Invesco

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Loren Starr: Okay. So, we're going to begin, now. So, welcome, everybody, to our Oakbrook (ph) office, and also to the webcast. I'm Loren Starr, the Chief Financial Officer for Invesco, and I'm going to open up this meeting today with Jordan reading the forward-looking statement.

Jordan Krugman: My name is Jordan Krugman, I serve as Invesco's Treasurer and head of IR. Before we begin, I'd like to remind you that the presentation today may include forward-looking statements. Forward-looking statements include information concerning the future results of our business performance, industry or market conditions, and demand for and pricing of our products. Words such as believes, expects, anticipates or estimates; conditional verbs such as may, will, should and could; and any other statement that necessarily depends on future events are intended to identify forward-looking statements. There can be no assurance that actual results will not differ materially from our expectations, and we expressly disclaim any obligation to update this information.

We caution investors not to rely unduly on forward-looking statements, and to carefully consider the risks outlined in our Form 10-K and subsequent Form 10-Qs filed with the SEC. I'd like to now turn the presentation back over to Invesco's CFO, Loren Starr.

Loren Starr: Thank you, Jordan. So, most of you know me, you've heard me speak before. Today, we even have the benefit of hearing from some of our experts in your PowerShares, ETF Smart beta. So, I'd like to introduce to you Dan Draper, who's our Global Head of Invesco PowerShares, he's also the President of Invesco's PowerShares Capital Management, LLC. I'd also like to introduce Lorraine Wang, who's the head of our Global ETF Products and Research group, in which role Lorraine leads a team responsible for new product development, for product line strategy and (inaudible) research for PowerShares on a global basis. And then, next to Lorraine is Eric Pollackov, who is responsible for our global ETF capital markets, on a global basis, so we'll hear from him as well.

So, in terms of the agenda today, I'm going to open things up with an introduction, give a little context for the meeting, and then we'll go into the details of PowerShares and factor-based investing. If I could just ask in terms of questions, let's leave it to the end since this is being webcast, so it'll be easier for us to coordinate the question and answer session if we leave it to the last part.

So, let me -- as I mentioned, sort of beginning by saying the whole focus of this meeting is to highlight our leadership in PowerShares, factor-based investing, smart beta, but first as I mentioned, I think it's important to put this in the context of our overall strategy. (inaudible) based with a deep understanding of our clients and our clients' needs. We recognize that clients are not all the same. They have different needs. And this recognition, or around that -- actually was the catalyst for us setting up our ETF business back almost 10 years ago as well as factor-based investing, which is even longer than that.

It's completely consistent with our goal of trying to anticipate the needs of our clients, ahead of those needs, and invest around that because the needs do evolve, as demographics evolve and the macro environment evolves. And I would say that certainly it is one of the hallmarks, we think, and you'll see this at Invesco, being able to look ahead. Certainly those in the industry who have been slower to recognize some of these trends and evolve are probably going to have a more difficult time trying to catch up.

So, we'll start with kind of an overview in terms of our disciplined approach. It's always been our focus to manage the business smartly. As I mentioned, we try to identify and confirm where client needs are going, the demographics, and those needs, and challenge ourselves every year continuously, quite honestly, to see if we're allocating our capital to the right products, to meet those needs.

And this really highlights some of the five key demand scenes (ph) that we've identified, there are three on this page and there'll be a few on the next slide. And then, these are probably sort of surprising to you, but they were definitely things that we saw and we built around.

So, the first was the search for yields. Certainly we anticipated our clients' needs for yields in a low interest rate or even negative interest rate environment, and we worked hard to expand our capabilities, both in equity, fixed-income, and alternatives, of upstream (ph) fixed income.

And so, we built around a much stronger team set of offerings, and that is certainly working for us today.

The next one is the scene around barbelling, where clients who are looking for pure alpha on one hand and market exposure on the other hand, and that really was the scene that brought us to the (inaudible) from thinking about investing in PowerShares back in 2006, and then we actually began the factor-based investing back in 1983.

Another thing is clients' demand for absolute return and multi-asset strategy, so once again, clients not wanting pure singular market exposure, not just equity exposure, but maybe diversified market exposure. And so, we worked hard in terms of providing capabilities, and you can see that in terms of the risk parity product that we launched in 2008. We brought on board in 2012 our multi-asset team and Invesco Perpetual, which helped us bring the market our GTR product, and we also saw our IQF team add our global market neutral capability in 2008.

The other two themes on this page again, nothing that you haven't seen, just generally the growth for alternatives and demand for alternatives. We entered the direct real estate business back in 1991. We expanded into private equity back in 2006, and then more recently sort of we saw the demand for alternatives, go beyond just an institutional focus, but into the retail space. And so, we've been one of the -- on the forefront on providing liquid alternative offerings to retail clients on a global basis.

And the last thing was, this increased demand for solutions, as well as new advice models. You know, we're in the fortunate position of having such a diverse set of capabilities that we can actually provide entire solutions to our clients as opposed to component parts of an otherwise bigger solution that they may have identified. It requires a more consultative advisory type of approach. I believe built-up resources and analytical capabilities to be able to do that, and the 529 line win that we recently got is a good example of how that can work for us.

The other thing that you may have seen is our entry into digital advice, with our acquisition of Jemstep. Again, being on the forefront of a new model and being able to provide a solution to clients that we think is going to continue to evolve and grow.

So, if you're (inaudible) with this very comprehensive set of investment capabilities, and we believe we have one of the most comprehensive sets in the industry. But it goes beyond that. It actually then translates down into being able to deliver to our clients in any number of vehicles, so we have mutual funds, we have separate accounts, we have unit investment trusts, we have ETF, we have come-and-go funds, we have any number of ways to meet their needs. And again, so we don't want to identify ourselves as a mutual fund shop, or an ETF shop, or an institutional shop, for that matter. We are very much trying to meet those clients' needs through very flexible and dynamic ways of delivering our end capabilities.

The other thing that I'd say distinguishes Invesco perhaps, is certainly that we don't settle for average, right? We definitely go beyond providing just benchmark-centric, active management, plain vanilla, traditional path of offerings. We're definitely trying to distinguish ourselves with a focus and providing high-conviction investing, both on the fundamental access side, as well as the factor-based investing side. And we think that through doing that, we're going to be able to uncover more opportunities, add more value, and provide actually better outcomes for clients than focusing on sort of the more generic and vanilla offerings.

The other thing that I would say about Invesco is that the entire organization is absolutely focused on this one objective, of helping clients. It is our culture that definitely supports a professional, being focused on the investment experience for clients and trying to deliver superior investment experience. Obviously, we talked about the comprehensive range of investment capabilities. We have this one focus -- purity of focus on investor management, no conflicts. We're independent as a firm, and then also our approach to running the firm effectively and efficiently, constantly challenging ourselves, trying to see where demand is going, being able to build around that future demand, and certainly not sitting on our hands and thinking that we've figured it all out.

But, being able to reinvest in the business smartly, on a continuous basis, is important.

And then finally, just kind of a strong firm. We never want the situation where the clients are going to be putting money with us, if they're worried about leaving money with us. So, they're leaving money with us for years, we need to be a strong firm so our problems don't become our clients' problems, and so we can focus entirely on them, and not on ourselves. So, it's also a very important part of what we do.

So, truly, the totality of all those things I just mentioned, all those elements that we believe differentiate Invesco and positions us for growth and long-term success. So now, with all that as context, what I'd like to do is now get into the meat of the presentation. I'll quickly turn it over soon, but basically we're going to be focusing on PowerShares, ETFs, as I mentioned, factor-based investing, smart beta, and really the differentiator I think in terms of ourselves versus many of our peers, we're very good peers, is the longevity that we've had in terms of investing in PowerShares in factor-based investing. That gives us a level of experience, it gives us a degree of relationships and importantly, probably most importantly, active distribution capital markets, that's very hard to match. So, new entrants are not going to find any more success, certainly as we've been doing for two years.

That has allowed us to grow our assets under management to $150 billion in terms of the broad base, the factor base and ETF, and quantitative. But, there is a whole lot more growing to do, so I don't want to say we've achieved everything we want, and with that I'm going to turn it over to Dan Draper who's going to talk a little bit about how we expect to achieve further growth in this case (ph).

Dan Draper: Great, well thank you very much, Loren, and welcome to everyone who's made the journey to Downers Grove today. As Loren talks about on this slide, I think this is our emphasis that in terms of the diverse offerings to clients that Invesco has. You rarely see $150 billion of assets under management under factor investing, so we're going to spend some time talking about factor investing, the evolution, why it's becoming more and more important. But, I think the diversification of this not only in terms of PowerShares, Invesco quantitative strategies, my colleague Steve Masoni (ph) is here who heads up Investment Unit Trust. All of these are delivery mechanisms to bring better solutions via factor investing to clients. They're global.

You look at particularly IQS's track record, Invesco Quantitative Strategies' track record, being involved in quantitative investing and factor investing since the 1980s. So, in terms of track record, scale, we're a large player here and we really want to build to that degree.

As I go into a little bit more specifics about factor investing, what we're really talking about here before I kind of kick it off, is kind of the elephant in the room. We hear all the time, active or passive? Well, I think about it, it's almost the asset management, the Shakespearean way of asking, to be, or not to be, right? It's the question that everyone seems to ask right now. I think if you are an asset manager, a management consultant or kind of a pundit, it's an interesting question. But, I think what Loren talked about earlier, which is crucial, is Invesco, and we turn and our purpose is to focus on clients, or better outcomes. If you turn the question to the client, to be or not to be, it's existential but you ask them what they want, what they're trying to achieve, their life goals, their investment opportunities. They're going to improve their lives, their children, and different types of things, they're trying to.

I think if we turn it around, this is where all of a sudden the active or passive turns into, you know, their vehicles, their methods of investing. But holistically, to most clients, they're probably going to want portions of both to get to many of their outcomes. And I think this is where, again, from an Invesco perspective, having the broad capability, having the decades-long track record in active management, skilled practitioners around security selection, being able to harness that experience, and take advantage of opportunities now to get market share and active management. That's our high conviction philosophy. We've done it for a long time. We're global leaders in that space.

But ten years ago, almost to the day, actually -- I mean, within a few days -- of Invesco having the foresight to purchase the PowerShares business, which was obviously started around here, and that idea -- not to come in and we want to immediately go into traditional core beta, if you will, but we really see this idea -- it wasn't called smart beta years ago. It was intelligent investing. But we see this area where this rich ground between market cap-weighted beta and the active space -- being able to pull on these ideas that are -- yes, they're index-based, but a lot of the thought process is actually active.

When you're doing your product development, you're testing, you're looking at the market portfolio and saying, wait a minute, there may be some type of behavioral biases. There are other -- you know, enhancements we could make to the market. That's kind of an active thought process. But then, can we bring it back to rules-based indexing? And obviously, being able to track that?

So, I think that having the ten years of experience, this is where we're very comfortable today as a firm at Invesco, to be able to talk about being high-conviction. And yes, we can do it actively, in traditional securities selection, but we can be high-conviction in smart beta factor investing, in terms of ETF. And this is really where I think we have a very unique message for the marketplace, and as we come back to that question, active or passive, we really want to bring it back to the client focus and ultimately say that I think what clients have seen through the last couple of decades of market volatility is, I cannot afford to be simply passive in terms of the activity and monitoring my wealth and planning for my future, as if I'm just going to sit and effectively be completely passive on that portfolio or investment. I'm going to be an average person, I'm going to get kind of an average return, or I'll be an average investor getting an average return over a long period. Let's see.

And consistently, we talk to our clients and engage, whether the wrapper is active or passive, they are more aspirational and want to be much more than just passive investors with passive outcomes. They want to really achieve more, and I think that's the core of our purpose and what we're trying to achieve.

So, I think with that backdrop, getting a bit more granular into kind of the factor definitions -- if you think about moving the industry, this is the epitome of the digital age. As we move now to have not only the investment content -- I'll just hop back a second to Loren's earlier slide -- and you look at all of these, the content capabilities, this rich content of investment capabilities on the top of this slide 9, and then you think effectively about the delivery mechanism offered on the bottom, you have a lot of opportunity -- as I now, moving forward for the audience online, you're able to then move back to this idea of the digital age where we're moving from mass production, to mass customization. So, investors of all levels, now, are being able to have customized end solutions through that.

So, as we look through that, the customization also is another way of saying, we're going to help investors of all levels through their intermediaries or their portfolio managers, get better outcomes through diversification.

And I think this is really where the factors start to play a bigger role. And as we've seen this evolution that we can talk about really starting 60 years ago, about 25 miles southwest of here at the University of Chicago when one Harry Markowitz -- and I'm kind of quoting a Peter Bernstein story here, but Harry Markowitz was waiting outside his dissertation advisor's office, Milton Friedman, and he's trying to come up -- he's a mathematician and he's trying to find out, as a mathematician, I want to get a Ph.D. in economics. How do I apply my math to do that? And as Peter recalled the story, Peter Bernstein recalled the story, his advisor's stock broker happened to be around, and started talking about the stock market and struck an interest. So, this is applying these mathematical concepts for the first time extensively, into what was the beginning of modern (inaudible) theory.

So, it was really 60 years ago, the basis of this really started, and out of it, and as we'll explain later, kind of this idea factors, as the component pieces, that theory has evolved. And now, in practice -- again, I say the digital age, the lower transaction cost, and the reduction of a lot of market friction have allowed us to build better diversified portfolios or help advisors build better-diversified portfolios.

So, ultimately, if you think about that evolution, kind of the conclusion was through that work, obviously later in the 60s we capitalized that pricing model, that the results academically was, there's one factor, a single factor, that matters. Of course, that's the market portfolio, and that led to market efficiency. You can't beat the market. I think through that -- as soon as that idea was released through the 1960s, immediately others wanted to test it and we saw that evolution through the 70s. We saw Ross at MIT and other academics really looking and building arbitrage, pricing theories.

