INVESCO INC

Moderator: Marty Flanagan
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We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in our most recent Form 10-K and subsequent Forms 10-Q filed with the SEC.

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

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 that time to ask a question press Star and then 1.

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

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

Marty Flanagan: All right, thank you very much and thank you for joining us today. And I will give the highlights of the business review and Loren will review the financials as we typically do.

And then open it up to everybody's questions.

So let me begin by highlighting the firm's operating results for the second quarter. I'm on Slide 4 of the presentation if you're so inclined to follow us and that is on the web site.

Long term investment performance remained strong again during the quarter ending with 71% and 78% of assets. That appears on three and five year basis.

And the strong performance contributed to solid retail inflows during the quarter of $1.4 billion. Retail inflows were offset by institutional outflows which resulted in net of outflows of $.6 billion.

Adjusted operating margin for the quarter was 39.3% up from 37.7% over the prior quarter and we returned $119 million back to shareholders.

Assets under management were $858 billion at the end of the quarter up from $834 billion in the prior quarter. And adjusted operating income was $357 million for the quarter up from 327 in the prior quarter which resulted in adjusted earnings per share, diluted earnings per share for the quarter of 64 cents up from 61 cents in the prior quarter.

And based on continued strong fundamentals of the business we're providing a quarterly dividend of 29 cents per share which represents a 3.6% increase.

And before Loren gets to the financials let me spend a few minutes on investment performance and flows. On Slide 7 you'll note the performance over one, three, five and seven years. And again our commitment to investment excellence and the work that the teams have done to build-out a very strong culture continues to generate very strong investment performance across the enterprise.

And as I mentioned 71% of the assets were in the top half on a three year basis and 78% of assets on a five year basis.

Moving to flows you'll note the active side, gross sales or redemptions were roughly in line with the same quarter in the prior year but the second quarter did see continued improvement in the positive trends in net active flows which you'll note on Slide 8.

Flows continue to be strong in taxable fixed income and Core Plus Bond Funds. Flows in the passive capabilities were offset for the first quarter primarily reflecting continued weak demand in our new IT - with new ITs in the single large low fee real estate redemption during the quarter.

We did see during the quarter solid flows in the PowerShares, fixed income and senior loan fund in particular.

Retail flows were solid during the quarter reflecting continued strength in certain of our PowerShares ETFs as well as Global Target Return, European Equities and other funds. We also saw strong inflows into our Cross-Border Retail Funds in Europe.

Our pipeline of one but not funded institutional opportunities remain strong. The funding was slower in the quarter than we anticipated. And redemptions were in line with where they were in the prior quarters which led to the $2 billion institutional outflows.

The outflows are largely attributed to a slowdown in sales in Asia, heightened redemptions of stable value as clients were changing their asset allocation capabilities within the plans.

Although the flow picture was mixed for the second quarter it's important to note that the comp position of the inflows has been driven towards highly active capabilities and month-to-date long term inflows of more than $1.4

billion post-June 30th reflecting strength in our cross-border business in particular.

And as always we're early into the quarter. It could change. But so far, you know, we're off to a good quarter with regard to flows.

So Loren you want to…

Loren Starr: Yes very much. Thanks Marty. So looking at our schedule on total assets under management, we saw quarter-over-quarter total AUM increased to $23.5 billion or 2.8%. And that was driven by market gains of $13 billion, positive foreign exchange ratio of $8.1 billion. We saw $2.8 billion of inflows and to the money market capability. Also $.2 billion of inflows into the QQQs, but these factors were somewhat offset by long term net outflows of $.6 billion.

Average AUM for the second quarter came in at $849.2 billion or 2.3% versus the first quarter. And then looking at our net revenue yield that came in at 42.7 basis points and our net revenue yield excluding performance fees was at 41.8 basis points. So that was an increase of .9 basis points over the first quarter.

The positive impact of foreign exchange and the change in AUM mix added .7 basis points. One additional day added .4 basis points. These positive factors were then somewhat offset by the impact of revenue reduction in other revenue which acted to decrease the yield by .2 basis points.

Moving onto Slide 12 that provides our U.S. GAAP operating results for the quarter, as usual my comments today will focus exclusively under variances that related to our non-GAAP adjusted measures which can be found on Slide 13.

Looking at Slide 13 you'll see our net revenues increased by $39.2 million or 4.5% quarter-over-quarter to $906.3 million which included positive foreign exchange impacted $9.1 million. Within that net revenue number you'll see that our adjusted administrative management fees increased by $54.3 million or 5.6% to $1.03 billion. This reflects higher average AUM as well as an additional day during the second quarter. Foreign exchange increased our adjusted management fee by $10 million.

Adjusted services and distribution revenues increased by $4.9 million or 2.4% reflecting our higher average AUM in the quarter and in fact decreased our adjusted services and distribution revenues by $.1 million.

Our adjusted performance fees for the quarter came in at $18 million. And these are earnings from a variety of investment capabilities including $7.4 million from accounts managed by our UK Team, $6 million came from our private equity business, $2.7 million came from our Asia-Pacific Investment Teams.

Foreign exchange increased performance fees by $.3 million.

And in the last two quarters of 2017 I will just tuck-in my guidance here. We expect performance fees to decline to roughly 5 to $7 million per quarter which again is subject to my usual caveat and forecasting performance fees in a perfect science and certainly we don't have a huge line of sight to.

The adjusted other revenues in the second quarter came in at $17.3 million and that was a decrease of $3.5 million with the prior quarter, was driven by lower real estate transaction fees, new IT revenues as well as other frontend loan fees.

Foreign exchange increased our adjusted other revenue by $.1 million. Again looking to guidance here, looking forward to the Second Half of 2017, we would expect other revenues to remain near the second quarter levels at 16 to $17 million for the quarter.

Moving on down to the third party distribution, service and advisory expense which we net against gross revenues, that increased by $16.8 million or 4.8%. That's consistent with our increased revenues derived from the retail related AUM as well as the additional day count in the quarter. Foreign exchange adjusted our third party distribution, service and advisory expenses by $1.2 million.

But before I move to the expense area of the P&L let me try to summarize the revenue guidance I just have provided in terms of net revenue yield.

