INVESCO INC

Moderator: Marty Flanagan
April 26, 2018
8:00 am CT

Man 1: This presentation and comments made in the associated conference call today may include forward-looking statements. Forward-looking statements include information concerning future results of our operations, expenses, earnings, liquidity, cash flow and capital expenditures, industry and 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.

In addition, words such as “believe, expect, anticipate, intend, plan, estimate, project, forecast,” and future conditional verbs such as, “will, may, could, should and would,” as well as any other statement that necessarily depends on future events are intended to identify forward-looking statements.

Forward-looking statements are not guarantees, and they involve risk, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in our most recent Form 10K and subsequent Form 10Q filed with the SEC.

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

Coordinator: Welcome to INVESCO's First 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 objection, you may disconnect at this time.

Now I would like to turn the call over to your speakers for today, Marty Flanagan, President and CEO of Invesco, (Loren Starr), Chief Financial Officer. Mr. Flanagan, you may begin.

Marty Flanagan: Thank you very much, and thank you, everybody for joining us. And if you're so inclined, you can follow along the presentation which is on our Web site. As has been our practice, I'll hit some of the highlights of the business during the first quarter (long). We'll go into greater details within the financials of the quarter.

I will then spend a few minutes really talking about some of the key differentiators of our strategy, and put that in the context of growth opportunities, and then, of course, we'll open up to Q&A.

So, let me begin by highlighting the operating results for the first quarter, and that's on Page 4, if you happen to be following along. Long-term investment performance remained strong during the quarter. We had net (disclosed) of about $300 million during the quarter.

We did see the impact of market volatility impacting investor behavior, which impacted net flows during the quarter, negatively. Adjusted operating margin for the quarter was 37.3%, versus 39.6 in the prior quarter.

We did return $120 million to shareholders through dividends during the quarter. And reflecting the strength of the business and the focus on providing returns for shareholders, we are increasing the quarterly dividend to 30 cents, which is a 3.4% increase.

Turning to Page 5, you'll note the investment performance continues to be strong on a three- and five-year basis, 68% and 70%, respectively. Along, although the long-term investment performance remains strong, we did see headwinds in the one-year numbers; the short-term numbers being impacted by a relative underperformance of some of the larger strategies in the U.S. and the UK.

Turning to flows, what we did see is quite a bit of demand for our passive capabilities, which is very robust, with particular strength in our commodity ETFs, both in Europe and the United States during the quarter.

On the active side, and in our retail business, the flow environment remains somewhat of a challenge for the uptick and volatility, which I mentioned, in particular, in the U.S. and UK equities, as well as outflows from our sub-advised (REIT) in Japan.

As an offset, we did see strong institutional demand and solid flows in areas such as stable value, global targeted returns and a number of our quantitative strategies, globally.

With that as summary, let me turn it to (Loren) and go to more detail in the financial results.

(Loren Starr): Thanks very much, Marty. Quarter-over-quarter, our total AUM decreased 3.4 billion, at 0.4% and was driven by market losses of 12.2 billion. We saw outflows from non-management fee earning AUM of 0.4 billion.

These factors were somewhat offset by positive foreign exchange of 7.9 billion. We saw reinvested distributions of 0.6 billion positive inflows into our institutional money market; products came in at 0.4 billion. And then we had long-term net inflows of 0.3 billion.

Our average AUM for the first quarter was 951.3 billion. That was up 2.3%, versus Q4. Our annualized long-term organic growth rate for the quarter was 0.2 percentage points, compared to negative 0.8 percentage points in the fourth quarter.

So, before turning to net revenue yield, I just wanted to provide a quick update on a change this quarter to our presentation of AUM in response to investor feedback, and to provide greater transparency into the composition of changes in our AUM.

We reverted to our historical presentation of sales-driven long-term flows and presented reinvested distributions on a separate line-item in our AUM tables, So, you will see that in the back. We have also restated the third and fourth quarter of 2017 to allow for a consistent presentation and comparability.

So, now let’s turn to net revenue yield discussion. Our net revenue yield came in at 40.3 basis points, and our net revenue yield, excluding performance fees, was 39.9 basis points. And that was a decrease of 1.4 basis points, versus Q4.

We saw two fewer days in the quarter. That reduced the yield by 0.9 basis points.

The impact in the change in asset mix and the growth we saw in non-fee earning AUM reduced the yield by 0.7 basis points. And we also saw an impact of the new revenue recognition standard, which I'll mention a little bit later. And that reduced the yield by 0.2 basis points. And then we saw also a decrease in other revenues, reducing the yield by 0.1 basis points.

So, all these factors were then somewhat offset by positive foreign exchange impact on the mix, which added 0.5 basis points. So, it's a lot of puts and takes there.

Anyway, given the changes discussed above, and the continuation of changes in our asset mix, and our focus on strategically pricing our products competitively positioned with new and existing clients.

We expect our net revenue yield for the remainder of 2018 to come in at approximately 40 basis points, which is about one basis point less than our original guidance. And again, this guidance assumes flat markets and foreign exchange from today's level.

Slide 9 provides our U.S. gap operating results for the quarter. As is customary, my comments today will focus exclusively on the variances which are non-gap adjusted measures, which you'll find on Slide 10. And before returning to these results, I just want to quickly touch on the impact of the new revenue recognition accounting standard that impacted our revenues and expenses.

So, overall, this new reporting standard has changed the way we present certain revenue and fund-related expenses, and has an impact on many of our revenue line items.

The method we elected to adopt as guidance did not require us to restate prior periods. Our Q1 2018 results are presented under the new guidance, but the Q4 ’17 numbers are presented under the old guidance, So, that will impact the variances, quarter-over-quarter, as we’ll discuss.

We have included in the Appendix a slide that shows the line item impact that the new standard has on our revenues and expenses for the first quarter of 2018, and as you’ll note, the revenue recognition changes have reduced gross revenues by 19.6 million. However, the overall impact to our operating income margin and net revenues are immaterial.

So, let’s now get to the non-gap operating results on Slide 10. You’ll see the net revenue decreased by 46.9 million, or 4.7% quarter-over-quarter, to 958 million, which includes a positive foreign exchange impact of 16 million.

The impact of revenue recognition reduced net revenues by 4.2 million. Excluding these impacts net revenue decreased 58.7 million, and let’s get into the variance there.

So, within that number, you’ll see that adjusted investment management fees decreased by 52.4 million, or 4.7% – so, 1.07 billion. The impact of revenue (REC) reduced adjusted investment management fees by 53.8 million. FX increased these fees by 16.8 million.

And so, excluding these two changes, our adjusted investment management fees decreased by 15.4 million, quarter-over-quarter, which primarily reflects two fewer days in the quarter, which is partially offset by higher average AUM.

Our adjusted service and distribution revenues increased by 28.6 million, or 13.1%, compared to Q4. The impact of revenue recognition increased adjusted service and distribution revenues by 32.4 million. Excluding these changes, our adjusted service and distribution revenues decreased by 3.8 million, which primarily reflects fewer days in the quarter.

Adjusted performance fees came in at 9.1 million in Q1, and were primarily earned from real estate UK equity and bank loans or products. The 34.2 million declined from the fourth quarter was driven by the large real estate performance recognized in the prior quarter.

Adjusted other revenues in the quarter came in at 58.1 million, an increase of 39.7 million from the prior quarter. The impact of revenue recognition changes increased adjusted other revenues by 41 million. Excluding that change, our adjusted other revenues decreased modestly by 1.3 million.

