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# Invesco Ltd. (IVZ)

Q2 2013 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

## Unverified Participant

This presentation and comments made in the associated conference call today may include forward-looking statements. Forward-looking statements include information concerning future results of our operations, expenses, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, AUM, acquisitions and divestitures, debt and our ability to obtain additional financing or make payments, regulatory developments, demand for and pricing of our products and other aspects of our business or general economic conditions. In addition, words such as believes, expects, anticipates, intends, plans, estimates, projects, forecast and future or conditional verbs such as will, may, could, should and would as well as any other statements that necessarily depends on future events are intended to identify forward-looking statements.

Forward-looking statements are not guarantees and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in our most recent Form 10-K and subsequent Forms 10-Q filed with the SEC. You may obtain these reports from the SEC's website at www.sec.gov. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

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**Operator**: Welcome to Invesco's Second Quarter Results Conference Call. All participants will be on a listen-only mode until the question-and-answer session. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I would like to turn the call over to the speakers for today, Mr. Martin L. Flanagan, President and CEO of Invesco; and Mr. Loren Starr, Chief Financial Officer.

Mr. Flanagan, you may begin.

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## Martin L. Flanagan

*President, Chief Executive Officer & Director, Invesco Ltd.*

Thank you very much and thank you, everybody, for joining us today. As was just – I'm here with Loren and we'll go through the presentation that's on the website, if you're so inclined to follow. I'll review the business results for the second quarter and Loren will go into greater detail with the financial results and then we'll go to Q&A and address any questions anybody might have.

And before we get into numbers, I want to provide a sense of the macroenvironmental factors that impacted our business through the second quarter. And as we've seen in the past, it was really a tale of two markets. Some of the gains in April and May were offset by the weakness of June. Global markets stumbled in June as investors reacted to the comments from Federal Reserve Chairman, Bernanke, and other Fed officials signaling an early retreat from the asset purchases, and further signs of slowing in the Chinese economy added to additional downward pressure. And as a result the global markets, particularly emerging markets, generated mostly negative performance in the month of June, and we saw many investors heading for the exit in that period.


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One of the few bright stops was the U.S. economy working, as consumer confidence remained strong and the housing market continued to remain strong and getting stronger. Fortunately, markets have improved considerably in July and we've seen investors return and add to their portfolios. A key question going forward is what is the impact of rising interest rates in the United States going to have on the economies and markets in the U.S. in particular and also around the globe.

So with that as a backdrop, let me highlight the firm's operating results for the quarter. I'm on Slide 3. Long-term investment performance remained very strong across all time periods during the second quarter. Delivering strong investment performance, our clients contributed to net inflows of $1.4 billion during the quarter. Adjusted operating income was up 26.9% as compared to the second quarter last year, and a continued focus on taking a disciplined approach to our business, drove improvement in our operating margins to 39.3% from 35.7% in the second quarter in the prior year.

Assets under management were $705 billion during the second quarter, down slightly from $707 billion in the prior quarter. I do want to highlight that assets in the financial results during this quarter reflect our decision to treat Atlantic Trust as a discontinued operation, given the business's pending acquisition by CIBC later this year.

Operating income was $310 million versus $306 million in the prior quarter and earnings per share were $0.50 in line with the prior quarter. We also saw continued improvement in the firm's operating margin to 39.3% from 38.9% in the prior quarter, and reflecting the confidence in the strength of the business, we continued our share repurchase program buying $75 million in common stock during the quarter, and previously announced paid the quarterly dividend of $0.225, so a total of $100 million was returned to shareholders during the quarter.

And before Loren goes into details on the company's financial results, let me take a moment to review the investment performance during the quarter. I'm on Slide 6 now. Investment performance during the quarter was, again, amongst the strongest we've seen across our global enterprise. 82% of assets were ahead of peers on a five-year basis and 81% of assets were ahead of peers on a three-year basis. And as you might expect with numbers like these, long-term performance of our investment teams across the enterprise were quite strong with a number of capabilities achieving top decile performance. In particular, our Henley investment team was named Best Performing Fund Manager of the Last Decade by FE Trustnet, which is a main supplier of data in the U.K. financial sector. 91% of the Henley team's funds were in the top quartile over five-year period that ended this past second quarter. And it's a remarkable result and it's a very strong team and very dedicated to generating consistent, good, long-term performance. Also, the performance of our cross-border fund range remained very strong during the quarter. 86% of assets in the top half of peers for both the three- and five-year periods.

Turning to flows, gross sales remained strong across the global business during the second quarter, and to put this in perspective, gross sales were up 51% versus same quarter a year ago. However, strong gross sales were offset by redemptions as markets and investor confidence tumbled in June.

I am now on Slide 8. Following on the record net inflows for our retail channel in the first quarter, we saw strong gross sales and solid inflows in the retail channel during the second quarter. These were offset to some extent by redemptions in June. Within the institutional channel, our pattern over the past few years is that we typically see a number of mandated funds in the first quarter, which leads to softness in the second quarter. In the most recent quarter, solid gross sales were overshadowed by the previous disclosed FX overlay in a low-key, passive real estate outflow, totaling $2.5 billion in addition to challenges related to the markets in June.

The good news for the third quarter is that long-term flows during the month of July are already ahead of total flows that we saw in the second quarter. And again, this can change during the rest of the quarter, but off to a very


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good start. And additionally, the institutional pipeline of won but not funded mandates also looks very, very strong.

Turning to Page 9, gross sales for our U.S. retail business remained strong at $21.8 billion for the quarter, a 49% increase over the same quarter a year ago. Strong sales were offset somewhat by redemptions. However, Invesco's retail market share of net flows was considerably higher than its market share of assets under management. Additionally, PowerShares traditional ETFs achieved year-to-date inflows, market share that was significantly higher than the assets under management share; 8.4% of flows against a 2% market share in assets. The annualized redemption rate remains favorable relative to the industry, although we saw some narrowing of the margin between the two.

Flows into the complex were led by continued strength in traditional EPS, balanced risk strategies, U.S. value, and international growth. Importantly, we continue to see a broadening of flows across the capabilities with 19 Invesco funds generating close to $50 million or more year-to-date versus nine funds generating inflows at that level in the same period a year ago. The strong investment performance of our multi-asset suite of products continued to generate tremendous interest from clients who are attracted to a capability that aims to provide a high level of protection in volatile markets.