So looking at the Second Half of 2017 we have two offsetting impacts. We would expect to see our net revenue yield excluding performance fees increase by roughly half a basis point, .5 basis points. And that's driven primarily by the increase in day count as well as the asset mix in the second half of the year.

This increase however is going to be offset by the acquisition of Source assets which will be dilutive to the firm's net revenue yield. As we talked about that's about $25 billion and somewhere between 16 to 17 basis points.

As a result the overall net revenue yield excluding performance fees should remain actually fairly consistent with the second quarter level at 42 basis points for the second half of the year.

Again this guidance assumes flat markets and foreign exchange from today's levels.

All right, so let's move to the expenses. If you move on down the slide you'll see our adjusted operating expenses at $549.8 million increased by $9.8 million or 1.8% relative to the first quarter. Foreign exchange increased adjusted operating expenses by $4.3 million during the quarter.

The adjusted employee compensation line item came in at $360.6 million. That's a decrease of $.6 million or .2%. This is driven by a decline in the seasonal payroll taxes as always happens first quarter to second quarter. But it was offset by an increase invariable and other compensation costs, a full quarter of higher-based salaries effective March 1st, and an increase in deferred compensation expenses for the awards that were granted in the first quarter.

The foreign exchange impact for our adjusted employee compensation came in at $2.5 million.

Looking forward, again and for the guidance, we're assuming AUM and foreign exchange flat to current levels. We'd expect compensation to increase ratably to about $370 million by Q4. This increase in forecasted compensation costs includes – there's several factors including the impact of the Source acquisition in the third quarter, investments that we're making behind some of our key strategic initiatives including building out our institutional business, solutions, ETFs and Jemstep as well as resources that we are adding to meet the growth in regulatory and compliance requirements on a global basis.

Our adjusted marketing expenses in Q2 increased by $4.7 million or 18.8% to $29.7 million, that reflects an increase in average highs in client events. Foreign exchange increased our adjusted marketing expense by $.3 million. Marketing costs should stay roughly flat to current levels until Q4 at which point in time this could grow to somewhere around 36 to $38 million consistent with the historic seasonality that we've seen in the past.

The adjusted property, office and technology expenses were $88.7 million in the quarter. That's an increase of $3.1 million or 3.6% over the first quarter due to higher outsource administration and software costs. Foreign exchange increased our adjusted property, office and tech expenses by $.7 million.

For the remainder of 2017 we see property, office and technology costs coming in between 92 to $94 million a quarter. This is due to the impact of large technology related projects that have and are coming into service as well as the outsource administration expenses driven by the activity within our – that are being (unintelligible) to support our business which is good news with the activity.

Next, we go to adjusted general and administrative expenses at $70.8 million. That increased $2.6 million or 2.8% quarter-over-quarter. The G&A increase was largely driven by professional services costs associated with the regulatory changes and compliance that we're seeing in – on a global basis.

The foreign exchange increased our adjusted G&A expenses by $.8 million. We would expect G&A as a line item to remain at similar levels as in the second quarter or slightly elevated levels for the remainder of 2017 somewhere between 70 and $73 million per quarter.

Specifically on the topic of expenses I'd like to emphasize that we do believe the organic and inorganic investments that we were making will serve as key business differentiators for Invesco and therefore are critical for our long term success and what we see as a rapidly changing competitive environment.

So with that said we will continue to be highly focused on the cost optimization efforts in order to remain as efficient as possible and to help fund these investments.

So finally moving down the page, you'll see our adjusted non-operating income decreased $10 million compared to the first quarter. This decrease was primarily due to a gain realized on our pound sterling and U.S. Dollar hedges in the first quarter.

And moving to taxes, the firm's effective tax rate on a pre-adjusted tax adjusted net income basis was essentially 6.7% which brings us to our EPS at 64 cents and adjusted operating margin of 39.3%.

So with that I'm going to turn it back over to Marty.

Marty Flanagan: Thanks Loren. I do want to do a quick – two quick updates before we turn it over to Q&A and one on Jemstep and second, on the EMEA business.

And many of you probably saw the news that the Advisor Group which is a network of independent advisory firms announced a new platform for 5,000 advisors they support. The comprehensive digital onboarding, advice and data aggregation program for their financial advisors was launched in alliance with Jemstep which is our advisor focus to show solutions business.

We view this as a further sign that Jemstep/Invesco combination offering a digital advice platform as tremendous value-added technology in our sector.

And it is resonating in the marketplace. The platform extends to both advisors and their – and clients to strengthen their relationship and will be used to support advisory and brokerage business models which as far as we can tell is unique in the marketplace.

And as noted on previous calls, it's early days, but we do see Jemstep as having meaningful potential in the market for us.

With regard to EMEA we saw the fourth consecutive quarter of positive long term net inflows in the region which totaled nearly $3 billion in the second quarter despite a large one-off sovereign wealth fund redemption. Quarterly gross flows for the region of $14.3 billion were the highest since the First Quarter of 2015. Long term flows into the Cross-Border Retail totaled $4.1 billion for the quarter and our Global Targeted Return Fund remains in high demand with inflows of $2 billion during the quarter.

We did not purchase any stock during the quarter, instead reserving a portion of our available cash for the planned acquisition of Source, a leading specialist provider of ETFs based in Europe. We are making very good progress on the regulatory approvals and remain on track to close the transaction at the end of the third quarter.

Net inflows into Source have been strong year-to-date. We remain focused on combining the combination of our two firms, building on Invesco's significant expertise, strong track record of bringing companies together for the benefit of clients, employees and shareholders. And we really are excited about this opportunity and do think the combination of our ETF with Source in Europe will really be a meaningful addition to the company.

So with that we'll stop and Loren and I will answer any questions anybody has.

Coordinator: Thank you. At this time if you would like to ask an audio question, please press Star and then 1. You will be announced prior to asking your question. Please pick up your handset when asking your question. To withdraw your request, please press Star 2. One moment for the first question. And our first question is coming from Ken Worthington of JP Morgan. Your line is open.