But chipping away, we have the theory, the market is efficient, but we don't -- over certain time periods, we don't see that efficiency actually being realized. Why is that? Well, over time, we found their behavioral bias, you can actually look at different types of risk premiums, which are persistent, over very long periods of time and you're able to express different views through that. So, the theories have been around really since the 70s, we started seeing the practical application arguably in the early 90s with again, University of Chicago, Eugene Phama (ph) and French, being able to bring their ideas and identifying some small cap premiums, value premiums, that could be valuable in harnessing investors' long-term. But then, you still had, back in those days, the transaction cost, accessing other factors, testing them, and actually getting them in a way that could be beneficial to investors was very, very limited.

But ultimately, as we've seen, the market structure evolved, the accessibility of getting to these factors and providing them on a broader basis, were really at the forefront. And again, I offer, moving from the analog age of decades ago into the digital age that we see today, into this ultimately mass customization (ph).

So just very quickly, looking for a few definitions, what is a factor? Well ultimately, a factor is a quantifiable characteristic of an asset. If you can think about it, it can be directly observable in terms of something intrinsic, would be size, momentum, value, quality, we could go through the list. But also, it could be something exogenous. Something outside, taking the view of factors from a macro perspective, thinking about microeconomic factors like inflation or consumption. But, the key is to really think about those risk premiums, wherever they derive from, but through the characteristics of risk and return. And that's really being able to hopefully utilize -- when we look at factors, either through building blocks -- single factors, to be able to have a better risk-adjusted return portfolio, or to combine them into a single product to get a better outcome, as well.

And if you look through kind of what is factor investing, again, it's looking through this lens, thinking about a return distribution, and then attributing that return distribution into its components. So, it's almost thinking about the atom, or if you're thinking about food, a lot of people in the industry refer to it as the nutrients. Being able to get the building block products that make up the entirety, that's exactly what we're getting used to.

So, if you think about performance attribution over time, people think about security selection, asset allocation. For the last couple of decades, we've had our traditional style box. I can do performance attribution on value and growth, I can do small cap and large cap. What we're really doing here with the factor, is taking that traditional style box and expanding it. So, we've got style investing, let's now take it to broader factor investing.

And again, the ultimate goal, as again Harry Markowitz once said, the closest thing to a free lunch in investing is diversification. That's ultimately what we're trying to achieve, here.

So as you look ahead, what is the investment case around factor investing? Well clearly, it's the evidence. You need to be able to look over long time periods, multiple market cycles, particularly during stress periods, and really try to feel that the particular factor that you're examining, or range of factors, really hold up and have efficacy over a longer period of time, and make a difference. They also have to have the belief, that -- actually this is, if you will, common sense -- is it intuitive that maybe in this macroeconomic environment, or this particular -- the actual factor reacts a certain way.

The sustainability. This is obviously crucial. Rather than trying to market time and data fit certain factors that just happen to work during a certain period of time, we're really thinking about strategic asset allocation enhancement, for the most part. Can we really find sustainability?

Then you actually move into the product design. Once you get the content, and you identify the factor from a content perspective, how do we get into delivery mechanism that can then be used by investors, portfolio managers, advisors, who again arrive at this better outcome? The key there is the systematic, a repeatable process that you don't bring in noise, in something unintended. Then you look at broad, being able to look at a large opportunity that has a large capacity. If you have something that is very narrow, and then all of a sudden you run out of the capacity and then effectively the risk factor could disappear.

Look, it has to be simple. Again, I think minimize kind of the noise, really zeroing in on something as identifiable and really helps in that well-designed product. And then, ultimately, cost-effective. Again, I'll emphasize, I think if the evolution over the last few days (ph) of factor investing, and indexing in general, cost has been a huge issue.

Back when indexing started, in the mid- to early 1970s, you think about it, you still have $6 trading commissions on the New York Stock Exchange. It was really hard and expensive to track an index. When you eliminated the $6 in the 70s, surprise, surprise, John Vogel launched the first Vanguard Index Fund around that time, and you started to see, slowly but surely, the big pickup.

And as we see today, the efficiency and market structure continues to really fuel the growth in indexing, and also now through factors of the (inaudible) through indexing.

So, with that backdrop on factors, and I think the positioning, I do want to go into the ETF market landscape, and particularly to go through the leadership position that PowerShares has built now, over 1 years in smart beta and factor investing. And something that we're very proud about achieving, but also looking over the horizon and thinking about the opportunities in front of us that makes us really excited.

Well, first of all, it's that PowerShares is a pioneer of smart beta ETF. We launched the first range of multi-factor ETFs, this was our Intellidex range, of ETFs, again that was in 2003. The first in the marketplace to do that. Today, our smart beta range has 93 ETFs with over $42 billion in AUM, and my colleague Lorraine Wang has the next session, will be able to go into a lot more specific detail about our existing product range, and a lot of our thoughts about products going forward.

But, over the past 13 years, PowerShares has created the most comprehensive range of smart beta and factor ETFs in the industry, and I emphasize this is on a multi-asset-class basis. So clearly, equities is where we started. We've added different alternative strategies in smart beta, including commodities, looking at real estate, we even have a private equity smart beta-type product. But then, moving also increasingly now into fixed income. This is where we see very strong secular growth, and this is an all-weather fixed income offering, looking at everything from having laddered strategies to also increasingly, now, we're really building out our market leading capabilities in variable rates, if we get a rising rate type of environment. And again, Lorraine is going to have some more information on that.

So, we have the broad range, we have scale, but also -- and this is crucial for smart beta factor investing -- we have historical track record. We're not dependent simply on back-tested information where we're fitting data in the hopes to come up with something that makes a good marketing spend. Over 70% of our smart beta and factor ETFs have at least a five-year historical track record. And being able to just show that historical track record, obviously helps not only with the direct clients, but you think about the Morningstar rating, and other independent rating agencies, we're able to go in and really show that track record.

And if you think about some of the key client channels, like some of the wire houses for example, in the intermediate retail space, that track record is absolutely crucial to get on model portfolios. The same things with RIAs and others, and most importantly as I'll talk about later as well, the fast growth of institutional use of ETFs. Institutions in some cases or consultants, have to see a minimum three-year track record, and some of them need as much as a five-year track record. We have that for 70% of our smart beta products.

If you also look in terms of the way over ten years we've been able to leverage, and again I think harness, as we showed earlier, the intellectual capital within Invesco. And so, we do have a number of third parties, but increasingly -- and then again we're going to have some news a little bit later in the presentation about how a new area we're partnering with Invesco, but for us to be able to work with the Invesco real estate team, we've had the very successful senior bank loan ETF with our fixed income colleagues. So, there's a lot of intellectual capital that we're leveraging, but we think as a competitive advantage moving forward, being able to leverage more on a global basis with our colleagues and the active side of the business, is very exciting for us.

And you're able to look as well, as I think that Loren alluded to, the growth of digital advice. And as we think about, there's price competition, there are new entrants coming in, into ETF. So, you think about the positioning, the pricing, the margin impact on kind of single ETF and suites of ETF, but just like broader retail. Broader consumer areas, packaging, bundling of products and services together, is absolutely crucial for protection of margin, margin growth and expansion, and that's exactly when we look at the Rhode Island 529 plan. A big, big win for Invesco. Our share is obviously a part of that win, so we're able to grow in a packaged, bundled solution, and obviously the digital advice space is another area. And I think it's really important when we think about, particularly being in differentiated smart beta and factor investing, especially in the digital advice space, most of the growth that we've seen in that area -- and it's been fast growth -- has been in traditional core beta. We think there's a big opportunity to be the leader, with Jemstep, areas like Rhode Island 529, to also take advantage of the bundled packaging solution area as well, with ETF as a critical component piece through that.

And we also look at a global platform, where a handful of players who not only have our large, US-domiciled range, but we've been very successful to be a top five player in Canada, where we have local Canadian domiciled, which is very important for the development of that retail market, particularly as regulations change there. And also, in EMEA, where again, we have a usage platform and we've been able to grow that, and more recently again, the rank and talk (ph) bringing some of our successful strategies that have worked in the US market, and export them globally into those locally-domiciled ranges for those investors in those markets.

And I think, importantly, it's great to have all of you here today in Downers Grove, because you get to see the team, and also to see particularly the portfolio management team, operations, IT, all of these areas that really build the core back-burning infrastructure. Because this is something that I think doesn't go as emphasized as it should be, but if you think -- that you want to build a scalable index and ETF business, to be able to have that scale, you need to be able to do it yourself. And many new entrants and other smaller providers are reliant on sub-advising out their investment process to others, or sub-advising out different key pieces of their infrastructure. The fact that Invesco, we have -- in PowerShares has Invesco as the parent, to make investments, to be able to make sure that we're moving from manual processes in our investment process, to more automated, to build for scale of AUM as this industry grows.

This is a key differentiator, and I'd say if you really look at the number of true players that have scalable infrastructure across indexing, and being able from a risk management perspective, it's slightly more than a handful, but not a lot. I think that's a major differentiator that we want to emphasize today, and the continued support and appreciation we have for Loren and the senior management of Invesco to continue to invest in this business and make sure we're building out the capacity for future growth.

So very quickly, I'll move, looking at the smart beta, if you will -- oh, sorry, this is the lead tables for the US. You can see that PowerShares is number four. If you were to make this a global slide, we'd be number four there, and I would just simply say that in our global AUM, these are numbers from June 30 that it's public information, that we're now about $110 billion into the last month that came out in terms of our global AUM, is just for those numbers.

And I'll come back to where we really want to focus on the lead table discussion will be in the smart beta area, I'll come to that in a minute.

Again, looking very broadly across the ETF industry flows, you can see that very, very sharp growth from 2010 if you will, post-credit crisis, obviously a big year in 2014. If you recall, that was when quantitative easing was finishing up, if you will, or kind of at its peak to ending in 2014. We did see a little bit, not much, but a little bit of a dip in 2015 as QE came off in the US on that side, but you still see very, very strong growth here on it.

I'd say that you've seen some variability in particularly equity ETF, again, in terms of inflows and outflows. But, what I would say has been a strong secular trend that we continue to see long-term, is fixed income. This is an area and an asset class that we think is very early stages for pretty significant growth through that.

I just want to go through seven additional trends, looking at first of all, in the ETF industry. As we said, the industry continues to grow. Global AUM is $3.2 trillion as of the end of June. What's really interesting is, if you look at the total AUM, you think about it from a manufacturing perspective, 73% of the global AUM is manufactured or listed in the US market. But then, if you were to look at the amount that's actually held in the US, it's a number that's roughly under 60%. So, what it tells you, is that because of the size, the liquidity, the infrastructure, the BTC (ph) clearing settlement, the regulations and all of that, it makes the US capital market such an attractive place for many foreign investors to come and buy and use ETF.

So effectively, the US ETF market, it is a big export, and a bigger one as the -- for in the financial services industry globally, and it's really important for us because it helps get our brand out even though it's US-based, for our use of platform in Europe and our Canadian platform in Canada, obviously.

And then, number two is really looking at the growth rate. Again, our core focus in area of importance is smart beta, and if you really look, the growth of that has been tremendous. Coming from a very low base, and low level of overall awareness, smart beta is now 12% of the total US ETF industry and you can clearly see, growing at a multiple rate, in terms of compounding new growth rates of the overall ETF industry, and expected to do so really over the next three to five years.

We see a growing adoption of smart beta by clients, but I'd say almost as fast, we're seeing a growing adoption by our competitors. Many new entrants from different angles, but also many traditional asset management competitors are more recently going. I think the impacts of DOL are encouraging that. We've seen other movements at the SEC, frankly, to if you will, standardize the approval of active ETFs in the last few weeks. So, there's a lot of external impetus pushing the competition. But, I've been quoted as saying, and I'll say it again, I think the barriers to entry are reasonably low to get into ETF but the barriers to entry of success are very high. And again, we can talk about some of that through the presentation and Q&A.

In terms of like, the content or investment themes that we look for in the ETF industry, I think you know, the continued seeking for yield where we have historically low interest rates, this unusual monetary environment. We're seeing investors of all ilk really trying to find yield. We also have in the developed world, this incredible demographic shift, with the baby boomers. 10,000 individuals every day in the United States are turning 65. They need to be able to retire, they need to manage longevity risks. I need yield, and increasingly because of this unusual monetary policy pushing people out of -- if you think about life cycle investing, I have always been told I turn 60, or approach retirement, I've got to be moving my portfolio to fixed income, out of equity. Well, it's really difficult because you're not getting yield.

So now, we're seeing through quantitative easing, or the -- quantitative easing in some part of the world but just monetary conditions in the developed world, we're now seeing investors being pushed into riskier asset classes like equity for yield, but as they're doing it, they want to do it in a lower-volatile way. And so, we're really seeing on a factor basis, that's why the combination of yield, lower volatility, quality, that's where these factors really come into play.

If I was planning 20 years ago to move from equity to cash, conditions have changed, how can I make this transition to reach my goals? Maybe I need more capital preservation? I'm going to live longer. How can I do it in a way that I still need to generate income, I'm going to be holding probably more equities or other non-fixed-income instruments, but how can I do it in a lower-volatile way?

We think again, that this is going to be a trend that's going to be really perpetuated by demographic changes, for some years.

I talked a little bit about, I mentioned the Department of Labor earlier, but again, regulation -- not only in the US with DOL. We had it several years ago, in United Kingdom with the retail distribution review. We see CRM too in Canada. Most of the developed world you're seeing some form of regulation, coming in, that's putting increasing pressures on investment fee and really pushing toward higher transparency. And again, having the diversified model that Invesco does, this really obviously helps PowerShares take again, a lot of that intellectual capital at Invesco and just simply offer another investment vehicle, which can really help in this type of environment.

We're also seeing, again, that the growth of smart beta and factors is increasing by institutions, but also in the intermediary space, among advisors. Again, we saw this trend really starting decades ago for very sophisticated asset owners like sovereign wealth funds, but as the concepts have become more mainstream and as I said, the ability to access these factors, be able to transact them and offer them in smaller investment sizes, you're really seeing this move into like I say, in community (ph) to retail very, very quickly.

