INVESCO INC

Moderator: Marty Flanagan
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You may obtain these reports from the SEC's Web site at www.sec.gov. We expressly disclaim any obligation to update the information and any public disclosure if any forward looking statement later turns out to be inaccurate.

Coordinator: Welcome to Invesco's Fourth Quarter Results conference call. All participants will be in a listen only mode until the question and answer session. At that time, to ask a question press star 1. Today's conference is being recorded.

If you have any objections, you may disconnect at this time. Now I would like to call to over to your speakers for today, Marty Flanagan, president and CEO of Invesco, and Loren Starr, chief financial officer. Mr. Flanagan, you may begin.

Marty Flanagan: Thank you very much and thank you for joining us this morning, and if you're so inclined you can follow along using the presentation that's available on our Web site.

And today I'll provide a review of our business results for the full year and for the fourth quarter 2016. Loren will go into greater details of the financials and then as a practice, Loren and I will answer any questions you all may have.

So let me begin by highlighting the firm's operating results for the full year. Long-term investment performance remains strong, ending the year at 72% - 75% of assets ahead of peers on a 3 and 5 year basis.

Strong investment performance and our focus on providing outcome oriented solutions to clients contributed to long-term net influence of $12.7 billion and an organic growth rate of 1.9% for the year. Total net flows for the year were $22.9 billion versus $2.5 billion in 2015.

This result was driven by the successful liquidity business and represents an organic growth rate of 3% for Invesco during 2016. Adjusted operating margin for the year was 38.7% and we returned nearly $1 billion to shareholders during 2016 through dividends and stock buybacks.

Asset Under Management were $813 billion at the end of the year, up from $775 billion at the end of 2015. Adjusted operating income was $1.3 billion for 2016, versus nearly $1.5 billion in the prior year. Adjusted diluted earnings per share for 2016 were $2.23 versus $2.44 in the prior year.

We continued our stock repurchase program, repurchasing $535 million worth of stock during the year. Let's take a look back at a number of our achievements over the past year, all which are intended to strengthen our ability to help clients achieve their investment object and further advance our competitive position.

Driven by strong client demand and a compelling suite of capabilities, Invesco power shares continue to gain share in the ETF market throughout the year. Long-term net inflows for our ETF business totaled $9.3 billion and we've seen the strong, broad-based inflow of momentum carry into the first few weeks of 2017.

Early in the year, we completed the acquisition of Jemstep, a market leading provider of advisor-focused digital solutions. This acquisition represents our investment in our partnership with the advisory community and highlights our efforts to participate in the evolving technology within our industry.

We continue to expand our solutions efforts which bring together our full capabilities to provide outcomes that help clients achieve their investment objectives. One result of this strategy was winning the Rhode Island 529 mandate of $6.5 billion, which was funded in July 2016.

We also continued to invest in our institutional business by refining our global strategy, strengthening the team with additional experience, talent and more effectively aligning ourselves for opportunities in the market.

This work contributed strong institutional flows during the third and fourth quarter building on nearly two years of positive institutional flows for the full year, 2016. Institutional long-term net flows totaled $11 billion. On slide 7, we turn to highlights from the fourth quarter.

Long-term investment performance remains strong during the quarter, 72% and 75% of actively managed assets. We're ahead of peers, over 3 and 5 years, respectively.

The adjusted operating margin was 3.89% and we were returned $264 million to shareholders during the fourth quarter through dividends and stock buybacks. Assets under management were $813 billion at the end of the fourth quarter versus $820 billion at the end of the third quarter.

Adjusted operating income was $336 million in the quarter versus $339 in the prior quarter. Adjusted diluted earnings per share was 59 cents versus 60 cents in the prior quarter. Our quarterly dividend was 28 cents per share, up nearly 4% from the prior year.

And before Loren goes into details in the financials, let me take a moment to review our investment performance as well as during the quarter. Turning to slide 10, we continue to strengthen our investment platform to provide global expertise and support, minimizing distractions for our investment professionals so they can focus on delivering investment results.

Our strong investment performance reflects these efforts, 72% of assets in the top half of peers on a 3-year basis and 75% on the top half on a 5-year basis. Now as you see on slide 11, active long-term net flows were impacted by a $2 billion sub-advised mandate from insurance claim previously disclosed.

Asset long-term net flows were impacted by outflows from UITs of $1.5 billion during the quarter. As we noted, this is primarily for short-dated equity trusts that a few of our key distributors have removed from their platforms ahead of the implementation of the DOL fiduciary rule.

Long-term passive net flows were also impacted by an outflow of $1.3 billion, reflecting a reduction in leverage in our mortgage capital business, IBR. This move was in support of our portfolio management strategy, however, $1.3 billion does not earn a management fee and does not impact revenues.

If you back out the impact of these three items, total long-term net flows would have been more than $2 billion positive reflecting the continued momentum in our business. As noted earlier, we continue to invest in our institutional business throughout 2016.

As a result, our focus and investment, institutional quarterly long-term flows for the third and fourth quarters were quite strong, extending a series of positive flows that stretch back more than two years.

Solid performance of our institutional business was not enough to offset the impact of our redemptions within retail. Retail quarter long-term flows reflect the impact of the sub-advise mandate and UIT outflows noted on the previous slide.

Institutional flows during quarter reflect IBR outflows, as was noted on a previous slide. Without this, IBR leveraged institutional flows would have been quite strong. At the end of the year, our institutional pipeline was up 22%, quarter-over-quarter.

As importantly, the fee rate on these assets is well above the overall net revenue of the firm. In January, we've seen flows of more than $1.6 billion so far, with diversity across all geographies as well as active and passive capabilities. So now I'd like to turn the call over to Loren.

Loren Starr: Great, thank you very much Marty. Quarter-over-quarter our total AUM decreased $7.3 billion, or 1.9%. This is driven by negative FX translation of $14.8 billion and long-term net outflows of $2.7 billion.

These factors were somewhat offset by market gains of $6.4 billion and inflows from the QQQs and money market of $2.7 billion and $1.1 billion, respectively. Our average AUM for the fourth quarter was $809 billion. That was down 0.6% versus the third quarter.

Our NUIs, long-term organic growth rate in Q4 was negative 1.5%, again based on the reasons that Marty just gave. If you look at the adjustments provided around some of the large client redemptions, the organic growth rate would have been closer to 1%, but that was still down from 7.1% in the third quarter.

Our net revenue yield came in at 42.7 basis points, which is 0.7 basis points higher than the prior quarter. Elevated performance fees and other revenues increase the yield by 0.7 basis points and 0.2 basis points respectively.

The net revenue yield was also benefited by yearend contract adjustments and third-party service and distribution expenses, which increased the yield by 0.6 basis points.