Ken Worthington: Hi, good morning. First I wanted to dig more into the institutional sale. So can you give us a little more flavor about the slowdown in Asia and how the Asian specific pipeline is looking and maybe where the conversions in Asia have fallen off? And then why aren't you seeing the weakness in Asia being offset by conversions of a strong pipeline elsewhere? Then lastly, can you give us maybe an outlook for the second half of the year on the institutional side, any conviction in moving back to positive sales there?

Marty Flanagan: Yes, Ken, let me hit a couple of those, and (Loren) can chime in. So just literally with regard to the one (unintelligible) pipeline that continues and remains strong. It is just a fundamental fact we're not making a decision of when, you know, the organizations are going to finish their processes to fund. So we see it simply as a timing topic, nothing to do with a fall-off in, you know, success of the business.

Where it has gotten softer after very, very strong, you know, 18 months is really in Japan where it has been just that big change in some of those big plans. We were a significant beneficiary of it, and literally with, you know, fundings almost every single month. So, you know, at some point, you know, it stops, and so it's flattening off more than anything else. So those would be the two comments I would make. Anything you'd add?

Loren Starr: Yes I do think we're still pretty optimistic about the overall, you know, story on the institutional side for sure. The fee rate on the flows are at a much higher level, continues to be sort of record highs on the aggregate basis points. And then that weakness, as you suggest, is being offset in other locations and Europe is seeming quite strong.

So again, we - you know, I think it's more just an aberration around just a confluence of things that happened in the second quarter as opposed to, you know, a real inflection point, you know, indicating that something is, you know, at a whole new level of decline.

So, you know, the thing that I would say is, you know, we have pretty good line of sight on this one but not funded, and that's what I'm referring to right now. You know, when redemptions happen, which they can, that's harder for us to predict. And so we did get caught off sides by one large sovereign wealth outflow in the quarter which was pretty sizeable, 1.2 billion. You know, and those are hard for us to really see. We don't expect those to recur, but again, we don't know.

Ken Worthington: Great, thank you. And then just on PowerShares, it looks like PowerShares is looking to launch some market cap weighted ETFs, somewhat of a departure from the smart beta focus. Can you talk about what PowerShares is doing here and if there's any tie-back here to Jemstep?

Man: Yes, good question Ken. So it is two things. It's not just Jemstep but also solutions. And really as we build the models, you know, in line with what clients are trying to accomplish, you know, they do use cap weighted indexes in there. So it's not as a single solution but as a part of a total portfolio.

And, you know, we're very capable of, you know, managing, you know, cap weighted indexes sales for solutions and frankly also into Jemstep where a number of models have been built, you know, to give various choice to, you know, the different participants and so those are the two focuses there.

Ken Worthington: Great, thanks very much.

Coordinator: Thank you, and the next question comes from the line of Patrick Davitt of Autonomous. Your line is open.

Patrick Davitt: Thanks a lot. First question is just around the broader European kind of regulatory environment, particularly as so much of your growth is coming from that region. Do you have any change in position or more specificity on the impact of (unintelligible) on your business and/or profitability? And then more recently any kind of initial reaction to the FCA review and your positioning for their major proposals?

Man: Let's with (Mystic) coming on, you know, like everybody, it's been, you know, an awful lot of work, heads down. We really see no different - do not have a different point of view today than we have over the last number of quarters. It is more work. It's not going to dramatically change our business.

Again, I would say this and also in combination with the FCA work, it ultimately does favor, you know, larger firms that are capable of working through these topics and frankly can afford the additional cost to meet the regulations. That's the FCA.

You know, it did make a number of recommendations. Some principal regulations we're already in line with, so one of them was to have, you know, a single fee. We did that a couple years ago, so we're beyond that, and I think, you know, some of the areas that they're focused on are greater transparency and the like and some of the early suggestions.

Again, we are supportive of those types of things. We, like others in the industry, will be commenting, you know, during this period and, you know, try to help give greater guidance. But again, it is something that we feel very well positioned. They were also focused in particular on really what they would call sort of closet indexers. You know, needless to say, that's not even close to a topic for us.

And the investment performance for our teams, you know, over a very, very long period of time is just really outstanding. So again, it's a burden for all industry, but again with the idea of making it a better industry which is we're very supportive of. But again, we think we'll be fine once we get through this.

Loren Starr: And Patrick just - we did come out I think it was last quarter, you know, in terms of our position with respect to the use of commissions on research. And so we said that we were going to, you know, continue to focus on within the - our ability within (unintelligible) to use (CSAs) to fund (RPAs), which would mean that there is not a substantial impact on, you know, cost for us as long as competitively that still - and from a regulatory perspective that still makes sense.

The other thing is just in terms of positioning, and we have a substantial number of people on the ground, have for a long time, in continental Europe. So the idea of what ultimately happens in terms of, you know, having risk and support and oversight of capabilities, you know, in terms of this past supporting topic, so forth, is another thing that I'd say we feel probably better positioned than most others in the region. Overall, I'm not saying there's no cost there. There's probably some cost, but I don't think it's going to be a substantial material cost at this point in time.

Patrick Davitt: Thanks, very helpful.

Coordinator: Thank you. The next question comes from the line of Michael Carrier of Bank of America Merrill Lynch. Your line is open.

Michael Carrier: Maybe just one on the expense, you know, outlook and then just thinking about, you know, kind of the incremental margin, you know, in this environment. Just wanted to get a sense - seems like some of these investments, you know, you guys are picking up or ramping up.

Like how much flexibility do you have and are you, you know, doing more, you know, because the market environment, you know, has been a little bit more constructive? And just want to get your sense on, you know, how you're thinking about the margin, you know, in this - you know, in this operating environment.

Marty Flanagan: Let me make a comment. Then (Loren) can too. So, you know, as we said, you know, there's no question that the industry is going through quite a bit of change. And, you know, clients are demanding different things from organizations. So simply having a range of, you know, capabilities to perform well is not going to get you over the goal line, regardless of retail institutional.

And you absolutely have to have the ability to meet client outcomes with things like solutions. This movement into Jemstep to support our financial advisors we think is very, very important. Things like thought leadership, they are not optional value-added capabilities.