Also, if you look, I think active ETF is something that's talked about a lot. We like to differentiate. We in fact, PowerShares launched the first-ever active ETF. We launched an active ETF but we still publish the holdings on a daily basis. I want to differentiate. I think there's a lot of work on trying, if you will, or for active ETFs that don't have to obviously have the daily transparency requirement.

So, I think we're seeing, obviously, movements there, competitors have kind of offered that, but as we monitor that active ETF space, we still see the overall AUM of active ETFs as part of that $2.3 trillion pie, still representing less than us in that area. So, it's a potential area for growth. We monitor quickly. We have active ETF so we can talk about, what we felt that for most of our core clients, they still wanted -- even though it was an active ETF, they wanted daily transparency. They wanted that product to, if you will, help them from an asset allocation perspective rather than a security selection perspective, which obviously would then favor the less transparency.

So, let me go ahead and move on quickly to smart beta ETFs. I touched a little bit about the evolution, if you will, from kind of this idea of modern portfolio theories from the 50s until today. Indexing has a long history. Charles Dow, a long resident of Brooklyn, obviously one of the early members of the Wall Street Journal, came up with the first rail index on rail companies, which later became another index around the Dow Jones Industrial Index, obviously. But, as we push forward in indexing, I'd say that indexing really again was able to really partner with that development in modern portfolio theory that I described, particularly in the 1970s.

Once you were able to have this theory, you had the market portfolio, markets are efficient. Next question was, how do I buy the market? This is really where -- then you start turning indexing into consumable products, or investable products. And we've really seen that evolution.

Obviously, the ETF wrapper came along, north of the border in Toronto, in kind of the late 80s, early 90s, and then obviously here in America, the large slider ETF came about in 1993. So you had, if you will, the market portfolio, the market factor being offered. Our QQQ ETF came along in the dot-com hype in the late 90s very successfully, but then I think this is really where PowerShares came about. Thinking about, well, we had a couple of, if you will, market cap-weighted ETFs, is there an opportunity to again, have that middle ground, the middle ground between traditional active and traditional market cap-weighted passive.

So, here on slide 27, just to really highlight, I'm going to refer to the term, "smart beta," it tends to be probably the most commonly-used term. But, you'll also see from other terms, like alternative beta, alternative indexing, strategic beta, advanced beta, so we're talking again about this middle ground where you're taking benefit attributes of traditional beta, index-based, transparent, but then also taking ideas around active management and really thinking about taking a view, and tilting characteristics away from the market portfolio.

So again, 28 is just another graphical representation of this middle ground that I'm referring to. So, I think the idea here is that by taking the view away from the market, clearly there are opportunities and certain market conditions you could outperform the market, but clearly there's an opportunity as well, as you deviate to under-perform. But, the key is you're looking for a combination of factors, that on a risk-adjusted basis, are less correlated with the market. And if that's the case you're going to hopefully get diversification benefits through there.

And again, just another way on slide 29 of graphically representing that idea, and I think this is what's interesting, is I'd say this, probably, slide, represents a little bit more of an institutional view of the world where if I am someone more orientated toward my risk budget, and even my cost budget, if I have the workhorse and core beta, market cap-weighted beta, is a workhorse. It's an important part of many, many portfolios. But, at the same time, if I want to basically save a lot of my risk allocation, I think I have something unique or I can hire portfolio managers who can identify and find alpha, I want to save my risk budget and in many cases, my fee budget, my cost budget. I want to save that for alpha.

But what we're finding is, this very rich middle ground, is that you can get a bit of both. You can really improve overall risk budgeting and portfolios by having the smart beta factor bucket in between the pure alpha and obviously the market exposure.

So, as you look through, again, a little bit of a background. What really kind of accelerated more recently, I think the focus on factor investing in smart beta, was this global financial crisis. At that point in time, you still had I think kind of the buy-and-hold mentality for many investors around buying and holding traditional, market cap-weighted beta. But clearly, if you were an individual or other entity investing in the marketplace, who wasn't on an extremely long time horizon, the extreme market uncertainty and volatility, record high volatility, could have led you to really sharp drawdowns at the wrong time.

And as well, for individual investors, there are also not only losses, there are also pretty steep capital gain tax implications. This is where I think the positive benefits of the ETF that came out of that were very, very attractive. Being able to look and say, yes, I do believe in the merits of strategic asset allocation, but I also need to keep an eye or have a portfolio manager or have an advisor to keep an eye on this portfolio. Also, if there's going to be higher levels of volatility than I was otherwise led to believe, I want to make sure that I can get liquidity. I want to have transparency, I want to know what my fiduciary actually own, I want to keep a focus on cost. As I mentioned, for some investors, tax efficiency. And that's really where you could tick the box, ETFs, tick all of those boxes, and obviously have done really well since that environment.

As I kind of move from the market environment to really thinking about PowerShares core competencies, what we are really trying to achieve is, we want to become the global market leader with the strength and presence both in retail as well as institutional. We have competitive advantages today. Our long history and pioneer status in smart beta innovation, and also the strong brand that PowerShares now has again, leveraging also the strong Invesco brand together, having those with the brand strength that we have leading through Invesco's purpose.

I think being able to also look at our historical strength, and this has been very important, for the US advisor market. Because when you think about institutional investors, in the US market, maybe they're Russell, S&P, very large benchmarks. For them to look at a new product with no track record, to be able to go on no performance history, and to really use that precious risk budget to make a big bet on something new, it's challenging. It's very, very difficult, but this is where the -- in PowerShares's history, the evolution of fee-based advice, particularly in the registered investment advisor channel, that was crucial for PowerShares development.

Because you had strong fiduciary, you probably didn't quite have the same narrowness in terms of benchmarking. They were able to look at newer indexes, or newer strategy. They were early to adopt smart beta strategy, and that really helped us because it was crucial in this RIA and other intermediary place. We were able to build scale, trading volume and track record, that today has now, the demand has called out, we are able to then take to institutions and other fiduciaries, and say, look -- or other potential investors and really say, look at our fiduciary track record. And even though this may not be your exact benchmark, you can use this for diversification benefits.

And it's really important, I think, in PowerShares' 13-year history, to think about how that retail area helps us to build scale, track record, trading volume and liquidity today, to have the large, robust, multi-asset-class offering that we can now take broadly. And then, importantly, as I stay on bullet point 4, on a global basis, it really gives us an opportunity when we see a particular strategy which works well in the US market, we can take it to Canada. We can take it to Europe, for example, and those platforms. And I mean, a great example has been, again, the combination I mentioned earlier of like, kind of high dividends and low volatility. That's our SPHD, S&P 500 High Dividend, Low Volatile ETF. Very successful product in the US, and it's also been one of the most successful product launches in our usage range in all of Europe. Our product has attracted over half a billion dollars in net new assets in its first year on trading on the European market.

And, we're able to go and look at our specialized and strong infrastructure, which I mentioned, and I emphasized, you're looking at long-term growth in this area, commitment to invest and build from a risk management perspective, automated processing to prepare for scale, is absolutely crucial for future retail success. And obviously, the organizational alignment. This is where I think it's important to have ten years of history for Invesco and PowerShares to work, how they work together, how we can really share resources, how we can get commitment, get the brands working together, get distribution working together. This is really something that doesn't happen overnight, and I think it's an advantage -- the foresight, again, that the senior management at Invesco had to buy PowerShares ten years ago.

As we move ahead and we look at, again, the fast growth, we know of ETF, of the overall industry, which is the purple line. But then, you can really see the spike up in the smart beta growth. And again, I think you can look at that 2011-2012, we were a year or two into the current bull market, but you also had the quantitative easing which was going into play. So, all of a sudden, you really saw coming to life, I think, the efficacy of adding factors and smart beta to traditional portfolios, and we continue to really see that growth.

And as you can see, the ETF industry, as we've seen over that time period, has grown from $426 billion in 2007 to again, $2.3 trillion in the US today, we also have seen smart beta starting from a very kind of modest level, up to $21 billion, up to $273 billion today over that same time period.

And as we look ahead, and as we kind of project where we think the market's going to go, we don't know, but where we think it could go potentially, the demand for smart beta ETF could grow to -- from today's level, we looked at $272 billion, $273 billion, up to $602 billion in 2020. That's roughly about 11% compound annual growth rate, which again, we think is important to kind of look through that.

And I think also if you look at the competition of this slide 33, you can also see that in terms of the total pie, clearly the demand for traditional core beta is strong. It's a workhorse. It's important in portfolios. This is really where we see, the area that we would refer to as access. So, this may be a market cap-weighted index, or ETF, but we wouldn't consider it to be smart beta. But we're seeing kind of that defining where really the understanding of smart beta, different weighting characteristics or factor characteristics, are taking over, really leading to that -- we believe, growth, by 2020, of smart beta going from a 12% to 15%.

As I pause a minute, we're moving on to slide 34, really being able to look at -- here, this is the lead table, if you will, for smart beta. And I think this really tells where we focus in terms of our growth. We looked at market share, we look at competitor trends. This is really where we focus a lot of our energy, and as you see, PowerShares is number two as I mentioned earlier in terms of smart beta. I think the diversity of our range is crucial.

I'll just draw your attention to the far right columns. This is the Herfindahl-Hirschman Index. This is traditionally used to look at, at a firm level, or industry level, a concentration of certain firms and industries of companies within overall industries. We've applied this analysis to actually look at the product range. So, effectively, the lower the number, then the more diversified your product range would be in terms of AUM.

So in other words, the lower the number, the less dependent you are going to be on your AUM and you're also, in this case, in terms of your net new asset flows, on a more narrow product range. This really emphasizes -- and we think it's very important going forward -- to have this diversified range. And obviously, from a business perspective, it diversifies our margins, it diversifies our flows, but also importantly, from a client perspective, the range of being multi-asset class, multi-factor, again, an all-weather product offering, it's something that's really important to us.

You can obviously see we're having a strong year, this year. We've been able to pick up market share, and you know, at times, this year's obviously challenging. Beginning of the year was very challenging. We've seen episodic volatility, but I think through this, we're really starting to I think hit the stride of PowerShares and where again, the breadth of our range is really starting to pay dividends and really differentiate us from any competitors.

Also, wanted to then give you an idea, refer to the innovation and our pioneering status, so this is just a list on 35 of all of the innovations that we provided in the industry, starting again in 2003, I'd mentioned kind of the Intellidex range, just highlighting here the large cap value, ETF, the international dividends, fundamental weighted equity, this was the introduction of Research Affiliates' RAFI range, which we brought to market ten years ago. Looking at share buybacks, emerging sovereign debt, momentum, options, high quality -- running through the whole list. One thing I would say that's not on here is also interesting, is our innovation in the commodity space. A long-term partnership we had with Deutsche Bank in offering broad-based commodity solutions. We purchased that business about 18 months ago, and again, even an alternative to being able to really bring innovation and smart beta up, pioneering ideas to market for clients.

So I think with that, that's kind of the great lead-in. I want to introduce and bring in Lorraine Wang, our head of products, to go into the next session.

Lorraine Wang: Good afternoon, everyone, and it's really a real pleasure to meet everyone here today. I'm Lorraine Wang, and just to briefly introduce myself, I head up product development, product strategy and research for PowerShares, and have been with the firm a little over ten years, been with the industry, ETF industry, since 1999.

So, I'll just start off with a little story I'd like to share with you. So, this was the year 2003, or May 1, 2003 to be exact, that the industry saw the launch of two PowerShares ETFs, both of which were based on quantitative, multi-factor strategies. These three ETFs were the first for PowerShares but more importantly, they were the first of its kind in the industry. Now, obviously, multi-factor -- quantitative multi-factor strategies were none at all back then, they've been around for decades. But what was novel was the fact that the founders of PowerShares turned those quantitative, multi-facet strategies, into rules-based indexes, and then created ETF based on those indexes.

Now, you have to remember prior to 2003, all of the ETFs were based on simple, calculated benchmarks, like S&P 500, MSCI Index, or Russell Index. So, I was real impressed with the PowerShares innovative approach to enter the ETF business, and thought, this is going to be the firm to lead the intelligent ETF evolution. And this is why I joined PowerShares a couple years later, and I have been very fortunate to be passing the baton to further PowerShares product innovations.

So, after 13 years, we have built up a product line that I believe is well-positioned to succeed for three main reasons. The first reason is, product innovation is in our DNA. Product innovation has been the single most important driver of our asset growth and continues to be a key factor that separates us from the rest of the pack in a very competitive and crowded ETF market.

The second success factor is the fact that we have a well-established product line, with the scale, the breadth and track record that creates a competitive advantage for us. Now, in ETFs, the -- and Dan alluded to that a little bit -- the barrier to entry, as low as you know given the number of players that are coming to the space, that the barrier to gain scale is high. It takes years to build out a diverse product line, product offering, which raises the barrier for many of our ETF peers to achieve success.

We, on the other hand, have already established a diverse all-weather lineup that allows us to focus more and more on clients, and that brings us to the third and last point, which is to transform our product innovation into client innovation. And what I mean by client innovation, is to be innovative with the way we sell to and interact with our clients. And so, it's about focusing on the clients.

And so, we will be able to capitalize on our strong product offering to build product loyalty by offering differentiated, value-added client engagement plus tools, services and research, which I will talk a little bit about later.

So, the PowerShares business, again, is deeply rooted in product innovation. Our single focus since 2003 has been to lead the smart beta intelligent ETF revolutions, years before the terms smart beta came into existence. So, in equities, we pioneered the first factor-based ETF in 2003, and also the first fundamental weighted equity ETF in 2005. In fixed-income, we invented the first smart beta fixed-income ECY (ph) in 2007. And, in commodities we also have the first smart beta commodity ETF, which was launched in 2006.

If you look at our top ten products by AUM, nine of them were first-to-market ETFs at the time of launch.