Although not at the pace of the prior quarter, we continue to see strong growth during the second quarter across the entire suite of products with net flows of $2 billion. Flows into the strategy were impacted by the challenging market in June. The market declines in the quarter were unusually correlated, limiting the asset classes' diversification benefit. Highly correlated environments such as this are rare but not unprecedented and are typically short-lived. Relative to risk-parity strategies of competing firms, Invesco outperformed in June and for the trailing 12 months.

We thought it would be helpful to provide some context for the firm's performance in an environment of rising interest rates, and from our perspective, this is largely a U.S. topic. As everyone knows, flows into fixed income have been very strong across the industry over the last number of years. In past rising rate environments, the types of capabilities that have been most negatively impacted in this rising rate environment are government products and to a lesser degree municipal bond products in immediate investment-grade categories, which include Core and Core Plus, have experienced outflows.

In addition, given the low absolute yields and the possibility of negative returns in Core and Core Plus could experience elevated outflows to what we've seen in other rising rate environments. The bulk of our fixed income assets are short-term products – cash products, stable value as well as credit oriented products such as bank loans, which are less susceptible to outflows in a rising rate environment. Lastly, given the strong performance and broad diversity of our capabilities, including equities, risk parity, alternatives, we're well positioned to capture money that shifts as a result of rising rates.

With this as a backdrop, the chart on Slide 11 makes the point that Invesco's U.S. retail assets are less vulnerable than our top 20 competitors – in this case, the chart represents roughly 70% of the industry – to outflows from taxable fixed income. In addition, given the large cash and stable value assets, the institutional assets are less vulnerable as well.

We feel good about the momentum in the business. We remain confident in our ability to deliver a high level of value to our clients, and we believe the firm is very well positioned, regardless of where the markets take us next. As always, we continue to focus for opportunities to further strengthen our competitive position and our financial position over the long-term.


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I'll stop there and turn it over to Loren.

## Loren M. Starr

*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

Thanks Marty. So quarter-over-quarter our total AUM fell $2.1 billion or 0.3%. Positive long-term flows of $1.4 billion were more than offset by the negative impact from markets and FX of $3.5 billion. Despite the market decline featured in June, our average AUM for Q2 was still up 4.1% to $719.8 billion. Our net revenue yield came in at 43.9 basis points, which was a decrease of 1.7 basis points quarter-over-quarter and that was driven by lower performance fees.

And now let's turn to the operating results. Net revenues increased $2.3 million or 0.3% quarter-over-quarter, which included a negative FX rate impact of $4.1 million. Within the net revenue number, you'll see that investment management fees grew by $42.4 million or 4.9% to $905.2 million. This increase was in line with our higher average AUM and also a small improvement in the effective fee rate during the quarter. Foreign exchange reduced investment management fees by $4.9 million. Service and distribution revenues were up by $9.4 million or 4.6%, also roughly in line with the increase in average AUM. FX decreased service and distribution revenues by $0.4 million.

On to performance fees, we saw $9 million in the quarter, but that represented a decrease of $29.6 million from Q1. Performance fees in the second quarter were driven by actually a variety of products including bank loans, quant equity and as well institutional mandates in the U.K. Foreign exchange reduced our performance fees slightly by $0.1 million. Performance fees, as we've discussed in the past, are rather difficult to forecast, so I'm providing some guidance on this line item, however, which is just about $5 million per quarter, other than Q1 when we tend to see higher levels in the U.K. depending on performance in the U.K.

Other revenues in the second quarter came in at $28.9 million. That was an increase of $3.1 million versus the prior quarter. The increase in other revenue was largely driven by higher real estate transaction fees. Foreign exchange reduced other revenue by $0.2 million. Again, this line item can move around a bit, and so I would guide you all to use a run rate of about $26 million per quarter. Onto third-party distribution, service and advisory expenses, which we net against gross revenue, that increased by $23 million or 6.7%.

And before I move to the next line item, I'd just like to explain a little bit this disconnect between the growth in the distribution expense as well as the management fee growth. The distribution expenses actually were in line with our retail management fees in the quarter. The reason management fees were up only 4.9% while distribution expenses were up 6.7% is largely due to the institutional management fees being down quarter-over-quarter, as they were in line with institutional AUM, which declined 2% at the end of the quarter versus at the beginning.

So then moving on down the slide, you'll see that our adjusted operating expenses at $479.7 million decreased by $2.1 million or 0.4% relative to the first quarter. Foreign exchange decreased operating expenses by $3 million. Employee comp, at $322.7 million, declined by $12.1 million, or 3.6%, and this drop in compensation was driven by lower seasonal payrolls tax cost as well as a reduction in staff costs as we completed the outsourcing of our European transfer agency in June. This was slightly offset by a full quarter's worth of salary and share-based expenses. Foreign exchange impact was $2.1 million in the quarter for comp. Looking forward, assuming no change in quarter-end asset levels, we would expect compensation to be down approximately $3 million to $5 million through the remainder of the year, again assuming flat AUM.

Marketing expenses increased by $1.2 million, or 5.2%, to $24.3 million. FX decreased these expenses by $0.1 million, and we expect marketing to return, however, back to the $27 million level per quarter going forward.


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Property, office and technology expenses came in at $68.4 million in the second quarter. That was up $2.1 million. The increase was driven by the completion of the outsourcing of our Europe transfer agency, again, and by continued investment in portfolio management technology systems. Foreign exchange reduced these expenses by $0.4 million. In terms of guidance, we would expect property, office and technology expense to level off around $72 million to $74 million going forward.

G&A expenses came in at $64.3 million, up 6.7% or 11.6%. Please recall that the first quarter included a $2.5 million legal settlement credit. The additional $5.7 million of expense was a result of new product development as well as increased compliance and risk management costs in Europe. Foreign exchange increased G&A by $1.5 million. Going forward, we would expect G&A to decline to roughly $63 million per quarter.

Continuing on down, you'll see that non-operating income declined by $1.3 million, and the firm's effective tax rate on a pre-tax, adjusted net income in Q2 was 27.1%. The quarter's tax rate was roughly 100 basis points higher than the guidance that we gave before and that was the result of changes in the mix of profits, reflecting a higher proportion in U.S. and Continental Europe. Going forward, we expect the expected tax rate to be around 26.5% to 27.5%, which brings us to our adjusted EPS of $0.50 and adjusted net operating margin of 39.3%. Despite assets under management ending the second quarter lower than the beginning of AUM in the quarter, we'd expect operating margins to exceed 40.5% by year end. Please note that we now exclude Atlantic Trust from our continuing operations, and as a result, we have added the additional 0.5 percentage points to our prior guidance on the operating margin.

