, from an accounting perspective, would be allowed to recognize any performance fees. So there's still a fair amount of time to go, so that's why we don't talk about it that much because anything can happen in markets and a lot of things can happen in a year. But based on right now, it's pretty significant, pretty attractive. Understood. Thank you.

Martin Flanagan - *Invesco Ltd - President & CEO*

Thank you.

Operator

Thank you. Next question coming from Brian Patel of Deutsche Bank.

Brian Patel - *Deutsche Bank - Analyst*

Good morning, folks. Just I guess Marty or Loren, just to circle back on GTR in the pipeline, how do you think about the fee rate overall? I think it was 100 basis points roughly and maybe just bifurcating, and correct me if I'm wrong on that, and then just bifurcating between retail and institutional in that fee rate.

And how you see those, the pipeline on the institutional side for DTR, versus the retail demand? And if you can say what DTR flows were in the third quarter if you haven't, if I missed that?

Loren Starr - *Invesco Ltd - CFO*

So again, I think on the retail side our pricing is transparent. You can see those numbers. I think it's 90 to 100 basis points.

On the institutional side, I don't think we get into disclosing those fees. But it's very -- prices are in line with I would say the normal differential you would expect from a retail versus institutional.

So it's a nice price, very attractively priced. In terms of the pipeline and the opportunity, I think we're seeing really just, because it's easy to see the huge take on the institutional side, that it is giving us a lot of comfort that it's going to be growing certainly on the institutional side.

Retail capabilities, probably even larger. But it's hard to quantify ultimately how big it could get. We know just how large some of the competing products are on the retail side.

And so, and again, in terms of I guess just even in the third quarter, flows were about $3 billion for GTR in aggregate across retail and institutional. It has a lot of capacity to grow on both sides.

And it's just brand-new, as we mentioned, in the US. And really kicking off in Europe and Asia, it's also brand-new. So great opportunities.

Brian Patel - *Deutsche Bank - Analyst*

That's great. That's helpful. And then Marty, just if you want to talk a little bit about on the institutional solutions strategy, as you mentioned, I think you're not seeing some of the redemptions in the sovereign wealth funds like others are seeing.

But if you can comment on your view of pension plans certainly in the US, reallocating more to fixed income into fees and liabilities and how you think you've been developing your solution strategy to capture that, to basically retain the assets with the clients?

Martin Flanagan - *Invesco Ltd - President & CEO*

So our approach to solutions is really it's literally, again, they tend to be the most obvious, is the larger institutions and it's really facing off to understand them more deeply and what they're trying to accomplish. And it ultimately is bringing a number of different investment capabilities to meet what they are trying to achieve.

Again, I would say that's really early days for us, but also very important. On the retail side where people are less focused, that also is an opportunity where more and more financial advisors and the higher end financial advisors are also looking for do you have the ability to get that type of feedback and guidance from money managers.

And that's the other area where we've been having some early successes. So again, I would just look at it as a part of what you need to be doing as an organization, and I think we're doing it reasonably well, but we sure have some room to do better than what we are.

Brian Patel - *Deutsche Bank - Analyst*

Okay. That's helpful. Just lastly on the buyback, I see you're sort of locked up until earnings are through. Is that -- when are you able to go back in the market for buying back your stock?

Loren Starr - *Invesco Ltd - CFO*

Well, just a day after earnings. I think we can get back in 24 hours, 48 hours, something like that.

Brian Patel - *Deutsche Bank - Analyst*

Great. Thanks very much.

Martin Flanagan - *Invesco Ltd - President & CEO*

Thank you.

Operator

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

Rosa Han - *RBC Capital Markets - Analyst*

Hi, good morning. This is actually Rosa Han standing in for Eric Berg.

Our first question is how do you perceive the rise in interest rates would affect your fixed income flows? And would those flows necessarily turn negative?

Martin Flanagan - *Invesco Ltd - President & CEO*

Again, simple question, harder answer because of the magnitude of it. Probably what you'll see is a lot of the credit-type capabilities will probably still be in demand.

They seem to be in demand and that's what clients are looking at right now as they anticipate a slow rise in interest rates. So if it is a slow rise in interest rates, we don't see a big rush to the doors.

Loren Starr - *Invesco Ltd - CFO*

And just the opposite, some of our largest well-known funds, like the bank loan capabilities, would tend to do well. And we're seeing actually in October our bank loan ETFs and positive inflow as people are beginning to expect a rate hike in December sometime.

Rosa Han - *RBC Capital Markets - Analyst*

Okay, great. And then what are your latest thoughts on how the SEC's proposal to strengthen the mutual fund liquidity might affect your Company?

Martin Flanagan - *Invesco Ltd - President & CEO*

Again, we were speaking to it a little bit earlier. Again, it's the early feedback, the industry is very engaged on it. There are some thoughtful comments in there and there's some areas where there really needs some improvement.

And we're not going to know for a number of months what the outcome is. So it's hard to predict, to give you a specific answer until we get through that process.

Rosa Han - *RBC Capital Markets - Analyst*

Okay. Thanks very much.

Martin Flanagan - *Invesco Ltd - President & CEO*

Thank you.

Operator

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

Patrick Davitt - *Autonomous Research - Analyst*

Hi. Thanks for the follow up. It may be too soon for this, but I thought I'd throw it in at the end if we had time. We're expecting the final MiFID 2 rules next month.

I'm curious, how much preliminary work you've done on what it could mean for your business, either expense-wise or margin-wise? And if you have done a good amount of work, maybe give us an early read on what you're thinking?

Martin Flanagan - *Invesco Ltd - President & CEO*

Like us, everybody that's operating over here is dealing with it, and it's been in the works at our organization, others probably for a good period of time. So it's really well embedded. We don't see any new material consequences to our business really at all from it.

Patrick Davitt - *Autonomous Research - Analyst*

Great, thanks.

Operator

Thank you. Our last question coming from the line of Michael Kim of Sandler O'Neill.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Hi, guys. Just a quick technical follow up. Just want to understand the dynamic between the 5 million share repurchases during the quarter versus the average share count being down just a bit less. Was that just a function of timing, or is there anything else in there that might have impacted the calculation?

Loren Starr - *Invesco Ltd - CFO*

Michael, it's just timing.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay.

Loren Starr - *Invesco Ltd - CFO*

The buyback happened late in the quarter.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Yep, got it. Thank you.

Martin Flanagan - *Invesco Ltd - President & CEO*

Okay. Thank you very much, everybody. Thanks for participating. Loren and I appreciate the questions and the engagement, and we'll be speaking to you soon.

Operator

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