So, since a product innovation is an important driver of our success, we continue to spend a lot of time and effort to develop first-to-market ETFs in order to preserve the first mover advantage. For some of you, some of you may know that the first-mover advantage has a significant impact on the success of an ETF. According to industry statistics, it's shown that in 71% of all product segments, the first mover funds have the most assets. Now, there's also another industry study that shows, if you take a list of products, a list of ETFs in the same category, and you rank them two ways -- you rank them by their own stakes (ph) and you rank them separately by their AUM, you want a correlation of the two ranks. You get a correlation as high as 81%.

And if you look at actually our top 20 products by AUM, 17 of them were first-to-market ETFs. 13 of them continue to be the leader in the space. Some of you may ask the question, what, why? But the rationale for the first-mover effective ETF is, it's the liquidity of ETF, it's the scale, and it is the familiarity with the ticker, believe it or not.

Time and again, we've seen subsequent entrants come into the space with a similar product, similar strategy, and compete with the first-mover fund based on price, but are not always successful. Here's a perfect example.

S&P 500 Equal Weight ETF, $10 billion product, 40 basis points of expense ratio. The other products that have come into the space, the more equal-weighted ETF large cap, at half the price point, and not able to move the needle. So, which is -- it's mind-boggling.

And so, that, that goes to what I said earlier about that the barrier to enter -- the barrier to entry for ETFs is low, but the barrier to gain scale is high, because of this first-mover advantage, which is prevalent in the ETF space.

This slide shows the industry's product development trend since 2011, and so, it shows that our (inaudible) product development continues to be strong. In terms of the total assets raised from new products launched over the last five years, we raised a total of $21 billion, and that is the industry's second highest.

The next few slides show the strength of our product line, so as we build out our product line over the years, we -- our philosophy in product development has been two things: we focus on innovation, and we also try to be nimble with the launch process in order to preserve that first-mover advantage, And then, the second thing that we focus on is to build a product line that is diverse and for all weathers, so that it meets the different needs of our clients, and also to minimize product concentration risk.

So, with 141 products, we have products that have -- that have the breadth and the depth of products across asset classes, and within each asset class we also have products that are for both sunny, as well as rainy days. Now, the majority of our assets are in equity ETFs, but we also have a strong fixed-income lineup. We have the broadest commodity ETF lineup in the industry.

So, if you take a look at fixed income, for example, we have $22 billion in AUM across 19 products, covering a broad range of market segments, and that spans across quality and duration of spectrum. Our fixed-income products have also grown in scale, with seven of the 19 products having an AUM greater than $1 billion. So, just to also further show the relevance of fixed-income products, year-to-date 65% of our growth actually came from fixed income, and that is actually the third in terms of the industry flows into fixed income through end of August.

As the industry expects significant growth into fixed income due to shrinking banks' balance sheets, our early-mover into the fixed-income space puts us in a much stronger position than our peers to participate in that fixed-income growth.

Our latest innovation to fixed income that I like to mention is our PowerShares Variable Rate Investment Grade Portfolio, which is anticipated to launch this Thursday. It is an actively-managed ETF, leveraging Invesco's active fixed-income capability. This is the first of its kind ETF, not only that, it is also the first of its kind in the active mutual fund space, and it invests in high-quality variable rate instruments from multiple asset classes. So, this will be a great addition to our fixed income lineup and also, it's a great addition to further our number one spot in the floating-rate fixed-income space, which includes the bank loans ETFs, the senior loan portfolio.

Here's another look at our product line by strategy, which consists of two categories: smart beta, and access. So, as investors continue to unbundle alpha and exposures, our smart beta ETFs will serve as tools to help investors extract alpha and/or manage worth, while our Access ETFs will help investors gain precise exposure to specific market segments, whether it's a sector, an industry, or a (inaudible).

So, in addition to the diversity of our lineup, an increasing number of our ETFs are also gaining the scale needed in order to compete. So, just five years ago we had eight ETFs with AUM greater than $1 billion. Today, we have 19.

And then a look at our smart beta lineup shows that we are in a leadership position by various measure, whether it' by scale, breadth, track record, or depth. For example, we are the second largest smart beta provider, as Dan showed, in terms of AUM. We have the broadest smart beta lineup with 85 smart beta products, compared to our competitors, we're well-positioned since our competitors are -- their smart beta AUM are quite concentrated in dividend products.

In terms of track record, we have the most number of ETFs with a track record of at least five years, and in terms of AUM, you have the most number of smart beta ETFs with an AUM greater than half a billion. So, as more and more competition comes into the smart beta space, it's going to take time for the competition to also build that scale, the breadth, the track record, in order to compete.

So, while our ETF, smart beta ETF peers are building a well-rounded product line, our focus more and more is, has been to, focus on our clients and try to figure out how to transform our product innovation into client innovation as I mentioned earlier. And it's about focus on how to serve our clients better, to build up product loyalty, and how to -- you know, it's capitalizing on our diverse and over-the-lineup to offer differentiated value-added research tools and services to engage our clients. So, one example of that is in the area of portfolio construction, and development of custom solutions using the broad PowerShares ETF lineup to achieve specific objectives or outcomes.

The factor DNA analysis is another example of the service that we are offering to our clients, to help educate them on how to use factor ETFs based on an analysis of their existing portfolios.

The second area of client innovation that we're focusing on, is digital offerings. So, it is our view, and also supported by industry surveys, that online platform is going to be an important channel that drives demand for ETFs in the next five years. And, there's also plenty of research reports out there that identify passive investing for ETF as well as global/digital advice as two big beneficiaries of the new DOL industry rule.

The good news is, Invesco has both, right? We've got a strong footprint in passive investing through PowerShares, and it acquired digital advice, which is Jemstep, earlier this year. So, our firm is very well-positioned in the face of the new DOL rule. We will continue to build our strategy to -- that allows us to exploit the synergies between ETFs and digital advice with Jemstep, with the goal of delivering superior online experience to our clients.

And then, the last -- the third area of client innovation that we're focusing on, is on our ongoing research in thought leadership publication, also (inaudible) smart beta and factor investing, and all of that leveraging Invesco's IP and proprietary content. So, those are two very timely topics, very relevant to the needs of our clients.

So, that's -- I just want to summarize the key takeaways, from a product perspective. PowerShares more positioned to sustain its leadership in smart beta, because one, our track record in product innovation; two, the strength of our existing product line; and three, continued focus on our clients and meeting their needs.

So with that, I'll turn it over to Dan to talk about the institutional.

Dan Draper: Thank you very much, Lorraine, for those comments. So, what I like to think about in terms of the growth opportunity that PowerShares sees in the market, I think Lorraine shared what I would consider the supply side of the equation. You see the product side, where we're trying to bring better content to our clients for better outcomes. I want to shift a little bit to the demand side of our growth, and really thinking about clients directly.

As I mentioned, I think the long history and the key to success for PowerShares was success early in that intermediary retail space. It was absolutely crucial for us to be in a differentiated -- power margin -- initially niche area, and we had to build our track record, and also the demand had to build as well as we got there. So, that was why historically, we did not have the penetration. And even today, we don't have the penetration that we would like in the institutional channel. This is another opportunity that we see, for us, in the same way that we're showcasing to you today looking at the breadth of our range, looking at the performance, the track record. We think that is a very strong message for now, for us, to then look at institutional channels. And I want to kind of go through some of that today.

As I mentioned earlier, there were barriers for us, again, limited risk budgets available to look at nuance smart beta and a factor strategy, at least in the ETF wrapper. They were limited, I think in the early days. But as we've now seen the growing adoption of smart beta in our intermediary clients, again getting to scale, we're now seeing institutions, institutions really being challenged in many ways. Asset owners, solvent (ph) wealth funds. We've seen many pension funds, which when they're basically facing this very low-return environment, being pressured on their return expectations for many of their constituents and clients, the first thing they're going to be challenged on is costs.

And basically, it's hard for me to ramp up if I'm producing 3%, 4% annual return, my target is 8% to 10%. Well, that's going to take some time and effort if you can pull that off, but what I can do today is, I can cut costs. I can really go in and focus, and that's where we're seeing a lot of asset owners turning to the user of ETFs, but still also wanting to think about being active or expressing, also I do need stretch, and get these higher expected returns which my plan is trying to achieve, for example, or some other investment goal. So again, that’s where I think that interesting part, that factor investing smart beta plays, is that bridge. Tilting (ph) actively, trying to get better risk-adjusted returns, but in a cost perspective doing it I think in a very effective way.

And that's where ETF as -- it's one of the wrappers, along with separately-managed accounts and in others, but this is where increasingly ETFs have a role to play. I also say, what is also interesting, Lorraine mentioned, you look at the capital markets, particularly the banking system. The higher capital requirements coming through Dodd Frank, BASEL III, that's also put a lot of pressure on bank balance sheets. And we've seen the amount of capital available for clients through derivatives, swaps, structured products, and other vehicles, have become much more limited. That's where ETF as a listed security, is now starting to be compared not only to historically to futures, there's been a very comparable product to futures for a long time, but now we're starting to see more sophisticated asset owners looking to use ETFs, potentially in place of swaps or other structured-type products, credit-based type products, whose cost of capital has gone up and whose overall cost has gone up. So, we really want to be well-positioned in that space, with these types of investors.

So, looking to slide 49, I think -- so if you look, we've done, with that view and our ability to move and improve our market share among institutional channels, we've done a lot of research the last couple of years. We've worked with Market Strategies International, that's formerly Cogent, to really look at the marketplace and for the demand and understanding of ETFs, and I think just this slide I wanted to make one instance point. You can see that over half of institutional decision makers in this survey are going to increase their use of smart beta ETFs over the next three years. And clearly, that's higher than market cap, active, or inverse leverage types of products.

And then, if you look under, well which strategies? I mean, smart beta is a big space. It's a big piece of real estate. What are they looking? And again, we think obviously high dividends, low volatility, accentuated again by demographic and other trends in the economy, are areas where these particular institutions intend to focus areas. I need to generate more income, I'm being pushed into riskier asset classes, but while I'm pushed in that direction let me also manage my risks better through lower volatility. So, we continue -- and what's interesting is just a growing awareness to all of those other strategies, other factors which can also be used for diversification benefits.

When I talk about different types of clients, what do these institutions, what do they want to use ETFs for? And this is where I think the sophistication of this channel really shows the richness of different opportunities for us to position ETFs. Think about transition management, managing for large asset owners, inflows and outflows coming out of their different mandates and portfolios. ETFs, as a transition vehicle, alongside futures. And particularly, where there are no futures contracts available perhaps, this is where ETFs in some cases can be the only solution. Emerging market equities is a great example in some cases, a rebalancing, very similar. Cash equitization, that extra cash on the balance sheet.

If I could take a product, potentially Lorraine mentioned the variable-rate investment grade product we're going to offer, it's anticipated to have somewhere around certainly around a six month duration, what-have-you, upon launch. That's kind of interesting, it's not cash, but I want a bit of enhanced yield. That could be an interesting investment-grade product for someone who has cash available but wants to put it to work.

You look at portfolio completion, securities lending, tactical asset allocation, core satellite, very popular strategy. And obviously, looking at a long-short strategy, tax implications -- again, this is where, particularly in the US market, where you have the very unique in-kind creation redemption process makes ETFs a very efficient tax wrapper, tax vehicle, to deliver these solutions.

We spent a lot of time today on fixed income, so looking at duration, credit, obviously our VRID (ph) product we've mentioned we think is going to fit nicely in there. And also, looking at small institutional plans. As you can just see, I leave it to you to go through the grid, but looking at the different types of institutional channels, from pensions, consultants, insurers, outsourced CIOs, hedge funds, not every client is going to want to use ETFs for every reason, clearly. But what we're finding is that for us to be able to target our distribution, our messaging, our thought leadership, for specific use at specific channels, is really, really important for us to get further growth in this area.

And, as I said from the start, I think that from our beginnings in retail intermediary we've had really good success. That is our core area, we'll always be focused, to provide hopefully best products in class and best service to those clients. But this is really, if you look at this slide 52, it tells, it's the tale of the tape. The overall US EPS industry has a rough breakout of 58% institutional owners of ETFs in terms of AUM, and 42% retail. Look at our mix. We're almost the opposite. We have 57% in retail, 43% in institutional.

So really, I think the game for us is to continue, the retail demand is growing. We really want to remain a relevant leader in that space, but as we see from a smaller base, institutional growing faster, we also want to get a big chunk of that growth and we really again think that a lot of the strategies, our products, and again, the way that we think about distribution and being very specific on that, is absolutely crucial.

So, just let me kind of -- so again, a few more results of the survey. Again, you really think about why smart beta strategies are expected to increase again with over half of institutional clients expected to use them. You can really see that belief in performance, potentially, diversification, reduction of market volatility. But what, probably, is most interesting on this slide for me, is the column on the right. Why aren't institutions using smart beta ETFs?

The number one reason, over a third of those participants, just don't know about it. Just don't know about it. What are they? How do I use them? How can I reduce my overall costs? How can I diversify better? And I think all of that, in terms of thought leadership research, again, that's where we want to play a leading role in really promoting Invesco and obviously PowerShares' position in this marketplace.

And one thing as I'll lead into Eric, our Global Head of Capital Markets, that's where -- it's not on the slide, but it's really important as we think about that institutional space, particularly the asset owners, more sophisticated generally. They really understand different nuance. How do you get them to implement? And this is where, I think, something that in the asset management industry, a particular function that's crucial to ETFs is capital markets. And so, that's really -- I think for Eric to come up and really talk about how the capital markets area can really help, particularly the institutional side, investors really understand and use smart beta ETFs better.

Eric Pollackov: Thanks, Dan. I thought it might be helpful, because I've never actually met any of you in this room, so I thought it might be helpful to at least explain a little bit about what I'm doing here, what my role is, and really my interaction with PowerShares. It actually goes back to '99. Just started working for PowerShares on June 1 of this year, but I've actually known PowerShares since '99. My first job out of college was to trade index arb against the QQQs on the floor of the American Stock Exchange, which is kind of funny how it's come full circle that I now work here.

