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IVZ - Q4 2012 Invesco Ltd. Earnings Conference Call

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OVERVIEW:

IVZ reported 4Q12 adjusted EPS of $0.45.

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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, acquisition, debt, and our ability to obtain additional financing or make payments, regulatory developments, demand for and pricing of our products, and other aspects of our business or general economic conditions. In addition, words such as believe, expects, anticipates, intends, plans, estimates, projects, forecasts, and future or conditional verbs such as will, may, could, should, and would as well as any other statement that necessarily depends on future events are intended to identify forward-looking statements.

Forward-looking statements are not guarantees and they involve 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 are 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 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.

Operator

Welcome to Invesco's first quarter results conference call. All participants will be in 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. I would now like to turn the call over to the speakers for today to Mr. Martin L. Flanagan, President and CEO of Invesco, and Mr. Loren Starr, Chief Financial Officer. Mr. Flanagan, you may begin.

Martin Flanagan - *Invesco Ltd. - President & CEO*

Great. Thanks very much. On behalf of Loren and myself, thank you for joining us today. We'll be speaking to the presentation that's available on the website if you are so inclined to follow that and has been a practice out to review the business results for the fourth quarter. Loren will go into greater detail on the financial results, and then we'll open it up for questions. Before we get into the numbers, I thought it would be helpful to give a sense of the macroeconomic background that has been impacting our business. During the fourth quarter, the markets fluctuated with the news coming out of Washington and the looming fiscal cliff. But in spite of the volatility late in the year, we did see strong equity markets. The S&P up 60%. MSCI EAFE up 18% and much of this really reflected a mood change where there was a view that there was modest economic recovery in the United States, improving situation in Europe, and softer than expected landing in China.

In this environment now, we continue to see investors emphasize risk management when they were making their investment decisions and continued focus on yield-oriented capabilities, many of which we all know very well so very, very strong flows. At the same time, prompted by the strengthening global markets and this easing view of sort of the economic backdrop, we are seeing early signs that investors are risking as a way to generate stronger returns but for the long-term, we think with this dynamic in place we're very well positioned to accommodate these trends with a broad range of investment capabilities. We'll talk about that today.

With that as a backdrop, I will highlight the operating results for the fourth quarter. I am on slide 3 right now if you are following the deck. Long-term investment performance is strong across all time periods for the fourth quarter, delivering strong investment performance to our clients contributed to solid operating results with adjusted operating income up 10.4%. In addition, the operating margin increased to 35.6%, 150 basis point increase over the prior quarter. Invesco's quarterly dividend is now $0.1725 per share representing a 41% increase over last year's dividend and reflecting continued competence and fundamentals of the business. Return of capital to shareholders total $153 million during the quarter. Taking a look at the results, assets under management rose to $687 billion during the fourth quarter up from $683 billion in the prior quarter.

Operating income was $277 million versus $250 million in the prior quarter. Again, the operating margin was 35.6% and earnings per share were $0.45 versus $0.42 in the prior quarter. We've said for sometime that a major focus for the firm is to reinvestment in the business to build on our strengths and further enhance our competitive and financial position. During the fourth quarter and throughout the year, we took advantage of opportunities in the market and continued to invest in our products and capabilities, our brand, our global platform, and our people in ways that strengthened our business and our competitive position for the long term. Let's take a minute and look back at the achievements over the past year which will provide some insights into the long range plans for the organization.

First and foremost, of course we remain very focused on delivering strong long-term investment performance to our clients which continued to drive growth in our business. 78% of the assets were ahead of peers at the end of 2012, up considerably from 2005. 79% of our US retail assets were rated four or five star by Morningstar, up considerably from 23% in 2005. We also saw the best ever investment performance from our cross-border fund range in the fourth quarter by delivering strong long-term performance to clients, long-term net inflows to our business grew $12.4 billion during the year. We continue to invest in capabilities where we see strong client demand and future opportunities such as multi assets, ETFs, or entering the joint venture in India by hiring very talented people, upgrading our technology platform, launching new products, and provided additional resources where necessary. The ability to leverage the capabilities developed by our investment teams to meet client demand across the globe is we believe a significant differentiator for our firm and we'll continue to bring the best of Invesco to different parts of our business where it makes sense for our clients.

Finally, we continue to further improve the effectiveness of our global operating platform and will continue to invest in our people through expanded training, development, and opportunities in always looking to have the best talent available within the organization. Before I turn it over to Loren to go through the financials, let me take a minute to talk about the investment performance which is on slide 7. Our commitment to investment excellence in our efforts to build and maintain strong investment culture, help to achieve solid investment performance in spite of the volatile market environment during the quarter. As you can see, 66% of the assets were ahead of peers on a one-year basis, 73% of assets were ahead of peers on a three-year basis, and 78% of assets were in the top half on a five-year basis. These numbers are equal to or better than the prior quarter and among the strongest performance numbers we've seen.

As I mentioned earlier, 79% of our US retail assets are currently rated four or five star by Morningstar, an all time high for the firm. And our cross-border fund range is delivering very strong investment performance for our clients. We continue to see a positive net flows in our actively managed capabilities with strong broad flows across asset allocation capabilities, real estate, alternative fixed income, and a number of others. Offsetting this positive trend was the uncertainty in the US regarding the situation in Washington which resulted in higher redemption rates as investors awaited outcomes from the fiscal cliff discussions. Net long-term flows totaled $1 billion during the quarter which was also impacted by a $1.6 billion outflow related to a CDO maturity during that period.

Passive flows for the quarter were down due to $2.5 billion in QQQ outflows. Offsetting this were strong flows across low volatility bank loan and other income oriented ETFs. As an example, flows in traditional PowerShares ETFs were $2.1 billion representing an annual growth rate of 33% so very, very strong. I'm on slide 9. During the quarter, we continue to see strong institutional flows but was offset again by the CDO maturity that I mentioned a minute ago and as I indicated earlier, retail flows were impacted by the $2.5 billion in QQQ outflows and as investors reacted to the uncertainty in the markets during that period. Turning to slide 10, gross sales for our US retail business remains strong at $16.1 billion for the quarter. This was offset by higher levels of redemptions as we saw some tax [calling] and greater caution in the face of the looming fiscal cliff. In spite of this, gross sales were up 9% year-over-year.