These three positive factors were somewhat offset by the impact of FX on the mix, which acted to decrease our yield by 0.8 basis points. Moving on to slide 15, as we've done before, we're showing you our U.S. GAAP operating results for the quarter.

However, my comment today will focus exclusively on the variances related to our non-GAAP adjusted measures, which will be found on the next slide, slide 16.

Net revenues increased by $9.1 million, or 1.1% quarter-over-quarter to $863.8 million, which included a negative FX rate impact of $17.7 million. Within that revenue number you'll see that our adjusted investment management fees decreased by $17.6 million, or 1.8% to $965.1 million.

This reflects our lower average AUM during the fourth quarter compared third quarter of 2016, along with the impact of changes in the AUM product and currency mix. FX decreased our adjustment management fees by $20.3 million.

Adjusted service and distribution revenues decreased by $4.3 million, or 2%. Those are reflecting the lower average AUM for the products that receive these fees.

FX decreased adjust service and distribution revenues by $ 0.2 million. Our adjusted performance fees came in at $17.9 million in Q4, and these were earned from a variety of investment capabilities, including $5 million from our U.K. investment trusts, $4.9 million from real estate, $4.2 million from our global asset allocation strategies.

FX decreased these fees by $0.6 million. So going in to 2017, a little guidance here, we expect performance fees to follow a similar pattern to 2016, with Q1 fees about $15 million to $20 million driven mainly by our U.K. investment trusts.

And then moving to a roughly $5 million to $7 million per quarter for the remainder of the year. I would remind everyone that we're forecasting the performance fees unfortunately is not a precise science.

Our adjusted other revenues in the fourth quarter came in at $23.2 million, and that was an increase of $3.9 million from the prior quarter. And this was primarily due to an increase of $5.3 million in transaction fees from real estate, offset by a $3.8 million decrease in our unit investment trust revenues.

Foreign exchange decreased our overall other revenues by $0.2 million. Again, looking forward to 2017, we'd expect other revenues to decline to $12 million to $15 million per quarter through the year.

This is due to two factors. First, we continue to see pressure on our short dated equity UITs as a result of the early adoption of DOL rules, and we do expect that pressure to continue on into 2017.

The second factor is a structural change in the way our real estate products are priced with more performance fee based accounts being used and fewer transaction fee based accounts.

In future years, we would expect increased performance fees, however, to help offset some of the impact on other revenues. So moving on down in the P&L in Q4, our third-party distribution service and advisory expenses which we net against gross revenues, decreased by $13 million or 3.6%, and that was driven by lower retail AUM at yearend and contract adjustments.

FX decreased these expenses by $3.6 million. And so before turning to expenses, let me try to summarize all the revenue guidance I just provided in terms of yield.

Looking into 2017, we would expect to see our net revenue yield, excluding performance fees decline by approximately 1 basis point, year-over-year. This net 1 basis point decline is due to a negative 1.5 basis point impact.

One basis point of that is from foreign exchange and another 0.5 basis point is from other revenues, which I then expect will be partially offset by a positive 0.5 basis point impact from asset mix and flows.

So breaking that down even further, taking into account day count, our net revenue yield, excluding performance fees should fall to 41 to 41-1/2 basis points in the first half of 2017. In the second half of the year, this range would increase by a 1/2 basis point to 41-1/2 to 42 basis points.

As a reminder, these yields that I'm guiding you to all have seen flat markets in foreign exchange from today's levels. So next, let's get into expenses. Moving down the slide, you'll see that adjusted operating expenses as $527.8 million increased by $12.4 million or 2.4% relative to the third quarter.

Foreign exchange reduced our adjusted operating expenses by $9.2 million during the quarter. Our adjusted employee compensation came in at $337.9 million, and that was a decrease of $1.2 million or 0.4%. Foreign exchange decreased our adjusted compensation by $5.5 million.

Again, looking ahead to 2017, seasonal payroll taxes and a one month impact from base salary increases will lift Q1 compensation by approximately $20 million.

This should then drop off into Q2 and level out to roughly $345 million per quarter into the last half of the year, based again on flat markets and foreign exchange, as well as the revenue guidance that I provided.

Our adjustment market expenses in Q4 increased to $8.6 million or 32.1% to $35.4 million. This reflected the seasonal increases in advertising, client events and other marketing costs in support of the business. Foreign exchange decreased our adjusted marketing expenses by $0.8 million.

Looking forward into 2017, we would expect our market expense to follow 2016, with roughly similar levels as well as season quarterly seasonality. Our adjusted property, office and technology expenses came in, in Q4 at $85 million.

That was an increase of $2.9 million or 3-1/2% over the third quarter. So it was due to higher outsourced administration and software costs. Our foreign exchange impact on this line item decreased expenses by $1.2 million.

As some large, technology related projects come into service into service into 2017, including investments around data and cyber security, we would expect to see property, office and technology expenses increase to approximately $88 million per quarter.

Next our adjusted G&A expenses came in at $59.5 million and that was increase of $2.1 million or 3.1% quarter-over-quarter. This increase was driven by costs associated with several new product introductions and other product related costs.

Our foreign exchange impact on this line item increased - decreased G&A by $1.7 million. Looking into 2017, we would expect G&A expenses to be roughly in line with 2016 levels, around $65 million to $67 million per quarter.

So continuing on down the page, you'll see that our adjusted non-operating income increased to $0.3 million compared to the third quarter. Fourth quarter included a $7.8 million gain realized in our pound sterling, U.S. dollar hedge.

The firm's effective tax rate on pretax adjusted net income in Q4 was 27.7%. This increase in rate was driven by the FX rate movement impact on our profit mix, as well as by gains from our FX - foreign currency hedge contracts.

Looking forward to 2017, we believe our tax rate should stand at roughly 27%, which then brings us to our adjusted EPS of 59 cents and the adjusted net operating margin of 38.9%.

So next, let's turn to slide 18, where I'll spend a little time just providing more color on the impact of foreign exchange on our results. We have presented our 2016 results.

On a constant currency basis by restating the 2016 amounts using the average foreign exchange rate for 2015. As you'll note, the FX impact has been significant, removing $109.6 million in net revenue and $55.9 million in operating income from our 2016 results.

The FX movement has also had a material impact on many operating metrics, driving a 40 basis point decline in our adjusted operating margin and a 0.7 basis point fall in our net revenue yield.

As you know, we protected against some of the negative currency impacts to cash flow and to EPS through the use of our pound sterling and euro hedges. These hedges are in place through the end of 2017.

We will consider whether to extend them based on our ongoing review of the Brexit situation, as well as based on the overall cost of hedging. So at the risk of beating a dead horse, let's just go to the last page here on 19.

We hope that this slide is going to help with your modeling the impact of foreign exchange on our financial. What we show here is the impacts of the 10% appreciation or depreciation of both the sterling, as well as on euro on our operating results.