Next, adjusted third-party distribution service and advisory expense, which we net against gross revenues; that increased 20.6 million, or 7.3%. The impact of revenue recognition changes increased our adjusted third-party distribution service and advisory expenses by 23.8 million.

Foreign exchange increased adjusted third-party distribution service and advisory expenses by 1.3 million. Excluding these two changes, our adjusted third-party distribution service and advisory expenses increased by 3.5 million, largely driven by some non-recurring reductions and third-party expense, which were recognized in the prior quarter.

Going through to expenses. Overall, moving down, you'll see that our adjusted operating expenses at 600.7 million decreased by 6.7 million, or 1.1%. Relative to Q4, the impact of revenue recognition reduced our adjusted operating expenses by 4.2 million.

FX increased the adjusted operating expenses by 8.8 million in the quarter. Including the impact of revenue recognition and FX, our adjusted operating expenses decreased by 11.3 million.

Looking to the adjusted employee comp number, that came in at 389.5 million. That was an increase of 11.5 million, or 3%. Foreign exchange increased our adjusted compensation expense by 5.5 million.

Including FX, adjusted employee comp increased 6 million, which reflects seasonal payroll taxes, as well as employee benefit costs, which was partially offset by decreases in our variable compensation costs.

Our adjusted marketing expenses in Q1 decreased by 11.1 million, or 27.9%, to 28.7 million, reflecting again a seasonal decrease from Q4, related to client events and marketing campaigns.

Our adjusted property office and tech expense came in at 101.3 million. That was an increase of 0.5% over the fourth quarter. And that was in line with the guidance that we provided last quarter. Foreign exchange increased our property office and tech expense by 1.2 million.

Next, going on to the adjusted G&A expense, that came in at 81.2 million. That was a decrease of 7.6 million or 8.6% quarter-over-quarter. The impact of revenue recognition reduced our G&A, or adjusted G&A, expenses by 4.2

million. Foreign exchange increased our adjusted G&A expense by 1.6 million.

Excluding these two points, our adjusted G&A expense has decreased 5 million, and that decrease reflects lower legal and regulatory costs, reduced irrecoverable taxes in the quarter, lower travel costs during the quarter, while (missing two) costs were in line with expected levels in this quarter, and of course, they were not there in the prior quarter.

Our adjusted non-operating income decreased 23.1 million, compared to the fourth quarter, reflecting the difference in market-to-market of our received money. Investments compared with the prior quarter, the firm’s effective tax rate on preadjusted net income in Q1 was 20.6%, in line with guidance, and that provides us with our adjusted EPS of 67 cents, an adjusted operating margin of 37.3%.

So, before turning it over to Marty, I just want to touch on a few topics.

First, long-term flows in April. Overall, the flow picture has been a bit volatile, with good growth opportunities, but we have also seen a spike up in redemptions.

Through the month of April, we have experienced net outflows in the current month of approximately 3.5 billion. That was driven by largely by single-Sovereign Wealth-related outflow, as well as that some advised mandate that outflowed. It’s not great news, but certainly we don’t expect that trend to continue through the quarter.

On capital management, certainly, something we want to touch on for 2018, that we’ve completed the acquisition of the Guggenheim ETF business. The transaction was completed in early April. We funded it with a combination of approximately 30% cash and 70% borrowing on our short-term credit facility.

As previously noted, our goal is to pay down the balance of that credit facility over the course of 2018 to bring our leverage ratios back in line with pre-acquisition levels, and after our leverage ratios are reduced to these levels, we should return to a share buy-back that's consistent with our historical practice. And our current estimate is that will occur sometime in the fourth quarter.

Let's move on to a topic we all hold near and dear: organic growth. So, really want to talk about what to expect through the remainder of 2018, and then, looking into 2019.

The chart on Slide 11 shows the composition of our flows over the last nine years, and I think it helps to explain why the diversification of our business is actually significantly benefiting us.

Each region, you'll see, has been the largest annual flow contributor at some point during the last nine years, and the firm's diversification has helped to drive overall positive organic growth in each period.

We see that diversifying our capabilities and our offerings in each region where we operate certainly allows us to better serve our clients and makes us stronger by not being overly reliant on any one geography distribution channel or asset class.

Next, just turning to Slide 12 — so, this is a slide you've seen before. It looks at the relationship between organic growth and the consistency or variability of that growth for INVESCO and its public asset management peers.

On vertical axis, the average annual organic growth rate for the five-year period in 2013 through 2017, and then on the horizontal axis is the standard deviation of those flows to reflect the level of sustainability or variability of organic growth.

So, when viewing INVESCO against this group, it's evident that our diversification is benefiting us. INVESCO is one of the lowest standard deviation of flows in the group, and it reflects a high level of flow consistency.

We previously talked about the long-term target; however, of the 3-to-5% organic growth, and we'll cover that more detail today, and the area that will drive that growth.

But looking at the remainder of 2018, and given the overall volatility of markets, and given some performance challenges we have, in terms of our larger products, which have been completely a function of the market environment we've been in, we basically think our growth rate will continue to be around historic levels that we've seen up for this year.

But looking past 2018, however, as many of the critical investments were making the business start to gain traction, and as we generate increased flows, we believe that organic growth can move into that targeted 3-to-5% range that we have discussed with you in the past.

And with that, I'm going to turn it over back to Marty, who will actually cover some of these growth areas in greater detail.

Marty Flanagan: Thank you, (Loren). And I'm on Page 14 again, if you're so inclined to follow along again.

So, I did want to pick up on our strategy and put in the context of the opportunities and competitive advantages that we believe we are creating.

A number of you have been owners of the company for, you know, many years, and following it for many years. So, the foundational elements of the company are well-understood, but I'd also say the key strengths are well understood.

What is less understood is, really, four of the key growth drivers that we really think are improving our competitive position in a meaningful way, and I'm going to spend a few minutes on them today.

So, ETF is being one, factors being a second, solutions and, finally, digital advice, which includes Jemstep.

So, building these growth drivers continues to be a primary focus of our organization, and we really think it is improving our competitive advantage, which will lead to greater growth opportunities.

And it's the combination of our comprehensive range of investment capabilities, our global presence, our focus in both retail and institutional channel that differentiates us in the market and positions us for growth and success over the long term.

So, over the next few slides I'm just going to spend a minute on each one of these growth drivers, but importantly, show you how they come together, and that is really what creates the competitive advantage.

Any firm might have one of these growth drivers; very few firms have all four of them. And the ability to put them together is really what creates the greatest opportunity, in our minds.

So, I'm turning to Page 15, turning to ETF. Over the past year, we've meaningfully expanded our ETF business, which ranks as the fourth largest in the U.S. and globally. And in total, our ETF business has grown 60-fold over the past 12 years.

We know, and you know, being first to market has a clear advantage in the ETF space. We now have more than 50 funds with assets greater than $500 million.

We noted earlier in the year that we are moving to a single brand, INVESCO, throughout the organization, globally, and it's really going to enable us to strengthen our brand positioning and to consolidate our markets. It's been behind the growth drivers, which we think will actually be meaningful over time.

We've been a pioneer on Smart Beta since 2003, and now ranked as the second in market share in Smart Beta and asset center management globally, trailing the market leader by only $9 billion. With regard to this market share, the delta is less than 3 percentage points between ourselves and the Number 1 position.

