INVESCO INC

Moderator: Marty Flanagan
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Forward looking statements include information concerning future results of our operations, expenses, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, AUM, geopolitical events and their potential impact on the company, acquisitions and divestitures, debt and our ability to obtain additional financing or make payments, regulatory developments, demand for and pricing of our products and other aspects of our business or general economic conditions.

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Coordinator: Welcome to Invesco's second quarter results conference call. All participants will be in a listen only mode until the question and answer session. At the time to ask a question press Star one. Today's conference is being recorded if you have any objections you may disconnect at this time.

Now I would like to turn call 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. Thank you for joining us and as was just mentioned Loren Starr Invesco CFO is on the call with me. And we'll be speaking to the presentation that's available on our website if you're so inclined to follow along.

And as we typically do, I'll give an overview of the business results for the second quarter. Loren will go into greater details on the financials and then importantly we'll open up to Q&A. So let me begin by highlighting the firms operating results for the quarter which you'll find on slides five of the deck.

Long term investments performance remained strong during the quarter, 68% to 73% of actively managed assets were ahead of peers on a three and five-years basis, respectively. Strong investment performance and our continued focus on meeting client needs will retain the impact of volatile markets during the quarter.

Strong client demand helped drive passive and institutional flows which lead to long term inflows of $4.5 billion dollars during the quarter. The adjusted operating margin was 38.6% in improvement over the prior quarter and during the quarter we returned $318 million dollars to shareholders through dividends and stock buy backs.

Assets under manage were $779 billion dollars at the end of the second quarter up from $771 billion dollars in the first quarter. Adjusted operating income was $330 million dollars in the quarter up considerably from $307 million dollars in the prior quarter.

Adjusted diluted earnings per share was 56 cents versus 49 cents in the prior quarter. Also noted during the quarter, we've raised our quarterly dividend to 28 cents per share. And we also repurchased $200 million dollars of stock during the quarter.

Before Loren goes into details in the company's financial, let me take a few minutes to talk about investment performance and flows during the quarter. Turning to Slide 7 now, our commitment to investment excellence and our work to build and maintain strong investment culture help us to deliver solid long term investor performance across the enterprise during the quarter.

Looking at the firm as a whole, 68% of assets were in the top half on a three=year basis and 73% were in the top half on a five-year basis. On page eight, you'll see that flows into passive capabilities were quite strong, while flows into active capabilities were flat with $4.5 billion dollars in total long term in flows.

Flows into passive capabilities were driven by strong demands for Invesco power share capability. This was the second best quarter in Invesco power shares history with roughly $3.8 billion dollars in net new assets. And the strong flows are helping us continue to gain ETF market share.

This reflects longevity and the breath of the power shares offering as well as our continued focus on meeting client needs. We are well positioned in the current market environment through our low volatility suite, commodity suite, fixed income and bank low ETF.

As you're probably aware, smart data strategies are growing at nearly twice the pace of the overall ETF market. Although this is prompting a wave of fund launches by competitors, our expertise in smart data and factor investing continue to differentiate us in the market and help us gain share.

Although long term flows are flat on the active side. We saw solid demand for alternatives including real estate and multi asset capabilities as well as fixed income.

Asia pacific demonstrated continued strength across retail and institutional with tremendous momentum continuing into the third quarter. A continued focus on delivering strong investment performance and bringing our broad range of capabilities supply contributes to the very positive results in the region.

Globally we also saw strong institutional flows during the quarter which reflects our continued focus on this channel and results in a series of positive institutional flows going back two years.

Client demand trends remain consistent with particularly strong interest in fixed income, multi assets, real estate and our institutional pipeline remains very strong. So at the June the one but not funded pipeline is up 15% on assets under management versus the prior quarter and the prior year.

Retail flows are flat this quarters as investors weighed their options during some of the late quarter volatility. That said we continue to see strength in fixed income, U.S. dividend strategies as well as retail alternative capabilities specifically GTR and real estate.

Now let me take a moment and highlight the business in EMEA. Our number one position U.K. retail, our strong cross board of retail business and our robust institutional pipeline across EMEA all position us extremely well ahead of a potential Brexit.

We've positioned our business over many years to serve clients who are located in a variety of countries across the region. Our people and fund ranges are organized to meet those local needs.

We are well diversified across channel with U.K. retail cross boarder and institutional each comprising roughly a third of our business in the region. We are also diversified across asset class with assets spread across equity bond and multi asset capabilities.

Lastly, with more than 1300 people in the region, we are well placed across the region with strong business in both the U.K. and on the continent. And our level diversification and our construct positions extremely well to deliver for our clients in EMEA.

Investors across Europe reacted thoughtfully to the market filled volatility that occurred at the time around the vote. Since then clients have taken advantage of the market movements by utilizing a full range of Invesco comprehensive fund range to achieve their long term investment objectives.

As an example we've seen strong movement in the capabilities such as our highly regarded global targeted returns fund which clients seeks to manage risks in their portfolios.

With regard to flows our business in EMEA has demonstrated good resiliency through the Brexit topic with flows improving when compared to the prior quarter pre the announcement of the results of U.K. referendum on June 23rd.

For the month of June up to the date that the Brexit vote we saw daily average outflows of approximately $78 million dollars. Since the referendum vote outflows have subsided to a daily average of $13 million dollars.

Although it's still early days we feel good about the momentum in our EMEA business and going forward were focus on staying close to our clients, managing our core business and executing our strategy while adopting to any changes that might be brought about by Brexit.

Before I hand the call over to Loren let me say a few words about the new DOL Fiduciary Rule. We're actively engaged with clients as they work to understand the impact of the DOL Rule on their business, you know, for the past couple years our discussion with clients have intensified moving from clarifications and interpretations to practical application.

We are in discussions with them regarding product implications, share best possibilities and how best to leverage Robo solutions such as Jemstep. Based on our early discussion we continue to believe our comprehensive range of capability positions us very well to help our clients as a DOL Rule is implemented.