And with that, I'd be happy to turn it back over to Marty.

## Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

So we're ready for any questions anybody might have.


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# QUESTION AND ANSWER SECTION

**Operator**: [Operator Instructions] The first question comes from Michael Carrier with Merrill Lynch. Your line is open.

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Mike Carrier
*Analyst, Bank of America Merrill Lynch*

Q

Thanks guys. Maybe first question, just on the flow outlook. Marty, you gave us some color both on the institutional side and on the retail sides in July. I guess just two things. Just on the institutional side, ex the $2.5 million that you guys noted earlier, just what trends were you seeing during the quarter into that that led to the outflows? And then you mentioned the pipeline just looking pretty good. So where's the interest kind of going forward for the institutional channel?

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Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Let me just – maybe I'll talk about the pipeline and then Loren can follow up. So yes, I think that seasonality is a real thing for us, and I suspect it might be for others. So I think importantly, if you look at where the pipeline – if you look at gross sales a year ago institutionally and to the gross this quarter, it's still up – year-over-year that's a good sign. If we look at the pipeline, won but not funded, so it's not hopeful, right? These are won but not funded. It's hitting some of the highest levels that we've seen. So we think it's a very good sign and it's simply a matter of timing as we've talked in the past.

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Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

In terms of what happened in the quarter, I think there were some outflows as we saw also in retail just in te rms of the equities, largely focused in Asian equities and international equities. So that was sort of another element within the quarter. But I wouldn't say that's trend that we'd expect to be ongoing.

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Mike Carrier
*Analyst, Bank of America Merrill Lynch*

Q

Okay. That's helpful. And then just as a follow-up, just on the expenses and the margin, so there's a lot of moving pieces with Atlantic Trust being backed out and then you gave guidance on a lot of the expense items. So just wanted to be clear. For year-end, assuming the current environment in terms of the flow picture, the market picture, you're still targeting that 40% plus margin. I guess, what would make that change? Meaning, would it be the – assuming flat-out markets, but from a flow standpoint, anything that could potentially be more weak? Meaning, if you saw weakness on the balance products, could that change that or is that fairly certain based on what you can see at this point?

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Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

I don't see us not hitting that. So I mean you'd have to have quite a pull-back in the market. So...

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Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A


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Yes, I would echo that. I think in terms of sort of some outflows we may have seen, I think they're modest relative to the asset base that's been built up in the product, the asset allocation product, and we're seeing other higher fee products in the pipeline. So, I honestly think the mix topic isn't one that is going to change our forecast, and as we've said in the past, I think obviously the guidance is now 40.5% by year-end, and so we do feel pretty good about that. And clearly, if markets improve from the end of the quarter, which they have, that's obviously a very positive element, and you'll see operating leverage provide further upward lift on margins.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

And just adding to that point where, as we've talked numerous times, the risk parity, the multi-asset strategies, it's a real strength of the firm and it continues to be strength. We continue to see interest around the world. But we've also said, importantly, if you look at the depth and breadth of the capabilities in a rising equity market, what would you anticipate? You would anticipate a slowdown. And what would you then imagine happen is that you would see flows going to the equity markets, and frankly that's into the equity capabilities, and we're seeing that.

We're seeing broadening – I'll just use the more public – if you look at the U.S. retail market you're seeing not just the international equities now, but you're seeing a broadening of U.S. value capabilities. And those are things that we anticipated, and again, it's strong performing, capabilities are – they are many and broad. And again, you couple that with a rising interest rate environment, if you believe that's in the making, which I think most of us do, we think we're very well positioned for that also.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

And the other thing I would just mention, Mike, and that is Continental Europe, which has been a strong provider of good, sort of, flow mix in terms of fee rates, it's still very, very strong for us and continues on through July. So again, I think the indicators are still quite positive and green about sort of mix continuing to improve. So I don't want to take that away from the conversation at all.

Mike Carrier
*Analyst, Bank of America Merrill Lynch*

Q

Okay. Helpful color. Thanks, guys.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Yes.

**Operator**: The next question comes from Michael Kim, Sandler O'Neill. Your line is open.

Michael S. Kim
*Analyst, Sandler O'Neill & Partners LP*

Q

Hey, guys. Good morning. Just first to follow up on the IBRA strategies. Obviously they've been an important flow contributor for the firm, and while the three year-track records remain strong, some of their shorter-term numbers have lagged a bit. So any recent shifts in terms of redemptions and performance? Meaning, have you started to see signs that maybe the stickiness of those assets have weakened just given some of the more recent underperformance?


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Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

No. So let me follow up on the performance element, because again I think importantly the public category is very broad and it's made up of many different things. If you look at the risk parity strategies within it, our relative performance is very strong compared to other risk parity strategies. And that's – even in that down month of June, which is not how people make investment decisions, but that's an important [ph] test (24:55) for that capability. But if you look at the trailing 12 months, it's very strongly performing and outperforming its peers. So I think that's a very important point to take. And we would have anticipated, as I said, as equity markets rebound, there will be greater interest more broadly away from that. That said, we continue to see interest in the risk parity capabilities through different channels in different locations – different regions of the world.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

I'd also just add that we know that the institutional side of the business is actually – demand is actually improving and growing for this particular product. So it's definitely featuring in our pipeline very nicely, Michael. And so even though the retail side may have paused a little bit and maybe the redemption rate is going back to more of a normalized level, I think it was sort of abnormally low, because it was low base and not a lot of timeframe in terms of people having held the product. We're seeing that sort of go to more normal levels. Sales may be off a bit, but we absolutely think institutional and retail will provide continued flow opportunities for this product. Unless if equity markets take off in a very solid way, as we've always said, we'd expect that product to probably not be quite as much in demand as some of the equity products.

Michael S. Kim
*Analyst, Sandler O'Neill & Partners LP*

Q

Okay. That's helpful. And then just more broadly, as a firm you've always been forward-looking in terms of trying to optimize the business either from a strategic standpoint or an operational perspective. So as you look across the franchise today, any color on areas that you might be targeting for further optimization or development?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

I would make the point and we've talked about it some in the past, we are strong believers of extending our core investment management capabilities. And where has that moved into and it's into more probably multi-asset strategies. We're a big believer in that. People are focused on risk parity, but quite frankly it's quite a bit broader than that. Looking at multi-credit capabilities coming, there will be the U.K. launch of another multi-asset strategy that will start there in October. That will end up in different parts of the world. So just much more broadly extending our investment capabilities into what we think is – people are calling them liquid alternatives and the like, because we've had teams that have managed them, various capabilities for 10, 12 years in the institutional market, and we continue to pay attention to that. So we continue to look to strengthen what is a very strong part of the organization already.