Turning to factors on Page 17, our aspiration is to be a global market leader of factor investing, leveraging our significant expertise, experience, as well as our strong investment capabilities across both the retail and institutional channels.

The existing and long-term market potential for factor investing is quite significant, in our opinion. However, as we have noted previously, saying you can do factor investing and actually delivering are not the same thing. You really need to develop and maintain special skills and some expertise to deliver the results a client expects from these capabilities.

As importantly, you need to have the infrastructure and resources to educate financial advisors, our IAs, our institutions, and others on how to use these capabilities appropriately within portfolios. And our focus on education is helping us deepen our relationship with platforms and key institutional clients, while also, over time, will broaden the market opportunity for us.

INVESCO has more than 40 years of experience in factor investing across a variety of investment teams, which has helped us build a solid foundation of client relationships in asset center management. We are intensely focused on executing an integrated global plan for factor investing, and that encompasses client needs, analysis, product development and further expansion of our considerable expertise in this market.

Turning to solutions on Page 19, our solutions capability is both a growth driver and an enabler within our business, as we continue to build out this important capability to help us meet client needs and strengthen our competitive advantage.

Our ability to design, implement and manage custom portfolios, investment solutions, leveraging our comprehensive range of investment capabilities is helping us enhance relationships with advisors and clients and strengthen product innovation.

But I do want to make the point — you cannot be a credible solution provider if you don't have the broad, deep set of investment capabilities which we have. Our solution team also supports our distribution teams with investment and analytical expertise that helps them better partner with clients and deepen relationships.

With our broad range of investment capabilities and vehicles, INVESCO is one of very few, small number of firms that can truly be product-agnostic in developing outcome-oriented solutions to meet client needs.

To build on this competitive advantage over the past years, we've developed one of the strongest, most experienced solutions team in the industry. The team is entirely focused on helping clients meet their investment objectives.

Turning to digital advice, we are very much in the process of developing the full potential of our digital advice platform, Jemstep. Our position as one of the first digital solutions in the market for advisors and our focus on providing an open architecture platform are enabling us to build this capability, meaningfully.

As you can see in Slide 21, we are live with a major bank in the U.S., as well as 20 smaller clients. We're onboarding two additional major banks, as we speak, and a leading insurer during this year, also. We're strongly positioned to be a market leader provider with banks and credit unions, and are seeing solid emerging demand in the RIA channel.

Our focus in '18 and beyond is to extend this capability globally. A key advantage of our digital advice effort is it gives us access to a much broader range of clients, while also providing opportunity to expand our distribution of our investment capabilities.

So, we are currently pursuing impactful combinations of these key capabilities that will unlock disproportion opportunities for INVESCO by allowing us to serve key markets in new ways. And here's an example, on Page 22, if you're so inclined to follow.

We're currently onboarding a firm with a network of more than 200 banks and credit unions. They selected Jemstep as their digital advice partner to deploy across the network. They selected our solutions team as the strategist for creating portfolios tailored to meet their client needs.

Our ETFs are being used as the underpinning for small-account portfolios on a network and, lastly, INVESCO consulting, which works alongside the distribution teams, will provide education and support to drive the adoption of the platforms.

And it's our ability to bring these capabilities together to meet client needs and key markets and channels that's really a powerful differentiator and will help us grow our business in the future. This approach provides meaningful benefits to clients and helps us create new relationships and deepen the current relationships that we have.

For 2018, our focus is on bringing together combinations of our growth drivers and our investment capabilities in a seamless and effective manner. This approach will enable us to focus the power of our global platform to help meet client needs and drive growth.

So, some examples of this: the power of the integration of these different capabilities on our platform include a combination of three regional institutional business with our solutions capability, which would enable us to become a leader in addressing the $30 trillion institutional market, globally.

Bringing together multi-sector, our Asian institutional business, factor investing in solution, which would help us further penetrate the institutional market by bringing together the best of INVESCO's solutions factor investor in multi-sector capabilities.

And finally, a combination of factor investing, digital advice, ETFs, in the EMEA retail market, which would enable us to growth our UK digital advice business with independent financial advisors and platforms by using next-generation individualized products, which is an emerging need in that marketplace.

So, as I mentioned at the outset, it's really the combination of our comprehensive range of investment capabilities, our global presence, a focus on both the retail institutional channel that differentiates us in the marketplace, and positions us for growth and success over the long-term.

Yes, we are truly excited about the potential for the growth opportunities that these key factors and capabilities bring to the organization and to our clients. And we'll continue to update you as we make progress along.

And with that, we'll stop, and (Loren) and I will open up for questions.

Coordinator: 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 speak up (your hands) in asking your question. To withdraw your request, please press Star-2. One moment, please, for the first question.

Okay, the first question comes from (Michael Carrier) of Bank of America Merrill Lynch. Your line is now open.

(Michael Carrier): Thanks, guys. (Loren), maybe first one, from the expense line items, just – I guess, just curious. Just given some of the moves, any update on how we should be thinking about, you know, the 2018, relative to the guidance that you gave, you know, on the last call? You know, whether it's by line item or just overall, you know, how we should be thinking about the expenses?

(Loren Starr): Yes, good question. You know, so, we would expect the guidance to be – I mean, largely intact, except for compensation is going to flex down, in the sense that revenues are down. Compensation flexes down too.

So, you know, without getting too explicit, I think we'll see where that goes. But it's probably, you know, some 10 million less than we had got guided, previously. So, you're in more like the 400-to-405 million per quarter range, going through 2018.

So, that's one change to the guidance (entry). And then, the other one would be G&A, which has the revenue recognition impact. So, you know, 4.2 million has moved from G&A up to the revenue line items, and so, that would be a reduction of G&A by 4.2 million.

So, those would be the two I'd point you to. As I said, we will continue to look at trying to be more effective and efficient with our resources, and it really will depend on what sort of market environment we're going to end up in, and it's been rather volatile. But certainly, people should understand that we'll certainly flex down comp, in light of lower revenues.

(Michael Carrier): Okay, and then just to follow up, Marty, I think you pointed out a lot of the investments being made and, you know, you have a lot of the products that when we look at where the demand is, you're seeing in the industry, as you think about transitioning from say 2018, you know, to 2019 and beyond, you know, (Loren) mentioned you sort of getting to that 3-to-5% growth rate.

How should we be thinking about, you know, what it means to — whether it's, like, the fee rate in revenue growth, you know, over the next couple of years and then also like the incremental margins. So, trying to translate, you know, a lot of the investments, you know, in the strategic impact, you know, ultimately to the financials, longer-term.

Marty Flanagan: Yes. So, look, we look at these as, you know, we have a high conviction that this is where the market's going. And again, just like many of us, just traveling the world being a nation, being in EMEA and, obviously, you know, in the United States, the time spent with clients more and more is very clear to me that clients and platforms are dealing with fewer firms.

Having strong investment capabilities is very important, but the (liberality) I would say, going forward, is table stakes, and the greater traction that we're seeing is the broader range of capabilities that we have.

The engagement, you know, with solutions and even large, sophisticated institutions looking for us to partner with them with analytical tools — even though they have those capabilities, it's really a very different mindset that is emerging. And so, you know, we see that, you know, those are the things that are going to continue to provide growth.

So, the overall effective fee rate, though, I would really put it in context, it's really going to be driven by where the clients are building their portfolios.