Additionally, given Invesco's tremendous expertise and experience partner with clients to address regulatory topics. For example, our work and RDR in the U.K. we've view this as an opportunity to further deepen our relationships, provide new capabilities and enhance our business overall.

With that, I'll now turn it over to Loren to review the financials in more details.

Loren Starr: Thanks, Marty. Okay so quarter-over-quarter you saw our total AUM increase by 8.1 billion or 1%. This was driven by positive market returns of 10.7 billion.

We also saw long term net inflows of four and a half billion. I should note, of this four and a half billion, 0.9 billion came from IVR leverage which is classified as our institutional passive fixed income.

We also saw the acquisition of our India joint venture get completed and that brought in 2.4 billion. We saw inflows from money market of two billion these factors are all set by negative FX translation of 7.7 billion and we also saw outflows from the QQQ's of 3.8 billion.

Our average AUM for the second quarter was 784.5 billion that was up 4.9% versus Q1. Our net revenue yield came in at 43.7 basis points which is .1 basis points lower than the prior quarter. Although this was a small change there were a variety of factors which impacted our yield and Q2.

These included AUM mix and lower performance fees which reduced the yield by .7 basis points and .4 basis points respectively. These factors were all set by one more day in the period which increased the yield by .4 basis points.

In additional, currency mix and the increase in the other revenue each contributed .3 basis points to net revenue yield in the quarter. Next let's turn to the operating results, Page 13.

Before I begin, I'd like to point out that we've evaluated and taken onboard the SEC's new guidance on non-gap financial measures. Accordingly, you'll already noticed the changes that we made in the format of our second quarter earnings press release which now focuses primarily on the U.S. gap results.

In addition, the U.S. gap period-over-period variances are now set out in detail in our earnings release. Both our earnings release and this investment presentation contain detail reconciliations between our U.S. gap and non-gap.

And importantly there is no change to how we've calculated our non-gap measures relative to prior quarters. But since we've already provided the U.S. gap narrative in the earning press release.

My comments today consistent with past practice will focus exclusively on the variances related to our non-gap adjusted measures. So actually let's turn to the next page that's titled non-gap operating results.

You've seen that revenues increase by 38.5 million or 4.7% quarter over quarter to 856.6 million which included a positive FX rate impact of 6.4 million.

But then within that revenue number you'll see that adjusted investment management fees increased by 32.6 million or 3-1/2% to 962.9 million. This reflects higher average AUM for the quarter.

Foreign exchange increased adjusted investment management fees by 7.7 million. Our adjusted service and distribution revenues increased by 5.7 million or 2.9% reflecting higher average AUM for retail products.

Foreign exchange increased adjusted services and distribution revenue by .5 million. Our adjusted performance fees came in at 9.3 million in Q2 and were earned from a variety of investment capabilities including five and a half million from - in our bank loan products.

Foreign exchange increased these fees by .1 million. Our adjusted other revenues in the first quarter were 31.7 million and that was an increase of 7.7 million from the prior quarter and that was the result of increased transaction fees from real estate.

Foreign exchange increased these revenues by .4 million. Third party distributions service and advisory expense which we net against gross revenues increased 1.3 million or .4%. This movement was aligned with higher revenues derived from our retail AUM and FX increased these expenses by 2.3 million.

Moving further on down this slide you'll see that adjusted operating expenses at 526.2 million increased by 15.2 million or 3% relative to Q1. Foreign exchange increased adjusted operating expenses by 4.1 million during the quarter.

Our adjusted employee compensation came in at 347.9 million an increase of 7.6 million or 2.2%. This increase was driven by higher sales commissions and variable compensation cost, a full quarter of higher based salaries effective from March 1st, an increase in deferred compensation for the awards granted in the first quarter.

This was offset by a decline in the seasonal payroll taxes. FX increased our adjusted compensation by 2.8 million in the quarter. Adjusted marketing expenses increased by 3.6 million or 14.2% to 29 million reflecting the seasonal increase inclined events. FX increase adjusted marketing expense by .3 million in the quarter.

Adjusted property office and technology expenses were 82.8 million in the quarter an increase of 1.7 million versus Q1 driven by higher technology cost. FX increased these expenses by half a million.

Adjusted G&A expense at 66.5 million increased 2.3 million or 3.6% and this was driven by professional services expenses when compared to the prior quarter and FX increased G&A by .5 million.

Going on further down the page, you'll see that adjusted non-operating income increased 15 million compared to Q1 and this difference was largely driven by higher equity earnings from unconsolidated affiliates in the second quarter but also the 7.1 million FX loss recognized in the prior quarter.

The firm's effective tax rate on pretax adjusted net income in Q2 was consistent with the prior quarter at 26.5% which brings us to our adjusted EPS of 56 cent and adjusted net operating margin of 38.6%.

And so finally before I turn things over to Marty, I just want to provide a quick update on our capital management activities in the quarter.

As you'll recall from our recent announcement in addition to our ongoing share repurchase activity during the quarter we entered into a hundred and fifty million dollar accelerated share repurchase program on June 30th.

And as a result of this our end of period share count declined by approximately 1.7% quarter over quarter to 413.1 million shares. And with that, turn it back to Marty.

Marty Flanagan: Thank you Loren, let me just make a couple summary comments before we get to Q&A. We believe our ability to produce strong long term net flows this quarter reflects the fundamental strength of our firm.

Our expertise across a broad range of fundamental and factor base capabilities and our focus on helping retail and institutional clients achieve their investment objectives.

We feel good about the commencement of our business. We closed strong across the quarter as we help clients manage through the volatility we saw in June.

Strong flows have continued into July with more than $8 billion dollars of long term net inflows across variety of capabilities and regions. This $8 billion dollars includes $6.5 billion dollars that is related to the 529 mandate which was recently funded.

As noted during our investor day and earlier this year, we were very well positioned to help clients be successful which in turn will enhance our market relevance strive growth and strengthen shareholder value over the long term.

And with that Loren and I would like to take any question you all have.