Michael S. Kim
*Analyst, Sandler O'Neill & Partners LP*

Q

Okay. Thanks for taking my questions.

**Operator**: The next question comes from Bill Katz with Citigroup. Your line is open.


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**William R. Katz**
*Analyst, Citigroup Global Markets Inc. (Broker)*
Q

Okay. Thanks very much. I was wondering if you could maybe go another layer or two into the July snapback of flows and maybe answer it by either geography, where you're seeing the recover and/or by maybe type of product, active versus passive?

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**Loren M. Starr**
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*
A

Sure Bill. I think in terms of interest for the snapback in July, we're definitely seeing interest in equities, long-term active equities. That's featuring nicely. Positive flows showing up. We're also seeing continued interest in our traditional PowerShares product. So that's been a theme that continues to ride. Good strength in Asia Pac and Continental Europe, in particular, are really doing very well for us. Not that the U.S. is not, but I think the U.S. featured even more strongly in the first quarter, whereas now I think the other regions are actually sort of showing equal strength.

So the interest in the products, and we have fixed income as well – alternative fixed income continuing to be a very interesting product, real estate. So it's all of the things we've talked about. The only thing that's sort of different I'd say is that instead of asset allocation being the number one driver of flows in July, it's really been more equity-oriented products and some of the alternative fixed income that has shown up as the greatest demand.

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**Martin L. Flanagan**
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

And again, you don't want to extrapolate early days into a quarter, but as Loren started to highlight, basically every region of the company is in net flows right now, and for the number of years that I've been here, I don't remember that happening to that degree. Now, look, that can change very quickly, but it just shows the relative strength. And as I pointed out, [ph] if you (29:55) just look at gross flows being up 50% quarter-over-quarter – year-over-year and the broadening of the interest throughout a number of capabilities I think is the main point of underlying strength.

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**William R. Katz**
*Analyst, Citigroup Global Markets Inc. (Broker)*
Q

Okay, that's helpful. Thanks for that. And the second question is just coming back to margin for a second. I appreciate your guidance into next couple quarters. When you think more thematically as you look out into 2014 and beyond, how do you think about incremental margin? And I guess the underlying question is, are there any pent-up investments that need to be made as you position for further growth into next year?

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**Loren M. Starr**
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*
A

When we think about our plan, we plan multi-year, so we have a reasonable look forward into what we plan to do, not just this year, it's not a year-to-year kind of discussion. We kind of think out multiple years. So we do think we know the big imperatives, we know where the investment is sort of taking place. And my expectation is that there's going to be sort of a continued level of good investments around the business, as you'd hope us to be doing, but nothing that's going to sort of step up as sort of being a big surprise or an area where we've underinvested and so my – the need is going to have a real impact on margin. So we would expect and hope to seek incremental margins; again, not that we manage the business this way, but sort of in that 60%, 65% range into 2014 and beyond, and again, we believe that that sort of operating leverage should allow our margin – assuming markets


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grow and we're able to grow organically – to continue to expand beyond the current guidance that we've given for this year.

William R. Katz
*Analyst, Citigroup Global Markets Inc. (Broker)*
Q

Okay perfect. Thanks for taking my questions.

**Operator**: The next question comes from Ken Worthington, JPMC. Your line is open.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*
Q

Hi, good morning. First, I'd like to ask about the halo effect around IBRA, and maybe to what extent has success at IBRA opened up new distribution or expanded existing distribution relationships and has actually allowed you to sell other products that you might not have sold otherwise?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

It's a good question and I think, as we've talked in the past, maybe the U.S. retail channel, in particular, because if you go back a handful of years now, as we said, the Invesco brand was relatively new into the retail channel. And so, having something successful creates absolute awareness more broadly across the capabilities. And that, coupled with having the capabilities that are performing well, I think you could clearly make the argument that that has been a very powerful thing in particular. That might be less so in other regions of the world where we've been Invesco and have had a good number of years of success, but it is something I would not discount. I think you're right there.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*
Q

Yes. And then I guess, how much more do you think you can leverage that? And in particular, I'm thinking about the Van Kampen products. The returns and the performance has been very good there. They're in kind of the right asset class for the right time. We're seeing sales at something like a Comstock turnaround, but some of the other big flagship funds that are performing great are still in redemption. So I guess it's kind of combination of; one, can you leverage IBRA more to get these products into more channels and actually get them sold given the backdrop seems so good for them? Or have you kind of maxed out the success in IBRA in terms of leveraging it for other products?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

So I wouldn't make it so IBRA-centric. I think very, very importantly, you're hitting – what we are seeing is where the focus of net inflows in the value suite was really around, right, if – it's now broadening, right, against the value suite. So that's a really good sign. And really, for two years we have been talking to our distribution partners and clients about the obvious, get into the equity market. So it has been more of a lack of interest on clients to be investing in equities, but do know it is an absolute focus of the firm to continue to broaden the awareness and participation in some really, really strong investment capabilities across the firm, and I think that's happening. And the data point I would – as I said, a year ago there were nine funds in the U.S. retail channel with $50 million or more in the quarter of sales; there's 19 today. So it is – Ken, I'd say we've not seen the success that we would anticipate.


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Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

And then lastly, active alt is doing very well. I assume that's real estate, but can you give us more color there and maybe talk about performance and pipeline for Wilbur, Quant and the other active alt areas?

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

So in active alt, our two sort of primary drivers have been the real estate group, as you can imagine, but also bank loans, which has done really, really well. We have seen more and more consultant advocacy for the bank loan products. I think now it's really sort of ticked a lot of the boxes with all the consultants on this product, and we have, in our pipeline, strong showings for both of those areas in particular. In terms of our private equity capability, we still have great opportunities there, but as you know, it's more centered around a particular fund launch, and right now, they're working through investing their current products. But we've seen opportunities to do other things until the new recovery fund comes up, and so there is certainly activity and assets that are in the pipeline as a result of some of those elements, but I'd say they're smaller on the spectrum of what real estate and bank loan is doing.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

I would add just, Ken, to the question, and it gets to the broader question that you and Bill and others were asking earlier. So the quant team has really been – again, this is one of the ones that – team's been together 20 years, great performance, and there are natural extensions. They have been very successful the last number of quarters now with multi-asset capabilities of interest in Germany, in particular. And again, those are the types of things that we think there's opportunities in other parts of the world.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

Great. Thank you.