And fast forward from '99, nine-and-a-half years I left the trading industry to work for the New York Stock Exchange, of which PowerShares in their little bed-and-breakfast office, not too far from here, was my account back then, as well. So, I've been intimately familiar with PowerShares. I've been intimately familiar with the capital markets business. I've kind of been in this since '99 and I kind of think, as I'll show you, I am the center of the world. Right? (laughter)

So, I think of using the analogy of the human body to the ETF ecosphere. I look at say, marketing, as maybe the lungs, product development because she's sitting right here, is probably the brains, right? And portfolio management back there is probably the (inaudible) gland, or something along those lines. But the capital markets, is the blood. Right? We touch each one of these independent areas almost every single day. So, my team is designed to really make sure that they're interacting and understanding what our marketing goals are, to make sure that sales support is one of the four goals, one of the four buckets that I'll talk about on the next slide. Portfolio management and capital markets at Invesco is really kind of the scene, right? Because we have to be making sure that the portfolio managers and the ET part of the ETF acronym, the Exchange Traded part of it, that's so integral to really be in client -- you know, to client experience, when they buy and sell out of exchange-traded funds.

So again, I'm not going to go into each one of these verbiages here, but I look at the core function of capital markets into four buckets. Essentially we look at liquidity and execution services, how do we help our clients get in and out of our ETFs? So we have dedicated feet on the ground here in Downers Grove, Atlanta, Toronto, London, etc., that really just kind of deal with just talking to clients. How can I buy $100 million of XYZ? Again, it's part of that ETF acronym that we need to be openly familiar about.

So, how do we deal with the sell side, the market-making community, the authorized participants? Essentially, how -- these are the people that are responsible for growing our assets, and sometimes reducing our assets. Right? So, redeeming our funds, and do we need to have a relationship with them? A constant dialogue about our new products, about our existing products, about changes to our existing products? So, eventually you have to make sure that we're talking to them constantly.

So, research and content. Now, Lorraine's group does a lot of this from a global kind of view, and a macro view, but from a trading point of view, we have a ton of infrastructure here within the PowerShares complex that really helps us kind of dictate and show some of the things that we can show pre- and post-trade analysis, for example. Or, how our products have been trading over the past ten years. We can have that, we have that, access to that database. So, it's really important that we kind of put that together and make sure we socialize it properly with our clients.

And then finally, sales support. I think -- so, John Hoffman, in the back of the room there, previously held this position and is now Director of Sales for PowerShares North America, US. So I mean, from my perspective, he knows, and we speak the same language. So, we're constantly engaging with my team to go out with his team, to make sure that we're providing the subject matter expertise about our product set, about what's going on in the capital markets. There's a ton of regulation that's come out since August 24, there's a ton of regulation that's come out since May 6, 2010. The capital markets are constantly evolving. IEX is a brand new exchange, how do we react to that? How do our clients think about it? That's our job, is to really kind of translate that to them, and help our sales force explain that to the best of our ability.

So, how do we talk about execution, how do we ensure a seamless client experience, right? The biggest thing about the exchange-traded fund world is always when it's not working properly, right? So, it's when the levered and inverse funds are being held too long, or when August 24 happens, right? So, one day out of 252 trading days last year, there was one day that got messed up. Right? But that's all we talked about, right, that's all our clients want to think about, that's all our clients want to engage with us about. So, how are we providing this seamless client experience, as I call it?

Well essentially, what I try to make sure that our team is always aware of, is what's going on in our products. Every single minute of every single day of trading, 9:30 to 4:30 PM

Eastern, I want to make sure that someone on our team knows exactly what's going on in the US. From 3:30 in the morning to 11:30 Eastern in London, what's going on, etc. So, this is just examples of some of the things that we're looking at.

Now last year, for PCY, the average trading Bid/Ask spread was 4 basis points, but since inception it was 6. So, what happened last year that made it tighter since inception? Well, it's the growth life cycle of an ETF. Generally, as they grow asset center managers, the (inaudible) tend to collapse.

So again, these are the types of studies that were constantly being done within our complex, to make sure that we understand exactly what's going on in our products on any given day.

So, one of the things that we always talk about as well back here, is the cost of ownership for an exchange-traded fund. So, we have the operating expense ratio, OER, trading commissions, and then the transaction costs, the Bid/Ask spread. Right? So, my team is really designed to make sure, we're making sure that this final one, the Bid/Ask spread, is actually the tightest it possibly can be. And how do you do that?

Well, there are different ways. We want to make sure that we're focusing on and thinking about, how do we make our products as easily-tradable as possible, at the lowest overall cost, whether that's for the sell side, the people that are in charge of providing liquidity, or it's actually investors buying our ETFs. So, one of the things that a simple, simple slide here, that talk about is, how do we help reduce costs, the overall cost equation for investors? Right? So, we want to maintain a profitable business. There are actual issuers out there that are maintaining an unprofitable business for their companies, because their expense ratios are so small. So, we can control our costs and control the margins that we're bringing in, or maybe having a slightly greater expense ratio than some of our direct competitors, but we contribute a smaller Bid/Ask spread. Right? And again, at the end of the day, the investor only cares about his all-in or her all-in costs. So, expense ratio is one component of it, commissions are equal in this slide because whether you're trading at Schwab, Fidelity, or you're an institutional client who has a bond-broker relationship, you're paying someone out a commission. But it's that Bid/Ask spread that my team is designed to really focus in on and make sure that the clients are getting the best of what they can get.

So, that's -- I am the end of the presentation so that's kind of good for a lot of you folks, but Dan, do you want to just go over some of this quickly?

Dan Draper: Sure. Just very quickly, ahead of Q&A, I just want to re-emphasize I think where PowerShares, we feel particularly well-positioned looking at smart beta, thinking about the growth opportunities, with our range of 93 diverse ETFs, multi-asset-class ETFs across $42 billion, our 13 years of track record in this space, now the market is coming to us, if you will, for us to be able to kind of grab it, and continue to innovate. Importantly, over 70% of our existing product range has more than a five-year historical track record. This is a very important differentiator.

Also, we think being able to partner with Invesco leveraged that rich, active intellectual capital, being able to in some cases put it in index form, and other cases like VRIG, to put it into active ETF as we will do hopefully on Thursday. That is a major differentiator, and part of the vision that Marty, Loren and senior management at Invesco had ten years ago, to not only build a platform but the culture to allow this opportunity to succeed in our high-conviction strategy.

Also, one of the handful of players that we've taken our successful model globally, and will continue to invest in Canada, EMEA, other parts of the world to really, really be successful. And again, ultimately, we are in this business for the long term, and to be long term. And to be long term, this is a game about scale. We need to make the investments, and there's almost, if you will, a natural CapEx cycle. You have to invest in your programs, your systems, you have to always be pushing the envelope on terms of getting automation across the platform, and that's something by having obviously a deep-pocketed parent company like Invesco is actually crucial for us to be able to get needed infrastructure across the platform, distribution, different areas of the business.

So, let me close, I'll thank you, and -- Jordan, am I going to turn it over to you for Q&A? Oh sorry, Brandon? Yeah.

Mike Cyprys: It's on? Great. Mike Cyprys from Morgan Stanley, thanks for this. Just a question, you touched upon the broad ETF lineup that you have, long track record, number two rank in smart beta, but ETF AUM PowerShares has really not grown that much the past couple years. So, just curious if you could talk to maybe the distribution strategy? It seems like maybe there's more to be done there. Can you just talk a little bit about how you're distributing ETFs today, how the distribution arm is I guess prioritizing that versus other products at Invesco? Anything you could touch upon there, in terms of how do you set up the distribution arm? I think there's more to be done on the distribution side.

Dan Draper: Do you want to just clarify our net flows, XQs for the last few years, just so people understand? And then maybe John Hoffman, introduced, he's our National Sales Manager and heads up our distribution. John can go into more detail in our distribution, if that's all right?

Lorraine Wang: Sure. So, in terms of net flows

Dan Draper: Yeah, just to get an idea of what our flows have been?

Lorraine Wang: Yeah. So, we actually, so back in 2013, we had a record year, the highest inflow in 2003 was $9.1 billion, in net flows. The last couple years so a little bit, that you know, given the trend there's a lot of flows into currently hedge products. Where I've worked this year, we are again back to $7.5 billion in net flows through August, end of August, that's not public yet, it's not official number yet.

So, $2.5 billion we're on our way to potentially achieving another record year. So, that's a little bit (inaudible).

Dan Draper: And what I would just say underneath though, I think those flows, is you had -- particularly if you think, you know, we have a leading commodities platform, the high water mark of the commodity range, broad-based futures commodity wrapped in ETF, it had a high water mark of about $15.6 billion, as you'd expect, when the commodity market peaked, and clearly we saw in a couple of those years that range with commodity prices broadly is about a third of that level.

But again, we've invested through that period, we bought actually that franchise from Deutsche Bank. Deutsche Bank remains the index provider. But again, we look at different areas which again, the diversification of our range, we do think we have particular leverage, I think, there. And the consistent growth we continue to see in fixed income, and then I think Lorraine mentioned from the top, we saw last year really interesting the phenomenon around currency-hedged international markets. And almost, if you will, as a carry trade, if you think about, you had the end of QE in the US, the beginning of QE in Europe, right about the time those products, particularly the European ones, really started to take off.

And I think, so obviously that was a unique phenomenon. I can't make a prediction longer-term, but clearly we see a mean reversion in demand for those particular strategies. But again, we continue as Lorraine said, knock on wood, on a very, very strong pace forward that will hopefully be another great year for us this year, excluding the Qs.

John Hoffman: Dan, do you want me to comment?

Dan Draper: Yeah.

John Hoffman: First off, by way of introduction, my name is John Hoffman, I formerly was the Head of Global Capital Markets here. Been with the organization for a decade. I transitioned into a role in November of this year as the head of sales for the PowerShares business, here in North America, and a lot of the comments that we've talked about in terms of the institutional opportunity in the ETF business, this strategic move that we've made in distribution was intentional, to be able to penetrate the institutional market more. And what I mean by that is, Eric talked a little bit about the capital markets footprint, and how important that is in the institutional market. So, I'm taking a lot of the experience that we've had in the institutional market through our capital markets business, and retooling our distribution here in North America.

So, year-to-date, as Dan talked about, we've done $7.5 billion net new. July was the highest month ever for the organization on a monthly run rate basis, so we're seeing good growth numbers come through on that side.

As it relates to how we're distributing, because I think that was part of the question, we have a motto whereby we have a specialist distribution team, and a generalist distribution team. So, I think you talked a little bit about the product orientation and the prioritization of product.

The specialist distribution team is focused on the big pools of ETF assets. We have a very sophisticated team, mostly CFAs, advanced degrees, that are calling on these large institutional pools, and we're starting to see the penetration of the smart beta product into those markets. So, as we look at the future of our distribution and the future of this opportunity, I really do think we're sitting at the nexus, here, of a real transition whereby not just retail advisors are adopting smart beta, but institutions. Pensions, foundations, corporates, hedge funds, we're starting to see all of them come into these products and use them not only for long purposes, but to -- you know, in instances, for short purposes.

They're using them much like they may use (inaudible) products, to allocate risks more precisely. And so, from a distribution perspective, we're in a very good place. The run rates are higher than they've been in prior cycles. We're hitting new milestones in AUM and the focus now is very much on this distribution. And so, I can address it deeper if you were looking for kind of client or channel segments, but that's the over-arching piece of the distribution, and some of the changes that we made in November of last year that are starting to transpire now.

Bill Katz Thanks. Bill Katz, Citi, thank you. A lot there in a short period of time, so I had a lot of questions. The first one is, can you talk a little bit about pricing, and particularly on the other side of DOL? And within that, I'm also curious, is, it seems like the DOL is pushing down pricing conceptually. And as I look at smart beta and/or factor-based, they are a higher-priced product relative to the same market cap. How do you sort of deal with that duality as you go forward?

Dan Draper: I'll kind of give my overview, and I'll hand it to Lorraine because pricing is a big part of the whole products area. Look, I would say in terms of, you know, we think again, the smart beta factor story is a relatively new one. And I think in the current rate environment, I think fees become accentuated. We're seeing it across multiple channels, whether you had a DOL or not. But I think under that, what gets lost is I'm cutting and cutting fees, I'm missing performance. And I think ultimately we're starting to see a more focused set, relative to some level of cost, maybe for a few more basis points. But, if I can get a reasonable higher level of risk-adjusted return, a better sharp ratio, better information ratio, that is a strong message. And I think if I can tie in, I think that's where we see an opportunity for Jemstep. I think at Invesco, you think in that digital advisory space, again, most of those models, existing models in the space, have really, as they've found their feet and their business model, who are their clients, as they've evolved, I think almost by default it's been competing with cost to a large degree.

We really think differentiated, and we're not talking about substantially of our costs. Again, we're talking 10, 15 basis points in many cases. But, being able to provide better risk-adjusted returns, better diversification through again, the factor and the smart beta lens. So, I think that's really where we think, rather than kind of pricing pressure, we really want to talk about outcomes. And if we're able to do that and get, as I said, maybe 50 to 75, 100 basis points of risk-adjusted outperformance, or maybe 10 or 15 basis points of additional cost, well, that seems quite reasonable.

The other thing I would offer, and I want to go back to something Eric mentioned was really important: what do you mean by costs? Are you referring to just management fees? There's a lot in costs. Trading volume, execution, and this is where we need this capital market team and research to really focus, because I think this is something that we really need to talk about loudly as an industry. So let's talk about total costs, and total client experience.

Absolutely, management fee is important, it's quoted as a manual number. What if I hold it for three or six months? Obviously, you're getting a fraction of that annual quoted number, but -- and important to that, how much did it cost you to get in and out of that product? That is all a total cost basis. And again, this is where for us to look at the size of our range, the liquidity that we built over 13 years, we think we have a strong total cost argument around, we believe in many cases, superior risk-adjusted-type returns.