Coordinator: At this time if you'd like to ask an audio question please press star one. You will be announced prior to asking your question. Please pick up your hand set when asking your question.

To withdraw your request please press star two. One moment for the first question. The first question comes from Craig Siegenthaler of Credit Suisse. Line is now open.

Craig Siegenthaler: Thanks good morning everyone.

Marty Flanagan: Good morning Craig.

Craig Siegenthaler: So it nice to see the strong rebound in your fixed income flows. Can you let us know which products were the largest contributor to the bond flows and also can you help us think about the sustainability of the second quarter results into the second half?

Marty Flanagan: Maybe I'll make a comment and Loren can talk more specifically. You know, as I just mentioned we just continue to see really strong, you know, really strong flows.

And, you know, I think importantly, you know, you're seeing as I said long term flows away from the 529 plan you saw more than $1.5 billion dollars already.

You know, the pipeline continues to be very, very strong. And the other element that we're seeing, again the, you know, the power share data capabilities, you know, the breath and longevity of the range.

It's really kicking in and so this - we are right now it looks like it's going to continue quite strongly, you know, through the border.

Loren Starr: I'll just say generally the growth in our fixed income is being driven by our U.S. investment grade capability which, you know, is pretty much I think also in our institutional pipeline showing up as a large contributor.

I just want to remind people that in the flows this quarter there was about .9 billion related to IVR leverage which shows up in the fix income column. But we also are seeing a lot of interest even in power shares, fixed income, emerging markets, sovereign debt, Chinese fixed income so are a variety of other fixed income capabilities factor into that.

And each one is about roughly half a billion in size. I mean they're significant in their own right.

Craig Siegenthaler: And then on Brexit, I think the client reaction is significantly more muted than anyone was thinking about 30 days ago. But how are clients reacting in both the U.K. and continental Europe today following the vote?

And have you seen a lot of that initial reactive activity dying down?

Marty Flanagan: Yes. And, you know, like us, like by others, you know, very engaged with clients. I mean what was really interesting was you saw in our numbers, you know, June, you know, that was probably the peak of uncertainty.

You know, you saw it in the flows being most negative here to date. Interestingly, a number of institutional clients were waiting until after the vote and what it really did was start to, in their mind it created clarity and the institutional mandate started a fund, you know, in quite, you know, in the 30 days past that.

And we're also seeing retail investors, you know making decisions on, you know, where to put their assets. And again, you know, we point out GTR has been a real beneficiary of that.

So people are looking to, you know, just relook at their asset allocation capabilities. The good news is the breadth of our capabilities put us in a position that, you know, we can be helpful to them in any which way.

So it is really days but everything we see, I frankly think it's opening opportunity for a firm like us, you know, we are positioned very strongly, you know, structurally for a Brexit. That means we're not distracted by trying - having revamp product lines or anything along that way.

And we can just really, really be focused on clients. And again was a total over reaction, you know, in light of if you look at Invesco share price and again I take the results are making that point, you know, quite clear.

Loren Starr: And the other thing kind of worth mentioning is I mean our teams have been really good in terms of being innovative and creating new product in advance of client demand and so we would expect to see other, I think, very interesting products hit the U.K. market this year towards the beginning of next year.

I think there is an income oriented sort of DTR product that is being looked at as well as some enhanced index capabilities and factor capabilities too. So I think all those are going to really help us even if we see continued sort of level of uncertainty around Brexit.

Craig Siegenthaler: Thanks for taking my questions.

Marty Flanagan: Thank you.

Coordinator: Thank you. The next question is from Ken Worthington of JPMorgan. Line is now open.

Ken Worthington: Hi, good morning. First in terms of, maybe a couple questions to excess cash. What was the balance at the end of the quarter? And I've, you know, recalled that consolidation was a conceptual focus when that pool was being built.

But I think product development and capital return have been higher priorities more recently. So how do you see that access cash level evolving and is a billion dollars the number you still want to migrate towards over time.

Loren Starr: Again, total cash at the end of the quarter is 1.45 billion and so the regulatory requirement element of that was about 660 million leaving us roughly 800 million-ish of sort of capital.

I mean, we're certainly within, you know, sort of tolerances around that billion. And so again I won't get fixated on that billion being sort of like this bright line that we have to sort of hit.

And clearly we've been very opportunistic and we'll continue to be very opportunistic with respect to returning capital to the extent that we see our stock being, you know, valued in a way that we think is not commensurate with our true values.

So I would say look to our past sort of practices to evaluate how we're going to operate going forward. It will be very consistent.

Ken Worthington: Okay great. Thank you and two little questions maybe one on the Rhode Island plan how's the transitioning gone? And how much money actually came over when it was first announced? I know it was about seven billion was that about what eventually moved over?

Marty Flanagan: So what came over was 6.5 billion and so those are combinations of, you know, market impact and, you know, with the transition it is now completed the transitions in place. And everybody is very, very focused on, you know, expanding, you know, the capabilities through the retail channel.

You know, we think it's going to - it's a great plan and we think that we can help make it even more successful. So we're executing, you know, as we speak.

Ken Worthington: All right. Excellent. Then just lastly active equity net outflows were pretty large this quarter. Obviously it was a big risk off quarter. There was Brexit and other things. Maybe any observations you have on sort of the nature, either the lack of money coming in or the more money coming out that kind of drove that big net outflow this quarter?

Marty Flanagan: Ken, the one thing I would just there's about 2.8 related to international growth. That was sort of the thing that we - I think we - people understand that there was one client who, you know, it turned out it was a parting of ways.

But that international growth capability's performing extremely well. It's been a close capability and its one that I think is going to get filled up pretty quickly through the course of this year.

So I would do that as a little bit one offish with respect to kind of the equity - the active equity outflow. The other elements are sort of somewhat consistent with past, what you've seen in the past.

So I don't think there's anything that's sort of accelerating outflow, relative to that category other than that one element.

Ken Worthington: Great, thank you very much.

Coordinator: Thank you next question is from Alex Blostein from - of Goldman Sachs. Line is now opened.