Flows into the complex were lead by continued strength in traditional ETF, balanced risk strategies, domestic equity, and international equity. Although the redemption rate rose, they remain relatively favorable to the industry. Invesco being at 26% versus the industry at 32% in that period. Globally, the multi asset suite of products continue to generate tremendous interest from clients who were attracted to the capability with a strong long-term performance that gives a high level of protection in volatile markets which it did do. We continue to see strong growth during the fourth quarter across the entire suite of capabilities with net flows of more than $3 billion during that quarter. With one month into the first quarter of 2013, we continue to see very strong demand for the multi-asset capabilities.

So in spite of the mixed signals we saw from the market and the global economy late in the year, we are optimistic about the quarter ahead. Early signs show a global economy moving in the right direction and investors are showing renewed interest in re-risking as a way of building the returns over the long term. So maybe I will put this into context because it seems to be the broader question maybe in the market place right now. If you look at the US in the first instance, in US retail market for us, we continue to see strong interest in the asset allocation capabilities as I just mentioned. And that would be consistent with this idea of people still being focused on the risk. We also continue to see steady fixed income flows, as again people still seeking yield.

But really what has been quite striking in January is that the January gross sales of international equity products for us are up 60% versus the Q4 average and maybe even more interesting is that the January gross sales are domestic equity capabilities are up 56% versus the Q4 average. Also, it's not unique to the United States. We continue to see growing interest and participation in our continental European based capabilities. So again the big health warning is January is not a year. It's not multiple years. But it is a very encouraging sign and probably something very different than what we have seen in many, many years. So we'll see where that takes us.

In 2012, we did make very good progress against our long-term strategic objectives, further invested in the business. Our investment capabilities are people, and we feel very good about the momentum within the business as we enter the new year and we'll continue to look for opportunities to strengthen our competitive position and our financial position. With that as a backdrop, I will turn it over to Loren.

Loren Starr - *Invesco Ltd. - CFO*

Thanks very much, Marty. Turning to the slide, total assets under management you will see that our AUM increased $4.7 billion quarter-over-quarter. That was up 0.7%. This was due to $4.9 billion in positive market returns. We saw $1 billion in net inflows but these factors were then negatively offset by FX of $1.2 billion. Our average AUM for Q4 was up 1.8% to $680.2 billion. I would also like to point out on this page that despite gross sales being down 1.4%, our active gross sales were up 11% quarter-over-quarter. Moving on down looking at net revenue yield in Q4, that came in at 45.6 basis points. That's an increase of 1.6 basis points quarter-over-quarter so that trend continues. One basis point of this increase was due to the higher level of performance fees that we earned in the quarter. But the remaining 0.6 basis points was due to improved product mix. The product mix improvement was driven by flows into continental Europe, flows into our balanced risk ABRA products, and also flows into our higher yielding traditional PowerShares ETFs.

Now let me turn to the operating results. You will see that net revenue increased $41.2 million. That was up 5.6% quarter-over-quarter. That included a positive FX impact of $2.5 million. Looking at this a bit more closely, you will see that investment management fees grew by $25.1 million, up 3% to $865 million. This increase was in line with our higher average AUM and the improvement in the revenue yield I mentioned. FX increased investment management fees by $3.8 million. Service and distributions revenues were up $3.3 million or 1.7%. That was also roughly in line with the increase in our average AUM. FX increased service and distribution revenues by $0.3 million.

Moving onto performance fees, we had a good quarter. Performance fees came in at $21.1 million, an increase of $17.7 million versus Q3. The fourth quarter performance fees were primarily driven by a private wealth management business. Notably, investment performance remains strong in certain of our products that can earn performance fees in Q1 of this year and should this continue, we would anticipate performance fees around $15 million in Q1. Just some guidance there. Other revenues in the fourth quarter came in at $27.4 million, an increase of $3 million versus the prior quarter and this pick up was driven by a higher level of real estate transaction fees. Third-party distribution service and advisory expense, which we net against gross revenues, increased by $7.9 million or 2.4%, and FX increased these expenses by $1.6 million.

Continuing to move on the slide, you will see that our adjusted operating expenses at $499.4 million increased by $15.1 million or 3.1% relative to the third quarter. FX had a $1.4 million impact on that number. Employee compensation at $342 million increased by $14.3 million or up 4.4%. However, you will recall that there was an $8 million catch up related to bonus that was booked in the third quarter. So taking that into account, we need to explain an increase in compensation of roughly $22 million quarter-over-quarter and I will do that for you now. $15 million of that was due to incentive compensation expense linked to both performance fees earned in the fourth quarter but also the sequential increase in operating income. We saw $1.5 million that was due to increased sales commissions primarily in continental Europe. We also had $5 million in the quarter which was a result of miscellaneous staff expenses including a year-end benefit expense adjustment as well as some relocation and sign-on expenses as we continue to make investments in our business.

Then finally we had $0.7 million of the increase was due to FX. So again, in terms of guidance looking into Q1, assuming no change importantly in year-end AUM levels, we would expect compensation to remain flat quarter-over-quarter as seasonally higher payroll taxes offset declines in incentive compensation related to performance fees. Moving on down the P&L, you will see that marketing expense decreased by $2.7 million or 10.2% to $23.8 million due to reduced advertising spend in the quarter. In terms of guidance looking into Q1 2013, we would expect marketing expenses will return to the prior quarter run rate of $26 million to $27 million. In the quarter, FX increased our marketing expenses by $0.2 million.

Property office and technology expense was $71.7 million in Q4, that was an increase of $2.4 million. The fourth quarter included increases in outsource administration costs as we transition the UK transfer agency to a third-party provider. FX increased these expenses by $0.2 million. Then G&A expenses ultimately came in at $61.9 million, that was up $1.1 million or 1.8% in the fourth quarter included additional professional services expenses associated with increased regulatory requirements in Europe. Continuing on down you will see that nonoperating operating income decreased $9.9 million compared to the Q3. You will remember that the third quarter included roughly that same amount related to gains from certain of our CLO products. Our effective tax rate in the quarter came in at 25%, and our guidance is that it will stay around that level into 2013. Which brings us to our adjusted EPS of $0.45, and as Marty mentioned, our adjusted net operating margin of 35.6%. With that, I'm going to turn it back to you, Marty.