So on the top part of the page, you'll see that our adjusted operating EPS, or unhedged EPS would flex by plus or minus 7 cents based on a 10% appreciation or depreciation of the pound.

This of course is hypothetical since we are in fact hedged. The adjusted EPS, the hedged EPS would decline only 2 cents under a 10% depreciation scenario for the pound. It would appreciate 6 cents under a positive 10% move.

Our adjusted operating margin would be plus or minus 30 basis points and our net revenue yield excluding performance fees would move plus or minus 0.8 basis points.

The impact of the euro on our financials is much less than it is based on what happens to the pound, a 10% appreciation or depreciation of the euro would have only a plus or minus 2 cent impact on our unhedged EPS.

On our hedged EPS again, the reality for 2017, no material impact on the down scenario of minus 10%. We would see plus 2 cents on an upside.

Our adjusted operating margin would be plus or minus 10 basis points, and our net revenue yields would move plus or minus 0.3 basis points. So hopefully, that’s helpful, and with that, I will turn it over to Marty.

Marty Flanagan: Operator can we open it up for questions, please.

Coordinator: Thank you. At this time, if you would like to ask an audio question, please press star 1. You will be announced prior to asking your question. Please pick up your handset when asking your question. To cancel your request, please press star two.

Our first question is from Michael Carrier from Merrill Lynch. Your line is now open.

Michael Carrier: Thanks, guys. Hey Loren, maybe first, you know, thanks for like all the guidance. Just given the lower level, you know, on the, you know, other revenues that you guided to, just wanted to get some sense on, you know, are there any, maybe expense offsets, you know, for those types of revenues?

It seems that maybe the G&A line being flat, you know, like in terms of your guidance there's some there. But just wanted to get a sense of, you know, if that does come in at the low end of that is there anything that can be done to offset that?

Loren Starr: I mean we are continuing to focus on optimization opportunities. Those impacts are in fact reflected in some of our expense guidance. It is possible that we could do better than we're suggesting here, so that's obviously some potential positive upside.

There are some potential positive upside on performance fees as well. I mean, we are guiding based on what we know, but again there are definitely positive potential surprises there, which would be very accretive, you know, to our incremental margins and to earnings.

Overall, I think, you know, we're very focused on continuing to invest behind the business. We think it's important that we, you know, do continue to position ourselves competitively particularly given the rapid changes that we're seeing in the environment.

And so, but we are obviously going to continue to be very focused on expenses to try to provide a result that you would view as acceptable.

Michael Carrier: Okay and then just maybe to follow up and Marty or Loren just on the DOL fiduciary role business, the industry's, you know, moving forward. Just wanted to get some sense on, you know, where things are trending.

You know, how you expect it to impact. You know, whether it's, you know, like fee rates, revenue shares, you know, anything that you're starting to get some color and, you know, how you guys are positioning for that as we approach?

Marty Flanagan: Yes, so my view is similar to yours and sounds like others. Yes, I think there is some anticipation that the DOL rule will get delayed. I don't know anybody in the industry, whether it be money manager or distribution partners that are slowing down, right.

So the movement towards advisory, it is in place, and it will just continue. It would be a mistake not to think that is the case. The feedback that we are getting from our distribution partners, what they are looking to do is to work with firms, you know, with broad range of capabilities.

And that have good performing capabilities and also, you know, competitive expense ratios. And so, on each point more specifically, what is of interest, a focus on how to - how to combine active and passive capabilities within the channels and an evolving focus on how to use factor capabilities, ETFs in particular.

So we're positioned very well from that point of view both solutions and with our capabilities and factor. The other topic is a keen interest now in looking at use of alternative capabilities within the retail channel now. That's been a topic for a number of years.

As we talked in the past, it did not move as fast as anybody in the industry thought for a number of reasons. You know, one being just distribution partners getting organized around it. Secondly, how to use it within, you know, within the financial advisor. There was a lot of regulatory focus around it also.

So, that seems to be, you know, an evolving focus. So we looked at ourselves as, you know, we think we’re positioned, you know, really quite well with this as we look forward. Now again, that - there's going to be takes and puts and, you know, we've talked about UITs.

UITs are something that you've already seen the negative impact to us. The good news is, what we're starting to see is the greater focus on the use of ETFs in replace of UITs.

So again, it's going to be, you know, some evolving, you know, how we partner with our different distribution partners but again, you know, I'd say at the moment we feel pretty good about it.

Michael Carrier: Okay, thanks a lot.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question is from Ken Worthington from J.P. Morgan. Your line now is open.

Ken Worthington: Hi, good morning.

Marty Flanagan: Morning.

Ken Worthington: First, I want to talk about your marketing objectives for the coming year and your allocation of marketing dollars. Are there any meaningful changes as we think about 2017, areas where you are increasing or decreasing marketing spend either by regions, asset classes or even products. And if so can you give us some flavor with regard to what you're thinking?

Marty Flanagan: Yes, so interesting Ken, it's an area that we're actually putting a lot of focus on now as an organization, and on just strategically what should we be doing and I think the reality is of where the market is going, you know, a brand recognition actually matters a lot .

And I'd say that's somewhat different than years gone by. Maybe it's a reflection of, you know, more competitive, maturing industry. So our focus globally is, you know, extending, you know, the brands because what you get with that is quite frankly a, you know, your reputation precedes you in that you do end up doing better in the retail markets in particular.

You know, very strongly placed in the U.K. brand recognition. EMEA also, you know, has been improving dramatically as in the United States, probably not where we want to be. That would probably be the weakest brand reputation vis-a-vis the other parts of the world.

So again were just trying to refine that and continue to focus on, you know, enhancing, you know, that reputation of the firm.

Ken Worthington: Thank you.

Marty Flanagan: Yes.

Ken Worthington: Invesco U.S. active equity retail franchise has been pretty consistent outflows with the exception maybe (unintelligible) and diversified dividend in recent years.

I would say the performance wasn't great, it wasn't bad and value was out of favor. 2016 seemed to change both the prominence of value investing and the relative performance of many if not even most of your U.S. active equity funds.

Marty Flanagan: Yes.

Ken Worthington: What are your thoughts about the U.S. equity retail business as we think about '17 and '18 given both that increase prominence of value investing and the significant improvement of the kind of the, the former Van Kampen Funds?

Is there - is there hope or expectations that what's been in, you know, kind of like moderate but pretty consistent outflows has a chance of kind of turning around?

Marty Flanagan: Yes, Ken we are. So our basic view as we talked before let's go one step higher, it’s sort of this, debate about, is it active, is it passive and our basic view is both. I mean that is the reality going forward in the retail channel. Active and passive is going to be used.

Good news is we are very well positioned for that dynamic. Than specifically, you know it has been a headwind for U.S. equities value in particular over the years for the reasons we know, sort of from ‘09 on, that sort of beta run.