Alex Blostein: Hey guys good morning. Thanks. A couple of quick questions. I guess, first around the margins. Obviously we saw, you know, the adjusted margin improve sequentially given better revenue environment, but still down pretty meaningfully every year.

So if we're seeing more range bound market which obviously feels like a big if right now, but under that scenario how should we think about the trajectory of the margin for the rest of the year?

And then is there anything else you guys are targeting on the expense front to help drive margins higher in today's environment?

Loren Starr: Yes, Alex, I'll take that. So I think our expectation even with markets being flat which is the way we normally forecast anyway. And even with the pounds being down, you know, where it is for the last half of the year we would expect margins to be on an upward trajectory.

As we continue to grow organically and continue to work hard on the optimization work around cost. The firm has done I think a really great job of creating capacity for investment without having to, you know, add to cost, really through using as we talked about in the past, you know, greater use of our own shared service centers, being able to leverage technology more effectively, streamlining, simplifying, a lot of our processes.

So that work is going on as, you know, and we're on track with respect to the optimization which we've discussed provide some expense relief of roughly 30 to 45 million by the end of the year.

And to that run rate which is actually now beginning to flow through our numbers is something that has been very helpful. And just remind people, you know, we had those acquisitions that came onboard Jemstep and Religare.

And those expenses are being offset through this optimization whereas the revenues are showing up in the revenue line items. So we do think that, that's going to help further drive margin expansion.

Our increments on margin, you know, continues to be at very high level and with that, you know sort of 55 to 60% incremental margin, and our fee rate because of the mix that's coming in particularly around institutional being at our higher fee rate than what's going out.

We'll continue to benefit from that. So I think all those factors to us that we can continue to see margins increase and, you know, get up to the levels that we've seen in the past without too much stretching. Clearly that's a factor of the market of course and what is in the...

Alex Blostein: Sure.

Marty Flanagan: I might add a point though. I would say from my perspective where were really going to see the margin expansion is really on the organic growth. You know, we continue to be very discipline on expenses as we always have been as Loren just described.

I tell you, you know, for the 11 years I've been here I don't know that I know a time when I've seen so many of our initiatives sitting in front of us to have such an impact. You know, you're starting to see and institutional factor base smart data solutions.

And so our debate internally is, you know, what is the wise move of, you know, investing in these to get the returns versus being very cautious. And again it's something we do all the time but it's really that, you know, market relevance expansion of the business that sits right in front of us.

And it's a very exciting time quite frankly for us.

Loren Starr: I mean, just generally because I know people are quite curious. I mean in terms of guidance around expenses I mean we would see expenses sort of being roughly flat from the current level through the course of the year - based on sort of flat markets and FX.

So that provides a nice back drop as we continue to grow the revenue line item.

Alex Blostein: Got it, that's very helpful thanks guys.

Marty Flanagan: Yes.

Alex Blostein: Second question on the DOL. I understand it's still pretty early but it seems like there is a lot moving pieces already happening on the distribution side of things and different kind messages from various distribution partners.

What do you guys hear from some of the larger distributors out there, whether it’s warehouses or some of the more regional platforms and specifically as it relates to essentially payment per shelf space and how those conversations are evolving?

Marty Flanagan: Yes, so I would say, from my perspective, which is probably naïve I thought there was going to likely be a uniform you know response, but in reality what’s happened is each of those distributors are different.

Their businesses are positioned differently and so they’re all variations on the theme, and that makes sense quite frankly. And what also, it’s – there are ways to continue to be supportive of the brokerage business but knowing that the movement is towards their advisory businesses.

And so you know they’re putting a DOL on the place you know along those lines and again that you know plays well to an organization such as ours where we have such a range of you know high conviction fundamental capabilities and the factor-based investing.

And so it would be too early for us to be very specific on what the outcomes are but, as I said, it looks like you could see some changes to share classes. You could see some different changes in use of, you know, focus on asset classes and the like.

So that's what we know right now. But again, I would be getting ahead of our clients if I said…

Loren Starr: Yes. And the other thing that we also changed is maybe as a team is the use of fewer providers and so it's the ones who are probably you know- have the broadest set of capabilities, good performance, who will probably fare better to the extent that there's, you know, assets in motion as a result of DOL. We think we're probably you know as well positioned as one can be in that environment.

Alex Blostein: Yes, understood. Thanks so much.

Marty Flanagan: Thank you.

Coordinator: Thank you. Next question is from Brennan Hawken of UBS. The line is now open.

Brennan Hawken: Thanks, good morning. Quick question on the fee rate here. And, you know, we saw the management's fee rate decline quarter over quarter. I know that you guys often speak to the revenue yield, but just hoping if it's possible to ask a question, cutting out some of the other noise and just speaking specifically to the investment management fees divided by AUM, what drove that?

Was it mix and if so, should we think about that as being sustainable, and I think last quarter even given some indications saying that you expect the fee rate to improve throughout the year, and is that still your expectation?

Loren Starr: Yes, so obviously the management fee rate does have – is impacted by FX and then – there are some factors there as well as overall you know equity component verses non-equity. And so when the market declines you know you'll see some of that change.

There is another element around our gross management fee rate, which you know people should be aware of. It's the RDR impact, right, as we go to continue to bleed out the old fee rate and replace it with the net fee rate that has an impact on the gross management field.

And so I'd say that is sort of a permanent and sustained as we go forward. But it doesn't have any impact on the net revenue yield because commensurately our – well the pain away goes away too. So that's why it is – you almost have to look at that net number to really understand the dynamic of that shifting mix

But there – you know in terms of the trends around what's driving our management fee, we still feel that you know it's quite stable. Maybe, I mean, to the extent that Europe is a little bit slower than it's been in the past, it's one, you know, engine that was driving that fee rate, which is probably not something you know you'd look to be driving forward.

But we are seeing, you know, continued engines around Asia alternatives, which is helping us continue to see that fee rate increase as well as the institutional mix generally being better.