**Operator**: The next question comes from Dan Fannon of Jefferies. Your line is open.

Daniel T. Fannon
*Analyst, Jefferies LLC*

Q

Thanks. One more question on IBRA, if you could maybe talk about the gross sales versus redemption trends maybe in June and kind of what we're seeing in July. Is it – if the gross sales have slowed and you've seen elevated redemptions or kind of what the dynamic is there.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Dan, I can do that. So we saw, in June, certainly a tick-down on sales. It wasn't dramatic, but maybe 15% to 20% kind of decline in sales, but redemptions really picked up, right. So I think we saw there an unusual spike in redemptions in June, certainly not one that has carried over into July. So we're seeing in July sales still at a more


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modest level than we've seen in the past and we've seen redemption rate, though, sort of subside, so it's not spiking as much. So still if you're looking at July data, it's sort of just a data point, so we have to see probably another couple of months before you can really decide what is really the trend and where it's going to stabilize, but it's moving in the right direction where the redemption rate is going back to what I would say is more of an industry norm redemption rate, if that's around 20% kind of redemption rate. And then we would see sales, depending on what the market is, at maybe, hopefully more than half the level of where it was before and hopefully somewhere around three quarters of the level we've seen in the past.

---

**Daniel T. Fannon** — Q
*Analyst, Jefferies LLC*

Great. That's helpful. And I guess a question on the distribution margin. You gave explanation as to what happened this quarter, and if I think about what you're saying for your institutional pipeline, with that coming back, should we see that more normalize going forward or any outlook in terms of that expense revenue dynamic?

---

**Loren M. Starr** — A
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

Yes. No, absolutely. Really what happens is institutional assets are priced at quarter-end typically. And so because in the quarter we saw a big drop in rates – sorry, in the markets, we just obviously kind of didn't have good luck in terms of when the revenues were going to be calculated off of that asset level. We've seen asset levels come back, so that's a good sign. And then the other thing, obviously, in terms of the pipeline, our institutional pipeline is probably more than 10% above its 12-month average run rate and certainly even higher than it was – even higher than that than it was relative to the first quarter. So we do think that the institutional pipeline is, even though it didn't present a lot of great results in the second quarter, the fundings are going to happen in the third quarter and fourth quarter, right. So there was really just this pause of fundings that took place in the second quarter, because so much of it happened in Q1.

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**Daniel T. Fannon** — Q
*Analyst, Jefferies LLC*

Great. Thank you.

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**Operator**: The next question comes from Matt Kelley of Morgan Stanley. Your line is open.

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**Matthew Kelley** — Q
*Analyst, Morgan Stanley & Co. LLC*

Morning guys. Loren, just to kind of follow up on that last question, when you've given the 40.5% operating margin guidance by year-end now, I assume first of all that's ex-Atlantic Trust? And then second of all, just on the – is your distribution margin kind of more normalizing reflected in that 40.5%?

---

**Loren M. Starr** — A
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

So, the answer is yes. Atlantic Trust is excluded, so that's the extra half-percentage point on top of the original guidance of 40%, so that's correct. We do think that the distribution costs in terms of the margin that you're looking at, which again, I just warn you a little bit on looking at those things because they're not exactly comparable, should be more normalized. And our forecast still reflects our expectations for, I think, that normalization to take place, which is based on, I think, fact. So we have not seen anything – just to clarify, we have not seen anything that sort of should cause anybody alarm that our distribution costs have suddenly spiked up or we have changed our paths to our distributors. That did not happen in the second quarter.


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Matthew Kelley
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay, great. And then just another question. I know you've been asked this a lot of different ways, but on IBRA, just wanted to ask sort of a different question. Do you think that some of the channels that you've been selling that through really understand the decision-makers, the gatekeepers, if you will, really understand the different dynamics of your fund versus some of your peer funds and how they're supposed to behave in certain environments? Or are they just kind of – I know they is a broad statement – but that a lot of gatekeepers sell them all as allocation funds and don't really differentiate a lot between them?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

So I can only speak to our capability, and I feel quite strongly that it is absolutely understood by, as you call them the gatekeepers, and into the channel and we spend an awful lot of time on education. So I think, speaking for the capability that we have, I'd say there's an awful lot of attention on that educational point and I think it's broadly understood.

Matthew Kelley
*Analyst, Morgan Stanley & Co. LLC*

Q

Okay. Thanks Marty. Thanks guys for taking my questions.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Absolutely.

**Operator**: The next question comes from Jeff Hopson of Stifel. Your line is open.

Jeffrey Hopson
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay, thanks a lot. Two questions. Can you talk about the timing of the sale proceeds and then the effect on share repurchase? And then, Marty, what would you say – obviously IBRA and a couple of other products have been the go-to products in the field. But in terms of wholesaling messages out there, has anything changed in terms of what your guys are focusing on? Any change in messaging, et cetera? And what is Invesco trying to do in terms of making the brand, et cetera, the message unique versus others?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

So, again, I might be a little repetitive, but again, the absolute focus is trying to understand client needs and listening very intently to them and then putting forward investment capabilities that meet those needs. So, as you would be aware, most all of the distribution partners right now have their strategists and they put forward their ideas of what they think is proper asset allocation. We work very hard with them to make sure that we follow on with that and make our capabilities available. And so the point being, it's very broad, the range of capabilities of that focus.

We in particular, as I said previously, for the last couple of years have been very, very focused on the merits of a well-diversified portfolio and the importance of equity exposure within that, not just U.S., but all the way to international, global capabilities. And we think that has really been under – people have been underexposed. I


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mean no question about it, and it was clearly, I think, a reflection of people just feeling – not having the level of confidence coming through the crisis. So it has been a very broad message. We spend an awful lot of time. If you just follow – you can look on the websites and get some sense of the intellectual capabilities that we put forward in education, so those have been the focuses of the firm.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

And just in terms of your first question, our expectation is that the deal will close before the end of the year. The reason I can't give you an exact date is because there are some regulatory steps we have to go through in terms of getting approval. But beyond that, there's no reason at this point in time to think that that won't happen. The proceeds when we get them, which will be at the close, we will then execute our buyback around that time. So, hopefully that's consistent with what you have expected.