And I think the world has changed right. I've always been a believer in active. It does play an important part in somebody's portfolio. Again, I'm probably preaching to the choir here.

So with that said, I think when you start to see the relative outperformance in quite a material way, it will continue, you know, it will be used in U.S. portfolios.

And we would look to, as you suggest just the absolutely relative strength of the value franchise. You know, we would expect that advisers would start to more actively use those capabilities.

Ken Worthington: Okay. And just lastly, Loren in terms of UITs what kind of AUM do you have in UITs right now? And any sense of the scheduled maturity of products in ‘17 versus what was kind of scheduled to mature in ‘16?

Loren Starr: Yes, we have about $9 billion in equities, $8 billion in fixed income UITs. In terms of the maturity, you know, the equities tend to mature more rapidly so they're probably more like an average 18-month maturity level.

So you can assume kind of a book that's, you know, every 18 months is going to go away. So you can just take that 9 and assume a bleed-out, you know, at worst case, right, where it goes away in 18 months.

Ken Worthington: Great. Thank you very much.

Coordinator: Thank you, our next question is from Dan Schorr of Evercore. Your line now is open.

Dan Schorr: Hi, thanks very much. I guess it's a combo question on, you talked about combining active to passive, and I'm curious if we can get a little more color into the, it sounds good but how do you actually do it?

How much is relying on Jemstep? How much is it wholesales in the channel? How much is it your solutions effort? And will we see that in power share flows over time as you combine the two?

Marty Flanagan: Great question. So it's beyond theory, right? And so when we’ve been talking about, you know, where have we been investing and for what reasons, you know, the solutions build out is an important one for us, maybe - actually the immediate focus has actually been on U.S. retail.

And that might be different than other focuses. That’s because the dramatic change that's going on in the adviser channel. So it's really having solutions experts, you know, matching off at home offices to help build different, you know, models and solutions for the advisers.

And then, out to the field helping, you know, with the models. And it's, you know, starting to take shape. I think it's going to be, you know, an important way that the, you know, the business is changing going forward.

It will result in greater, you know, ETF sales. There is little question in my mind about that. Jemstep is also - it’s been a year since we closed. It is actually being really introducing us to really a new channel of distribution. It's adviser focused. It's not direct. I want to make that very clear.

So it's partnering with our advisers, but the inquiring of the firms that we are working with are firms that we've never had relationships before. So, you know, I looked at the financial impact to that and the flow impact probably later part of this year starting to kick in.

Because you have to think of it, you know, it is an application installation, and we are well underway in a number of areas. So, it is a combination of, and within Jemstep, it is actually using our models that, you know, advisers can use.

And again it is not closed so it can actually - they can use their own models, et cetera, et cetera. So it's a combination thereof.

Dan Schorr: Okay, I appreciate that. And then a follow up of your flow commentary you know, the 2.7 outflow of $2 billion inflow, if you exclude the three one-offs. I take a step back and I see you guys haven't had outflow year since 2008.

Marty Flanagan: Yes.

Dan Schorr: So and gross sales in the quarter was actually up 7% year-on-year, so maybe just the high level, which products do you think are going to drive growth. I saw Asia was really good in the quarter. What do you think is going to drive growth besides what we just talked about in terms of power shares?

Marty Flanagan: Yes so, you're going to get that - so extend my power comments that will continue. The other area that where, you know, we still - you're seeing real success is the institutional business, and I'd say regionally, right, you know, all three regions.

We're at different stages of success in the different regions, but we just continue to see, you know, as we said the, you know, the pipeline just continues to strengthen. And so we will just continue to see, you know, greater impact institutionally around the world.

Dan Schorr: Okay, thanks very much.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question is from (Dan Franklin) from Jefferies. Your line now is open.

(Dan Franklin): Thanks. I guess if you could just kind of build on the last question and talk about maybe the U.K. specifically where obviously Brexit and some of the macro factors are out there and kind of an overhang for probably gross sales.

But then you've seen performance, you know, within that franchise also on the shorter term basis come in. And kind of what is your outlook, you know, as you think about 2017 for that segment?

Marty Flanagan: Well, let me make a comment because I'm going to turn it over to Loren and he can be more specific. You know, quite frankly, it is the EMEA capability within our firm is very, very strong. And I think it's been looked at more I think from investors as more of a liability than an asset, which is just exactly wrong.

You know, we just look to continue to, you know, improve our position and we think even with the, you know, the conversation of Brexit, you know, we continue to see, look to 2017 with things stabling, and then moving into growth as we go forward. But, Loren to you want ...

Loren Starr: Yes, I mean just a little color. So, I mean one thing I would want to say, in particular of the, you know, roughly the $1.6 billion of long-term inflows that we've seen through January, right, more than half is coming from EMEA. So the region is very, very healthy. We are seeing cross-border again coming in.

We're seeing very strong institutional inflows. The U.K. retail situation has always been - is somewhat in outflow just given the size of the book. And it's not a growing, you know, area of demand but it is certainly be more than offset by the flows coming in through the rest of the region.

So the opportunity that we believe that exists in EMEA is significant. It's one that people should not see as being sick or damaged or impaired through this Brexit situation. And it's one that we feel we're very well positioned to continue to flow in. So hopefully, that gives you a sense of how we feel.

You know, obviously Brexit topic is a bigger topic around currency, and we've been talking about all that, but in terms of the actual business and the flows coming into the U.K., it's pretty much, you know, not yet seeing itself having an impact.

(Dan Franklin): Great, and I guess just following up kind of the UIT segment, and as well as, you know, the performance fees, and I guess in the context of thinking about incremental margin from the overall business, it's my understanding that the UIT business is very profitable for you.

As you think about the incremental margin outlook on a combined basis for the firm, does that changed at all as we think about UITs being lower and performance fees being maybe pushed out and lower ongoing, you know, and other revenues up front?

Loren Starr: No, I think because as Marty suggested, we’re seeing the opportunity to substitute UITs with ETFs, and the incremental margin on ETFs are certainly at the same level as UITs, so there should be no degradation due to that particular factor.

Overall the biggest impact on our incremental margin this year, 2017 is everything to do with just FX having a depressive impact on, you know, our net revenue yield. The mix is going to be positive. We're seeing positive net revenue yield lift due to our mix. We don't expect that to change.

And so overall, you know, we think we're going to be back in the guidance area that we talked about in the past, and that's 50% to 65%. Again but that assumes flat markets and flat FX year-over-year, which has certainly not been the case.

Marty Flanagan: And in an interesting way, you know, this refocus on UITs or how they've been used in the retail channel actually is turning out to be an opportunity for us longer term.

From the stand point of, we are having much deeper conversations with the advisers on how to use ETFs and how to build their books. And so we ultimately see, you know, that is a much more important opportunity as we look out into the future for us.