So I'd say the net revenue yield ex-performance fees, you know, quarter – you know next quarter and going forward is kind of flat-ish to this quarter and so that would be you know – so even with that fax, so you know with that fax down obviously that has a negative impact, but because the mix is positive, it's probably off setting it.

So hopefully that's helpful in terms of the modeling on the fee rate. A lot of dynamics underneath clearly have to have some impact, but generally we expect to see that trend in terms of improving fee rates continue, but maybe at a somewhat slower pace.

Brennan Hawken: Okay got it, thank you. That's helpful. And then, I know that it's a –it's probably pretty hard to be, maybe hard might even be understating it, but to be anything close to precise.

But, you know, given how important the UK is to you all, is there a way that you could help us understand how you're thinking about the different things that might happen to your expense base and to your business based upon the handful of likely outcomes that have been thrown out there from a post Article 50 world?

Marty Flanagan: Sure, so again take this reality as no one knows exactly, so let's do the more likely than not. The more likely than not is Brexit is going to happen and that you're going to end up with trade agreements between the continent and the UK that are you know mutually beneficial.

It’s going to take time to get there. That said, let’s get down to our business. You know our business, as I was trying to highlight, we are already structured for a post Brexit environment. We’re a very strong UK business, very strong continental business and we don’t see any changes there.

And for all a range of reasons, and the impact on the business is going to be you know largely driven by the economic environment and, yes, there is a scenario where it’s less negative than everything that you heard. I mean, with the pound depreciating, that’s actually the exporters in you know the UK are actually doing very well.

So I think, you know, the reality is this can be very hard at a political level, but I would say our business is a business that is structured for the change and there is a need for, you know, asset management services and we just really don’t – the – this industry being hurt to the degree that some other businesses might be where they’re literally going to have to move people to different part of – out of the UK, out of the continent and you know vice versa.

So it is just not part of what’s going to happen to us as asset managers. Now there are some asset management firms that are not structured like we are, and they’re going to have to do some work to get positioned to be, you know, continually successful.

But again, we’re trying very hard to you know point out you know looking at the elements we talked about earlier – it’s a huge part of the world. It’s a strong part of the world. They’re clearly going through some changes, but I think it’s a total mistake to think that you know the reach will not continue to be important and that it will not continue to be an important part of our business.

Brennan Hawken: Okay, thanks for that color.

Coordinator: Thank you. Next question is from Glenn Schorr of Evercore. Line is now open.

Glenn Schorr: Hi, thanks. Just a quick follow-up question on your comments on July. Besides the 529 funding, the bout billion and a half of inflows – does it have a comparable mix to what we show on the quarter, alternatives and fixed income in inequities on the out?

Loren Starr: So one the 529 – the six and a half about 2.1 is equity. Three and a half is fixed. There's 0.4 of money market and 0.5 of Alts. So that's on the 529 component of the flows. I'm sorry, did that answer your question?

Glenn Schorr: No, I appreciate that though. That's a good follow-up. The billion and a half that wasn't a part of the 529, I'm sure it's a different...

Loren Starr: I'm sorry I thought you were – so the billion and a half, so that was just related to market and out flows and so I don't think – I don't know how it – however it came out of….

Marty Flanagan: No, no, the question of the $8 million, what's the billion five? What were the flows for the billion five?

Glenn Schorr: Does it look like their second quarter with alternatives and fixed income inflowing with equities on out-flow?

Loren Starr: All right, so of the eight we have – I don't know if we have all the detail right now. I think it's similar – similar is what my experts are telling me. Okay, very good.

Glenn Schorr: Okay. And then, just curious, you eluded to IB run in Europe. I think performance is good. It feels to me that this is a really good backdrop for that product. Has it gone into positive flows and do you think we're turning the corner and get positive flows just globally?

Loren Starr: The IB run has gone positive in the second quarter, but that was - it was largely institutionally driven. Retail has significantly improved, so it's just very modestly in an outflow. So I'd say both on the retailing and institutional side, very good sort of indication of this product. Sort of the better position now than we than it has in the past, very strong performance.

Glenn Schorr: Right and just, and one more follow-up, Loren, if I could. The – you – in the prepared remarks you mentioned a bunch of things that are, I wouldn't call turning the corner, but just things that are just doing well in general outside of maybe active equity, or parts of active equity.

So is the 3 to 5% organic growth rate still cool? Can it happen without U.S. equities? I mean it looks like it can, given everything else that's working. I just want to get that straight.

Loren Starr: I mean we think it's – I mean that 3 to 5%, I would say, is what we think we can do over time. It's been sort of more of a benchmark. I think for this year you know we would like to see us you know at least enter that range.

But given obviously what's going on in Europe, it's been a little bit of an unusual situation. So I don't want to sort of promise was because that's always – that's probably even harder than the promising performance fees.

But, you know, we – everything we say in terms of the institutional pipeline growing the fact that we have – certain parts are business – particularly Asia is absolutely strong both on the retail and on the institutional side. We see power shares hitting new records or close to records on flows.

You know I think it certainly reasonable for us to think that we consider get close to that 3% at a minimum.

Glenn Schorr: Thank you.

Coordinator: Thank you. Next question is from Chris Shutler of William Blair.

Andrew Nicholas: Hi, this is actually Andrew Nicholas filling in for Chris. My first question is on GTR. Obviously you've had exceptional performance there across all time periods, particularly on a year-to-day basis and with respect to some of the strategies, largest peers. I was just curious if you could provide some color on how that pipeline is looking and that asset class as a whole.

Loren Starr: So I think the GTR pipeline is certainly featuring in a lot of the growth in a pipeline generally. You know, that's the one that's you know probably up more than 20% quarter-over-quarter. So it's just one that, you know, continues to be seen.

I think it also with respect to some of the continued products that it's sort of distancing itself even further, relative to other products. So, you know, it had the ability to grow far beyond its current level, we would expect.