And, you know, as we are moving much more towards — or growing the factor capability ETFs — the relative fee rate is lower than alternatives or high conviction active. And so, the blend is really going to depend on where clients go.

So, I can't give you a specific answer to where the fee rate goes, but what I do know, the growth and the profitability will continue to be enhanced as, you know, our growth and earnings, as we go forward.

(Loren Starr): Yes, like I think in terms of incremental margins, I mean, totally for this year, it will probably be still in the range we've been talking about historically, you know, for this year – that sort of 40-to-50% incremental margin.

You know, longer-term, I don't think anybody has sort of said we're changing the long-term view being closer to that 50-to-65. Obviously, we would continue to sort of see how the market is shifting and changing. But certainly, what we're doing is we're trying to build scale in our capabilities, which has very positive incremental margin impacts by doing so, and trying to get a little bit less sub-scale in some parts of our capabilities.

So, overall, I think we're still quite optimistic on the incremental margins story. But that's, you know, changing landscape still with us getting to some new areas by digital advice — still brand new.

(Michael Carrier): Got it. Okay, thanks.

Coordinator: Thank you. The next question comes from (Ken Worthington) of JP Morgan. Your line is now open.

(Ken Worthington): Hi. Thanks for taking my question. So, Marty, you highlighted that INVESCO is Top 2 in Smart Beta, in terms of AUM. What we'd really like to see is INVESCO ranked Top 2 in sales of Smart Beta.

So, you're buying – you bought – two positively selling firms, Source and Guggenheim — that helps. It doesn't quite get you to Top 3 in the U.S., So, you know, are the aspirations to be Top 3? And if so, can you give us, maybe, some more specifics on that path to break into the Top 1, 2 or 3?

Marty Flanagan: Yes, So, where our aspirations are is really to be the leader in Smart Beta factor. We think that's where the greatest impact is for clients, where the emerging need is. That has been our focus and will continue to be our focus.

You know, the last two — you know, Guggenheim and Source — have been very, very important. Guggenheim has been closed all of a handful of weeks. You know, the early responses are very, very positive. We are now in the mode of getting the range of those Guggenheim ETFs on the platforms. They were not broadly placed at all. That is the opportunity for us, which will drive the growth (slows) that you're talking about.

We don't drive that timetable, but you know, we've met with all the important platforms, as you would imagine. But the feedback's been extremely positive. But I can't tell you what their timeframe is for making those decisions. But outside of that, the interactions that we've had with the FAs have been very, very strong already.

(Ken Worthington): Okay. In terms of the April outflow number, 3-1/2 billion, from the Southern Wealth Fund and sub-advised, can you talk about the regions that this is taking place in, and maybe the asset classes of the outflows? And ultimately, you know, what happened here?

(Loren Starr): So, in terms of their region, the large Sovereign Wealth happened in our EMEA region. And the asset class was active equity. Sub-advised — U.S. active equity as well. They were not performance-based decisions. These were client-based decisions, entirely. Performance was excellent in these products.

So, again, I think it's different models, and for the sub-advised, different models being employed. And you know, going index versus active. And then in the Sovereign Wealth, I think is very specific to the client's needs for, you know, cash.

(Ken Worthington): Okay, and then a tiny one. (Loren), based on Guggenheim's ending AUM, and based on the fee reductions and the tax code changes, what do the IRRs look like for that Guggenheim deal now? Has it gone up, or has it gone down?

(Loren Starr): So, I think, again, early days to see if we're going to change and maybe improve our growth trajectory above and beyond what, you know, we had originally modeled, because it's early days.

You know, I think we have a slightly lower IRR, just given some of the fee reductions that you heard about on the bullet shares, but that impact was probably just one percentage point of IRR. They're still solidly in the 20s. And then, EPS accretion probably nicked off a penny in 2018, as a result of that and, again, so, I think it's a modest, you know, move off of those prior levels. Hopefully we can make that up to higher growth.

(Ken Worthington): Okay. Thank you very much.

(Loren Starr): Yes.

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

(Brandon Hawkins): Good morning. Thanks for taking the question.

I'm hoping you could walk through, maybe, in a little more specificity the factors that drove you to lower your expectation for the revenue yield from here.

(Loren Starr): No problem, (Brandon). So, we have a few things coming through. So, starting kind of at the 41, which was our original guidance, it's really AUM mixed in terms of, you know, growth and nonrevenue, fee generating assets as well as where we're seeing the flows, which are more recently biased to the lower-fee products.

And so, that's about half a basis point. The revenue recognition changes, which we talked about a little bit already, we think that's going to be about 0.3 basis points off of our original guidance, which had no rev rec impact there.

The strategic question in this initiative — just generally call that pricing our products in a way that keeps them competitive. That's probably 0.1 basis point impact. Foreign exchange is about 0.1 basis points, negative (2). So, if you add up all those things, you go from 41 to 40.

(Brandon Hawkins): Okay. Thank you for that.

And then when we think about fee rate, we're hearing about more competition, more pressure on fees, especially in Europe, in light of (the FED) and some of the increased clarity and transparency there.

What are your expectations for fee pressure in the region? And how do you think that that's going to play through here on INVESCO, broadly? How should we frame that, as analysts and investors? Thanks.

Marty Flanagan: Yes, our view really has not changed. I think what we are seeing in the landscape is, you know, focus on value for money. And you know, we still say yes, be competitively priced.

And what we are seeing in most regions of the world — but probably to very different degrees — you know, a broader use of from cap-weighted indexes to factors, to high-conviction active and alternatives, and, you know, that's really what's going to drive the mix. And, you know, that's part of what we're seeing as an organization as we continue to rate factors up to a broader part of the footprint for us, as an organization.

So, I don't know that I can give you any greater insight than what you're seeing within the organization and what we've, you know, talked about historically.

(Brandon Hawkins): No, that helps, Marty, for sure. I guess I'm just — and certainly, at least you guys are positioned to a point where you have the factors, so you're in a good position to retain the assets to the extent that they become the risk.

But if we want to think about clients remixing their traditional active into, like, a Smart Beta solution, you believe you're well-positioned to retain the assets, although maybe, you know, continued fee pressure through mix is probably something we should assume here, it seems as though, from that region, for you guys. Is that fair?

Marty Flanagan: I think that's fair. But what you are still seeing, though, and it's more pronounced in the United States than in the UK or on the Continent right now. So, you continue to see a very, you know, high use of high-conviction active portfolios.

We are seeing that, still. So, you've not seen that issue. But the issue that you do see, probably, (you get) particulars, (then), you know, a very high degree of focus, and I'd say rightfully, on sort of closet indexers that are, you know, quote, active investors, and that is the most at-risk group of, you know, money managers. We are not anywhere near that category and, you know, so, from that perspective, we think we are very strongly-placed.

(Brandon Hawkins): Yes, that helps a lot. Thanks. And hopefully, you can of course pick up more share in the Smart Beta than you would elsewhere.

Marty Flanagan: (Yes).

(Brandon Hawkins): Yes, I get it. Thank you.

Marty Flanagan: The intention, yes. Thank you.

Coordinator: Thank you. The next question comes from (Dan Sannen) of (Jeffreys). Sir, your line is now open.

(Dan Sannen): Thanks. I just want to clarify, (Loren), your comments about this year's growth rate. I think you said similar levels to thus far, so, kind of slightly positive. For the first quarter, are you including April in that kind of trajectory of the year?