And so, you know, we think it's really important that we continue to responsibly invest against those, which we are doing. We think it is just making the firm much more competitive and better placed for the longer term. And, you know, yes it does make it easier to make the investments, you know, in a strong market. We're trying to get them done as quickly as we can, but again, with very much with the responsible lens on being financially sound during the process.

Loren Starr: Yes and really I couldn't add much more to what you said Marty other than I think quantifying it in terms of incremental margin, I mean, I think we're probably at a level that's more in the 40% to 50% range incremental margin as opposed to sort of the 50 to 65 right now just because of our, you know, imperatives to make sure that we build out the capabilities that are going to be critical to our success and trying to do that now, but responsibly in the sense of we're continuing to find opportunities to save and to fund those.

So you're going to see operating leverage. You're going to see margin expansion as we grow. All those things should absolutely continue to be in place but maybe not quite at a level, you know, of lower investments type of positioning.

Marty Flanagan: And I just might come back and add – and Ken was asking some questions a few minute ago – so we look at things like the institutional pipeline over, you know, quarter to quarter. That's not the way to look at it from our perspective. We look out, you know, one, two, three years and we look at it as a very, very important part of our future success.

And as I said I feel very good about the leadership in place. I feel very good about the responses we're starting to get from clients as we are dealing with them in a more robust way. And again it is not a – the assets just don't go straight up. You know, they are choppier just by the nature of the long-term RFP process, etcetera, etcetera. So again that would be another area where we just think it's really important that we do a good job.

Michael Carrier: Okay, all that makes sense. And then just on capital post the Source deal, just wanted to get, you know, a sense anything changing, you know, in how you guys are thinking about, you know, kind of buyback activity, you know, seed, just given that we've been in this - you know, this wall between the deal.

Loren Starr: So I think, you know, it is our capital policy and approach remains in place. Obviously we, smartly I think, are pausing on the buyback just so we can fund this acquisition. You know, the opportunity set for things that, you know, in this industry around consolidation is at a high level too, so I would just generally say that we're seeing probably more inorganic opportunities than we have in the past. Certainly that doesn't mean we're, you know, going to do something else other than Source.

But, you know, I think our general position is one of, you know, this is a unique and extraordinary time, and so we may, you know, continue to be thinking about the balance of cash to return versus opportunities in the market. That might not show themselves again. So, you know, again it's a little bit hard to say exactly, but we are generally I'd say back in our normal return mode post Source.

Michael Carrier: Okay, thanks a lot.

Loren Starr: Yes.

Coordinator: Thank you, and the next question comes from the line of Dan Fannon of Jefferies. Your line is open.

Dan Fannon: Thanks. I guess just another question on expenses. You know, you have this business optimization plan that's also in place where I think in the press at least highlights, you know, more run rate savings going into '18 now. I guess if we think about the guidance you've given for the remainder of this year, you know, how much of this is reflective of some of the new - the incremental spend of compliance and growth?

But then you obviously have Source, and then you're offsetting this with some of these business optimizations. So I guess is there a way to kind of bucket some of these in terms of categories of the incremental spend?

Loren Starr: Well, I'd say, I mean, into the second half, you know, certainly a substantial part of the expense pickup is just related to Source. Again you, you know, probably have a reasonable sense of kind of the revenues and expenses for that business based on, you know, what you know about that business so you can kind of do the math and see where that's breaking out.

The - you know, the optimization impact is going to be most felt in 2018 because we have some very large-scale projects that are not going to get completed until 2018. And it's only until that happens will we see sort of the remainder of the, you know, full 50 run rate show up.

So I'd say, you know, through the second half of this year, there's definitely some offset of the investments through optimization efforts but not incrementally a lot. So I don't know if that fully answers your question, but I'd say, you know, at least half of the expense pickup is due to Source and the other half is just due to the investments that we've been making generally.

Dan Fannon: Got it. That's helpful. Then, you know, Marty I think in the press release and in your comments you mentioned Stable Value as being kind of a source of redemptions. Can you talk about that and why that wouldn't be or are you anticipating that to continue to be a headwind given some of the client reallocation within that bucket?

Marty Flanagan: I don't. Look, I think it's just a normal course of people doing their, you know, allocations, you know, with their 401(k) plans and, you know, here we are 2017 and what has been more or less an extended bull market and people, you know, seem to be in some of these plans, you know, moving out of Stable Value into, you know, some higher risk return products. Whether that's the right timing or not I'm not sure, but that's, you know, not my decision.

I think what I would point to probably is the – and this is no new news to anybody following the company – but, you know, the headwinds of the UIT business, I mean, you know, that continues to be one that, you know, is not immaterial when you look at, you know, the relative flows quarter to quarter.

And again, we're just going to have to see, you know, where that goes as things settle out with the platforms rebalance what they want to do in light of the DOL fiduciary rule. So I would point to that as the more topical area than the Stable Value. Stable Value I think will continue to be solid.

Dan Fannon: Thank you.

Coordinator: Thank you and the next question comes from the line of Bill Katz with Citigroup. Your line is open.

Bill Katz: Okay, yes, thanks for taking the question. Just a technical question before I get to the meat of the question. Did you mention that the marketing spend would be in that $38 million range in Q3 or sort of tip toward that by the end of the year?

Loren Starr: The marketing's going to be roughly flat to what it was in the second quarter. And it's really just in Q4 where it goes to that higher level.

Bill Katz: Got you, okay. So the broader question is just staying on the expense theme. What's the life of the incremental spend here? So I appreciate you taking the incremental margin down pretty substantially. I get half that's from Source.

But is there a more structural change in the business model here, maybe for you or maybe the industry at large? Because seems you are ahead of some in terms of the investment spend. So when you get on the other side of this hump of spending, are you back into that north of 50% incremental margin or are you just now at a structurally less incrementally profitable point?

Loren Starr: I think this is not a structural topic. I think it's more building around what we see as absolutely key points of differentiation and growth that we want to be ahead of as opposed to sort of running behind competitors and (unintelligible). So I think we're doing a lot and we're really I think getting through the bulk of what we need to get through. It will probably persist into 2018 I'd say for us to get to, you know, sort of any delivery endpoint but I don't think it's structural ongoing theme in terms of incremental margins for us.