Martin Flanagan - *Invesco Ltd. - President & CEO*

We'll open up to questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Matt Kelli, Morgan Stanley.

Matt Kelley - *Morgan Stanley - Analyst*

Good morning, guys. Thanks for taking my questions. So I wanted to start first on balanced risk. I know you guys have talked a little bit about it in the prepared remarks but just curious from here given that it sounds like [channel sects] would indicate that retail is buying those products like crazy in January. So can you give us kind of your outlook on whether those funds are benefiting more from the current environment in January and also your potential growth outside the US and is there more legs for growth outside the US than in the US at this point?

Martin Flanagan - *Invesco Ltd. - President & CEO*

Maybe I will hit on a couple of them and then Loren can chime in. So I think it's important to understand what the product is, right? You know, it is being -- advisors are looking at it as really sort of a core holding that is really minimizing volatility. And so we think that's going to continue to persist in the United States for a good period of time. It's been in the US market longer than anywhere else. But so by definition there continues to be greater opportunity outside of the United States. We are seeing it out of the [C Coff], out of Europe. We're actually more recently now starting to see it pick up in the United Kingdom, one year later which we thought was very early there. So that's happening. So we continue to see, Canada continues. So there continues to be interest outside of the United States. I think also importantly that we talked about a year ago it is a broader capability. We had launched a premium income product a year ago and you are now just starting to see greater and greater interest in that kick in. So again, you have to think of it as suite of capabilities inside the US and out and we are definitely continuing to see that and there continues to be frankly institutional interest at the same time.

Loren Starr - *Invesco Ltd. - CFO*

Matt, I think generally to your question on in terms of investment performance, obviously when the equity markets are going to be running strong or if they really have a strong beta movement, the ability for that product to outperform other products that may be more equity oriented is not going to be there. It's certainly understood in terms of the product. It's been a diversifying element within advisors, mix of products that they have offered their clients, particularly because you don't want to have an asset allocation product that's so heavily weighted to equity markets so they will create far more volatility. And so I don't think -- and certainly our analysis of the product generally is that you won't see outflows in this category when equity markets are running. Normally it will be at the expense of fixed income. It's more of a trade-off where fixed income products will outflow and move into equity products as opposed to this category of assets. So we believe that this product will continue to grow and thrive in this environment.

Matt Kelley - *Morgan Stanley - Analyst*

Okay. And then a follow up from me would be on your operating margin. How we should be thinking about moving pieces going forward into 2013 given what's -- where you have been with comp in the third quarter, where you had the true-ups. This quarter you had some performance fee noise in the comp line. How should we be thinking about that for 2013?

Loren Starr - *Invesco Ltd. - CFO*

We gave you a little bit of peek into Q1 in terms of the guidance there, in terms of overall comp levels. Obviously Q1 tends to be noisy because of the payroll taxes and some of the movements there. But that's a pretty good sort of guidepost for you to be thinking about comp into the year.

You know, the operating leverage and certainly the operating incremental operating margins of 50% to 60% should be you know something you will think you will see and you should see going into 2013. Clearly there was some noise around this year, really as investment performance you know was very, very strong. It's hard to imagine even though we would love to see it that investment performance gets stronger than it is today. So I think in terms of where we are run rate, this is not a bad place to be modeling.

Matt Kelley - *Morgan Stanley - Analyst*

Understood. Then last one for me and then I'm done, promise. Just on PowerShares, given the strong growth the industry saw in 2012, and the first week of this year included, how are you guys thinking about that? Is there more optionality there or chances to grow?

Martin Flanagan - *Invesco Ltd. - President & CEO*

Absolutely. I think importantly what we're seeing happening and what's more interesting probably to all of us is that of the different elements of PowerShares, what we've discussed a sort of traditional PowerShares, commodities bucket, QQQ builders, the most interesting is the traditional. You are just continuing to see ever increasing traction in that area, not just throughout last year but again into the first quarter. Again, it's not limited to the United States. It continues to grow in Canada. Europe, again it's a different situation for ETFs for us right now. We're in the market but there is a lot for us to do there. What is more interesting quite frankly is Asia for us for ETFs. We think it's an important franchise that will continue to grow and we are seeing very good things coming out of it.

Matt Kelley - *Morgan Stanley - Analyst*

Great. Thanks.

Operator

Ken Worthington, JPMC.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Good morning. Maybe first to follow up on Matt's question. Longer term, is compensation an area where you think you can get operating leverage from and maybe in terms of the $4.8 million increase to comp from the -- I think it was the standard life team, how much of that is one time and how much of that is recurring? You mentioned that some of it seemed to be like sign on bonuses and moving costs. But is it largely ongoing costs of that team or is that one time?

Martin Flanagan - *Invesco Ltd. - President & CEO*

Maybe let me make it the overall comment, Ken. There is no question. You will see operating leverage in this business. As these markets, and I'll say important operating leverage in the business. As these -- we don't need fantastic markets but if you have slow steady markets, you're going to see very strong margin expansion. I think that's the overriding comment. I don't want to speak of any specific team or the light is more complicated than as you would know just from all of your own situations how those things work. I think the most important thing is you will see operating leverage in this business.

Loren Starr - *Invesco Ltd. - CFO*

I think -- one other thing just to mention which I am not sure how many people really appreciate. In terms of going from 2011 to 2012, there is about $28 million that was related to just how we're accounting for deferred compensation where we went from a three-year vesting cycle to a four-year vesting cycle back in 2009. Ultimately, 2012 is the first year where we've actually seen four tranches of amortization hitting whereas in 2011, there were only three.

So some of that increase is really just around the accounting related to some of this deferred compensation. I would agree with Marty that there is many thing in terms of our thinking or our plans that show that somehow operating margin is going to be the operating leverage is impaired going forward. Certainly there has been some investment around the business and there will continue to be investment around the business. It's our job to sort of balance that against the growth and we certainly are going to strive do that.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Okay. You know I'm just going to just move on. The standard life team, are they up and running? What kind of assets would you have expected to follow them to Invesco and where do they stand in terms of getting some of those assets that you might have expected?