(Loren Starr): Yes, no question. I mean, April was an anomaly. We certainly don't expect that to be a monthly run rate. It was really specific to two events that we don't think are going to be recurring. You know, we'll get into it, but our pipeline, you know, institutional pipeline is still strong, So, the high level, I think we have seen some creeping up of redemptions generally.

And so, I think that's sort of something that just keeps us a little less optimistic about getting to a higher level of growth rate than we've historically seen.

Overall, opportunities still exist on sales. So, I think when you look at what to expect in 2018, I think, again, just looking to more recent history is probably the right basis point, or the right point of focus.

Marty Flanagan: Look, I think you all are having your conversations with your clients, too, and you know, what we are definitely — there is more unease than conviction, and where equity markets are going in particular. And, you know, we have seen people get more defensive or, you know, the conversations are more defensive than what we've seen, historically.

That can change as rapidly as it turned into that. And again, that is — you know, the one large redemption that (Loren) talked about that was exactly the result of, you know, moving to a defensive position.

Very hard for us, and frankly, impossible to predict, you know, those decisions. They tend to happen pretty quickly, and where we have insight into, you know, the positive pipeline, what tends to – we tend not do a great job of it. We've been very direct, historically, is when people will make these other decisions based on, you know, portfolio repositioning.

(Dan Sannen): Got it. And then just a follow-up on that. Like, the sub-advised loss — you know, I think this is the second one you guys have flagged, in recent months. Can you give us a sense of kind of how big or broadly the sub-advised U.S. book is, and is there something – is that something you expect to kind of shrink over time? Or is that stable growth? Can you give me any outlook within that?

(Loren Starr): Yes, it's a great question. The overall sub-advised book is about more than 30 billion and so, it's not small. And when I asked that exact same question — and I think the answer is that this is not a trend. This is really just specific clients who made some things, and yes, there's been a few data points of it happening, but I don't think there's any expectation on our side that this is going to just sort of all go away.

I think it is a factor. Several factors come into play, in terms of these clients making decisions. They're not all the same, in terms of how they're being made. But they're a handful of, you know, so, onesies and twosies that are chunky. So, that's our hope, based on our best intelligence.

(Dan Sannen): Got it. Thank you.

(Loren Starr): Yes.

Coordinator: Thank you. The next question comes from (Bill Katz) of Citigroup. Your line is now open.

(Bill Katz): Okay. Thank you very much. Could we go back to Jemstep for a moment? Could you give us a sense of how to sort of potentially size the revenue or the flows, and maybe even the timing, of when you think some of the onboarding might translate into unit growth, and kind of think about some of the top (line) impacting that?

Marty Flanagan: Yes, So, the timing, again, has not changed. Where we will start to see an impact is, you know, '19, and it's once these institutions are on the platform, and we'll have to give you greater insight into the impact.

I would imagine it will be a relatively slow build. But what we are seeing that what's really going to happen after these institutions is the pipeline just getting that much more robust and, you know, much better onboarding into '19.

But then we'll have to — once we get further into the year and have a greater sense of conviction, then we'll have that conversation. I would be uncomfortable in extrapolating that, right now.

(Bill Katz): Okay. And so, it's a two-part; I apologize, you guys, for an unrelated question.

On the $3-1/2 billion of — sorry to come back to the same number — but the 3-1/2 billion, could you frame out the size of the one-offs, if you will, and then where are you seeing the traction?

And then a broader questions is I'm sort of reading a lot about pricing pressure in the European ETF market. Sort of wondering if you could talk about how you think your position, in terms of where the business, I'd say, from a price perspective, and what kind of risk there might be from sort of revenue degradation perspective.

(Loren Starr): So, on the 3-1/2, it was about 2 billion for the Sovereign, and 1-1/2 for the sub-advised. So, that was kind of the mix. All (decent feed), unfortunately, So, the pricing pressure, I think, is probably more profound on the Smart Beta and general ETF space. And as we were looking at, you know, how we position products against some of the competitors, and it's not everything has to go to a lower price.

But making sure that our product line — particularly. like, Guggenheim coming over is priced so it's competitively positioned against similar products of similar size — is critical for success. And so, I'd say that's where our focus is most on sort of strategically pricing products.

I think on the active products, to the extent that we have capabilities that are good, there's probably far less need for us to think about changing the pricing on those products because 1) they're generally priced well and in line with competitors, and Number 2, there's value there, in terms of the alpha that they have (starkly) generated into sort of buy-flows or buy-assets through lowering fees has not been our strategy.

I don't know, Marty, if you have…

Marty Flanagan: No, I agree with that.

(Bill Katz): Okay, thank you for taking the question, guys.

Coordinator: Thank you. The next question comes from (Craig Siegenthaler) of Credit Suisse. Your line is now open.

(Craig Siegenthaler): Thanks, good morning. I wanted to start on (JEMSEN). I really appreciate the color on Slide 12, so, thanks for that.

How should we think about the net flow potential in 2019 from the six large financial institutions that should be live at some point this year? And really, just thinking about how should we frame this potential? Because it's really, you know, the brand new source of business for you guys.

Marty Flanagan: Yes. It is. No question, it is. We believe it's a really important competitive advantage for us.

It is also consistent with what we've been talking about. We see the future as being a strong set of investment capabilities. It is very important, but it's table stakes, and it's these types of, you know, developments is really what's going to create this competitive advantage and the necessity that's being driven, as we look forward.

So, again, you know, (Bill) asked the same question, and I really, you know, am not in a position to give you the potential, you know, (define the) notes — the flow into '19 at this point in time.

The fact is, the institutions are large, and we would anticipate that, you know, we'll be successful, you know, as we serve them, going forward. And I wish I could give you more insights, but I would…

(Loren Starr): Well, we have no data to base it on, really. So, I think we have a clear view that out to 2020, and kind of, if this all kind of happens the way we think it is, I mean, we're talking about substantial amounts of assets with not so much penetration.

I mean, even assuming modest penetration, we're certainly in the, you know, tens of billions, 50 billion, I mean it's that kind of number of assets being gathered through digital advice.

We don't know how it gets there, because we don't have enough really to trendline anything is what is the problem for us to tell that. It's just too hard for us to guess.

(Craig Siegenthaler): And then just as my follow-up on the ETF approval process, the SEC is now allowing more asset managers to self-index, and it also looks like there's a potential SEC ETF rule that could further lower the barriers to entry.

I'm just wondering, do you think a more open policy from regulators could open the door to more competition? Or is it sort of like what I think Dan Draper always says, that ETFs have a very low barrier to entry, but a much higher barrier to succeed.

Marty Flanagan: Yes, we believe that very strongly, and I think evidence would, you know, and the facts would support that. It really, you know, we've been at this, now, over a decade.

Just having the ETF does not mean you're going to be successful, and the range of capability and the knowledge that goes along with it is really quite different. It is not a natural extension to, you know, whether it be historical retail, or distribution success, or institutional success, either. It is quite different.

And so, will it bring on new ETFs? Probably. Do we think it's going to change our competitive position? I don't think so.

(Craig Siegenthaler): Thank you.

Marty Flanagan: Yes.

Coordinator: Thank you. The next question comes from (Glenn Shore) of Evercore. Your line is now open.

(Glenn Shore): Hi. Thanks. So, when looking at the pickup in — I don't want to call it "turn," but just activity — lots of sales, lots of redemption, pickup up and down — do you think that's mostly just a function of the obvious in volatility and people's changing macro outlook?