(Dan Franklin): Great, thank you.

Marty Flanagan: Yes

Coordinator: Thank you. Next question is from Brandon Hawkins of UBS. Your line now is open.

Brandon Hawkins: Good morning. Thanks for taking the questions. I just wanted to start out maybe following up on some of the questions on the U.K. So we've seen the FCA take a closer look at pricing for asset management products in the U.K.

Can you maybe give your perspective of where you see that going and whether or not you see that leading to pricing pressure and how we should think about it?

Marty Flanagan: Yes, it - look, it's still early days. You know, in fact that, you know, everybody is not responding to the initial report. You know, there is an absolute focus really on value for money.

And we come out very, very strongly with that - you know, through that analysis, so, you know, we sit in a good position. Because of that we are, you know, very engaged like others, you know, in the marketplace.

The firms that are at risk are and again with sort of a direct focus on, you know, people, you know, sort of a benchmark progress charging, you know, active fees is an area that is probably never a good idea to do that.

I don't think people were really focused on doing it on purpose but that's really a real big pressure point and we'll just have to see, you know, where we come. There's really probably not going to be any direct feedback until much later in the year like nine months from now I would guess.

Brandon Hawkins: Okay great. And then can you size for us the sub-advised portfolio and with the loss of the sub-advised mandate was that a VA-related mandate and is the rest of the sub-advised portfolio - what portion is VA?

Loren Starr: Let's see. I'm not if I have the exact numbers in front of me but our, you know, overall sub-advised book is probably under 10% of our overall exposure in the retail space, maybe 15% - 15% to 10% out of $170 billion mutual funds. So, you know, that gives you a sense of the overall exposure.

This particular client was an insurance client. I don't know if we have all the specifics or have provided much specifics around that but it is one that the fee, you know, it was not the highest fee business for us so again it's not relative to our overall net revenue yield that's going to be accretive in terms of its loss.

You know I don't think there's a trend here on sub-advised per se. We obviously - there are some big changes that need to happen, you know, here and there as certain clients decide to change the way they manage their portfolios but at this point I don't think there's something where we're saying, you know, there's that risk - a lot of sub-advised assets.

Brandon Hawkins: Okay. And then when we - just one follow-up to the UIT just to help us think about what the roll rates are. So this quarter when you had the investors roll into the next series, what percentage of investors did you see to roll into the next series? Just help us gauge, you know, that $9 billion over the next 18 months and what portion at least based on early days might actually roll off.

Loren Starr: Yes it's actually been a little bit better. I mean the fourth quarter I think has actually improved somewhat so again it's just sort of a dynamic situation so, you know, we are painting somewhat of a bleak picture on the UIT business in terms of the equity, you know, outflow.

But it's still a pretty dynamic discussion and one quarter I just don't know if there's a trend line I can actually point to allow you to model this effectively.

It is something that we're continuing to monitor and so it - because it's moving around quite a bit I think it's probably wrong to assume, you know, the worst case scenario that I talked about before.

Just so you know there's another level of information. I mean the fee rate on the equities are roughly 55 basis points so then, you know, so that's on the sale but then you have to take that number and sort of divide that by an average life so, you know, one and a half years.

Brandon Hawkins: Right and you guys recognize that not up - I thought you recognized it up front.

Marty Flanagan: We do. We recognize it up front but just in terms of kind of how the fee rate yield shows up we're taking that up front number and we're dividing it by the overall assets that are in place in the book.

Brandon Hawkins: Okay. Thanks for the call.

Loren Starr: Yes.

Coordinator: Thank you. Next question is from Bill Katz of Citi. Your line is open.

William Katz: Okay thank you very much. I appreciate - I appreciate you taking my questions.

So Marty you had mentioned that in the retail channel that the distributors are a little more focused on expense ratios which we're hearing from a bunch of your peers and Black Rock cut some pricing. T. Rowe announced this morning - I'd speak with them, they've had some pricing cuts as well.

When you look at your retail footprint, putting aside the passive business, how do you sort of look at the active business? Is that an area that might need some - how's it sort of stack up when you look at the expense ratio? Could there be any sort of strategic moves here to try and increase volume by bringing pricing down perhaps?

Marty Flanagan: Yes so a couple of things. It is an area of focus. It has always been an area of focus for us and if you look at, you know, what we've done over the last decade, you know, we have repriced our, you know, our retail funds downward to the point where, and Loren correct me, about 90% of our assets are below median and two-thirds are in the lowest quartile of expenses.

So we are placed very, very strongly. We historically, you know, this is not a new topic, you know, for us. So we think we're placed, you know, very nicely.

I also think it's a mistake to think that the first thing that people are looking for is expense ratios. The low expense ratios of bad performance is - I don't care how it is and if you give it to somebody it's not going to be, you know, a factor to drive growth.

And still the primary focus is investment quality. Is it going to generate the returns for the clients in the portfolio? And I think people are, you know, don't forget that. That is the driver. I don't think price cuts are going to change the flow dynamic.

What I would say though, if you're above median and not performing well that's not a good place to be.

William Katz: Okay. That's probably an understatement. Okay. So the other question I have for you is that when you - in the 1.9, 1.7 or the (2 bucket 2 burner) flows this quarter, can you sort of - I appreciate the (unintelligible) on the institution side but for a product demand perspective what are you seeing?

And maybe the broader question if you have time, is do you have any sort of hopes that active makes a comeback? Is there any real time dialogue with the distributors in the U.S. in particular that's arguing that they're actually seeing any kind of pick up in active demand because from the industry level data you're really not seeing it?

Marty Flanagan: That's a good - I can just think of a number of conversations that I've been in. There is a very strong interest in - beyond interest, it's a very important part of the strategy of the distributors to use, you know, active capabilities.

And in particular for us there is, you know, the discussions are as high as they've ever been in understanding how to use alternative active capabilities. So I think you're right though from a - whenever you want to think this started, but, you know, at the end of, you know, last year so December on just beginning to see, you know, a really strong outperformance of active.

It will be taken up I do believe but if you look at history it's always trailed. It doesn't start, you know, exactly when you should be doing it.

Loren Starr: And in terms of what's really working for us this last quarter in active, you know, we saw the outcome-oriented types of products are doing very well like GTR which is probably one of our largest winners. I think it was roughly $2.4 billion of long-term net inflows into that capability.

Our diversified dividend capabilities or the yield-oriented equity capability of $1.4 billion. We saw real estate, bank loans, CLOs as well all being positive in the active space.

And then, you know, obviously the tractor, the outflows were related to some of the - as we talked about, the big sub-advised client as well as there was about a billion dollars of just a disposition related to a real estate holding so. And this was - all talking about 4Q, right now just to be clear.

You know going into next year it's - as they say I think that those trends are continuing and we're seeing a similar, you know, a similar take on of that type of - that type of product.