Martin Flanagan - *Invesco Ltd. - President & CEO*

Early days, right? They're all not here so of the three. So I don't think you should expect much in the first three quarters of this year. So it was sort of the transition over and the like. And so they'll all be with us by the end of March and by the time you get something into the markets latter part of the year but again I think two comments. It's a great complement to the overall multi-asset strategy capability that we have in place. In the meantime, Ken, what we are seeing actually as I said earlier is that we are now with our traditional [paper] products seeing traction in the United Kingdom in the meantime. So it's probably a little bit out this year.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Thank you. Then last one, you had a big marketing campaign in 2012. Just talk about the outlook and the strategy for marketing as we kind of migrate into 2013.

Martin Flanagan - *Invesco Ltd. - President & CEO*

So it will be, Ken, as you know as well as anybody, Invesco's much well known outside of the United States, least well known in the US retail channel. We have probably hit a level of consistency now that sort of brand awareness to actually more specific around -- more specifically driven around campaigns and the like. So you'll probably see slight uptick in the marketing but we're probably much closer to a steady state now.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

And in terms of strategy, if markets are coming back, are you going to reposition? Is it about improving the brand like you kind of did last year? Do you start focusing more on specific products like strategy more than cost?

Martin Flanagan - *Invesco Ltd. - President & CEO*

Fine. Thank you. So the strategy is we still have to -- we're not exactly where we are with brand recognition which we think strategically is very important now as you see the fundamental idea is very hard to separate the asset buckets in time. So we've all known from DB to DC, it's DC to roll over IRAs, and what we are clearly seeing and understanding is that even in the large institutions where you are managing a DB and a DC plan, they actually do care that they are associated with a money manager that is in the advice channel that is recognized in the advice channel as their employees roll over from a DC plan into a financial advisor.

That becomes very important. That is the fundamental strategic reason why underneath it all you need to have brand recognition. So, within it though, Ken, there are now specific programs and again it depends on what the topic is that we think is important. But it is much more investment led type focuses as we spend time on that in the market place.

Ken Worthington - *JPMorgan Chase & Co. - Analyst*

Great. Thank you very much.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Hey guys. Good morning. First, Marty you talked a little bit about what you are seeing on the retail side of the business thus far this year but can you just give us an update on what you're seeing in terms of demand trends on the institutional side of the business and then more broadly, how are you leveraging some of your competitive advantages around scale, infrastructure, your balance sheet as well as other advantages you may have as it relates to kind of overseas markets?

Martin Flanagan - *Invesco Ltd. - President & CEO*

Let me try to hit a couple of those and Loren can chime in also here. The institutional business continues, the pipeline is continuing to grow which is a good sign. We are continuing to see some of the things that we have been seeing, bank loans, real estate, and the like. But there are the balanced risk capabilities but you are seeing growing interest in international equity capabilities in particular and so as the pipeline continues to build, quantitative equity capability where if you asked three years ago you would have thought not just us but many people you would not have thought that that was. It's a very strong capability.

It's also a global capability. It's not just -- it's available globally but also the global capability of the Quant team is also very, very strong. So it just continues to broaden which is a very good thing. With regard to what we continue to do as a business, it is -- that would be an example just where we have strong capabilities that there is global demand. We are just continuing to see greater outcomes and effectiveness of making those capabilities available around the world. The Quant team would be an example of it has clients not just on the continent, not just in the United Kingdom but in the United States and Asia very similar to what you have seen in the real estate capability, you are also seeing it with the asset allocation capability, and that's going to continue. That is from our point of view what we think is a competitive advantage and also gets back to some of the prior questions. That's also where you start to see scale advantages come. The more we can do that, the better off the clients are but the better off is the business. Loren, would you?

Loren Starr - *Invesco Ltd. - CFO*

I think you covered the big pieces. I think when you look at the pipeline which is growing, it's really spread over a lot of different capabilities as you were mentioning. Fixed income's large in there. Real estate continues to be a big piece of it. Quants, asset allocations. Those are the sort of primary elements to it. Certainly the focus and where we want to make the biggest impact are on the products that can go global and so when we are thinking about our investment and we've been serving local needs and we want to continue to do that. but our greatest opportunity is creating product that you have the opportunity to go global and that is where the resource, the balance sheet, the product development is very much focused.

Martin Flanagan - *Invesco Ltd. - President & CEO*

And maybe less interesting but it does get to one of your questions. We continue to look at ways and harder things of how do you drive down your fixed cost structure and it tends to be around real estate and the like. And so we'll continue to focus on those things. They are harder to do and painful to do but we'll continue to work on programs like that also.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. And then as it relates to PowerShares, I know you recently announced some fee cuts across a handful of specialized funds that I think was largely a function of kind of bringing those fee rates more in line with other products but more broadly, any signs of incremental pricing pressure that we've seen across the industry for more of the commoditized funds?

Loren Starr - *Invesco Ltd. - CFO*

Hey Michael, the answer is no. If anything, I think I mentioned it briefly. We're actually seeing our effective fee rate for the firm as a whole improve because of what is happening. A lot of interest in products with higher fees within our traditional ETFs. Bank loans is a good example where I think it is at $2.5 billion or some really staggering number and that's at a very, pretty high rate. I think it's well in excess of 60, 70 basis points. So we are not seeing fee rates being eroded due to ETFs. Certainly there are no expectations of any other fee cuts in the ETF space. I was just recently talking to our head of our business. That was a really one off episode.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. And then just one more quick one for Loren. Can you just update us in terms of where you stand on kind of the European TA outsourcing just as it relates to some of the different, some of the moving parts on the P&L going forward?

Loren Starr - *Invesco Ltd. - CFO*

Sure. Glad you asked. We mentioned that in the last quarter, we had already seen some of those savings come in. I think there was about $1 million that we had talked about rolling into G&A. Unfortunately, also we have seen some offsets to that as the regulatory environment continues to sort of increase requirements for us. But with that said, we would expect another $1.5 million to come into savings into next quarter or next couple quarters, about half of it into G&A, the other half into compensation.

Sort of the run rate, quarterly run rate savings of the project is somewhere in the $2.5 million frame and that's roughly that $10 million that we talked about. I do think we're going to get the savings we had wanted to. Some of that project though has been delayed so there is where we wanted to finish it by year end it sort of spilled a little bit into this year. We'd expect completion to be done roughly mid-year 2013.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. Thanks for taking my questions.