And what I want to really ask – get to – is how much of it relates to the ins and outs related to broker/dealer channel, shrinking (into lists), consolidated relationships, and focusing on (model) portfolios, and things like that?

Marty Flanagan: Yes. So, my sense of it is it's the right question. And if you look at, you know, the gross and the net in the quarter, yes, the outflows, I think it's much more related to the sentiment change within the quarter.

Just the magnitude of the change and, you know, (Loren)'s hit on a couple of things that we've seen happen. I think the – to your point of, you know, the narrowing of the platforms in the U.S., in particular, that is going to put money in motion, but remember, being taken off the platform or having your fund not available for future sales is not forcing immediate redemptions.

So, I don't think — you know, that's going to take time. You know, the people that – and capabilities that remain on those platforms, they will be net beneficiaries, but I see that , you know, being slower than you might imagine, because of, again, the correct answer, not forcing a client out of a capability that they chose to be in.

(Glenn Shore): I appreciate that. The only follow-up I have there is I think you and pretty much every other player that we all covered will talk towards the ability to try to cap — or the desire to try to capture — flows as they move, and clients have sentiment changes. So, as this is going on, right now, you have this awesome relationship within the channels, if you will.

How come we — or are we capturing as much as you'd like? In other words, if people are selling out of certain components of active equity, switching into fixed income, switching to risk managers, switching even into cash, like, are you capturing that within the channel?

Because you know, 56 in/56 out looks like a flat day, but there's a whole lot more underneath the covers.

Marty Flanagan: No, you're right. Look, I would say the fact is we — I would say, we are not capturing what we would want to, and so, how do you change that? And I think, you know, historical efforts will not change that at all, right? So, historical practices of being in front of a platform and an FA are not going to change it.

So, what will change it, I think, is that we've started to employ — last year was really the pilot, and really much more action right now, and it's our use of predictive analytics.

And it is then incredibly beneficial to us, and you can really start to see — actually, literally predict — where FAs are going to be putting money, where they're about to redeem, and we are using that in a very positive way to do exactly what you're talking about.

So, you know, we're, again, if we're 12 months into it right now, it's, you know, it will show up in the numbers — not to the degree that would, you know, change your, as you say, you know, 56 in/56 out. But we think those types of things that will create the very different outcomes, going forward.

And again, I think it gets back to this topic that we have collectively been talking about the competitive environment. You need to have the financial resources and the wherewithal to invest in those technologies to be effective, going forward, and I just am not sure that, you know, the totality of the money managers in the industry are going to have that wherewithal.

Those that do will end up being much stronger, going forward, and we happen to be one of them.

(Glenn Shore): All right. Thanks very much, Marty.

Marty Flanagan: Yes.

Coordinator: Thank you. The next question comes from (Kenneth Lee) of RBC Capital Markets. Your line is now open.

(Kenneth Lee): The targeted organic growth range of 3-to-5% — what's the expectation, in terms of which asset categories could be either above or below this range? And, you know, specifically, which could be the biggest contributors towards that growth rate?

(Loren Starr): So, I mean, a good question. I think it's going to depend on what sort of market environment we're in. We're really looking at this more from a function that we have this broad set of capabilities that we can bring together in conjunction with and, you know, sort of catalysts around digital advice factors, just generally.

To me, they're kind of general themes that cut across asset classes. And so, I would say, I mean, generally we think passive probably going to continue to grow at a faster rate than active. So, that's one aspect to the 3-to-5%.

You know, whether it's going to be fixed income versus equity versus alternative, that's a little harder to predict, although I think we're pretty well positioned with bullet shares, in particular, to grow that asset class in the passive space.

But I don't think we are, you know, able to really lay it out with that degree of specificity with any sense of certainty, other than kind of the active-versus-passive split, because it's probably the most (reliable).

I think the other thing that we probably would say, though, is that we think alternatives will continue to grow, probably at a faster rate, generally, than other sort of more traditional classes. It's been the history for us, and so, we're just looking at the trendline there, that that would continue to be an area of higher growth for us. Not just in real estate, but in commodities.

Some of the targets – global target return types of products, we think will have a lot of opportunity to grow faster. And Marty, I don't know if you…

Marty Flanagan: No, I think what I would like to put in context is what (Loren) talked about earlier during the presentation, and you know, where he showed, you know, the advantage of the first (location) going back to 2009. And then, this range of 3-to-5% – it's not unknown to us. We've been in the range over those periods of time.

The other thing that's factual is that the consistency of our growth is, you know, very unique in the industry. What we want to change is have the consistency be within that 3-to-4 range. And I think the clients are really going to decide where they're going to put their assets. The effort is to drive the totality of our penetration up with our clients. And there's many areas that we can be doing a better job of that.

And, you know, whether it be the institutional parts of our business that we've talked about; you know, broader penetration on platforms, et cetera. And, you know, greater success in the broadening of the penetration of our ETF platforms and different, you know, in the U.S. and EMEA, probably, in particular.

So, that's really what we think is going to drive it, in particular. It's the totality of the offering. And really, that's just being much more effective with our distribution capabilities.

(Kenneth Lee): Got you. And I just have one more. In terms of the recent additions to the global solutions team. I wondered if you could talk specifically about efforts to gain more insurance clients. (Unintelligible) see whether competitors picking up interest in this area and just wanted to see how you view the growth opportunity there. Thanks.

Marty Flanagan: Yes it is a real growth opportunity. And again as you say many money managers are turning their attention to it. We have been, you know, quite successful in the area.

It is also an area where if you look at the skills that we have developed internally over the last few years about a number of backgrounds are coming from the insurance industry and having that specific expertise really, really matters.

And again it is an area where we have seen success and we continue to see success. And frankly is probably going to be one of the relative areas of relative strength within our institutional business in particular.

(Kenneth Lee): Great thanks.

Coordinator: Thank you. The next question comes from (Alex Watson) of Goldman Sachs. Your line is now open.

(Alex Watson): Great. Hey Marty good morning. (Loren) good morning guys. I wanted to go back to the Guggenheim discussion for a second with the recent (unintelligible) rate reduction. So I understand you guys are trying to be more competitive as you position this product.

But looking out are we largely done? Do you guys still see any incremental price reductions that need to be done in either that product or kind of your broader PowerShares brand as you are, you know, kind of getting ready to roll this out more broadly especially with Jemstep.

Marty Flanagan: Yes so (Loren) was talking about it. I think, you know, our – we have developed quite a strong discipline around pricing within, you know, the ETF capability.

And again it is back to the comment I made earlier. It is a very different set of capabilities and frankly in the mutual fund world we feel that the BulletShares are really one of the very attractive elements of Guggenheim.

And we are not trying to be the low cost provider at all but really focused on this value for money and we think it is appropriately priced right now competitively priced.

We are looking at a whole range of our ETF line up as we said we would post the acquisition. And you will see, you know, some, you know, probably some decent duplications and things like that that you know will be addressed during that period of time.

But nothing immediately in front of us but we will continue to look at the competitive positioning, you know, of our ETFs as we look forward.

(Alex Watson): Got it. And (Loren) one for you. I guess going back to the press release. It sounds like you guys are about 70% of the way through the cost cutting program. Just kind of looking at what is in the run rate as of the first quarter versus the total.

I guess is there room to do more given a more challenging obviously revenue backdrop instead of flattish organic growth here. And then as we think about 2019 obviously lots of moving pieces.