Marty Flanagan: And I would just come back to if you recall, you know, more than three years ago we launched, you know, a broad range of alternative retails - mutual funds.

And if you're familiar with the conversation at the time, we thought the wise thing to do was a broad introduction knowing that you needed three-year track records largely before you start to get traction.

You know we've hit that three-year mark and I think, you know, in hindsight I think that's going to look like it was, you know, a wise thing to do at the time.

William Katz: Okay, thank you for taking all my questions today.

Coordinator: Thank you. The next question is from (Alex Blastine) at Goldman Sachs. Your line is open.

(Alex Blastine): Hi guys, good morning. A couple of questions. So just going back to the DOL conversations so as I understand that it doesn't sound like a lot of people are, you know, pausing with implementation.

But thinking through the, you know, potential reversal of the role who knows whether or not it actually happens but playing that out through the P&L for you guys, are any of the revenue challenges you highlighted on the revenue line I guess due to potentially to some, you know, DOL changes?

Could they potentially reverse or do you think this is a more permanent phenomenon?

Marty Flanagan: I think we don't think any of the statement as being permanent phenomenon right? I mean the - our distribution partners prefer the, you know, advice model and the DOL was already moving that way. The DOL was an impetus of the, you know, to advance it so.

So in some ways I think I don't believe the fiduciary rule is going away. I think there could ultimately be some modifications and some, you know, SEC is thinking of a, you know, a (sphinx) definition of the fiduciary rule which would be a healthy thing and some elements of the rule that are - it could be better dealt with could get addressed during that process. So that's our view.

(Alex Blastine): Got it. And then around some of the expense guidance, I particularly wanted to touch on the higher cost of data. So Loren you mentioned that you guys are expecting to spend a little bit more there in 2017. Can you give a little more color? I guess like what is the object you're spending thereon?

Is it more reactive meaning that data providers are just charging more or is it proactive where you're just finding actually more value in more expanded data services and how you're incorporating that in your product offering?

Loren Starr: Yes so maybe I was not very clear in my term data. So it has more to do with actually the systems and our overall management of data and, you know, through the firm in terms of our investment book of records. You know having one system as opposed to multiple spoke systems.

So it has really been a re-do, a revamp of how we manage data through the firm really giving us even more effective and efficient with our information - less manual processing; more straight-through processing. That's been a major investment. It's not really the cost of data which of course does go up every year. That's not what we're talking about here per se.

(Alex Blastine): Got it. Alright so more - feels like more temporary. And the last one for me on the hedge, can you remind us again of when the hedge expires and how we should think about that going forward? I understand you've guys have a hedge for still for a couple quarters but what happens after.

Loren Starr: Yes so right now the hedges are in place through the end of 2017 and so if we were to do nothing there would be no further hedging.

After that though as I mentioned earlier, you know, we're going to continue to look at opportunistically whether it makes sense for us to extend those hedges either both in the pound and euro or maybe just the pound. And that will be based on our risk assessment of Brexit and obviously the cost of the hedges as an insurance policy.

(Alex Blastine): Got it. Great. Thanks so much for taking the questions.

Loren Starr: No problem.

Coordinator: Thank you. Next question is from Brian Bedell of Deutsche Bank. Your line is open.

Brian Bedell: Hi good morning folks.

Marty Flanagan: Hi Brian.

Brian Bedell: Marty, it's - let me just come back to the active/passive comment. I appreciate your comments around that momentum into January. Maybe can you just talk about how that's changed say pre the Trump administration, you know, as you think about how advisors have been thinking about potentially changing portfolio allocations to comply with DOL earlier in the fourth quarter.

You know has that changed significantly since the Trump win and into this year? And then also your comments on the alternative side, and that's been more longer term I believe. Where are you seeing that really perk up much more recently?

Marty Flanagan: Yes. So again it's hard to decipher exactly what the impetus was. I would say this, you know, the advisor is looking more to build, you know, broad portfolio allocations for their clients, you know, has been something under way for a number of years.

I think DOL moved it ahead and then this rally if you want to say from election day on has by the combination of all those three have really put a focus on I want to use active and passive. I want to understand how to use factor within that passive/active. I also want to understand how to build alternative into this asset allocation.

So it's all those things coming together and there's always been a belief too and it was Ken's question earlier that - I think it was Ken, that, you know, over the long term, you know, active, you know, even U.S. active - U.S.

(unintelligible) is a value add for multiple reasons; risk adjust for return, downside protection, et cetera, et cetera.

So it's hard to point to one thing as the impetus to this but there is a very, very focused effort on using the broad range of answers to these asset allocation capabilities for the advisor community.

Brian Bedell: Great and then maybe Loren if you could just parse out the quotes for January a little bit more if it's helpful and to - I assume it excludes triple Qs but just between active equities and fixed income and alternative ETF and then on the GTR I think that's $19 billion in assets if I'm right.

Can you talk about both your view on the U.S. distribution of that investment? That's been an area that's been building openly.

Loren Starr: Sure. So I mean within the number the $1.6 we've got some puts and takes as you imagine. The passive power shares, I mean, you've got that number yourself if you go to the Website.

But you know we're seeing more a billion on the traditional, you know, in terms of inflows - long-term inflows. So that continues to be a high growth area for one that we don't expect to slow down at all.

In terms of, you know, what is in demand it has been largely fixed income and alternatives is where we're seeing most of the interest as I mentioned on the active side. You know we're seeing multi assets, you know, being about half a billion positive in the numbering.

You know Asia continues to be growth but largely around fixed income, both bank loans and, you know, sort of global fixed income offerings.

So you know around real estate as well. That continues to be an area to be where we see flows coming in.

So hopefully that gives you some - a good enough color in terms of what's driving the flow picture.

Brian Bedell: And then just - I guess on the active equities, are they still outflowing as a similar pace as December in the fourth quarter?

Loren Starr: Yes. There has not yet been a huge change yet on the flow picture. It's pretty much business as usual unfortunately, you know. Even though performance is strong we still see a sort of, you know, outflow.

The only other place as I mentioned earlier where we're seeing strong - a very strong inflow would be diversified dividends which is, you know, well in excess a billion in the last quarter.

Brian Bedell: And I'm sorry, then GTR for January. Is it up?

Loren Starr: And GTR for January was about more than half a billion.

Brian Bedell: Thanks so much.

Loren Starr: No problem.

Coordinator: The next question is from Robert Lee of KBW. Your line is open.

Robert Lee: Thanks and good morning everyone.

Loren Starr: Good morning.

Robert Lee: I'm just curious. You know I know you've had over this past year some efficiency initiatives in place and you've talked about in the release about just wanting to see some impact.