Operator

Daniel Fannon, Jefferies.

Daniel Fannon - *Jefferies & Company - Analyst*

Good morning. I guess first Marty, you talked about January trends in terms of the gross sales. Could you talk about what redemption rates are doing? You also talked about generally the diversity between international and US but I guess it seems to be pretty broad based and we are talking active strategies versus passive or a little bit of both?

Martin Flanagan - *Invesco Ltd. - President & CEO*

Let me start with that. When I had talked about the domestic and international capabilities, those were active strategies. So in addition to that, we continue to see ongoing strength in the traditional PowerShares capabilities that Loren was just talking about. So I was focused more on the active again because that is sort of one of the big questions. Was everybody just going to passive or not? So we're seeing continued participation in ETFs. We are seeing active -- excuse me -- investments in our active capabilities which is I think is a very good thing for the market place generally. And I'm sorry. What was the next part of your question?

Daniel Fannon - *Jefferies & Company - Analyst*

Redemption rates versus you talked about gross sales, redemption rate.

Martin Flanagan - *Invesco Ltd. - President & CEO*

I don't have the exact redemption rates but they're probably trending back from where they were in the fourth quarter.

Loren Starr - *Invesco Ltd. - CFO*

They're definitely lower level. We saw a lot of tax outlay in the fourth quarter so our redemption rate was actually with the whole industry spiked up a little bit. I think your graph kind of showed that. It's definitely coming back in line with the sort of pre-Q4 levels.

Daniel Fannon - *Jefferies & Company - Analyst*

Okay. Great. Back to the IBRA products briefly just with regards to potentially capacity constraints in the bigger products that have been growing. I think there is some issues associated at some point with some of the commodity exposures and what not. Remind us kind of where they sit in terms of the bigger funds now and then where you potentially would see the capacity constraint.

Loren Starr - *Invesco Ltd. - CFO*

Yes, so I think in terms of the capacity, the constraints, we've said and there isn't a hard one, but it's somewhere around $40 billion and that was related to the traditional IBRA product and that's really a US focused discussion. So we're still well under that number. We're well under $20 billion there. So we can definitely grow quite a bit. The good news is we continue to focus on the suite of products and some of the other products like premium income which is still small right now. They're seeing really nice growth just like we saw with the balanced risk. It took a while. But if it continued at this kind of quarter-to-quarter growth rate, it's going to be something that will be material at some point in the future. So that again, it is important that we don't have everything based on one product. So I think we've done a good job of creating other products that will allow us to grow.

Daniel Fannon - *Jefferies & Company - Analyst*

Great. Thank you.

Operator

Mike Carrier, Bank of America.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. Just another question on the margin. If I just look over the past couple of years, in 2010 you guys were kind of at this 35% level. In 2011, it ticked up. Now you are kind of back at that 35%. If I think over those years you had the Van Kampen acquisition. You increased distribution. You had some improvement on the product investment. IBRA became a hit and you marketed that. But it still seems like the operating leverage and the model isn't to the same degree as maybe some of the competitors or to where expectations are. So I guess when I am looking at 2013 like when you think about the things that you have invested in over the past two or three years, was that level more elevated than what's going to be say the more normal run rate maybe over the next two years? Or is it just a combination of factors that has limited the leverage at this point?

Loren Starr - *Invesco Ltd. - CFO*

Mike, I'll just jump in. Marty, I don't know if you want to. The thing that's important to note, we see it, and maybe it is a little different than some of our competitors is net revenue yield had dropped over that same period of time quite substantially to the product mix that we're offering basically satisfying client demands but in many cases that did call for a lower yield. I think if you look at how that affected us relative to some of our competitors, it's probably more marked for us versus some competitors.

With that, despite that net revenue yield, yes I agree margins have been somewhat flat but that's not been the easiest thing to do because it means expenses actually had to go down as a percentage of assets as well. A lot of work has been done. The good news, and this is why I do think we can and should be optimistic about margin expansion in the future is that trend of declining net revenue yield is now seems to be reversing. We're starting to see net revenue yield actually improve quarter-over-quarter as the fee mix in the products that we're introducing are definitely at a higher yield than what we saw before.

The Morgan Stanley acquisition, I think we've have talked about it. Obviously a lot of those products were in a lower yield and so that obviously created a little bit of a challenge in terms of counteracting a cost structure that was set for a little bit of a higher yield. With all that said, I think we are making good progress, and I feel pretty confident saying that it is our expectation that margin expansion and the operating leverage that you expect and have been talking about for quite sometime is going to materialize assuming markets are flatter or improving. So that is certainly something that I'd say structurally should take place. We can and we will continue to invest in the business We have been doing that but with net revenue yield improving, you know the margins will grow. With the incremental operating leverage of that 50% to 60% that we think is important.

Martin Flanagan - *Invesco Ltd. - President & CEO*

I would just reiterate I think the most important factor to the macro factor is if you look at the effect of fee rates go from '05 to now, they drop quite materially at the same time, more impressive and probably harder is dropping the operating expenses as a percentage of assets under management during that period. We have continued. They have not gone up. They last couple years stayed flat to down but it will be a very powerful thing as an additional basis point and effective fee rate is very important to the organization. But I do come back to you will see margin expansion in this business and we think we're set up very well for that right now.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. That's helpful. Just follow up, Marty, maybe just on the retail side of the business you mention that the pick up in sales. Maybe if you look at normal January's, does it feel like you're seeing more momentum than what you typically see? You compared it to the fourth quarter but you know fourth quarter was kind of challenging for -- hopefully that's not normal. When you look at where the money's coming from because it sounds like on the balance side, you are still seeing some momentum there so within Invesco, are you seeing it come from fixed income, from cash, or is it new money coming in from either competition meaning other fixed income products or cash or just cash on the sidelines?