And again, looking at those channels, traditional channels, new channels, like Jemstep, we really think that message has not been delivered yet and we really want to be able to do that.

I'm sorry, Lorraine, any comments from you on that?

Lorraine Wang: Yeah, so I would say, there are you know, a couple things COs need to consider when you think about all the pricing pressure question. So, first, obviously smart beta versus cap-weighted, there has to be a little bit of premium with a smart beta, but there's -- it's different products with different strategy, right? Smart beta was this, cap rate is 1, in addition, different asset classes. When you know, people talk about pricing pressure, US Equity large cap tends to be -- has got the most pressure, right?

But then, if you move into other asset classes, so domestic equity, it could go from 5 basis points to 30 basis points. Fixed income could go from the 8 to 50 basis points. When you go to international equity, it's higher, because of the cost of running a fund based on the underlying instrument. Right?

And so, the way we look at it is, that's why we have a diversified lineup, right? You've got different products, so we have smart beta, we also have the active products. Those active products actually (inaudible) command a little bit more per year, because it's precise exposure to certain market segments. And those, actually, if you look at the average, and a little bit higher priced than the factor ETF, for example. We need to take into account, what product are we talking about? What strategy, right? And even with the smart beta, you look at the currency (inaudible) product last year. The leader, the leading (inaudible) products are actually more expensive than other currency-hedged products. So, it's quite a bit of length, so that's one thing to consider.

The other thing is, the first (inaudible) I talked about, the example I gave you, right? You got products, right, same strategy, right, because it's a first-mover fund, it's probably struggled. And yet, it's still got a lot more assets, right? So, institutional investors, they look at more than just the expense ratio of the product. It's the liquidity, and -- the liquidity is huge, and the scale, ad that familiarity with the ticker that sets that pricing.

And a lot of times, it's very hard to do that. And honestly, you can also have examples of other products that may not have that competitive personal advantage, but it's just that 70% of the products in all categories, the first mover, has the most assets. So, that kind of also goes to the pricing power of certain (inaudible).

Bill Katz: Can I ask another one?

Lorraine Wang: Yeah.

Bill Katz: I can ask another one? So, second question I have for you is, so what we've done with (inaudible) and for what you have there in terms of the big players taking this proportion of market share. So, as you go from $270 billion off to $600 billion over the next several years, how do you see the industry shaping up, in terms of like, is it 3-4 players? What's your sense there?

And then maybe unrelatedly, can you talk about where the money's going to come from? So, is it coming from core active, or new money to the system, so what's your sense of the substitution effect?

Dan Draper: I think in terms of looking forward, if you get the big growth as you mentioned, which we do expect to be in smart beta, I do think that -- because again, that nuance of smart beta not being around a traditional benchmark, I think that's where having the track record, the history, the brand quite frankly, that's really important, especially if you're -- whether you're going to a home office, wire house client, and trying to convince them to put this new product on their model portfolio list, or whether you're going to an institution. That track record, there are only a handful of firms that are going to have that combination.

Then, once you go into smart beta, we believe we're one of the very few to have it, at clearly the scale that we do. But we do see entrenched players, others who have done traditional core beta, obviously moving quite aggressively. I think historically, if you look at the lead table of smart beta maybe 18 months ago, you had us with this diversified range of smart beta, that's our core business. But I think most of the other players on the list were really around dividends, right? Then we saw, I think then you really see, and in fact, iShare has come in this year in addition to dividends, with going into the min vol space, which is not the same, but it is a competitor for some clients, competing offering to our low vol.

So, I think you're starting to see other larger players really starting to come in, but they have, if you will, the big aircraft carrier which is core beta, and then how do you message, how do you kind of move, into that smart beta factor area? And again, I think, look, it's competitive, this is why our innovation is crucial. We have to continue to be first-to-market relevant in that space. We absolutely, we expect a lot more competition in the area and the larger players in core beta are certainly looking or coming. But I think that's where again, we need to continue those critical points of differentiation, of track record, scale of offering, liquidity. We're going to continue to leverage those, and leading by innovation.

And then I'm sorry, the second question was? And it's an interesting question because historically, I think a lot of the growth that we saw at least in retail smart beta up until probably a couple years ago, believe it or not, were individual securities. You had just a lot of individuals who owned a lot of individual stocks and bonds, through financial advisors, who just found it clunky. The financial advisors themselves didn't find it efficient to rebalance and have all of the operational headaches, so for them the financial advisors building the fee-based models, that's where we saw really that movement to individual securities.

I think where we're really starting to see shifts now, I think in terms of new growth, is, you are seeing some shifts from more expensive products. I'm not saying that's not necessarily active. I mean, seeing just more expensive-priced products, some of it active, some of it passive, some of it just inefficient. You're starting to see people really looking, whether it's active or passive, I want to get reasonable price and reasonable value. And that's what I think DOL comes into the space. So, if people, frankly, are closet indexers but charging active fees, I think that is a prime space we've certainly seen in the last couple of years. That one will certainly be accelerated through DOL, and I think that's again where it plays into our high conviction story I think at Invesco.

If you're going to be active, it better be high conviction, and you better be able to kind of lever those risk-adjusted returns on active platform. And then for us in smart beta being able to do that in an index format, at a reasonable price compared to those quals and indexes.

Eric Pollackov: I will add to that. I mean, I think if you look at the institutional, or the real institutional space, pensions, endowments, etc., like traditionally they've been 60% fixed income, 40% equity. Right? So, to satisfy the constituents. What I think, and we'll call it 60 -- 55% fixed income, 5% cash and 40% equity, I think you're now seeing it be 45% fixed income, 10% ETFs, 5% cash and 40% equities. Because they almost treat the ETF as almost like a cash-like vehicle for liquidity purposes, right?

So, if the bond market becomes proverbially less and less liquid, I think that you're seeing individual bond holders kind of really think about the ETF as a vehicle to actually provide liquidity as opposed to the individual bond exposure they were expecting.

John Hoffman: I think just a related point, I do think this idea of what's happening in the global capital markets liquidity, which they even have in the collateral markets now with different regulations. I mean, this is the wrapper of an ETF, or even a small-, middle-sized institution, for them to want to rebalance hundreds or even thousands of individual bonds to go out with less liquidity, less inventory among the market makers in that case, they have to go out against some of the largest fixed-income managers in the world. I mean, that execution is risky. It's very, very challenging, and effectively thinking about the ETF as a wrapper, you're almost -- you're wrapping a program trade (ph) of bonds, and you're outsourcing that simply for a single (inaudible). And that outsourcing model is continuing to I think progress, and that's why we think the secular trend in fixed income's got a way to run.

And even with -- if I could just throw in, too, I think with the money market reform which is planned for October 14, again, even in the cash markets, collateral markets, again, that's going to have a major impact and it's just simply as a wrapper. Simplifying operations and even cash management, ETF has a really interesting role potentially to play there, too.

Brennan Hawken: Thanks, Brennan Hawken from UBS. I just had two questions, first on wire house. And Dan, you've made a reference to it a few times. The importance of getting on the models, can you speak -- and I think you said that you've had some success there -- can you give us some metrics? Can you give us some confidence in where you are now, where you've been, why you feel as though you're better positioned, what resources you're putting behind that effort, and whether or not that's going to need any further investment?

Dan Draper: Sure. Well, I'm going to let John Hoffman, if I could just steal the mic for a second -- into distribution to kind of -- to adjust it. We can talk about -- I'll just say that this is again, where one of the advantages we have of being part of the Invesco family is obviously the long-standing relationships with a lot of these firms from the active side of the business. We clearly leverage that. And then, with kind of the specialist team, how we attack it. John can provide a few comments on that.

John Hoffman: Yeah, absolutely, and actually the head of our National Accounts Team was in the room two minutes ago, so maybe if he comes back in, I'll bring him into the conversation as well. So, from a wire house perspective, going back to the distribution piece of this, we have boots on the ground from a specialist distribution perspective around the country in the various UBS offices, that are PowerShares specialists selling to the FAs and consulting with the FAs directly. We also have a home office approach, with a dedicated team of professionals that are working with the model builders, the home office approval process. And I think that you know, a lot of the points that Dan talked about earlier in terms of the scale of the product, the history, the efficiency, the liquidity, as those models are starting to transition and incorporate smart beta, we're really at the forefront of that progress.

So, we have started to see a number of these models incorporate the smart beta ETFs in there. So, for example, if you look at PCY which is our EM debt product, this is all public information -- if you were to look at a Bloomberg HDS screen you'd see that the largest holder is one of the wire houses. That was incorporated into their model. So, we're seeing a progression that is parallel to all of the other segments of the industry. It's not just a home office phenomenon, we are seeing the understanding of these products. And again, what Lorraine talked about, these were born 13 years ago and they're just starting to be understood as this middle ground between active and passive, that really provide more precise ways to manage risk.

And that's really what this solves for in a lot of ways. And so, from a home office perspective, increasingly, we're seeing more and more model placements, we anticipate that that's going to continue as these home offices move away from just a pure bulk beta market cap-weighted, benchmark exposure. And then that trend is across the board.

In terms of our positioning, again, that history, having the scale -- so a home office model with $15 billion in AUM, looking to add a 2.5% position to the portfolio, there's not a lot of smart beta providers in the market that can take down that type of size and support that product. So, the shelf space dwindles pretty significantly, and I would not underestimate this notion of longevity and in the marketplace. So, these are live track records.

We have research affiliates, fundamental indexation, live track record for ten years. Many other issuers are just starting to build these products, and those two key components I think place this very well at the home offices. Similar to the field distribution strategy, of a specialist and a generalist model, so again, we have a specialist team and a generalist team -- that's the generalist team carrying the full sleeve of products. We use that same model at the home office, so there's a very large staff of folks that are coming in with the full breadth of Invesco alongside a PowerShares specialist to be able to talk about the smart beta product. And again, the adoption there is increasing in those models, and we anticipate that that demand is going to continue, and that we are in the front of that line.

So, from a -- like a AUM perspective, or placements, or? Sure. Sure. So, I don't have them offhand. We can certainly follow up. I think that one very easy litmus test for this and proof point that you can do as well, is looking at an HDS screen on our largest smart beta products. You will see that the wires are generally one, two, three, and four from a holder-based perspective, and many of those are driven off of home office model placement.

So, again, most of our billion-dollar-plus products, holders one through four tend to be Merrill, Wells, UBS, and Morgan in some combination of that. And I think that's a good litmus point. Further, we can certainly follow up with a history of placements, and we're seeing the searches increase as well. So, the number of RFPs that are coming in from that platform is also increasing. I just don't have quantifiable data to give to you right now.

Brennan Hawken: So the next question's on the institutional side. I appreciate that you started calling clients, but could you speak to maybe where you guys are from an analytics perspective? We hear more and more from the institutional side how important this is, particularly as resources become more and more constrained at some of those accounts. And, also, for Eric, appreciate that ask spread is important, but beyond liquidity on the screen, what are you doing to demonstrate to these clients, these institutional clients, that hey, you don't just have the need to call the market maker, you can call us. You don't need to show your hand to the entire market, we'll help you guide through and access depth of liquidity like you can't get elsewhere.

Eric Pollackov: Yeah. So, from a research and analytics standpoint, I look at secondary market liquidity, primary market liquidity, I look at the overall function of what's going on in the fund over the past six months, year, etc. So, we actually have an internal database that tracks almost all of those kind of stats. So, we produce pre- and post-trade analysis for example, looking at the actual liquidity of the constituents, thinking about what's actually going on in the entire universe of comparable products, and kind of coming up with some sort of, you know, documentation that we can share with the client. So, that's sort of from a research and analytics standpoint. From my standpoint, as opposed to Lorraine has a whole different view on research and analytics.

And then with regards to secondary market liquidity from primary market liquidity, ultimately, the relationships that you have with the Street are paramount, and trying to -- doing the best of your ability to explain how your product trades and how your product is going to do X versus Y in any sort of an environment, is paramount on being able to translate, so to speak, to the sell side. And then, with regards to execution and liquidity services, that's what -- that's how John and I cross paths, and that's what John has built over the past decade, is really this kind of desk that just sits there -- and so, now John's got a client who's -- his team has worked on for let's say six months to get them into PCY, has really done a great job of explaining it. Now, when you come to implementation of putting in a $100 million trade, that's when my team steps into the equation, to kind of talk about it. And at that point, we'll help manage that order with verbal, with sell-side participants such as your firm for example, and making sure that the execution is at the highest quality possible.

If we don't know about the trade, we can't help, is what I always try to tell clients. Right? If I can't -- if you don't let me know that there's something about to happen, whether it's an exit or an entrance -- obviously we only want entrances -- but there are many times when people will call us specifically to just talk about them existing the product as well. And that goes for Toronto and that goes for my team in London, as well. They're designed to really think about execution of liquidity services first and foremost, making sure that client experience is possible. That is really built out of the relationships that you have built, and the ability to translate your products properly to the sell side so they can trade on the best.

So, for example, I mean, one of the things that we worked on with legal was just around stamp duty tax in the UK, for example, it's something that certain issuers -- certain sell-side participants do not have to pay when they go to create those types of products, and certain issuers allow for it, and some issuers don't. And this is one of the things that I've always told my team to think about is, what makes our products as low-cost as possible from a tradable perspective, and what makes them as liquid as possible?

So, as long as they're thinking about those types of concepts, every single day they walk into the office, I think we're going to get there, to where we need to.

Brennan Hawken: Great, and on the analytical side?

John Hoffman: (inaudible) UBS, is that correct?

Dan Draper: Haddon Kirk, the head of the ETF trading desk at UBS, is a client that we would face off against, and include value in the team that creates and redeems, are the clients that we would face off against. Our objective, as Eric just talked about from a trade perspective, is to ensure that our clients get in and out of the product as efficiently as possible, and we think that that is a piece of why they're transacting in our products. That experience that they have coming in and out.