But, you know, as we look forward in giving kind of, you know, some continued maybe revenue headwinds as to whether it's from FX or what not, I mean how should we, I mean, do you think there's much more you can do in that front or as we think ahead to like next year or the year after or do you feel like you, you know, pretty much gone to the well?

Loren Starr: I have never, never, never gone to the well. So there's always opportunity. It's just we can only do so much at one time so obviously we've got some, you know, sequencing or something - a continued move to improve use of technology, you know, reducing manual - the need for manual work, you know, using global centers more effectively, more efficiently.

I think, you know, things like digitization and robotics are huge opportunities for our industry in aggregate and we're running after them quite heavily but it's still early days in terms of seeing the full benefits of those technologies finding root.

So I think there will be an ongoing - there has to be an ongoing focus for, you know, driving efficiency through, you know, Invesco as well as the industry for us to sort of maintain, you know, the possibility and it will require some investment to get there so that's kind of the flip side.

But we've been making those investments over the last several years and, you know, we show we're very well positioned to - for to continue to drive our expenses as a percentage of our assets under management down as we've seen continuously over the last many years.

Marty Flanagan: And Rob, I'd probably add to that the other perspective is where we see ourselves positioned as a firm and where we see the future of the industry, we think we're aligned against very well and so through these savings we have been reallocating, you know, creating capacity to continue building up solutions.

The global institutional business, you know, the power shares business, those things that are absolutely making a different. I think, you know, but the other side of it is you could stop doing that. And I think it's the most dangerous time not to be investing to, you know, the demands in the marketplace.

And I think those firms that are - stopped investing, it is - you're going to find yourself competitively at a material disadvantage. And the good news is, we've been after this for a good number of years and we really see the impact along the way.

Robert Lee: Thanks, and maybe a follow up question. You know, one of the, I guess theoretical impacts from - as firms look to prepare for the DOL rule, whether it happens or not - as you said, it's happening but - is that it would continue to kind of spur demand for SMA accounts verse, you know, funds.

So I'm just kind of curious if you're actually - I mean obviously that's been a trend for a while but if you're seeing any - if you are seeing a change in that dynamic, and if you think of your own flows how you would characterize, you know, funds verses SMAs and maybe just also update us on your thoughts about how you are positioned in that part of the retail market.

Marty Flanagan: Yes, so we have the SMA capability. You know, there's, you know, like, many firms so and again, it is an area that will continue to be a focus with our distribution partners for various different types of investment capabilities that they're, you know, trying to make available to their clients.

So I don't, you know, I'd say, you know, a continuation of what's been there in the past, quite frankly.

Robert Lee: Okay, then maybe just one last question if I could on capital management. Two accelerated share repurchase this year. As we look to coming year should - you know, how much of that should we think maybe pulled forward share repurchase that may be, you know, next year would be, I don't know, lower than average or something.

But, you know, how should we think about your appetite for share repurchase in '17 given what you did this year?

Marty Flanagan: So a great, great question. So, you know, we're obviously operating with our normal capital priorities that have been in place for years. You know, first call on the capital would be seeding products.

Next would be dividend growth, modest single-digit growth, followed by stock buy backs. And so that's - that's the process. We're in place. You know, we want to maintain roughly $1 billion of cash in excess of what's required from a regulatory capital perspective, and we're, you know, sort of largely there, plus or minus a couple hundred million.

So our focus, you know, this year or last year was certainly being opportunistic on the buybacks because we saw sort of what we thought was an overreaction obviously to the whole Brexit news and certainly the DOL impact on our franchise we thought was overblown.

So, you know, we're going to continue to operate with those types of triggers in mind, opportunistically, you know, going in perhaps at a higher level, because we have the financial flexibility to do so.

But I'd say our preference obviously is, you know, to be back into a more normal approach around our capital management and we do have some pretty, I'd say sizeable seed capital needs coming into next year as we continue to see our client demand for alternatives grow.

We need to, you know, seed some of those capabilities, or co-invest along some of those capabilities and so that will, you know, be probably again as I said, our first call on capital.

Robert Lee: Great, thanks for the color. Thank you.

Loren Starr: No problem, thanks Rob.

Coordinator: Next questions from (Krisha Layer) from William Blair. Your line is open.

(Krisha Layer): Yes, good morning. It looked like the passive yield was up quarter-over-quarter for I think the third consecutive quarter. Maybe just talk about the drivers there and what you're expecting.

Loren Starr: Yes, I think that was largely because of things like IBR leverage, you know, which was a big outflow and has zero fee impact. So, it's more noise than anything else and nothing really going on, I think per se in the mix.

But although I'd say the one thing is - I mean, there's been a pretty significant drive up in the use of bank loan ETFs, and bank loan ETFs are at a much higher fee than the overall average. I think, you know, sort of up in the 60, 70 basis point level.

(Krisha Layer): Okay, that's helpful. And then I guess on the 1/2 basis point of help that you're expecting in the fee rate in 2017 just from the mix. I just want to be clear. So that's based on existing mix in AUM or does that include your assumption where flows are going to shake out.

And given the outflows you have been seeing in equities, are you - are you expecting that to continue and just be offset by alternatives? Just trying to understand what's in your expectations.

Loren Starr: Yes, so it's said - I mean that's actually based on a very detailed, bottom up, built up forecast, region-by-region, product-by-product, institutional retail, equity fix, income alternatives across the globe.

And so it represents our expectation, it reflects our pipeline of one but not yet funded, you know, products which Marty had mentioned has a high - much higher fee rate than the firm's overall average. It reflects obviously the increased client demand that we're seeing around alternatives.

And I think we're also seeing, you know, obviously growth in places like EMEA and Asia-Pac where they tend to have a higher fee rate. So, that's what's driving the overall fee rate improvement.

(Krisha Layer): Okay, maybe and then can I ask just one more real quick one? In the - in the other revenue that you guys talked about, what's driving that change in the real estate contract structure be more performance fee versus transition fee. Thanks.

Loren Starr: Yes, so I think - I mean clients are just more interested in seeing this sort of a backend loaded type of fee as opposed to the transaction fee and so we're just responding to the client trends that are in place where, you know, I think the clients would rather not be paying transaction fees. So.

(Krisha Layer): Okay, thank you.

Loren Starr: Yes.

Coordinator: Next question is from Chris Harris of Wells Fargo. Your line is open.

Chris Harris: Thank you. How do you guys think your platform is positioned for a sustained period of higher U.S. interest rates? And part of the reason I ask is there's a, you know, perception in some circles that, you know, you guys have a lot of dividend income producing products that would really be negatively impacted by that.

Marty Flanagan: Yes, if you look at - so I think if you - if you're quite focused on that Diversified Dividend Fund which has been so successful and, but if you look at the value suite, there's three elements to it. That has been an area where there's been a lot of focus.