And certainly is looked at I think and reviewed in the U.S. by consultants and then taken on as well. So that's the important component of getting that completed for us to really fulfill, ultimately the – I think what could be the potential as well as on the retail side in the U.S. where I think it's about half a billion or maybe a little less, only 300 million or something like that…

But it hasn't really been launched fully and it hasn't hit its two-year track record yet, and so once it does that I think it's really going to have an opportunity to do a whole lot more than what we've seen in the U.S.

Andrew Nicholas: Great, thank you. That's helpful color. And then on the DOL rule. I think general expectations are that the rule will drive flows to products that either have lower fees, very strong relative performance and/or a combination of both. I'm just wondering if you have any thoughts on which of those two factors will play a bigger role in driving flows in a post-DOL world and how you think your product suite is positioned to compete on each front.

Marty Flanagan: So yes. Our view is this, is that it is by less simple than your perspective. You know what are financial advisors trying to do. They're trying to generate you know excess returns, risk adjusted returns over time and you cannot get there with cap weighted indexes.

And so it really is a combination of, you know, high positioned, fundamental, good-performing active as you're describing in combination with passive and where we think the combination is, is in smart data.

And you know when you combine those together you get an overall, you know – the total cost is less and so that's why this element of being strong in solutions really matters for an organization.

So, you know, we just look at the position of the firm and having the whole range of capabilities and the ability to help with solutions and that's at a retail level. We take our position very well. I think the firms that are disadvantaged are those that are very, very narrow in scope and clearly if you're a high class, narrow in scope, moderately performing organization, you're in trouble.

Andrew Nicholas: Thanks for taking my questions.

Coordinator: Thank you. Next question is from Chris Harris of Wells Fargo. Line is now open.

Chris Harris: Thanks. Hey, guys. Hey, so a few quick questions on your UK pound hedge. You know obviously this position is significantly in the money. Regarding the accounting of that, is that a mark to market methodology or are we going to see gains as you start exercising that position?

And then Part 2 of the question is, given where the pound is today, how big of a step down in income can we expect when you have to roll that hedge?

Loren Starr: So in terms of the U.S. GAAP it's mark-to-market and then that's – you're going to see that flowing through the P&L and you are seeing it flowing through the U.S. GAAP P&L currently.

In terms of our non-GAAP disclosure, what we've done is we've backed out that mark-to-market and we are only bringing in what has been actually realized. And so this quarter that was a very small amount of money in terms of the impact.

For the next couple of quarters, just based on the current rate, that's probably close to a penny EPS for each of the quarters going forward. So in terms of you know what we would do if we were going to roll it, because we have it out through the Q-1, you know, I think we're going to be patient and think about whether we need to or want to.

But obviously, again I have to look at the cost first to – so a lock in right now at current rates, or a discount to current rates because we've been using out of the money puts – you know I'm not sure if anybody would be too excited about a hedge you know, at 1.25 or something like that.

So it is something that we're going to continue to look at and evaluate as to whether we continue to roll this thing. But certainly we're going to you know hold on to what we've got right now and continue to benefit at least from a cash flow and EPS perspective from the protections provided.

Chris Harris: Great, okay. Thanks for clarifying that. And then a quick follow-up on comp. It sounds like there's a few discreet items that impacted the number this quarter. How should we be thinking about comp in the back half of the year? And I apologize if you addressed this in the comments earlier.

Loren Starr: No, I think it's going to be roughly flat to current levels, so I think that's the way you can think about it, sort of flat you know. There's a little fluctuation here and there, but generally flat.

Chris Harris: Thank you.

Coordinator: Thank you. Next question is from Dan Fannon of Jefferies. Line is now open.

Dan Fannon: Thanks, good morning. I appreciate all the color from Brexit and the kind of commentary around flows thus far. I guess, is there any kind of negatives fall out that you're seeing institutionally or certain reasons whether you actually are seeing maybe some changes more to the negative that might be longer term or has it generally been kind of consistent across the board?

Marty Flanagan: Yes, I mean, it really has been consistent. And, as I said, in the – and let me make sure, this is in response to sort of the Brexit impact. Is that right?

Dan Fannon: Correct, yes.

Marty Flanagan: I mean, no, I mean it really did unleash you know, in particular in the UK and on the continent you know people decided to move forward with the – their intention to fund different institutional capabilities.

And then if you, as Loren said, if you just go to Asia-PAC right now, it's just very strong for us. And so there really has not been any you know impact that you could tie to you know to that event or other uncertainty in the world.

In fact, for us, much differently than that, it just – you know the pipeline as we keep saying, it just keeps getting stronger and stronger and… So, no we've not seen…

Loren Starr: The only thing that I'd say is probably around the DOL there's probably more question marks just generally.

Marty Flanagan: Yes.

Loren Starr: And I think it was so the comment that was made are people – are certain clients going to sort of gravitate to using exclusively low fee product as opposed to active you know product and so you know whether insurance companies or others may choose to do something like that in the future, unclear.

But if it happens you know it happens obviously to industry wide type of impact. As we said we're well positioned to operate in that world as we do have low fee tax deposits.

Marty Flanagan: Yes, but I would add though is that you know what is happening is the financial advisors want to generate excess returns – adjusted excess returns that you just can't get in cap weighted indexes and so, you know Active is here to stay. And if you're good – you know a good investor, you're going to do well.

Dan Fannon: Okay, that's helpful, and I guess – wondering if there has been any benefits from the Rhode Island win that you can talk about as that's been helping your pipeline, or if that's kind of raised the profile for your firm within that channel, and if there's been any benefits.

Marty Flanagan: There's no question it's raised the profile and, you know, it is helping very much and, as I said, we're actually, it's a two different levels that, you know, the solutions element - it's starting to kick in.

Frankly, you would imagine, but it – at the retail level and also in Asia-PAC there is actually, mainland China in particular, you know just really growing opportunity. So again, we'd say it's really days for us in that area, but again, we feel a very strong capability in – there's an awful lot of activity around it.

Dan Fannon: Great, thank you.

Coordinator: Thank you. Next question is from Robert Lee of KBW. Line is now open.