And the topic earlier on costs, you know, we're starting to break apart that full round trip cost for a client from an analytics perspective, and go beyond just that sticker price. So, another piece that I would point at is securities lending. We're looking at the underlying securities lending revenue that is plowed back into the net asset value, and making sure that our clients understand our securities lending policy, vis-à-vis competitors, because we think that that's a true differentiator in terms of the total return of the investment for the client. And we are breaking all of that apart through this analytics software that sits in the capital markets group.

From a sales perspective, we just launched -- or a distribution perspective, we just launched a tool that enables us to ingest a client's portfolio and based on either holdings, regression analysis against holdings, or regression analysis against prior returns, we can isolate their factor exposure in the portfolio. And this is a service that we're now providing to our institutional and RIA clients, to help them understand and re-orient their thinking around this move from size and style, to factors.

There's a number of proprietary internal systems that have been developed here, that don't -- that we don't license outside of here, that power these platforms and these reporting mechanisms that we use for clients, and I think that what's truly unique and should not be -- or should really carry the gravity to this is, when you're assessing a smart beta portfolio that is inherently tilting away from a market cap-weighted portfolio, is taking on risk that is different from the market cap. This organization has been doing that for 13 years, so all of the software and systems and processes and reporting that we've been doing has been built on that infrastructure. And so, we're used to helping clients understand that framework.

Whereas, I think many other competitors in the market that are now coming to the smart beta world, are doing that on a chassis that was built for market cap-weighted index construction methodology. So, the attribution, the analytics, the risk assessment, all of that is still rooted in that market cap weighted lens. So, I think that truly gives us a competitive advantage relative to some of these competitors.

But, it is a very important piece of our business going forward. Lorraine talked about digital as a key component of our client innovation, and we're going to continue to take the tools that we've built internally and put them on our clients' desktops to help them make better investment decisions and achieve their outcomes with our products.

Loren Starr: And just to end on those tools, think about again with Jemstep, the ability for us to then partner not only our own portal but then that magnification through Jemstep capability, something that again, down the road we think is going to be important.

Ari Ghosh: Ari Ghosh, Credit Suisse. Dan, just wanted to go back to your risk-adjusted performance comment that you made. Given that 70% of the AUM has a three- and five-year track, have you looked at all at what the performance looks like? Any metrics around that versus (inaudible) products, both in smart beta space as well as even if you want to compare it to some of the mutual funds that go head-to-head against them?

Dan Draper: Sure. I'll turn it to Lorraine, I guess, on the product research side, but I guess it's kind of an interesting question because we have broken new ground, if you will, on I think many of these. And I think that -- on many of these strategies. So, that's really why in terms of comparable performance data, what we do for the vast majority of our products which are index-based, our primary performance measure is tracking error. How well do we deliver what we promise we're going to deliver originally to the client. So, obviously I think from that perspective we've obviously -- and that's why that investment in infrastructure is so crucial, to make sure we automate and basically have the strongest infrastructure.

So again, I mean, there's nothing I can think off the top of my head. We've had very good tracking performance, clearly our fund board monitors, it's an important part of their job as well as risk management up through Invesco. So again, it's something that we're always trying to get better at, and it's improved -- we think again, that's a strong selling point. But again, we're selling historical capabilities.

You can look back, not based on -- not saying -- just kind of making a promise based on some type of back tested information, and we hope we can do this. You've actually kind of proven it.

In terms of I guess direct competitor, we have -- you know, in terms of our direct strategy, I guess our model is so unique because we do have very unique -- it may have a nuance, I'd almost bring an analogy maybe to the microprocessing chip industry, right? Someone bring in another 1.0 version at a cheaper price, well, as Lorraine mentioned, that's happened. We've seen in core beta, it's had some impact in terms of market share changes. But in traditional beta, we have yet to have seen a lot of that impact. But, what we do see is version 2.0, version 3.0. So, I almost think that where we play in that higher, more innovative space, that the performance difference again is more in the construction of the underlying index strategy, and looking at something that maybe there's a -- if you will, kind of a better mousetrap. And clearly, that's what we look to do in there as well, and playing in that.

So, I appreciate where you're coming from but I guess for us, it's not quite the same as we would think about in an active management. We want to deliver what we promise from a tracking error perspective, but then if we think there's a better idea in the marketplace, it's going to be a better index, a better methodology, we're going to try to come out with a new product to represent that.

Lorraine, any different view on that?

Lorraine Wang: No.

Ari Ghosh: And just another quick one. Looking at Jemstep, is that all smart beta ETF or is it active, passive, as well as (inaudible) infrastructure as well?

Dan Draper: Let me turn this over to Loren or the team to just add more, but it's an open platform. Anyway, I can -- so, go ahead.

Lorraine Wang: Yeah, some of the models are (inaudible) developing and making available, is you know, you have some models that are mostly (inaudible) ETFs. We also have models that is a combination of different (inaudible). We also have models that have, you know, how many (inaudible) funds in ETFs. I think you know, it's (inaudible).

Patrick Davitt: Thanks, Patrick Davitt, Autonomous. You did a good job of kind of explaining how the first-mover advantage is important, and how you guys have clearly kind of been at the forefront of smart beta. But the market share gain at iShare is pretty startling, year-to-date, and you kind of touched on this earlier with the dividend products and min vol. But even the concentration doesn't look that high.

So, is this kind of raising alarm internally, how quickly they've kind of jumped in front of you this year? And kind of could you dig in a little bit as to what you think is happening, there?

Dan Draper: Well, sure. I mean, happy to -- you know, you're talking about obviously, the global leader in ETFs, a very well-established brand. You know, and I think that obviously being able to do, to take those, and again, there's strength and if you will perhaps proportionally obviously more institutional penetration than we would have, for example. Those tend to be larger, lumpier areas. I think the legacy business from the old BGI, a lot of you know, a huge multi-decade experience in indexing and separately-managed accounts, comingled funds. There is, I think, you know, a bigger kind of entrenched base, and you've obviously seen as price points have narrowed, maybe some of that traditional SMA business may be ending up in an ETF wrapper.

So, tend to speculate on competitors, but I would just say that again, we feel that our advantage of being a differentiator, to continue to push forward on what we brought -- you know, we definitely see the competition. We do face iShares, for example, like you said, in min vol versus low vol. But then we see other competitors, frankly, in other areas of smart beta. But, we do think it is an area that is gaining in popularity. Clearly, the growth in demand and what clients are not only understanding but now actually starting to put money to work in smart beta factor investing, it's going to attract I think a lot of entrants. But clearly, you know, from a Black Rock, iShares perspective, it is one of the top brands in the industry. Long history, and obviously a bit easier for them to pivot over.

But again, we continue, I think, to be a leader in this space and continue to invest and compete on innovation. That's going to be one of our leading differentiating characteristics.

Chris Harris: Chris Harris, Wells Fargo. You guys didn't talk a whole lot about the global opportunity for PowerShares or smart beta in general. Just wondering if you guys could talk a little bit about where you are internationally with the product, how big of a strategic priority is it for you to grow internationally? And then maybe some of the barriers to doing that would be helpful, too?

Dan Draper: Sure. I would just say, you know, globally it's one of -- really one of our top three priorities for the business. As I mentioned, if you look at the lead table of kind of different players, again, there's only a handful that really have what I would consider to be global offerings. And by that, I mean you have clearly -- you know, I think having the huge core presence, the world's biggest ETF market is here. I think being a top player in the US market is crucial. Again, many of the listed products as I said here are held abroad, for liquidity reasons and others, but also having those locally-domiciled product ranges in Canada, EMEA, APAC, other parts of the world. That's really important because once a retail market evolves, a direct kind of consumer market for ETFs evolves, that's where you're going to want to have that investment strategy in a local wrapper that's tax-friendly to you.

I think the fact that we've made the big investment in Canada and EMEA, again, is an important differentiation. What I would say is more challenging not only for us, but for any ETF provider globally, is that you have not yet seen, in most parts of the world, the adoption of intermediate retail to the same degree that you have in the US. I do think the US is somewhat unique by having the ETF as a real tax advantage, over mutual funds and other structures, and in some cases because of this unique in-kind redemption creation process you go to a (inaudible) world in Europe, for example, the mutual fund and the ETF aren't even far from a tax perspective.

You also have large parts of the world, Europe, certainly Asia, other parts, Canada, where the banks control retail fund and ETF distribution. So, you see a real -- either you're going to have to partner or perhaps regulation, has starting to loosen up a little bit of the hold, and sometimes (inaudible) of kind of that strong bank-owned distribution, if you will. But, that's still a big barrier, I think, to entry.

So, I think without those, what you have to do is then have unique products, which we do, you list them. But then, without that intermediate retail client channel, which again, helped really build us in PowerShares in the US, if you don't have that, then you're going to more institutional-type clients. And those institutional clients are going to look at your really great idea, and say, all right, well, you're seeding with $2.5 million or $5 million, but wait a minute, I'm an institution. I need to put $10 million or $15 million in the product. Come back and see me when it's $100 million.

Or, come back when it has a three-year historical track record. Or come back when the trading spread is not 50 basis points, it's 4 basis points.

So, that really is almost the chicken-or-egg difficulty you find in many non-US markets, is having to go with new ideas, new product, the retail -- intermediate retail market is not there, in many cases because of maybe other banking competing products. But then, having to go directly to private banks and institutions, and when those institutions looking, not having the size, liquidity or track record, it's a big barrier to entry.

So, this is where I think it's a long-term gain, and again for us to have such a successful business in the US, it gives us the ability to then take a long-term investment view on the other international growth markets. But absolutely, we want -- and I think this is for PowerShares perspective, it's the international markets where Invesco as a parent company is so crucial to us. And you look at the market-leading positions that Invesco has, in markets like United Kingdom, Asian markets, what-have-you, that's really where from an ETF perspective we want to really leverage the success that Invesco has built there and really make that part of our gross strategy.

Chris Shutler — Chris Shuttler, William Blair. Just how do you see the branding and marketing message evolving over the next couple years? That's question 1, and then secondly just curious on Morningstar. They announced that they're going to be pairing ETFs and mutual funds together. So, what are your thoughts, there?

Dan Draper: I'll kind of invite for the latter question, invite my other teammates to add comments, but I think that Morningstar, it's a pretty significant change. We were -- most of us were at the conference here in Chicago, I guess it was last week or week before, and think it is. Because it really moves to this purpose that we talked about from Invesco, about looking at outcome, and for most of our clients, I mean, they're happy to use mutual funds, they're happy to use ETFs, if it gets them to the best outcome.

So, I think the fact that now Morningstar is really starting to put in its ratings system, and to really look at what are the best products in a certain category regardless of wrapper, we welcome and we think it's again, very healthy, and we again think it plays into again, this high-conviction strength of Invesco to offer all those different solutions.

So, we think it's really, really important, and obviously we work with Morningstar in many, many different ways on that.

In terms of you know, I guess your earlier question was --

Chris Shutler — Just on the brand. I mean, when I think of PowerShares, I mean, you market a lot with the Qs.

Dan Draper: That's right.

Chris Shutler — So, will that continue, will you move more to more of a factor-based message? How will it all --

Dan Draper: Yeah, well I think if you look really at the high level, we have to really start with Invesco and I think this is where we've been pushing forward, important purpose work, the high conviction messaging. I think that's really where focusing all of that towards high-conviction outcomes for our clients. And then if you think about within it, the

PowerShares brand is powerful. No pun intended. It's been around for 13 years, but how that really fits within Invesco and the capabilities that we offer in this high-conviction framework. And then you mentioned the unique product of the Q, one of the largest, most successful ETFs in the world, and I think that -- it's a unique opportunity for us to really, to have that leading product.

But I think for us Telenet really bring all of the different branding strength we have in these organizations, as I mentioned, in certain countries outside the US, it's going to be a strong Invesco brand that's going to lead us. We think in certain client channels, historically RIAs, the PowerShares brand is quite strong. And then we look in maybe trading communities in particular, the Qs brand is quite strong.

So, I think with this framework where we have consistency around it, that familiarity, and we can build equity brand value, through that client experience, through Invesco and the PowerShares, and then if it's the case specifically around PowerShares QQQ, what I would say is that the QQQ is such a unique product, there are various restrictions we have from the trust. That does give us, quite frankly, pretty specific brand guidelines about what we can and can't do, but I think that's where the coordination we do at the Invesco and the PowerShares levels together, we put a lot of time and effort into that. That's really where we want to be able to leverage those, and obviously have the Qs as complementary to all of that.

Ken Hill: Hi, thanks, Ken Hill from Barclays. You guys spoke a lot today about a lot of the wins you guys have had in the industry, which makes sense. Just wondering if you can kind of walk through -- I know you're launching a product coming up here -- how the life cycle of that takes root? How you guys work through a framework, as far as identifying new opportunities that might not be maybe first-mover advantage type opportunities? And then, for the products that don't work out, what kind of statistics do you look to, to maybe pull the plug on those?

Lorraine Wang: (inaudible) we -- certainly, get -- talk a lot to our clients, and sales, and market participants, and get ideas on the gaps and what's out there, and knowing the competitive landscape so that we can identify opportunities to be the first mover. And so, picking the idea is really the key to be the first mover. But, I also mentioned earlier about that (inaudible) of launching a product, which -- so we have a very -- 13 years of track record of being first mover, that nimbleness is crucial and that's where it takes a lot of teamwork from all the different functional teams, whether it's PowerShares and Invesco, to be first.