There's a deep value capability which is performing very, very well, you know, more of a, you know, somewhere between Diversified Dividend and Deep Value that's also performing very, very well. So we're positioned, I think extremely well as you look forward.

Chris Harris: Okay, very good. And then, you know, you guys have a much lower tax rate than many peers and you guys do have a distinctive corporate structure. Any thoughts on, you know, how tax reform in the U.S. will flow through to you guys?

You know, I'd assume there'd be some benefit, but maybe if you could help walk us through the puts and takes there.

Loren Starr: Yes, assuming, you know - well, we don't know fully obviously and what's really happening. But what we would benefit from would be the lower tax rates in the U.S. on our U.S. business which is currently the largest part of our operating income right now. So that would be a direct benefit to us.

The - there'd be no per se benefit to us relative to the business outside the U.S. since we're currently living in a territorial tax regime based on our domicile. So I think, you know, it would be limited in terms of, you know, what it offers us, perhaps relative to other pure U.S. based firms.

And as we've mentioned, you know, we're free to bring back dividends without any tax consequences and we do so. And if there was, you know, some tax repatriation elements, that would not provide any, you know, sort of immediate new opportunity for us. We do it all the time.

Chris Harris: Got you, okay. Thank you.

Loren Starr: Yes.

Coordinator: Thank you. Next question is from Michael Cyprys of Morgan Stanley. Your line now is opened.

Michael Cyprys: Hi, good morning. Thanks for taking the question. Just curious, if we could trip to M&A for a moment. I'm just wondering how you're thinking on M&A is evolving, just given the tough operating environment.

To what extent would it make sense for Invesco to drive a bit more scale efficiencies in the business, maybe with some M&A bolt-ons or even large scale M&A here?

Marty Flanagan: Yes, again our, you know, as we've discussed this in the past, it is a reality now that, you know, scale does matter more than it really ever has, historically in the asset management business.

The good news is we have some good scale. That said, if you could find, you know, asset management that are complementary to what we are to, you know, improve capabilities, that's always been our primary focus and you get scale at the same time. That would be ideal.

So again, we just continue to be open-minded to see with those opportunities. I would say there's nothing blatantly obvious, you know, at moment, as we continue to look at the marketplace.

Michael Cyprys: Okay, and maybe if we could just turn to your Asia business for a moment. You're seeing a lot of success there. It looks like the AUM in your Asia business, up about 26% year-on-year, or so, if my numbers are right. So could you just talk about how you're talking thinking about building out your business in Asia?

What inning do you think you're in, in terms of the build out? And kind of what's left on your to-do list, so in terms of is it more product focused or distribution, and how do you see the business in five years from now?

Marty Flanagan: Yes, look, it's a very important part of our business. It is really, as you say, now generating, you know, an important contribution to the firm. And, the focus really right now is on, you know, distribution excellence. We feel we have the capabilities in place.

A very, very strong management team, leadership, and you know, we would imagine that it will continue to be a more important part of the business in five years, than from now, we'll (unintelligible).

Loren Starr: Yes, and in terms of products, I mean we've seen already great take on of products like real estate and fixed income. I think we're seeing growing product take on, on multi-manage and multi-asset allocation products. So that's a newer theme that is coming in.

And generally, just around alternatives overall is something where we see more and more opportunity for us in the region.

Marty Flanagan: And I just had a, you know, we really, strongly believe we're uniquely positioned in China, both at a retail level and institutional level and we think that the future is very, very positive there for us.

Michael Cyprys: Okay, if I could just ask one last one there just on Asia. Any sense in terms of the breakdown in terms of countries that are larger or smaller than others in terms of contribution AAUM there and any particular ones where you see more outsize growth?

Loren Starr: Yes, I mean I think our biggest contributor would be China, generally, probably followed by Japan, would be next. And then you get into much smaller, you know, Taiwan and Australia. So those would be the two big ones.

Michael Cyprys: Super, thank you.

Loren Starr: Sure.

Coordinator: Thank you. Our next question is from (Patrick David) of (unintelligible). Your line now is open.

(Patrick David): Hey, good morning. Thanks. I just have a quick one on the (unintelligible) trend, and from the data we can see it looks like PKLM taking a lot of flow share and on the other end of the spectrum it looks like we've seen some institutional outflows from kind of traditional separate account vehicles broadly.

Are you seeing it become, or the ETF structure become more popular with institutions in that asset class kind of in the Trump rally and flows there?

Loren Starr: Yes, I mean, I don't know if we've seen the institutional outflow that you're talking about. We've seen actually a strong take on - and again, this comment though is on a global basis, so and globally there's just no question that, I mean bank loans, separate accounts, I mean definitely in growth mode.

You know, in terms of our U.S. presence, I think it's still been pretty positive, but ETFs have been clearly taken on at a much higher pace in the U.S. than in any other region. So, maybe de facto your comment is correct because we're seeing that PLKM grow quite a bit.

(Patrick David): Is that flow institutional or retail?

Loren Starr: It's a little bit of both, I'd say. You know, our presence has historically been more retail than institutional. And so I'd say it would most likely be mostly retail, just because of our install base. But what we know that there is some institutional buyers of that product, as well.

(Patrick David): Okay, thank you.

Loren Starr: Yes.

Coordinator: Thank you, our last question at this time is from Brian Bedell of Deutsche Bank.

Brian Bedell: Great, thanks for taking my follow up. Just one quickly one Loren on the third-party distribution service expense that's been moving down a little bit more than the assets and the advisory fees.

So that's - it sounds like it's been helping results relative to some other areas, so just maybe if you can give some color on the trajectory of that line in 2017 and what's some of the big factors in moving that are?

Loren Starr: Yes, it's - I think it is either a little bit of movement down this quarter. That had more to do with it as I mentioned, sort of around contract adjustments at yearend which tends to happen, true ups and things of that nature around some of the distribution arrangements and new ones coming in and getting signed.

So, the trajectory is pretty stable. I don't think there's a major change in terms of, you know, that number relative to, you know, our net revenue yield in aggregates.

So, you know, it is - it is one where, from the U.K., obviously the RDR impacts are fully through and so we've seen, you know, the pay rate sort of go away on that part. But in the U.S., which maybe more the point that you're getting to, there's nothing material changing on that note, on that line item.

Brian Bedell; Okay, so the based, the 351 base, would that be actually higher after the contract adjustments then?

Loren Starr: Yes, that's right.

Brian Bedell: Do you have a magnitude of that, or --

Loren Starr: No, I'm - yes.

Brian Bedell: Okay, that's okay. That's all right. No, thanks, thanks so much. Yes.

Loren Starr: Okay.

Marty Flanagan: Well, thank you very much for joining us and I'm sure we'll be talking to people soon, so have a good rest of the day.

Coordinator: Thank you and that concludes today's conference call. Thank you all for joining. You may now disconnect.

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