Yes I agree with that fully (Mark's) comments and again I just come back to we all thought it's been a competitive business you know, our careers here. But I will tell you I mean this is a very different time and if you are not investing for the future in a very rapid way, you're going backwards. And so again we think we're being very responsible. We are seeing results in very different areas and I think if you look at what we've done over the years we have a track record of the investments paid off in a pretty material way. And that's what we think we're doing right now. Are they all going to be perfect? No they're not but we feel quite confident the vast majority of them will be very important to the firm.

Man 3: Okay and then so looking at some of the flow matrix. Sort of focusing in on U.S. equity. Look at some of the slide decks and performance they continue to be somewhat checkered. How are you thinking about that business in light of just the ongoing commodization (unintelligible) risk to passive. Is this an area that you can accelerate on the investment spending side to potentially enhance returns? Is it just a timing, a cycle issue to work through some weaker performance? Just trying to get a sense of what would alleviate that pressure point.

Loren Starr: Yes look I feel really good about our investment teams and yes has there been a headwind in U.S. equities in particular, yes. Do I think, I personally think it's an incredible mistake to be putting 100% of your U.S. equity exposure in cap weighted indexes. There are going to be some very disappointed people that have done that and if you look at the U.S. value capability in particular relatively underperforming they are doing exactly what they should be doing, you know, 100% committed to their investment process. They will do very well.

And, you know, when we saw the spike at the end of last year after if you want to call it after the election through the end of the year picked up 1,000 basis points against, you know cap weighted indexes. So again it's very easy to say it's different this time and I just, you know, we're supporters of passive and factor and active and, you know, very clearly but I think it's a mistake to give up on active at this part of the cycle.

Man 3: Got you, okay. Thank you very much.

Coordinator: Thank you and the next question comes from the line of Alex Blostein of Goldman Sachs. Your line is open.

Alex Blostein: Guys good morning. So just staying with the expenses and the margin (unintelligible). Just one point of clarification do you guys expect to be at the 50 to 60% incremental margin in 2018 or the investments been that you are seeing in the back of the year is likely to continue beyond that point?

Loren Starr: Yes I think 50 to 60 is probably post 2018 based on what I just mentioned in terms of the higher level of investment. And we're probably setting expectations realistically that would be in the more 40 to 50 for this year and next year. So that's kind of where we are right now. We haven't obviously fully completed our plan around what we're doing in terms of 2018 and a lot obviously will and where the market's going, you know, where the mix of products go.

We're definitely – I'd say that the good thing which is very helpful for us is the fee dynamic is working in our favor with the strengths that we're seeing in the cross-border business and as (Marty) said it just continues through July, you know, very strong slows. That is very helpful. The fact that the pound is now, you know at 1.31 and, you know, strengthening also is going to be extremely helpful for our yield. So that could actually help our, you know, my incremental margin discussion. But assuming flat markets and flat effects is what I'm referring to.

Alex Blostein: Right, okay. And I guess if I could ask a question. Totally understand why you're spending, where you're spending and the secular changes in the space. But at the same time a good chunk of the equity business in the U.S. is underperforming on a five-year basis, you know, U.S. core business is struggling. So I guess why not pull back and create a little bit more of a, you know, cost reduction on that part of the business to fund some of the initiatives that you've highlighted.

Loren Starr: I think that could be about the biggest mistake somebody could make as far as I'm concerned right now. They're high quality teams. They're very good with what they do and investors, clients are going to do very fine with them through a market cycle and that's how I feel.

Alex Blostein: Fair enough.

Loren Starr: Yes.

Alex Blostein: And I guess as a last one on source. I don't recall if you guys gave us the amount of cost (unintelligible) you anticipate to have from that business once that closes. And just kind of perhaps how long it will take to get that out of there all right?

Loren Starr: Yes we've not provided a lot of transparency into the synergy's topic. Again in terms of the materiality it's all going to be within our guidance will obviously provide for 2018 and beyond and certainly, you know, some of it is already baked into the estimates that we provided you. It's mostly a gross topic for us as we said in the past. There's definitely some overlap that will allow for some cost takeout but the real benefit for this platform is us growing through flows and as (Marty) mentioned it is flowing beautifully, right? Very nicely and so we think we can actually significantly improve flows out of that business. We're looking at a lot of new product launches. So really it's going to be more of investing behind the business than taking costs out. So that's why we really haven't focused on this.

Alex Blostein: All right, thanks guys.

Loren Starr: Yes thank you.

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

Brian Bedell: Great thanks for taking my question. Let me just update, some updated thoughts on DOL fiduciary rule timing, maybe both and how you think distribution partners are currently positioned and will react on the active mutual fund side including, you know, financial advisor views. In your view of to what extent you think clean shares will, you know, become much more dominant in the marketplace. Maybe just long-term views on whether the bick (unintelligible) gets restructured for January 1 '18.

Loren Starr: Let's see so maybe try and put it in context of the big picture and I think we said this before to others. It's just very, very clear that the distributors are moving to a, you know, financial advisory model, you know, across the board. And that was a direction of travel anyways. I think the DOL issued a rule to, you know, speed that up. So I think everybody sees that clearly.

I think with regard to the bick (unintelligible) that there's anticipation that it will be modified quite materially to ensure that the financial advisors and investors have choice because it really does get in the way of investors having choice which means it gets in the way of people building robust, meaningful portfolios with a combination of active, you know, factor based, you know, portfolios. So I think that is important. I think I would put it in the category of people are hopeful that it's going to happen and it really needs to happen before we move into the next year. So I think the best top of line on everybody's to do list is we continue to try to support that change.

Brian Bedell: And any commentary on clean shares and (unintelligible) I guess?

Loren Starr: Yes it feels, like, you know, clean shares over time, you know, make an awful lot of sense. I think it's going to follow the transition to the advisory model where, you know, I think that would be a really good thing because right now mutual funds are disadvantaged from the point that they're really paying agents and so it makes the expense ratio really inflated when you look at it vis-à-vis something, like, an ETF because you're literally paying for service and distribution costs in that model. In the advisory model, you know, the overall fee is what is paying for the financial advice and the mutual fund within it would have, you know, the clean share lower expense ratio. And frankly with the more level playing field with things, like, ETFs and again, you know, vehicles are not ways to meet investment objectives but they have different attributes which are helpful to, you know, different situations. So that's probably where it's going to end up. It's going to take a couple of years to get there I would guess.