And then, you know, once the product -- I mean, obviously we have, you know, products that (inaudible), products are -- that are not successful, and we have an annual review process for our product line on a regular basis. And we -- again, that's also, and that (inaudible) is something that we present to our fund board with our product review process, and we look at the different measures of product success, not just the AUM but also the performance, and is this the -- you know, the product with the right investment strategy or is there anything wrong with the underlying index, as well. A lot of times there are issues with the underlying index, that needs to be fixed. Look at the fee of every product, and we do that every year, and do the necessary pruning, which we believe is in the best interest of our shareholders because you don't want to have a product that has low AUM, that has a wide spread. But at the same time, you don't want to close a fund that has, let's say over $25 million. That could hurt a good number of investors. So, those things are things we are taking into account as part of that.

Dan Draper: And then just to maybe give a little bit of color, then go around it too, is we have -- you only mentioned the really important process with our fund board, like all funds, but also internally we're part of Invesco Product Committee. Loren is a member of that, and I am a member of that. So, we also are thinking about the positioning overall within Invesco which I think is an important piece.

What I'd also mention though, is that when you think about success or not successful, timeframe is awfully important. Because I think back, and Lorraine's nodding her head, we think about -- we have the leading, as you may recall, from (inaudible), the leading share buyback ETF. This is a new concept, and many of you think, you know, a couple of years ago, that was a very, very popular theme. When senior bank loan was launched, I mean, Lorraine, it was hanging on the vine with practically no AUM, not popular for years. But the fact that we have a large platform, we knew that was an important -- maybe not a favorite at the time we launched it, but a very important diversification product for many investors. But ultimately, that product had what, more than a $3 billion high water mark?

So again, it took longer, and I think the fact again, this low barrier to entry, high barrier to success, it's the fact that we have the scale, the commitment from Invesco to grow the business, and the client focus on diversification. Same thing with our commodity range, as we said. We -- that range now is a third of what it was at the high water mark, simply because the market conditions and where commodity prices are. But our commitment, that's something that we think we can really differentiate, and has really benefited clients in the past.

So, it's kind of an interesting nuance. We put a lot of thought and we developed a pretty robust ecosystem in product development, really led by Lorraine, over the last 13 years, where it's not only -- it's usually almost client-driven. We love to take credit but we really can't. Most of these great ideas start from our clients. And it's not, "I want this specific ETF," "Hey, I have an issue, I have a problem, help me solve it, what do you think?" And then all of a sudden, we're able to -- Lorraine's team is then able to go index providers, we're able to then go to market makers, exchanges, and that ecosystem, and really start to filter out with John and his sales team, really what makes a viable solution for the client. And then that's when it kind of gears up, and again, we work up through the Invesco Product Committee to make sure that it's obviously appropriate. And that's why you have your -- like I said, our new one (inaudible), Lorraine is excited about her new baby. And like I said, the new one coming on Thursday, we're excited about, and particularly I think the partnership with the Invesco fixed income team. These are colleagues, they're peers of ours that we work with, and it's always great to get together, and let's do something new across the firm, and to be able to kind of hopefully bring that later this week is exciting.

John Hoffman: (inaudible) the asset class, and that's what becomes transformative. And I think that we are at a place in many of our products where they will be true capital market vehicles, being used beyond just long-only investment purposes. And the home runs that we've hit, you know, do well in retail, they do well in institutional, they do well with the sell side. They become true capital market vehicles, and I think that a lot of these smart beta ETFs that we're talking about today are right at that lynch pin of really changing the way that the capital markets function.

So, we have hedge funds, just as an example, that are using low volatility and pairing that against high beta, to access different risk premia, and you layer in the idea of being able to do options on that and target that very precisely. We have corporate treasury departments that hedge their dollar exposure, now, through our UUP ETF, which tracks the DXY future and has become in certain instances, more liquid than the underlying asset class.

So, I think that our intention is often to develop a product that solves the client's need, but very often we unlock a whole new world that changes the way that certain areas of the investment space are operating. And I can't say enough that that is just starting to happen in the smart beta category, and we're starting to see that spill into things like SPLV, our low-volatility product, high beta, all of these other tools that give clients a more precise way to allocate risk.

Mike Cyprys: Great, thanks. Mike Cypys, Morgan Stanley. I just wanted to follow up and dig in a little bit on the managed vol/low volatility products. Obviously, a big success for you guys. But, there are some questions that come up every now and then, just around the performance of those products and how they could perform in certain market circumstances or situations. Just, is that something -- to what extent is that something that you guys worry about, and what sort of market environment or scenario could these products maybe not work as perhaps intended? Maybe a hyper-vol situation in the marketplace, maybe low extended vol for a long period of time. I'm curious, how you're thinking about that, and the risk there?

Dan Draper: Can I take it, I'll turn it over to Lorraine. I think the focus is that again, across all these factors that I think we've emphasized, that I'll say it again, diversification, diversification, diversification. I think that's why having these building block products, really for our core strategic asset allocators, that's the key. And any of these factors, low vol, quality, high beta, small cap, value, whatever it might be, and the real idea is that you're going to receive a premium in normal or good times, it's actually going to reward you when things are bad. It's just kind of an inverse way of looking at it, but I think -- and then that -- but through that means that you're being diversified.

So I think for us in particular, you think about low volatility, the nature of that product is not only does it focus on low vol, in stocks, the trailing 12 months kind of rolling lowest volatile stocks for example in the S&P 500, the waiting is not market cap waiting. So valuation is a big issue? Well, wait a minute, let's break that tie with price and value, let's just break it. Let's not weight that market cap, which we don't. We weight by volatility, so the least-volatile stock, that screening, gets the highest weighting.

So, all the automatically, that efficient market theory that valuation, things get out of whack, we've broken it through the weighting methodology, but then secondly we have dynamic rebalancing once a quarter. And we've seen over the past couple of years, for example, utilities, and defensive sector, historically low volatility. Obviously, very popular now because of the low bond yields, and what-have-you. I mean, we've seen quarters it's as high as 19%, 20%. Had it rebalanced, within the last few years, and we've had quarters that were 2%. That's the key.

So, something that may look overvalued for example, a sector or something within that low-vol space a certain quarter, but that's where the unconstrained approach for us is important. We are trying to break that link with price, with market capitalization, and that's why that factor has unique characteristics.

I mean, to be realistic, and you know, we've obviously gotten the SPLV, the S&P 500 low volatility, our S&P 500 high-dividend low-vol, both of those products have really had frankly great outperformance versus the S&P 500. But Michael, we don't expect that. I mean, that's not what that product is built for. We've hit a very unique time period, but what we are looking for is over a long period of time, that the correlation benefits or the diversification benefits of someone holding that core, having some level or replacing, if you will, through low vol, you're going to be able to get better risk-adjusted outcome overall.

Again, it's a great question. We look at it, but I think that's where again, we felt very strongly with the unconstrained approach of looking at low vol. Same thing, if you get the same (inaudible) with high beta, like I said, with other factors about when they have particular efficacy. And yes, there could be some people who try to time it, you know, and get it exactly right, but we're not building the products for those individuals. We're really building them, to really provide diversification through that. And these are hopefully factors that have risk premia that have long efficacy, and again, reward you in good times, for the bad times that come.

Mike Cyprys: That's great. If I could dig in there just a little bit on the point that you're making, that they're not necessarily supposed to work that way, just over the long-term you get the diversification. But, given the strong performance that you've had, and that people see in the marketplace from that, I guess how are the products being sold, and is there an expectation from the buyers that they may get that outperformance on a go-forward basis? Just trying to think about how the product is sold, and the perception and understanding of the buyer that's buying that product. Do they understand what you're saying, there?

Dan Draper: I'll let John talk about --

John Hoffman: I can -- so there's two different, there's a number of low-volatility products in the marketplace today. And there are two large ones: PowerShares has the second largest, there's another suite in the market that is a minimum volatility strategy. I would point out before I talk about the differences in the strategies, PowerShares small-cap and mid-cap low-volatility products have grown this year, and again you can see this in Bloomberg, shares outstanding have grown from 125 million to north of 500 million each. So, the suit there is of the small- and mid-cap there, is over $1 billion. The high-dividend, low-volatility product started the year at $600 million, and is at $2.6 billion right now. So, tremendous growth in this low-volatility suite. I think it's a very good question of how are we positioning this in the marketplace.

And going to the notion that there's many ways to access low volatility, we believe that you know, it's called the low-volatility anomaly. And that is what we are trying to provide exposure to, the anomaly in the market whereby stocks that have exhibited lower volatility tend to provide outperformance over a long period of time.

Our competitor's product utilizes a mean variant optimization, right, it's a mathematical portfolio construction methodology that seeks to minimize variance by bringing together a portfolio of stocks that have low correlations together. Right? So, they are solving for very, very different outcomes, and I think we want to make sure that our clients understand that the last five years we've had a grinding equity market, in an upward movement. These things look very similar

We want our clients to understand that the sector capacity for our product to move in and out of sectors, to mitigate risk. So, I'll give you a good tangible example, here. Energy this year -- our low volatility suite avoided energy. It went to a 0% waiting in energy, because the volatility in the energy sector was high. Other products are constrained, from a sector standpoint. So, they cannot go to 0%. They can go plus or minus 5%, from a sector standpoint.

So, look, we don't sell to our products that these things are always going to outperform, because that's absolutely not the case. What we talk to them about is understanding the methodology, understanding the composition, understanding how these fit in their portfolio, and we take a very consultative approach to understand what they're looking to accomplish. And most of our clients that have implemented the strategy, you know, understand it's a long-term investment. There's going to be periods of underperformance, and periods of outperformance, and that's why they're coming into this name.

We anticipate that these assets will be sticky, the base should grow, and we anticipate that that whole suite is really solving for a precise way to access the true low-volatility anomaly. And we don't want to put a governor on an anomaly that is an anomaly by nature, it's non-explainable. So, we don't want to say, you know, let's cap the sector exposure at 3%, because that might be what the actual alpha generation has been historically.

So to your question, we are very much focused on ensuring the clients are implementing these for the purposes of which they're constructed, and there will be periods of underperformance, there will be periods of outperformance. But the clients that are buying this believe in the anomaly.

Loren Starr: And if I could -- I was going to add too, the valuation, I mean, these things are getting over-popularized, or what-have-you. And I want to -- I can't do justice, but just to kind of the sentiment that like (inaudible) would kind of talk about, I think in the space, is -- I mean, look. I think it's equity valuations overall are multiple standard deviations away from their historical mean. I mean yeah, maybe risky assets become overvalued or what-have-you, but I think looking at these factors, again, we're trying to provide this suite of different types of diversified elements through that. And I think that the fact that it's crucial that you're breaking this link between price and our waiting scheme of low volatility. So, that's kind of the point. You're trying to break the link with valuation, right? And the way we do it, it doesn't always work, but I think this is where we think longer-term. But then similarly, we're trying to do a different type of methodology around the whole suite.

And I think overall, if you think about the way people, most investors are very comfortable around sector rotation, S&P 500 sector rotation today, our goal by offering all the S&P 500 factors, we really want to bring an analogy and hopefully that opportunity over time with AUM and trading volume growth, its factors become as popularized in trading and rotation as people today think about sectors.

And then you think you've put the two together, sector and factors, you get a much richer tactical opportunity for many investors.

Bill Katz: Thanks again. So, a little long-winded question. Fixed income over equity, global over US, and institutional retail, longer-term, it seems like, what I heard. Can you talk about a little bit -- maybe that's why (inaudible) but if that is the case, can you talk a little about the incremental profit contribution to PowerShares, and then stepping back, where you think you are in the evolution of the margin of the company? Then Loren, I don't know if you want to chime in, where is that margin relative to the legacy Invesco margin, ex the PowerShares (inaudible)?

Loren Starr: I would say that the business as a whole has displayed margins and incremental margins that are superior to most of Invesco. It's somewhere (inaudible) as we've seen more scale grow in a lot of products, you know, the $1 billion-plus products, the whole franchise's margins have similarly scaled. So, there's a lot of operating leverage in the business, so to speak.

And you know, as it goes across the globe, I think the pricing is, seems to be somewhat similar. I don't think we're sort of having, you know, huge differences in how these things are priced, (inaudible) in US. So again, it's (inaudible) market we have to understand how to think of price. But I don't think we're going to see anything dramatically different. I mean, Canada is a good example, where we've seen very good take on of ETFs and the products are very good margin, if not 200 basis points, but still very good.

Tell me if that gets to your point?

John Hoffman: I think too, I don't want to talk about specific margins, but I think if you think about the importance -- at Invesco when you think about, especially in the DOL'ed world in the US, from a client perspective to be able to have capabilities. I mean, the margin, frankly, may be in fixed income, for PowerShares ETFs, or it may be in another real estate, or another part of the firm, but that's where holistically having that, having the Jemstep (ph) capability and others. I mean, all of these are enablers, where if you're moving to -- like particularly I think a DOL world, you're able to offer not only an investment product but investment service, and solutions. You almost need this total capability, going forward.

So yes, you can capture some of it in a business unit margin, but I think it's more pervasive at a firm level.

Patrick Davitt: Thanks, Pat Davitt at Autonomous, again. Eric, you mentioned the August 21 selloff last year, which has put a lot more regulatory kind of focus on potential disconnects between the underlying and the ETF. Do you think that focus is moving more towards it being a market structure issue, or is there still a lot of debate between it being an ETF issue versus a market structure issue?

Eric Pollackov: (inaudible) percent. (laughter) (inaudible). At the end of the day, though, there have been some incremental changes since that occurred, not all the way, I think, to really solve for what really happened on that one particular day. But, I think even the media has got it down as a market structure issue. The industry, clearly, we felt I think, even while it was going on, this is not an ETF issue or a problem with an ETF issue or a cause-and-effect relationship. It was more just the way one exchange really doesn't open like the rest of the other 12, right? So, I think that was really the major issue.

From my perspective, I wasn't here at the time when -- I was another firm asset manager, but you know, from my perspective it was clearly just a (inaudible) structure. So John, I don't know if you have anything else there? Tired him out. (laughter)

Loren Starr: Thank you very much everybody, we appreciate your being here, and hopefully this helps to answer some of the questions around ETFs and factor investing. And we definitely would appreciate your feedback, and if you have any questions. Thank you very much.