Martin Flanagan - *Invesco Ltd. - President & CEO*

That's a great question. I think it's really the strategic question we're all asking ourselves, right? Is the market broadening for real and what does it look like going forward? Or is everything staying at fixed income and just going into passive products. So I think the first point is, no question, first quarter of the year is the strongest quarter of the year. So maybe the comparison of January to last quarter is not exactly the right one. But it was such a unique period, such a unique December I think that's really the highlight. Again, one month is not any extended period of time. We all recognize that. It is a very different start to the year than I can tell you that I have seen in the last five years. And it starts to hit on some of the questions that people are asking.

We continue to see continued -- just for us specifically, continued level of sales into our fixed income capabilities and results in net flows. We continue to see strong interest in growth in the asset allocation capabilities. Now my personal point of view, I think that is not just for us but for an industry you are going to see for an extended period of time people continuing to invest in these allocation type capabilities. I think that's probably here for a good period of time. We are seeing investment in active equities to a degree that we have not seen in the period of time and most importantly starting by gross sales. Gross sales level in January I am sure are quite a bit higher than they were a year ago and it is quite broad. I think those are all important trends not just for Invesco but probably for the market as a whole. If we stay away from a shock for a period to the system.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. All right. Thanks a lot.

Operator

Jeff Hopson, Stifel.

Jeff Hopson - *Stifel Nicolaus - Analyst*

Curious what you think may happen on the institutional side. Obviously many institutions are in a longer term allocation trend toward alternatives fixed income. Do you think -- and some of those categories perhaps have disappointed but do you think there is going to be a relook so to speak on public equities, how long that might take? Then in terms of some of the regional trends, look like Canada trended a little bit better, UK a little bit better. Anything there that we should know that happened in the quarter that might be a trend?

Martin Flanagan - *Invesco Ltd. - President & CEO*

So let me pick up the first part, Jeff and then Loren can -- so I think you're asking the fundamental question. I personally think and I have said this before, institutions under the banner of quote de-risking I think are doing a huge disservice. You can't have an underfunded pension plan and close the gap by alternatives with fixed income. I think part of it has been the extreme volatility and some of the experiences that the pension plans have had that has been very difficult for them that have moved them that way. I think right when everybody says it's over is when things change.

And I do believe that you'll probably see greater participation pension plans but where we're seeing it, it is international equities is probably a primary focus right now in emerging markets. But I think also importantly is so many organizations have DC plans. They are broad ranges of capabilities. We have seen a number of clients, say a handful of clients, add our international and domestic capabilities to their DC offering. So I just have to believe as markets become maybe less volatile and the like you'll continue to see -- or you will start to see some greater exposures to equities.

Loren Starr - *Invesco Ltd. - CFO*

And I think when you talk about some of the specific areas, Canada, the performance has been just stunning in terms of the change. So I think in terms of the one- three- and five-year percentage of assets beating peers as good as I've seen it, I don't know, many years, right, so I think it's 60%, 70% beating peers, maybe even higher on certain of the time frames. So that is definitely helping the flow picture. The success in terms of the products that have been introduced in Canada over these last several years in terms of the asset allocation products, the ETF suites, some other investment capabilities that have diversified relative to the traditional Trimark product have been quite successful.

We feel really very positive about the prospects for Canada going forward in terms of the flows on both new products as well as the traditional Trimark products which as you know have really good fee characteristics and the whole structure tends to have very good margin characteristics as well. So that's a positive movement into 2013. The UK and Europe generally have evolved, I think done well and better. Europe is, I will just do that quickly, that's been really, really strong for us. I think we came in number 6 in terms of net flows for the full year relative to cross-border flows. So that's a very strong showing for us where I think historically we have been closer to the bottom of the top 10. We are sort of moving our way up. So that's very positive.

That's not just been asset allocation. It's been fixed income and continental European equities and so it's broadly based. And then the UK generally I think we're seeing some of the asset allocation products begin to take hold and certainly corporate bond product and other products have done very well and continue to get good share of markets. So I would say we're feeling very good about our positioning in Europe generally.

Jeff Hopson - *Stifel Nicolaus - Analyst*

Okay, and if I could follow up we haven't talked a whole lot about the old channel in a while. I know there are some -- a lot of moving parts there, lumpiness, real estate has been some harvesting of CDOs. Can you talk about kind of the trends from here of how we should think about flows over time recognizing things that you know about that could happen there both positive or negative?

Loren Starr - *Invesco Ltd. - CFO*

So I think with the alternative category I would say it's the number 1 place we have seen. Interest has been in the institutional side historically. It's been somewhat dominated for us by real estate, also private equity, has been a smaller element but one that I think you will continue to see growth into 2013. Certainly in terms of institutional flows and pipeline, that's a measured thing. Where it's interesting I think for the industry and for us also is in terms of the retail opportunity offering alternative capabilities. We have I think in aggregate about $30 billion of assets that we recall alternative that are being sold into the retail business and that's an area where we think there is potentially a lot of opportunity to grow that has not been tapped. So we like others I think in this business are thinking about how to do that well. So I think that's a story that's still sort of being written. But I think it's an interesting one.

Jeff Hopson - *Stifel Nicolaus - Analyst*

Okay. Thank you.

Operator

Bill Katz, Citi.

Bill Katz - *Citigroup - Analyst*

Just coming back to margins for a second. Just trying to reconcile your big picture of margins moving higher, fee rate moving higher. But then I think you had mentioned may have kind of dated too finely, but Loren, you had mentioned in sort of the discussion of margins for the fourth quarter as a good guidepost for 2013 if you have incremental margins of 50% to 60% in a flat to rising market, how do you have the margins sort of trending flat to fourth quarter for 2013? I am just trying to understand the math.

Loren Starr - *Invesco Ltd. - CFO*

I don't think we said anything about margins. We talked about compensation. That comp was for Q4 and Q1 of 2013, thought to be roughly the same.

Bill Katz - *Citigroup - Analyst*

I thought I heard 35.6% was a good run rate for margins.

Loren Starr - *Invesco Ltd. - CFO*

I didn't say that.

Martin Flanagan - *Invesco Ltd. - President & CEO*

No, don't. Thank you for -- I hope no one else heard that, no.

Loren Starr - *Invesco Ltd. - CFO*

No. Obviously we are at a higher asset level at year end versus the average for Q4 and so that will provide some lift just naturally but obviously you do have payroll taxes being offset by some I would say a higher level of pay out relative to performance fees in Q4 that will sort of offset each other.