But using your kind of typical methodology but also taking into account that you are investing in the business still and Jemstep pipeline sounds pretty robust. It is 50%+ is realistic for 2019 in incremental margin or that might get pushed out?

(Loren Starr): So on the cost opportunity side we do think there is always further opportunity to do more. We are continuing to look at other things that are not currently in that run rate.

I think in terms of, you know, the overall program that was put in place a while back in terms of optimization with the specific activities, you know, being identified. That is going to come to a close in 2018.

We are really going to be I think done with the optimization program per se. But we are going to continue I think to roll through some fairly hopefully significant opportunities to continue to look at technology more effectively.

You know potentially outsource other activities within the firm to the extent that it makes sense. Someone can do it better, cheaper, faster whatever. Those are things we need to continue to be focused on.

Use of robotics is another one that people are looking at obviously. It is an opportunity for lots of firms not just us. So I would say more to come on that one and it should allow us to continue to grow, you know, at a lower – with cost at a lower pace than revenues.

And so with that said I don't think anybody internally has said that that 50% to 65% goes away. And at 2019 that, you know, opportunity may still certainly for us to be able to deliver at those levels.

But I also mentioned it has been, you know, we have to get through 2018 to sort of get a clear view of where we are in 2019. So not ready to commit at this point that that is locked in other than there is nothing implicitly says it can't happen.

(Alex Watson): Yes understood thanks.

Coordinator: Thank you. The next question comes from Brian Bedell of Deutsche Bank. Your line is now open.

Brian Bedell: Great thanks for taking my question. Good morning folks. Marty maybe just to get back onto the factor based and the smart beta franchise. Just in your view obviously we have been in a slower positive net flow environment for some of our beta over the last year. So given beta has done so well in the market. It has been up pretty strongly.

But as you see this develop and you are making a bigger effort what do you think are the biggest drivers that can actually positively move that needle? And I am thinking like, you know, first of all the market conditions that you have been alluding to. How people are getting more conservative versus how you are positioning the smart beta versus active products and then versus passive products.

And it sounds like it continues to be more of a sales – like a sold product rather than a bought product. So how are financial advisors perceiving from our best as a better solution for them?

Marty Flanagan: You are in a really, really, really important point. You know if you listen to the commentary you would think that and I will stay in the United States for a moment because it is different than other markets.

You would think that the adoption rate of smart beta factors is at a very high level. In fact it is not. It is not at all where it can be. And what we are seeing and this could be – whether it be platform, financial advisors or some institutions, the intellectual merits are embraced.

The how to use it, how to implement factors in a portfolio and build portfolios, you know, extending, you know, again, you know, high conviction active alternative and factors. It is not well developed. And so that is why I come back to how are we making an impact? There is a huge educational element of not just what it is but how do you use it?

That is where the solutions team also comes into play too. Because we literally help people build model and analytics of how in fact you use them. And it is just not at the institutional level.

It is actually at corner offices, FAs where our analytics team is helping them determine how to build portfolios more effectively to create the outcomes that they want.

So the fact of the matter it is early days. And so it is – you are exactly right. It is at the moment it is not a bought capability. It is much more a learned or sold capability. And as the adoption rate goes up I think that is where you are going to start to see much greater momentum in the flows in these areas.

The factors outside of the United States and in particular in Europe institutionally have been embraced much more holistically for a good long period of time. And that is just at a different level.

Now I would say at a retail level. It is probably similar to the United States and quite frankly there is still much greater appetite for active investing whether it be fixed income and/or equities in the U.K. and on the continent and frankly same thing for the retail channel in Asia.

I will also tell you it has been a marked change of the interest in the beginning adoption of factor capabilities in Asia and China and Japan frankly in particular from the interactions that we have been having.

Brian Bedell: That is great color. And then maybe a little different subject. As you think about quantitative strategies from the research side you did talk about this a little bit in the presentation.

Obviously there has been a reasonably decent push to embrace quantitative tools within research and different firms are implementing it in different ways. Maybe you can talk about how you are implementing it at Invesco? I know you guys obviously you know operate on a more decentralized base with teams sort of a lot of them doing their own thing.

But how do you view your fundamental teams embracing quantitative strategies and, you know, are you kind of trying to push that through within the organization?

Marty Flanagan: Yes so let me clarify a point. You know the investment teams there built by, you know, unique philosophies and processes but it is all on a single platform. And so the tools are available to all of the teams and they are used in different ways.

The reality of the situation is every one of these teams and if you go back to our quantitative team it has been, you know, since the early 80s they have always adopted new technologies to enhance their quantitative models and that is exactly what is happening right now.

And so the adoption of the tools is really driven by each of the investment management teams and it will be no different in the past and they will continue to be adopted in that manner. So I don’t know if that is helpful or not.

(Loren Starr): I do know I mean we are looking specifically at things like natural language as an opportunity to be able to go through, you know, some of the filings more effectively. So that is work in progress right now.

And I also know, you know, there is some exploration around the use of AI specifically around macroeconomic views and that is around a macroeconomic events.

So I think it is all being explored. I think the teams are embracing them but it is still, you know, it additive to their existing processes as opposed to, you know, taking parts out.

Brian Bedell: Right. And you are talking about the fundamental teams not the quantitative.

(Loren Starr): Yes this is all fundamental teams that I am talking about. The quantitative has been doing this for a long time.

Brian Bedell: For a long time yes okay great thank you.

Coordinator: Thank you. The next question comes from Michael Cyprys from Morgan Stanley. Your line is now open.

Michael Cyprys: Hi good morning thanks for taking the question. Just curious if you could update us on the Great Wall. JV in China how that is progressing and your outlook there.

And also just given some of the recent regulatory changes in China. Just curious how you are thinking about any sort of change to the JV structure or how you are thinking about approaching China.

Marty Flanagan: Yes I will make a couple of comments. We probably don't talk about it a lot. Our China position I would say is arguably one of the strongest in the industry.

You know Invesco Great Wall continues to do quite well in the marketplace and the penetration continues to increase and back to some of the topics we were talking about.

You know the other thing it is a very different market and, you know, we are frankly learning a lot about using technologies and retail channels in China because, you know, they are actually more advanced in many parts of the world.

That is one of the things that led to Jemstep a number of years ago. So we also see other opportunities with some of the visual platforms in China. And again we will just have to wait on being more specific here on that.

Institutionally we continue to be very, very strong. You know argue probably top, you know, three institutional managers. You know multiple mandates with everybody that you would hope to be there.

As you say, the changing dynamics from an opportunity to change our 49% shareholding is top of mind right now. And, you know, as soon as we can have that changed it will be changed which is also another real positive, you know, (unintelligible) organization.

And to your point Michael. The bigger topic is the opportunity probably has never been bigger in China just because of some of the developments that are happening there. And we feel extraordinarily well placed in that market.

(Loren Starr): Yes I would just say I mean they are flowing really well. The products fundamental and quantitative fixed income. I mean it is really doing well. I think the overall joint venture is one of the largest and seem to be one of the most successful there. It is about $20 billion in size and rapidly growing.

So there is a lot of focus on kind of how do we continue to grow our opportunities with the Great Wall and we also have a (unintelligible) as well. So that is another element that wholly owns foreign entity. I think is what that stands for which is yet another kind of element into the whole Greater China strategy.