Robert Lee: Thanks. Good morning, guys. I guess my first question is just maybe any update you may have or thoughts you have around the – obviously the SEC's proposed different liquidity rules on 40 act products and certainly that impact, ETFs.

And I know you've talked about this in the past, Marty, but current thoughts as maybe you've been part of any interaction with the SEC on kind of what's likely. And given the explosive growth in smart data, ETF products and other products, do you think it you know there's any risk that it kind of inhibits some of the – and then liquid Alts to some of the strategies that you're running out there?

Marty Flanagan: If I got – so, how is smart data inhibiting some of the strategies we're running to this – can you help me?

Robert Lee: Well, I meant just that if you have different liquidity or derivative requirements and different strategies, as proposed, is that going to inhibit how you run things?

Marty Flanagan: Got you. Yes, so, look as we said in the past, you know, and I think we all just saw it, so anticipate something coming out of the liquidity rule. You know, the involvement you know that the industry has had is that we think there's going to be a common-sensical outcome, which would be a good thing.

And, you know if that is the case, you know I – it's going to be quite frankly an awful lot of work, but it's something that's very manageable for the industry. The derivatives rule, again, it's, you know – it is, I would say the first notion of it was – it would've gotten in the way of, you know, a number of products for the industry and in particular, for us at a retail level, GTR probably would've been very, very challenged in the proposed rules.

You know we're sensing that we're going to end up with a better outcome, which will, you know, not get in the way of you know a number of our products. I don't want to be so definitive yet because it's not there. But I'd say very good you know progress and being very thoughtful on really trying to help the SEC get to what they need and so the dialogue has been constructive.

And so again I – we'll see what ultimately comes out, but at the moment I'd say it's trending to a common-sensical good, thoughtful outcomes on both levels.

Robert Lee: And - great, and maybe sticking with the regulatory theme, I mean, the business that we never really talk about is your money fund business. But come October you've got changes taking effect, the – you have predominantly an institution business there.

So can you maybe – any update on how you think you know come October any sense of how clients are going to you know behave? I mean, obviously, you've seen prime to Govy-kind of movement anyway within the industry. But any concerns that that's going to, I don't know, shrink that business and then, you know, in that context any rethinking of its strategic positioning within Invesco?

Marty Flanagan: Yes, good question. So, you know you've already said the number of money fund providers have over the last couple of years. You're probably going to see it again. And it's going to be you know a smaller number of firms that are you know committed to and successful in that area.

So we're actively committed to it. We've done a bunch of work on the product line-up and you're going to see us, I think, you know, you're going to see the – a very strong part of our business in growing and that, I think just in

July there's been $4 billion of you know money fund in-flows already. So, yes we're anticipating that it's going to be a stronger part of our business going forward.

Robert Lee: Great. Thanks for taking my questions.

Coordinator: Thank you. Next question is from Brian Bedell of Deutsche Bank. Line is now open.

Brian Bedell: Great, thanks very much. Hey, Marty, just to start off with a question on the smart data franchise, obviously you've have a good you know relatively good first mover advantage in that. But as you do see you know more competition coming in to that market given the attractiveness of the product, what kind of steps are you taking to leverage that, you know, that first mover advantage?

And talk about you know to what extent you see that improving within DOL and can you leverage the - I guess traction and leveraging the JenStep platform with that as well.

Marty Flanagan: Good question. So we look at smart data as a subset of, you know, factor investing and again I think very importantly I'm repeating myself, but you know we're one of very few firms that have a you know factor-based capability that's been in business 35 years and the fundamental investing that we have.

And so that combination of those around the world for us that put us in a unique position. So factor investing outside of the United States is much more an institutional business and it's growing in demand.

Will it be on the continent and Loren mentioned that we're looking to doing some things in the UK at the retail level. Actually, there and Asia-PAC is actually you know growing in demand.

In the United States, it tends to be a retail focus and expressed as smart data through ETFs. And where we look at our strategic positioning, and I think very importantly then differently than a mutual fund where you can have 200 of the same XYZ funds you know competing it's very hard to see beyond really three ETFs of sort of the same color would be successful just because of the nature of the ETF with market makers and the like.

So, first mover advantage matters a lot. The other thing that really matters, too, is the longevity of, so think length of track record. And if you look at the power sharers line-up of smart data, you know, any number of funds are ten years old.

And, you know, so when people are looking to invest or looking at the length of capability also look at the liquidity within it. And so those are very different dynamics that you would have with a mutual fund, so you know the good news is people are coming in so it's sort of – it confirms the attractiveness of smart data.

That said, it's going to – it's a very, very competitive space to enter into to say nothing of how do you work in conjunction with, you know, active management within your organization. So, we think we're in a pretty good position.

Loren Starr: I think, again, like any – like you'd imagine, I mean if you continue to launch very innovative and products in advance of competitors, so that's also part of our strategy is making sure that we you know have that first mover advantage.

And just given the depth of our team and our connection to our clients, I think we're achieving that quite well.

Bryan Bedell: And is JenStep part of this process. Is that maybe just an outlook for the new term or intermediate term horizon for the traction there?

Marty Flanagan: Good question. So yes, still early days with JenStep. It's proving to be you know a very constructive addition to the firm. You know, it is an application so you know the, if you want to call it the sales cycle is longer. There

There is a tremendous amount of interest in it and, you know, I think you said it right. It's sort you know of look into you know mid next year, that type of thing before you start to see an impact.

But again, it's very much positioned to be helpful to our clients, not competing with our clients. You know, so it is direct to consumer and it is, as I said earlier, it is – we're having deeper conversations with clients because of the capability that we have to help enable them deal with the range of things that they're dealing with coming through DOL and the like.

Bryan Bedell: Great. And then, just lastly Marty, give me just your perspective on this rising speculation of consolidation and the asset management industry broadly if active management continues to underperform and products need to be rationalized.

Maybe just review on whether you think that that will happen and then you know to what extent you think you know you may participate either in – either in acquisitions or even combining with other firms.