Bill Katz - *Citigroup - Analyst*

Okay. Sorry about that. I must have miss heard.

Martin Flanagan - *Invesco Ltd. - President & CEO*

I'm glad you asked.

Bill Katz - *Citigroup - Analyst*

Into the forensics of the flows and certainly appreciate the year-on-year dynamics and Marty's perspective on the last five years. I am sort of curious. Have you talked to the sales force? I'm just sort of curious because there is a lot of really deep year-end seasonality and a lot of new seasonality to the first quarter that I still think is inflating some of the gross sales per se, special dividends and tag [experia], et cetera. When you talk to the distribution channel, how much of the activity reflects those dynamics versus a more structural change if you will? Then the second part of that question is we have seen industry data fade a little bit over the last couple weeks. I am sort of curious in your commentary, your gross sales, are you seeing a similar pattern or are you seeing some share gains inherently?

Loren Starr - *Invesco Ltd. - CFO*

I think I'll do that question. [So one plan.] Generally, if we looked at Europe, in Europe in Q4, we saw investors go into equities in a much stronger way than they did in the US. They didn't [any] tax selling but there was a legitimate sort of re-risking that was going on that we saw in Europe which I think in terms of what we may be seeing in the US is that once we have gotten past all those tax selling and some of this fiscal cliff stuff so that's kind of one backdrop. Again it's hard to say because it's sort of real time data as to what is seasonality and what is real. But we have not seen any tapering. January's been just an incredibly strong month for the firm as a whole. The US piece has been probably one of the stronger elements within that mix. So we have not seen it sort of fade into the end of the month at all.

Bill Katz - *Citigroup - Analyst*

Helpful.

Martin Flanagan - *Invesco Ltd. - President & CEO*

Again, talking to the client facing people, there does seem to be just sort of a fundamental shift of a greater willingness and interest in investment capabilities can generate greater returns, right? So I think that's important. So you're asking the question, I think others, Ken and others. Is January just the reverse of what happened in December? You would have to -- maybe there is some element of that and trees don't grow to the sky so January times 12 was probably not the right answer, never is. But there does seem to be a very different level of confidence and desire to invest more broadly.

Loren Starr - *Invesco Ltd. - CFO*

One person I think was describing it to me that hope is back, you know. It wasn't there before. People are now feeling a little more hopeful and that is helping them sort of take on more risk. It is not just in equities. It may be within the fixed income spectrum of what's being offered as well.

Bill Katz - *Citigroup - Analyst*

Okay. That's helpful. Just two more from me. Thank you. You mention scientific. You've seen some interest in that. Again, the Quant. Some of your peers have been sort of having more mixed dynamics with that. Are you seeing a broad based increase in the category? Or kin to what you sort of suggesting in retail of share gains? Are you seeing some sort of incremental opportunities relative to your peers?

Martin Flanagan - *Invesco Ltd. - President & CEO*

I can't address the peers but I can say the Quant team, their global capability in particular on the continent and into the United Kingdom in particular is getting an awful lot of attention. And will that extend to the United States? We'll see. There is some interest in it in Asia. So for us, we're having lots of interest in what could be some nice results.

Bill Katz - *Citigroup - Analyst*

Last one. Thanks for your patience answering all of them. Can you talk a little bit about your pre cash flow priorities for 2013? I guess the one thing we continue to run in with investors is the really high debt levels if you will relatively speaking, enterprise value of DA. Any thoughts of de-levering the balance sheet any more in 2013?

Loren Starr - *Invesco Ltd. - CFO*

So I think we are still focused on returning a committed level of capital to our shareholders through dividends. We think it's been certainly well received and certainly not been a hardship for us in terms of being able to do that. And our operating cash flow continues to grow so you should expect to see our focus on dividends and pay back and dividends to move with that. There isn't an expectation that we would you know sort of take a different approach than you have seen us do in 2012 with respect to our leverage. We were pleased to extend our maturities on our debt of 10 years. We locked in $600 million. That's in place. I think our focus on what we can chip away at is in the credit facility and that is, again, it's not been an issue. It's very low fee debt for us. It's not created any topics with the agencies and so over time we can continue to bring that down. But there is not you know sort of an imperative to de-lever it. As far as we can tell, it's not creating an issue with our investors or the stock price.

Bill Katz - *Citigroup - Analyst*

Okay. All right. Thanks again guys.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Most of my questions have been answered, but since no good guidance goes unpunished, I did have another question on the compensation generally. I hear the comments about you have to pay for performance and investing in the infrastructure. But I am just wondering if you kind of dig underneath that if you have seen any kind of pressure related to kind of the proportion so to speak of maybe operating income or revenues that you need to pay out in compensation. I mean, you've got a pretty successful real estate group. You have the successful asset allocation group. Those are groups that are in pretty high demand around the industry. So I'm just kind of curious if you're seeing any kind of competitive pressures kind of even just change how you look at compensation in terms of the piece of revenue or earnings you pay out.

Martin Flanagan - *Invesco Ltd. - President & CEO*

Good question. We have had a overall compensation philosophy in place now for maybe six years. It has served us very, very well. Within it compensation plans are put in place consistent with that. It's really been received very well and it's done all the right alignments, focus on returns for clients and the like and meeting the needs of all the individuals. So we've not -- we're not seeing that as a problem for us in this organization.

Loren Starr - *Invesco Ltd. - CFO*

I think what I would say Rob is that we granted some capabilities are more scalable than others. So my comment earlier about trying to focus on products that can go global on that scale I think is very much an important element to margin expansion. Certain businesses, certain capabilities are more people on the ground. They're more people intensive, and that's just what they are. So the mix can have an impact on margin. But in terms of where we're expecting to see more growth and where the fastest parts of our business are going, we would expect to see margins expand. There isn't any part of our business where it would grow and you would see margins decline. We really don't focus on those types of instances. (laughter) So but generally there will be some businesses that if you can get a greater ratio of the assets to portfolio manager generally you will see greater scale and margin expansion, so these big flagship funds, these types of things make a big difference.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Great. One last question. Since we toured the world, one place we didn't cover I guess too much was Asia. I am just curious how the great wall JV has been going? I know that's had also its own kind of flow issues the past year or so but if you are seeing that business, any change there?