Brian Bedell: Okay that's interesting color. And then just maybe your updated views on large scale M&A. First of all it was interesting I think Lorren, what you talked about, you know, potential opportunities or the market getting to the point where there looks like there might be more opportunities for you guys to acquire things and maybe just some commentary about what you may need to fill out an already pretty diversified product set. And then broader picture for Marty i.e., you commented on this before in the past. So just maybe your updated views on large scale consolidation in the asset management industry, you know, given active performance actually has improved this year so far. But, you know, keeping in mind, like, what you said in terms of investing for the future if you're not doing that you're falling behind. So do you see that I guess environment for large scale consolidation even more appealing now than say six months ago?

Loren Starr: Yes let's see. You know I still believe, you know, the likelihood of more combinations and meaningful combinations is more likely now than probably anytime in my career for all the dynamics that we all know that we've been talking about. It continues to be difficult to do successfully. But I would say for firms that combine when they both are strong much better likelihood of outcome. I think it's those firms that are too struggling firms and they put them together I think it's a very difficult situation quite frankly. So the good performance might actually, you know, enhance some of these combinations or the likelihood of them.

But again I think it's really the firms that are U.S. retail focused firms that are midsize that are probably the most challenged and with all the dynamics we've been talking about. So yes we'll just have to see what happens and it's hard to predict and it always takes longer than anybody would imagine. But Marty would you add to that.

Marty Flanagan: And the only thing I would say is what I was talking about I wasn't necessarily referring to large scale opportunities because those I think we've talked about there they're hard to do. There's a lot of risk. There's a lot of complications and so I think the types of things that are most attractive to us would be things, like, source that are smaller that you can plug in gives us a platform or capability that we didn't have before and that we can grow quickly. So that's really I think in terms of what we would be thinking about more than sort of large scale opportunities.

Brian Bedell: Okay that's great color. Thank you.

Coordinator: Thank you and now we have Chris Shutler of William Blair & Co. Your line is open.

Chris Shutler: Hey guys given that expenses are a popular topic today. Maybe just summarize the major incremental investments that you're making I think you mentioned institutional solution (unintelligible) step up. There may have been others I missed. Can you just walk through those kind of one by one and give us a few more details on each of them?

Loren Starr: Yes so I mean I think or Marty you can think pick a lot of the things. Building our institutional business is something we've been talking about in the past, you know, I think we have been more retail focused as a firm and for us in terms of getting to being seen as a premier institutional player requires a lot of dedicated support and infrastructure, risk and analytics and reporting and a variety of infrastructure that we just didn't have in the past. That really, you know, client portfolio managers, having a whole infrastructure around building that out, thought leadership is another element.

So that's handfuls of people but, you know, very capable and good people that help drive that cost. Solutions is another area that we talked about and that is again a very, you know, an area we've been in but really haven't built a lot of strong capabilities around particularly around the technology and as I mentioned the analytics for us to be able to sort of go off and really almost, like, in a lab figure out how to solve our clients' problems through a variety of, you know, folks who are a lot smarter than, you know, me – Ph.D.'s and others that are thinking about those issues.

So that's really that group and that appeals to both the institutional side but also the retail side and then they are very helpful in terms of thinking about gem step as well in terms of providing (unintelligible) solutions to retail clients. ETFs are (unintelligible), you know, we mentioned and that's more of an organic obviously source for us. But the ability to take some of those capabilities and port them over to the U.S. and think about the digital platform and, you know, being the best in class provider of smart beta and differentiated ETFs it's kind of what we're trying to do and be a distant, you know, a strong (unintelligible) in that space. And in gem step so really just digital advice which I think is going to continue to be a major opportunity and from the (unintelligible) differentiated from those who don't. So we need to have a state of the art capability and it's one that requires a whole different set of skill sets and so that's kind of the other big bucket.

And the other one I mentioned which you know is the regulatory compliance which is never ending.

Man: Yes I just add a little color on the solutions piece. Again I think it's a common word and I think it's misunderstood. You know I think people tend to think of it as, you know, dealing with large institutions. I mean we look at it at three levels is all we're saying. So it literally is at the largest institutional level. That's a fact. What has been surprising the opportunity of solutions at the retail level because as all the channels are moving the financial advisors are moving too to be much more solutions oriented or outcome oriented with their clients. And our ability to build portfolios for them whether they be in models or literally help them with their books through our range of, you know, passive factor active capabilities is really, really important.

And then the third like, is gem step, right? Really building these models for gem step is really, you know, quite important. And let me go back to I just mentioned one group. So the advisor group, 5,000 advisors, so it's more likely than not and I'd say very likely by next year. So those are 5,000 advisors we've never worked for before. It's very easy that we could be working with 20, 25,000 advisors next year that we've never worked with before because of things, like, gem step, you know, so the combination of these things that we're doing is broadening our distribution channels seeing our clients in a very different way which really creates the robustness of, you know, what the future could look like for the organization.

Chris Shutler: Okay thanks. And just one other one on the fixed income area, it looks, like flows there in - at the fixed income, have been okay over the last few quarters. But I guess I'm wondering why they haven't been better, just given the really, you know, terrific performance you had in that area.

Is it just investors adjusting durations in their portfolios, or some other factor going on?

Loren Starr: That's all - I mean, really the biggest detractor from that category has been stable value, you know, so that was substantial outflows…

Man: Okay.

Loren Starr: …in the quarter. So it's very low fee, 10 basis points kind of, -ish. So again, when I think about the flows in versus out, our net revenue yield is by far and away moving up in that category. So I wouldn't take too much out of that stable value outflow.

Man: Okay. Makes sense.

Loren Starr: Yes.

Man: Thank you.

Coordinator: Thank you. And the next question comes from the line of Chris Harris of Wells Fargo. Your line is open.