Jeffrey Hopson
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. And then if I could follow up. The U.K. in particular, I know you've done well, I think, with IBRA being introduced there. But the traditional products, as you point out have performed extremely well. Flows have been okay, but any thought on, in this environment, could you see some improvement in the flow – the sales end or flows from the traditional perpetual products?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Sure, and where we're starting to see interest in subscribing, right? The international capabilities are performing well. Flows are moving very much into there. The fixed income capabilities continue to be very, very strong. They continue to see flows into those capabilities, so it is broadening. And also, we anticipate that in the fourth quarter will be the introduction of the multi-asset capability – the team that had joined us earlier this year, so that we think is also very, very important thing with the introduction of RDR, and the focus will be multi-asset strategies around the broad range of Invesco Perpetual capabilities in the first instance and then we'll broaden out as it moves around the world. And so, we think we're positioned very well.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Yeah. And now we're just having July, we're seeing very nice, strong flows coming from Invesco Perpetual across fixed income, international equities, and U.K. equities. So, all products are doing well there.

Jeffrey Hopson
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thank you.

**Operator**: The next question comes from Luke Montgomery of Sanford Bernstein. Your line is open.

Luke Montgomery
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Hi, guys. It sounds like you guys have answered a little bit of this already, but coming back to the institutional business, one of your competitors is talking about changing behavior of large, international institutional clients, including sovereign wealth funds, which have been reducing allocations to long-only U.S. strategies for a variety of


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reasons. Some of those are investment related and some of them aren't. But when I look at your flows, institutional ed outflows, equity ed outflows, that seems to confirm the trend. But then by region, the outflows are concentrated in the U.S., U.K. and Canada. All of the inflows came from Continental Europe. So, you highlighted some lumpiness in the quarter. I'm not sure how much you can make from all of that, but perhaps you could drill down a little more specifically about institutional demand or behavioral trends by client domicile or client type.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

It's a great question. So, what you are seeing – let me try to pick it up sort of regionally in that concept. The lumpiness in Europe is again, this relation of the success that we're having with multi-asset strategy that's managed out of Frankfurt. That is a capability that there is interest in other parts of the world, less so in the United States, but in Asia there is, also and into the United Kingdom. The interest that we see from sovereign wealth funds and the like, yeah, it does tend to be more of the multi-strat capabilities, things like bank loans, things like real estate.

So, alternative-type capabilities and that has been focus for where we have been seeing a lot of interest. We have also seen less interest in more traditional long-only capabilities and that's where you've seen even after having many years of your relationships with some of these large sovereign wealth funds where they are having less exposure to some of the long-only capabilities. Is that a permanent trend? Hard to know. But I would confirm what you're hearing.

Luke Montgomery
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

It's been our experience.

Luke Montgomery
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay, great. And then on the ETF business, loan participation ETF, that's been a fairly large driver of your inflows over the last year as has the emerging market debt ETF. Wondering if you could just weigh in on the debate about whether ETFs help or hurt liquidity during times of stress, especially in classes like fixed income where the underlying liquidity is thinner? And then what are the risks in ETF market structure that really concern you? And what could go wrong here?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Yeah. I know it's quite a debate. I think it personally gets over played, the idea that ETFs drive up oil prices, et cetera, et cetera. I just don't know that I am a big believer in those types of things. And so, I don't have empirical evidence to support my opinion at the moment, but I just don't really see that to the same degree.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A


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I would just say that because our – particularly our product is more retail focused, it's not as rapid motion in terms of people's behavior in terms of buying and selling. So again in terms of us sort of moving markets and having big distorted swings, I don't think PowerShares is certainly providing that.

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Luke Montgomery
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. Thanks a lot, guys.

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Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Thank you.

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**Operator**: The next question comes from Robert Lee of KBW. Your line is open.

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Robert Lee
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Thanks. Good morning, guys. First question and I think I'm a little slow this morning, but just to make sure to clarify it for me the – and all, July, so July flows generally positive across the board at least in terms of geography? I just want to make sure I have that correct.

---

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Yeah. Correct.

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Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

You're correct.

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Robert Lee
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay, great. Second question I have is just on kind of capital management; clearly bought back a few more shares this quarter than last quarter. But in general, it does look like kind of return to between share repurchase and dividend, a little less than cash generation. And just how should we be thinking about it? Is one of the near-term priorities kind of continuing to chip away at a short-term debt? I mean it looks like that may have come down about $100 million or so in the quarter. Is that kind of a pace that we should generally think about?

---

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Robert, I mean I think our strategy hasn't changed really. So, we've increased – just a background, we've increased our amount of maturity capital in the form of dividends. We've reduced the amount that we were doing in buybacks. But that we've not turned away from buybacks, and you're seeing sort of a good run rate on dividends and buybacks given our operating cash flow generation this year, excluding obviously Atlantic Trust, which could be sort of on top of whatever we would be doing run rate. We have – we did pay down a little bit of the debts, the net debt decreased I think about $150 million in the quarter. That's not unusual because it's usually at a high level – high in the first quarter and then sort of comes on down.


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So, we're going to continue to sort of chip away at the debt and sort of increase our cash levels over time to get to that $1 billion in excess of our regulatory requirement. But as we said in the past and we'll continue to say, I mean, is sort of a self-regulated pace that we're going on and we're not sort of following that as the first number one priority and then sort of reducing the other opportunistic chances to buy in shares if we think that's the right thing to do. So over time, it is our hope that we would be able to return even more of our operating cash flow to shareholders as we achieve those objectives. And so where we are today could actually expand. So, I would generally guide people to think that our ability to return cash will increase over time, and that we will achieve our goals in terms of debt pay down at the same time and cash will also build. So, we can do all that without anybody feeling [ph] slighted (52:54).

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**Robert Lee**
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Okay. Thanks. And then one last question just on Canada, since we touched on all the other regions I guess. I mean if you could kind of touch on what you're seeing there. I know – I mean it's obviously not as big a business as it used to be, but it tends to be a high-fee type of business and I think relatively high margins. So, are you seeing really kind of the same improvements there? And is it their traditional products? Are you really seeing the momentum more from new products you've introduced there over the last year or two?

---

**Loren M. Starr**
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Yeah. So I think it's a combination of all those things. Actually our traditional products, which historically had the highest fee, were sort of less in the focus in terms of the distribution that we had in Canada and they were focused somewhat more on some of the asset allocation products that were introduced there. What we are seeing now is that a lot of those traditional Invesco Trimark branded products are doing extremely well from an investor performance perspective.

And so, the level of interest and activity around the core products is much more than they were in the past and so we're seeing sort of a shift of balance, I think, in terms of focus, maybe a little bit away from the asset allocation products and back to the core. So, that's sort of we're in the middle of that right now. We think it's going to continue and we would not be surprised to see more focus on the core and maybe a little bit less on the asset allocation just going forward, given the fact that the core had been largely sort of ignored for a long period of time.