Marty Flanagan: And I would just add I mean as you know, as best we can tell we are the only western firm where, you know, the name is led by Invesco Great Wall. And we also have management control of the JV and I think that is also unique in the market.

So part of the success of the JV is we are able to utilize the capabilities of Invesco whether it be investment disciplines and the like that are probably not afforded to other JVs. And literally we operate as a single organization, you know, in the market and we are currently going to clients recognizing it is a JV even.

So again we just feel we are in a very strong place, you know, in that marketplace.

Michael Cyprys: Great thanks for taking my questions.

Marty Flanagan: Yes.

Coordinator: Thank you. The next question comes from Chris Shutler of William Blair. Your line is now open.

Chris Shutler: Hi guys good morning. Just one real quick one on capital allocation priorities. Just outline that and where acquisitions fall in that mix right now. Thanks.

(Loren Starr): So obviously we just finished an acquisition and so our priorities is really paying down the credit facility as we mentioned to bring our leverage back down to pre-acquisition levels.

Once we get to that which we expect to happen sometime in Q4 we would expect our normal capital priorities to kick back in which really is investing behind the business which would be mostly (unintelligible) products sort of contained there roughly historically has been somewhere around $100 million, $200 million a year.

Then would be, you know, an ever increasing dividend and you saw what we did in terms of that increase modest. But, you know, again consistent growth in our dividend.

And then the remainder could be allocated to buybacks which again is something we are looking forward to given the (unintelligible) price where it is. In terms of acquisition strategies as I mentioned I think our focus is really trying to leverage what has just come on board between Source and Guggenheim.

There are continuing opportunities that present themselves to us. And I think just as we have always done we have been open to looking at those, you know, in terms of what they might bring but has not been the key focus to our success.

In all I think we should be able to grow organically first and foremost. But we are paying attention as, you know, the industry is shifting and moving and certain things may be more interesting than others. I don't know Marty if you want to add to (unintelligible).

Marty Flanagan: I agree. You are right on the mark.

Chris Shutler: All right thanks (Loren).

(Loren Starr): Sure.

Coordinator: Thank you. The next question comes from (Patrick David) of (Aramus) Research. Your line is now open.

(Patrick David): Hey good morning thanks. I apologize if I missed it I had to step away during the Jemstep conversation. But are there new platforms a situation where you will be sitting next to other asset managers, (unintelligible) and the advisor chooses which one they want to use?

And if so, how do you kind of become the one they choose when I imagine there are some pretty power constituencies behind the (unintelligible)?

Marty Flanagan: Yes no, what we are talking about these clients they, you know, they pick one digital platform. So, you know, it is – think of you as an organization. You choose an application.

You install the application in your environment and that is really the point here. No institution wants multiple digital platforms. They want one to serve their financial advisors and their wealth managers and the like.

And so that is really the point. Being first to market and the penetration with the clients puts you in a very unique situation. You become, you know, a service provider to these institutions. It is white labeled. It is open platform but we think our decision to do that was we think very, very wise.

No way would an institution want to, you know, not have open platform and not an organization (unintelligible) not recognize that we are their client. We are serving them and I think that has served, you know, very, very well to date here.

And I think (Loren) also made a point. Depending on the institution what we are seeing is they start to turn to an organization like us to provide models for their platforms. And again this gets back to how do the models happen?

It is a combination of being the digital advice provider platform. A combination of our solutions team working with the client to determine what they want built for their clients.

Then using the combination again of our active factor capabilities. Whether it be mutual funds and ETFs to build these models for the clients. And again that just really gets back to, you know, you have to look at these the totality of the offering.

And you have the relative market share in time we are modeling to be quite dramatically different for the upside and the traditional relationship to a traditional platform.

(Patrick David): Great that is helpful. And then just a quick follow up. There was some news a week or so ago about a fee dispute with the enhanced income trust in the

U.K. Could you give us a total exposure to those kinds of trusts? And is this a trend we should worry about for all of them?

(Loren Starr): I don't think the exposure is large. I think it is probably $5 billion or less. Some of the other trusts have already gone through and have made some adjustments.

This was a particular situation that I don't know if we can really comment too deeply on in terms of kind of where the dispute was and seems more anomalous.

(Patrick David): Okay thank you.

Coordinator: Thank you. The next question comes from Robert Lee of KBW. Your line is now open.

Robert Lee: Great good morning thanks for taking my questions and appreciate the patience to one call. I guess in a way it is more of a hypothetical question than anything. Is organic growth really even the metric we should all be focusing on really?

Because if you think about, you know, and you talk about your net revenue yield and those pressures there. We all talk about fee pressure in the industry. Clearly there is a concern rightly so about the ability for that – for any organic growth for you and a lot of your peers to translate into revenue growth.

And, you know, there really isn't the real measure of the ability to generate, you know, EBITDA and earnings growth from incremental flows. So, you know, shouldn't we really be thinking about and how do you think about really growing pre-tax operation income?

You know regardless of revenues maybe or incremental – not regardless of revenues of regardless of kind of incremental fee rates. I mean isn't that really the conversation we should be having?

Marty Flanagan: You are – it is a good question and I guess we collectively have, you know, talked about a path it has been organic growth rate. And I think, you know, what the organic growth rate does do. I mean it is sort of a momentum measure right in penetration so there is something, you know, healthy about it.

But where I think it gets lost is where you are going right? So we have been focused on effective T rate and what is driving that change. You know where we see the bulk of our effective T rate changing is really going to be the asset mix more than anything else.

And what do we think is going to happen with – so if you start to dissect if in a way if you looked at this, you know, the range of capabilities. Over time where are the bulk of our assets going to be? They are going to be in probably factor capabilities.

Why would that be the case? Because traditional active you are going to hit – we know that, you know, equity capabilities in particular there is a limitation to the size if you are going to generate alpha.

So when an investment team says no more if we shut them down. And I think that is the right thing to do. And that is – I would say the same thing an alternative. Right? There is going to be a limitation to the size.

And so when we look forward we made the determination to fully service clients. We needed this whole range of capability and recognizing that you can build absent scale factor capabilities about frankly meeting client needs.

So that is really the conversation we have been having and we are really pulling it out in a different way and I think understanding that is really important in the implications.

What is the point of it? You know if you look at our, you know, ETF business or factor business it is lower fee but it is finally profitable. And that is really what you are driving to. You are going to get scale and you are going to get the profitability in the earnings growth because of it.

(Loren Starr): Yes and I think obviously we are a fiduciary and our focus is on our clients and that doesn't mean earnings growth or profits don't matter. They absolutely do and certainly I am thinking about them myself.

But in terms of kind of the metric that everybody internally is focused on growth is really a measure – organic growth is a measure of do our clients want our products? I mean are we serving our clients well? It is really a measure of health and then from that comes, you know, revenues and profits.

So again I think from mid-year perspective I certainly get the question. I think internally people would still find organic growth, you know, sort of a very good measure of whether we are doing the right thing by clients.

Robert Lee: I appreciate the color. Thanks.

(Loren Starr): Yes.

Marty Flanagan: Yes.

Coordinator: Thank you. At this time we don't have any questions in queue. Mr. Flanagan you may proceed.

Marty Flanagan: Thank you very much on behalf of (Loren), myself and the Invesco team. Thank you for your time and interest and we will be talking to you soon. Have a good rest of the day.

Coordinator: Thank you. That concludes today's conference. Thank you all for participating. You may now disconnect.

END