Chris Harris: Thanks. Hey, guys, another one on the investments you're making. In a perfect world, how quickly do you guys think some of these investments are really going to pay off and potentially start showing up in flows? Is it a short lead time, do you think? Or is it sort of a multi-year effort that's going on?

Marty Flanagan: I'll try to hit some of them. You know, institutionally you're already seeing it. Solutions, it's happening. You know, this is at the level that we think is going to be null early one. But you're literally getting paybacks.

You know, (Jim) (unintelligible) the longer days one because, you know, again you're actually doing a, you know, installation of, you know, an application which - I think we've all lived those experiences. It just takes time. And so that will probably be the timing.

And I'd say you'll start to see, in each of those three different levels, flows continue to pick up, you know, in the quarters ahead, you know, next…

Loren Starr: And ETFs will be almost immediate as we…

((Crosstalk))

Loren Starr: …coming online.

Marty Flanagan: Yes.

Chris Harris: Okay, great. And then a follow-up on the fee rate. (Loren), I thought I heard you say second half sort of flat with 2Q. Is that correct?

Loren Starr: Yes, really a result of these two dynamics. One, we're seeing the fee rate improve due to the mix in foreign exchange. So that was like a half basis point upward tick, which it again then flattened out just purely from the consolidation of the $25 billion, 16 to 17 basis points, of (Jim)'s - I'm sorry, of source.

Chris Harris: Yeah, okay. I mean, that's - it would seem to us that source would have overwhelmed the other positives, but I guess apparently not. I guess the fee rate sounds like it was incremental positive going on into Q3 that offsets the source, I guess, is what the messaging is. Is that right?

Loren Starr: That's correct.

Chris Harris: Okay, great. Thank you.

Coordinator: Thank you. And the next question comes from the line of Brennan Hawken of UBS. Your line is open.

Brennan Hawken: Hi. Thanks for taking the question. Just a couple quick follow-ups. First on (Queen) shares and the outlook for this becoming a solution, particularly in the advisor-broker sold channel.

Who do you think, or how do you think, the sub-TA piece will be funded? And how have negotiations with your distribution partners gone on that point? Is that something that you think might have to be funded by the P&L of the sponsoring asset manager? Or would be something that the distribution partners are going to be okay with losing that revenue source?

Marty Flanagan: It's a good question. I'd say you're ahead of, you know, really all the conversations. And there's not a direct - it's not clear where everything is going to settle out, and I think much of it depends on where the DOL settles out.

So again, I would just be totally speculating on, you know, what the structures might look like at the end. So wish I could be more helpful. I just can't right now.

Brennan Hawken: Okay, no, it's fair. It's fair. And then can you give us - I know that you guys have said that you expect, you know, pretty much everybody to sign up for (RPA)s. And it sounds like you're continuing to reiterate that point. So I'm guessing that early stage negotiations with clients are supportive of that. Is that true?

Are there any early reads you can give us, particularly on the institutional side, in how that's going, and what your expectations are for any application of some of these practices globally for Invesco? Thank you.

Loren Starr: So based on what we understand in Europe, which is where this conversation has been most focused and relevant, client reaction has been pretty much absolutely accepting of that perspective. We're not alone in terms of the global - a lot of the global managers have come out with a very similar statement, so it's actually been pretty much accepted.

Ultimately I think, you know, when - the real trick will be in terms of the actual disclosures. And when it ultimately gets, you know, implemented, you know, we'll have to see how all that goes. But certainly in terms of the position, it's been accepted without much of a pushback.

In terms of the global side, I don't know, Marty, if you think that, you know, we're thinking about doing that globally. I don't think at this point we're in a position to say what we're doing in the US different than normal.

Marty Flanagan: Yeah. No, we're continuing down the path that we've been on.

Brennan Hawken: Okay. Thanks for the color.

Coordinator: Thank you. And the next question comes from the line of Mike Cyprys of Morgan Stanley. Your line's open.

Mike Cyprys: Hi, good morning. Thanks for taking the question.

Loren Starr: Hi, Mike.

Mike Cyprys: Hey. So just coming back to the investment span, you spoke about a lot of the challenges that the industry faces, and the need to invest. So I guess, why not invest more than the amounts that you guided to? What was the thought process behind that? And what gives you confidence that you're investing enough to be successful and drive future growth?

Marty Flanagan: Yeah, and look, that's the right question. We ask it all the time. And, you know, again we think we're on the right topics. We think we're making progress on the right topics. And, you know, the fundamental debate is just that. You know, are you investing enough?

And what we really constantly are doing is ensuring that we try to free up - reallocate dollars to things that are making a difference. And, you know, as (Loren) has spoken in particular about, you know, the various areas that, you know, we try to create room for investments, you know, that is our process.

So can't answer it specifically because it's what we do each and every day. But we are thinking the way that you're thinking.

Mike Cyprys: Okay. And if you were to expand the investments and the pace, what other areas could make sense?

And then just on the regulatory compliance spend versus the others, how should we think about the split in terms of how much of the spend is going for regulatory compliance versus growing the business?

Marty Flanagan: Yeah, the majority of it these days is going for growing the business which - and I think we're on the right topics. I don't think we're missing things. You know, we are investing on the things that we think are going to make a difference.

The regulatory spend, it's no different than any other of our competitors. It just seems to be, you know, constantly an area where you have to invest in.

And not just regulatory, but I would put cyber security in that category, too. I mean, they're areas that we just - you know, five, six, seven years ago, it was just not an area we had to invest at this, you know, magnitude.

Mike Cyprys: I guess, what's changed on the regulatory side over the past 12 months? Because certainly this has been a theme that you and others have been speaking about for some time in terms of driving spend. What sort of change, in terms of what you know differently today versus 12 months ago versus two year ago?

Marty Flanagan: Well part of it is, you know, as the regulations come out, you're - you know, the proposals, and then you work through the process of, you know, having them put in place and then implementing them. So you're not only implementation stage of a number of these regulations in different parts of the world, and that's really why you've seen the costs, you know, start to hit, you know, more recently in the last 12 to 18 months more in particular.

And I'd say the same thing. I just look at where we're spending money on cyber security and security generally over the last couple years.