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**Robert Lee**
*Analyst, Keefe, Bruyette & Woods, Inc.*

Q

Great. That was it. Thanks for taking my questions.

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**Martin L. Flanagan**
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Great, thank you.

---

**Operator**: The next question comes from Brennan Hawken of UBS. Your line is open.

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**Brennan Hawken**
*Analyst, UBS Securities LLC*

Q

Good morning. So, just generally speaking, given the dynamics you guys laid out in the quarter with weakness in June and average AUM being higher than beginning and ending AUM, the fact that we had some passive driving


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the flows, my assumption is just that we should see some downward pressure on the management fee rate here going forward, all else being equal. I mean, is that right? Or should I be thinking about it in a different way?

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Yeah, I think you're probably off a little bit on that one. So, one of the things we're seeing is that the passive products, I mean, their fee rate has been growing, right, because as we've seen, like the bank loan product, which has done so well, I mean that's 65 basis points or 70 basis points of fee. So, that has really been helpful in terms of driving up the fee rate. In terms of the mix of flows coming in from Continental Europe, some from Asia, now that we've got more balance, were actually – the products outside of the U.S. tend to have higher fees than the ones in the U.S. And so we're seeing Asia, and Continental Europe and U.K. sort of coming back more strongly. That's going to be helpful too.

And then finally, I mean, as people – and we're hoping this is the case – sort of have more of an appetite for risk and risk-oriented products, I mean, all those risk-oriented products are going to have a higher fee than sort of the stable value, money market type of products that can grow, but definitely don't do much for the fee rate.

So, we would expect, and it's in our thinking, that we'll continue to see the effective fee rate grow. It did grow from the second quarter to the first quarter by about 0.5 basis point in terms of the core management fee. And again, we would expect to see continued, slow improvement over time. We don't want to give you the wrong idea that it's going to pop up 0.5 basis point every single quarter, but it could – I mean, it could sort of slowly grow over the course of 2013.

Brennan Hawken
*Analyst, UBS Securities LLC*

Q

Excellent. Thanks for clarifying that. And following up on a point that you made there in the context of that response and then you have seem to have referred to it a few times. You all seem to be saying that you're basically positioned well for a great rotation, but we've heard other asset managers saying that they're not really seeing signs of that great rotation and certainly not a rotation out of fixed income into equities. I just want to clarify sort of just – ask you guys bluntly, are you starting to see – are you seeing something different in your conversations with clients? And – or is it more that you believe that in the course of the coming 12 or so months that you expect that to happen and that will lead you guys to benefit?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

So it's a good question. I would agree with the idea that we are not seeing a great rotation at the moment. But what we are seeing if you look over the last 12 months, people are putting more money into risk-type assets. You know, Loren was talking about traditional ETFs. You're seeing just great growth there. And not just bank loans but it's equity capabilities in emerging markets within that. That would be something. I had mentioned earlier we're actually seeing net flows not just into international equity capabilities but actually into U.S. value capabilities, that's relatively new. So, I would say that you're starting to see people gain a little more confidence and they're broadening where they're putting their – allocating their portfolio to more risk-type capabilities.

That said, we're never going to try to guess a market. We know we'll be wrong, so the main point that we were trying to get across today in many different ways is that investment performance across the organization just couldn't be stronger and that's from fixed income through equity capabilities. And if you look at the exposure and our focus is the United States because we think that's the rise – that's where the rates are going to start going first. The breadth of the product, the performance of the product and our relative clients' allocations right now put us in


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a very good position if there is money that is strongly moving out of the fixed income market. And we are very well positioned to serve clients well in the many different asset classes they might choose to go into.

Brennan Hawken
*Analyst, UBS Securities LLC*

Q

Cool. Thanks for that. And then last, just a housekeeping item. Just to clarify, does your guidance on comp and property and tech get us to ballpark the right run rate we should be thinking about post all the changes for the European transfer agent?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Yes, it does. So everything is all for the second quarter. Sort of that's the run rate for the third and fourth quarters.

Brennan Hawken
*Analyst, UBS Securities LLC*

Q

Great. Thanks a lot.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Thank you.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Thank you, David.

**Operator**: The next question comes from David Chiaverini of BMO Capital Markets. Your line is open.

David J. Chiaverini
*Analyst, BMO Capital Markets (United States)*

Q

My questions were answered. Thank you.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Thank you.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Thank you, David.

**Operator**: The next question comes from Greggory Warren of Morningstar. Your line is open.

Greggory Warren
*Analyst, Morningstar Research*

Q

Thanks, guys, for taking my questions. Just going back to the previous question, and this is just a big, big, big picture question. As we're looking at fixed income here, I mean we got kind of a sense of what happens when bond


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investors kind of freak out about rising rates last month. But when we tried to categorize who's really invested in fixed income at this point, we've got some institutional clients that really piled into it after the financial crisis, looking for more stability, security. And we also have the starting of the baby boomer retirement class. As we move forward, because my sense has always been that, what comes out of fixed income won't be as dramatic as what went in over the last five years. Because some of these clients are these baby boomers who are going to have to stay invested in fixed income just for the income needs. And I'm wondering how you guys think about that and how you adjust your business to accommodate that but also understanding that bringing in equity business really helps your fee rates?

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**Martin L. Flanagan**
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Yeah. So, we start by couple of fundamental principles and focus on generating good outcome for clients. And we then have a point of view that clients want a broad, deep set of investment capabilities to meet their needs. That's also what we've done as a firm. Within that though, a couple of points, I personally you can see, the equity – the fixed income exposures are frankly at all-time highs. So you can make, have a point of view that they will come down. They won't come down to more historic levels because the baby boomers and common sense would tell you that. I do think they're going to come down quite a bit more from where they are right now, because I agree with your long term view. But when you get into a rising-rate environment people are starting to [ph] lose (01:01:51) capital, you're going to see them move. That's just what happens.

And – but I think what we are doing and other firms are doing are very focused on generating income for clients. And I think that's also why you're seeing things like our premium income products, the dividend oriented equity capabilities. And also this gets into why we believe so strongly in multi-asset strategies. Because it's a combination of asset classes that not only can generate income for clients when they can't get the exposure to them. But also there is less volatility in it. So to your point of an aging population and the need for income and broadly diversified, that's what we see evolving and that's why we're so focused on it. But again, I also, in my personal opinion, I think pension plans and individuals have been under-exposed to equities over the last number of years, and that's not a good thing for longer term needs. But that's my personal opinion.