Marty Flanagan: Yes, so I've not been in the industry for quite a long time. And it's been declared to consolidate for you know every five years it seems it really hasn't for various reasons that we all know.

I would be in a camp consistent with others that it does seem very different this time and I you know one of it – you could look at it as a maturing industry. But you talk about active management and my view is you go in cycles and you know we've had this beta run from '09 on with government intervention, which, you know, aligned the stars for cap weighted indexes – that's not sustainable.

So I think that's been overdone. That said, it's here to stay. I think you're going to see you know greater growth of factor investing as we said. But active management you'll actually – it will thrive.

I think those individuals that are calling it you know dead asset class are making a mistake. So that said, I think the other element that's really driving the notion of consolidation. It's the regulatory landscape, it is so costly to keep up with all of these, to say nothing of Cyberspace.

So it's rising cost in a competitive environment and I think those are the dynamics that are going to you know also be you know changing. You know be forces to drive consolidation. And luckily we're fortunate enough to be positioned extremely well. As we've just been talking about on this call. I'd say the business here has never been stronger.

It's seemingly getting you know all engines are kicking in quite nicely and you know matched against the trends that are in place and I think that people that try to catch up with the trends – it's going to be very hard.

You need to have started you know three years ago, five years ago, seven years ago, honestly. That said, we don't see a lot of gaps, but we will continue to pay attention to the marketplace, as we have in that past, selectively as things can – if we can become a stronger organization by you know teaming up with another organization, you know we'll continue to do that. That's said, that's not our focus right now.

Bryan Bedell: Great. That's great color. Thank you so much.

Marty Flanagan: Thank you.

Coordinator: Thank you. Next question is from Michael Carrier of Bank of America. Line is now open.

Michael Carrier: All right, thanks guys. Hey, Loren, just two quick follow-ups. One is, just on the management fee you mentioned on the net basis, you know, given RDR, that that that's kind of shifting. I just wanted to get a sense on timing, meaning how much of that's played out verses you know how long we can expect to see that.

And then I don't think you mentioned it, maybe just because there's no real clarity right now, but sometimes you give a little color on the performance fees in terms of the outlook. So just, you know, any color there.

Loren Starr: So I think the RDR impact is going to be largely completed by the end of this year. That would be my guess. So you can expect, you know, that to be completely – sort of played out.

In terms of performance fees, you're right, I don't have you know full clarity. I think I would still say sort of roughly five million a quarter and for the other revenues, which is another element I think sort of again hanging roughly around $30 million a quarter is the right way to think about it.

Michael Carrier: Okay, thanks a lot.

Loren Starr: Sure.

Coordinator: Thank you. Next question is from Michael Cypress of Morgan Stanley. Line is now open.

Michael Cypress: All right. Thank you, good morning. I just curious how you're thinking about the next phase in evolution of ETFs as a wrapper, particularly active ETS, both on the non-transparent side, which I think so far only next year's has approval from the SEC. But also you know if more can be done on the transparent active ETF side as well.

Marty Flanagan: So we're one of the first firms to have, you know, exemptive relief or you know active ETFs and we launched them, I'm going to say, in 2007, two of them.

And I think what's in them is basically our C capital. So there's a lot of conversation about active ETFs. You know they just really have not taken off. So we have the capability to do it. We keep analyzing it. We've just not seen that as you know a big you know a lot of demand for it.

Now if you read the papers you would think that's all that anybody cares about, so that's been our experience, so maybe we just have it wrong but that's our experience.

With regards to different wrappers, you know I – the – if you look at net shares, it's interesting, but it can be 100% achieved by a share class and a mutual fund. You know, if you use an R-6 share class you get the exact outcome via, without the challenge of you know a different vehicle trying to get launched within a channel.

And although it's creative, I think that's been the head wind for it. So it could ultimately, you know, be successful, but again I think there's an easier way to get there.

And you really need to do it in conjunction with your clients, i.e., think distribution partners. So, you know things will continue to evolve. I personally think that the area that will continue to grow the most for IB, most additive is smart data because it is – you get better outcomes with smart data than you do with you know cap-weighted indexes.

So I think that's really going to be where the gravitational pull is when you look at these ranges of capabilities that you just highlighted. So that's our view. We could be wrong, but that's what we're thinking right now.

Michael Cypress: Okay thanks, and then just coming back to the flow side, active flow was a bit soft in the quarter. I know you mentioned you know meaningful redemption there, but if we just look at the gross sales, that's been just a bit weak.

So, just curious how you're thinking about re-accelerating the pace of gross sales on the active side, what sort of strategies or actions can you take, whether it's with distribution partners or with investments in sales teams and so forth.

Marty Flanagan: Yes, look, the reality is you know we're still in an uncertain market. If you just play back the year, look at January, February, what happened, you look around at what's happened with Brexit and the knock on, that tends to be the big driver.

If you look within our flows we've had tremendous flows in U.S. Dividend stocks, which is consistent with this sort of, you know, I want yield, I want some growth, but I'm somewhat concerned about the environment.

If you look at the value capabilities, I feel really good about the teams and how their managing, you know, what tends to be in those are you know energy and financials, which you know had you know been hurt again in the volatility.

So my basic view is that you continue to ensure that you have high quality teams that can deliver over a market cycle and I think that's really the important thing.

You can't look quarter-to-quarter or year-by-year calendars don't matter. Market cycles matter, and you're going to get excess returns with you know strong active management, and I think when the psychological environment moves, I think that's where you're really going to see the gross – the net flow has actually picked up in those active capabilities.

So again, I think you have to segment them to the different styles. I think that's really what's driving it right now.

Michael Cypress: Okay, thank you.

Coordinator: Thank you, and that's the last question in queue.

Marty Flanagan: Well, thank you very much. On behalf of Loren and myself, I appreciate the engagement and the questions and we'll be speaking with you next quarter. Thank you.

Coordinator: And that concludes today's conference. Thank you for your participation. You may now disconnect.

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