In particular, it's just up to a degree that yes, we were spending before, but it's just at a different magnitude that you have to spend to stay ahead of, you know, the issues. You know, you don't want to read about yourself in the paper, right?

Loren Starr: Penalties. I mean, like that privacy role where if you get it wrong, it's 2% of total revenues could be your fine, right?

Marty Flanagan: Yeah.

Loren Starr: And that's a pretty substantial element. So I think it is the regulatory - you know, the number of regulatory changes plus, I think, the amount of resources that regulators are putting behind the asset management business now relative to two years ago has also increased. And so, you know, the level of being, you know, absolutely on top of it is - the bar has risen across the globe, and (unintelligible) is required.

Mike Cyprys: Great. Thanks so much.

Loren Starr: Yes.

Coordinator: Thank you. And (unintelligible) question comes from the line of Kenneth Lee of RBC Capital Markets. Your line is open.

Kenneth Lee: Thanks for taking my question. I just had a question on the source (unintelligible). My understanding is that ETFs right now don't have the same level of penetration in Europe as they do in the US due to, you know, market structure.

And just what sort of milestones do you see ahead before you see like a meaningful increase in penetration for ETFs within Europe?

Marty Flanagan: You're right. The penetration is not there in Europe. You know, our anticipation is that it will continue to see greater, you know, penetration, you know, in the years ahead.

If you look at the history of the growth in the United States, and you look at the path where Europe is on now, it's, you know, some years later. But it seems to be following the path with greater adoption.

There was also an important evolution with the ETFs to where they were derivatives-based and, you know, now there's more physical ETFs, too. And so you're broadening the potential users of derivatives in Europe.

So, you know, we're anticipating that's going to continue to be a growing marketplace for ETFs, and the penetration of ETFs to increase.

Loren Starr: Yeah, probably even with some of the rules around (Method 2) and the transparency on (T)s and, you know, where there's maybe not been as much; and certainly the idea of, you know, sort of no inducements provided for manufacturers to distributors, and how that gets implemented, you know, feels sort of like (RDR) Part 2 (unintelligible) Europe in some ways.

And we know that that focus on, you know, just pure management fees will probably drive more adoption of a lower-fee product still in, you know, the hands of European retail clients, as opposed to just institutional clients who are using ETFs predominantly.

Kenneth Lee: Great. That's all I have. Thank you very much.

Marty Flanagan: Thank you.

Coordinator: Thank you. And now we have Robert Lee of Keefe, Bruyette & Woods. Your line is open.

Robert Lee: Great, thank you. Thanks for taking my question, guys. Thanks for waiting around. I maybe just want to go back to, (Loren), your (Missid) comments, because I may have missed some of it.

Is it - I guess two parts. And number one, is it still your expectation, though it's still somewhat in flux, that you won't have to, you know, fund - outside of spending on systems and stuff, you won't have to fund it off your P&L at this point? Or how do you kind of think of that as a go-forward risk?

Loren Starr: When you talk about outside systems, are you talking about…

Robert Lee: Well reporting systems. I mean, I know you're spending money on the compliance side of (Missid), right? But I meant more just in terms of, you know, the commission side of it.

Loren Starr: Oh, well the commission side, again that's the part that we're saying would probably stay, in terms of the, you know, paid through these (RPA) accounts, funds, and clients pay more in the transparency for research. So that's the current approach. So that would be largely sort of a continuation of existing P&L and practices, other than sort of having those structures in place. So there would be no significant P&L impact to Invesco.

Robert Lee: Okay, great. Just wanted to clarify that's your current though. And I guess if I look at flows, I mean, you know, maybe thinking of them in a different way, you've kind of, you know, I think, talked to this.

But if we look at the modest outflow this quarter in aggregate, what's - you know, how should we be thinking of that really from a kind of net (unintelligible)? You know, I mean stable value, as you pointed out, is low fee, maybe had some other things.

So how should we be thinking of your expectation for the net (unintelligible) of the (unintelligible) also go forward?

Loren Starr: Yeah, positive. So the net revenue, the flow (unintelligible) headline was kind of not great in terms of the net (unintelligible). I was actually really pleased, if you would peel that back and you understand what' flowing in terms of strong flows coming into cross-border, into (unintelligible) and higher-fee reactive capabilities.

So yeah, when we (unintelligible) sort of a half of a basis point pick-up into next - the last half of the year, that's all due to this positive trend around the flow dynamic that we're seeing, even though it didn't really show up in terms of the headline flow number.

The big outflows are the (unintelligible) stable value, you know, which was, you know, single - you know, 10 basis points. And we had the individual real estate passive outflow which was, you know, a single point, you know - kind of single-point (UIT)s as well, which is, you know, something that - I think we all understand that dynamic.

It's something that continues to be a bit of a detractor to the flow story, but not one that I think would generally impact our yield.

So overall, I'd say, you know, people should look beyond that headline number and focus on what's going on in Europe in particular, because that is going to have the biggest impact on our net revenue yield.

Robert Lee: Okay, and then maybe one last question, just kind of, you know, maybe bigger picture. You know, the one place in US retail that seems to have, you know, some positive trend is clearly the SMA business, whether it's, you know, model portfolios or what not.

And can you maybe give us a sense of, you know, how you feel about, you know, your positioning in that business? Is that a business that - part of your retail business that you feel like you need to kind of make more investment in? That you have the right products in the right places, and can maybe update us on that?

Marty Flanagan: Yeah, look. It is an, you know, evolving opportunity. There's not question about it. We have the capability, you know, (unintelligible), you know, SMA structures. We also have the ability through - you know, to build the different models and, you know, like everybody, you know, it's these models, I think, that are going to be taken up.

In a number of the channels, there are opportunities right now without decisions being made. So it's that we should do pretty well in that. But again, we're not going to know until the decisions are made in those areas. So again, it's another, you know, area of growth as you look to the future. I think you're right.

Robert Lee: All right. Thanks for taking my questions.

Marty Flanagan: Yes.

Coordinator: Thank you, and we have no more questions on queue. I would now like to hand the call over back to our speakers.

Marty Flanagan: Thank you very much on behalf of (Loren) and myself. Appreciate the engagement and the questions, and we'll be in touch.

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

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