---

**Greggory Warren**
*Analyst, Morningstar Research*

Q

No, no, that sounds good. Hey, on the flows during the quarter, I mean they tended to be strong. I was looking you guys to be sort of in a small net outflow mode, so it's encouraging to see flows being positive.

---

**Martin L. Flanagan**
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Yeah.

---

**Greggory Warren**
*Analyst, Morningstar Research*

Q

You said that flows through July are on par with what we saw in the second quarter. Was I correct in hearing that?

---

**Martin L. Flanagan**
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

No. They have through the month of July, month-to-date they are exceeding the flows of...

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Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*
A

Okay. The entire quarter, yeah.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

The whole quarter.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*
A

The whole quarter.

Greggory Warren
*Analyst, Morningstar Research*
Q

And it's pretty broad-based and it's equity and fixed income.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*
A

Correct.

Greggory Warren
*Analyst, Morningstar Research*
Q

Okay. Good. Thanks.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

Thank you.

Greggory Warren
*Analyst, Morningstar Research*
Q

Good quarter.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

Thank you.

**Operator**: The next question comes from Roger Freeman of Barclays. Your line is open.

Roger Anthony Freeman
*Analyst, Barclays Capital, Inc.*
Q

Hi, good morning.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*
A


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Good morning.

Roger Anthony Freeman
*Analyst, Barclays Capital, Inc.*

Q

Just coming back to the growing share in your U.S. retail complex, particularly around the 19 versus 9 funds a year ago with sales over $50 million, is part of that coming from getting added to model portfolios on any of the distribution platforms? I know that was a focus of yours. I'm just wondering what kind of success you've had there?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

It would be. And I'd say, again, when we – if you want to call it the initial post combination with Van Kampen, I mean it was 100% focused because it had to be because you had to go through those. And we've had great success getting on platforms throughout. I wouldn't say we're done; I don't have the numbers in front of me. But we're in a very strong position right now.

Roger Anthony Freeman
*Analyst, Barclays Capital, Inc.*

Q

Okay. Thanks. And then one other question, just – coming back to the redemption rate of an earlier question, I mean I hear your comments about sort of Q3 versus Q2. Just looking at that chart on slide nine, I mean it just looks like over the last year, the redemption rate relative to the industry has gone up. And I'm just wondering you kind of looking over that slightly longer timeframe, what you would say accounts for that?

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

I think it's a good question. I think some of it has to do I think with just the post transaction of the Morgan Stanley transaction where we had all these investment capabilities that were sort of embedded in certain channels and we were able to cross fertilize the sale into different channels right, where value was really in the Morgan Stanley channel and sort of the Edward Jones channel. And we had our traditional products, growth and others factor in our channels. And so as those things sort of crossed over they built up and so there was an abnormally low redemption rate for a period of time as they sort of built into their, as equilibrium holdings. And now we're sort of getting to more of a sort of normal run rate. That is sort of a guess as opposed to factually I can tell you exactly what is going on. But we knew that that something like that would happen, right? That it was sort of that unusually low rate post that transaction.

Roger Anthony Freeman
*Analyst, Barclays Capital, Inc.*

Q

Okay. All right. Thanks.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

Sure. Thank you.

**Operator**: The last question comes from Marc Irizarry of Goldman Sachs. Your line is open.


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Marc S. Irizarry
*Analyst, Goldman Sachs & Co.*

Q

Great. Thanks. Marty, just one question on IBRA and the fixed income exposure. It sounds like it's maybe against the category it performed relatively well with the – versus maybe other risk parity strategies, but maybe relative to the asset allocation category it's positioned differently. Can you give us some perspective on, have there been any changes to the positioning in the fund and just maybe what the fixed income exposure of IBRA is?

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

So, they've – let me take that in different pieces. So they've not changed their approach. It continues to be exactly what they put in the market and they continue to manage that way. I don't have the fixed income exposure here right now within the portfolio. But secondly, or thirdly and finally very importantly, if you look at that world allocation category, it is just – it is so diverse that it's not very helpful. And I think the relevant point is look at the risk parody capabilities next to one another and we perform very, very strongly with those.

Marc S. Irizarry
*Analyst, Goldman Sachs & Co.*

Q

Okay. Great. And just, Loren, just a quick one for you on spending relative to regulatory requirements, if you will, of expenses. I mean where are you in the build out, where are you in the sort of build out of compliance infrastructure or sort of regulatory required spending on systems et cetera? How far along are you in that process?

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

I mean, I think we're pretty far along. There's probably again based on what the regulators continue to require from us, I mean, it could continue to shift. I mean it's been a sort of changing landscape in terms of the regulators. I mean the good news, if there is any, I mean it seems like some of the rate of change and the speed of sort of new regulations coming though has slowed a bit. And so that is helpful. And again I'd like to say we're sort of seeing the light at the end of the tunnel somewhere, but you never know if it's another train coming at you.

But I think generally we're – I mean, because the guidance we gave is sort of down a little bit, we think we're sort of hit maybe a high point in the second quarter and we're going to be able to step down just a bit off of that. But we're not assuming a big step-down at this point.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

A

Yeah, just confirming Loren, it is not just for us, I think it's for any financial services firm, but even money managers, the compliance requirements, they've been – it's been a material increase and as I've said in the past, it tends to focus on those markets that were hit hardest during the financial crisis, the U.S., the UK and continental Europe. And it has been a material level of investment. And our point of view, that's exactly what we'll do and just making sure that we're in front of all those things is just critical to us in the industry. So, I think you just have to anticipate it. It's going to be here for a good number of years.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*

A

A good example of that – I just heard recently that I think the UK is planning to do their own form of FATCA.


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Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

There you go.

Loren M. Starr
*Chief Financial Officer & Senior Managing Director, Invesco Ltd.*
A

So I mean, that was just news to me yesterday that I heard about that. So again, we shouldn't be surprised. So it's just a little hard for us to say exactly, Marc.

Marc S. Irizarry
*Analyst, Goldman Sachs & Co.*
Q

Okay, great. Thanks, guys.

Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*
A

Okay. Thank you.

**Operator**: At this time there are no further questions.

## Martin L. Flanagan
*President, Chief Executive Officer & Director, Invesco Ltd.*

Well, thank you, everybody. On behalf of Loren and myself, I appreciate the participation and the interest and we will talk to you very soon. Have a good rest of the day.

**Operator**: Thank you for participating in today's conference. You may disconnect at this time.

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