THOMSON REUTERS

Loren Starr - *Invesco Ltd. - CFO*

It's been thriving. It's very -- it continues to be one of the top JVs. I think the good news is China. The optimism around China seems to be improving. I think the mood is improving. There are a lot of new product introductions being contemplated for 2013. It's now a broader platform than it was three years ago where it was almost all equity and now it is equity and fixed income and they're looking at other product offerings as well as Marty mentioned ETFs. So we think it is going to be a very important part of Invesco's business and it's one that 2012 was a difficult year for China and greater China generally. So we are hopeful and optimistic that you're going to see things improve with a better tenor in the dialogue and certainly the leadership change in China. I am not going to talk about politics but apparently that's been well received in terms of setting a good agenda for growth.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

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

Operator

Marc Irizarry, Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Marty, can you talk about IBRA as a up market capture type vehicle as you have seen sort of maybe this fundamental shift toward return and some of the fund flows? Is IBRA sort of gaining share of the pie or do you think maybe this product is a little bit more of a or little bit less of a up market capture vehicle?

Martin Flanagan - *Invesco Ltd. - President & CEO*

So it is not designed to -- let me say it the other way. In a market that we have seen very, very strong equity markets, it will relatively underperform. It is I think importantly I think for all of us to understand that is what has been the attraction for the investors and that is how it is being clearly communicated to the investors and that they look at us more as an anchor in the portfolio. So there is not a surprise that would relatively underperform in a rapidly rising equity markets. So I think that's important. I think you would contrast that to and I think the basis of the question is what happens if a market like this continued? Is it like the old days if all the money grows into aggressive growth capabilities and then all of a sudden there is a big shift change. I just don't anticipate you will see the massive redemptions out of an asset class like that. It's just not what the capability is. I think that's important to understand. We'll see. But that is fundamentally what it is.

Marc Irizarry - *Goldman Sachs - Analyst*

So, so far in January the fund flows for IBRA they have sort of kept pace in terms of the acceleration that you have seen broadly.

Martin Flanagan - *Invesco Ltd. - President & CEO*

Absolutely.

Loren Starr - *Invesco Ltd. - CFO*

I think it's on pace to set a new record so it's definitely not been slowing down.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. Then just one more on -- Loren for you on the margin. You know you mentioned that sort of the fixed side of the equation is harder do but when you think about the priorities for '13 when you look at the fixed cost bucket, are you sort of more keenly focused on making some of sort of controlling your own destiny on the fixed side of the equation or should we just be thinking about sort of incremental progress there?

Loren Starr - *Invesco Ltd. - CFO*

Yes, so great question. We are always looking at our expenses trying to see if we can be more effective, more efficient, continuous improvement is the focus throughout the organization about trying to use our resources more effectively. Some of the things, it's going to be a continuation largely of the things we have done in the past. But for example, if we can get greater scale in our operations particularly in some of the locations that have shown to be really good at delivering results at a lower cost, we're going do that. So that's -- those are things that just take time. They continue on. They do save significant amounts of money but it's not going to be so noticeable as you are going to see certainly tens of millions of dollars of costs pulled out in a year. It takes time.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay. Great. Thanks.

Operator

Eric Berg, RBC Capital Markets.

Eric Berg - *RBC Capital Markets - Analyst*

In this call, we talked about many, many topics other than domestic active equities. I can't remember them all but they have included alternative investments including real estate, your asset allocation product in fixed income, and then international and global. The list is very long of topics other than domestic equities. My question is the public discussion about the asset management business continues to focus on what's going on with the domestic equity business and in particular with the active domestic equity business. Given that your business and the business of so many of your competitors has to do with so much more than domestic active equities I am just wondering whether the discussion needs to be redirected or redefined.

Martin Flanagan - *Invesco Ltd. - President & CEO*

That's a good point on the last one and I think everybody tries to do that. I think if you look at the totality of people investing in equities, you are net inflows, right? The focus has been on active domestic equities and how it's been in outflows over the last number of years. But, what I would say I do want to clarify one point. Again this is for us. You can figure out what it is for the industry. In January, we had domestic equity growth sales increasing 56% over the monthly average or the average for the fourth quarter. So you are definitely -- again a month is only a month. You are definitely starting to see something different. That's all active domestic equities. But your broader point is correct. People are getting exposures to equity and it should be discussed as such.

Eric Berg - *RBC Capital Markets - Analyst*

Now my second and final question then is this. Again in this call you've described multiple capabilities as doing well whether it's your international capabilities or your asset allocation capabilities and you've said that -- but you have also said that ETFs are doing well and that in the month of January we have this really striking turn around in sales of domestic active equities. When you put it all together and you sort of look at who sort of grow -- which asset class or which capability is growing the quickest, I am trying ultimately to get a sense for what all this prosperity on multiple fronts for tens for the domestic active equity business? In other words, if it's doing well but the other capabilities of Invesco are doing even better, it would suggest that the domestic active equity business will continue to grow but become progressively less important to Invesco. Ultimately my question is, is that's what's going on here?

Martin Flanagan - *Invesco Ltd. - President & CEO*

I have a data point of a month. So I can't give you evidence to support your thesis along those lines.

Eric Berg - *RBC Capital Markets - Analyst*

Okay.

Martin Flanagan - *Invesco Ltd. - President & CEO*

But again, our basic belief is that all investors have a difference of investment objectives and different time horizons and we are focused on making sure we have those capabilities performing well to meet those objectives. And we think we're in a position do that right now. That's unique to Invesco and I suspect others would drive some version of that thought, too.

Eric Berg - *RBC Capital Markets - Analyst*

Thank you.

Martin Flanagan - *Invesco Ltd. - President & CEO*

Go ahead.

Loren Starr - *Invesco Ltd. - CFO*

The other Element is that people's exposure to domestic equity may not be in the form of a traditional domestic equity mutual fund anymore. I mean it may be that they're getting it through different ways, asset allocations, ETFs, other forms. So how we look at this also may slant our view which may not be helpful when we talk about domestic equities, a class that is somehow struggling or dying. It may be actually not quite as dire as people presume because it's actually introduced into other types of products in different ways. So I do think it's an interesting discussion but it's not one that is obvious.

Eric Berg - *RBC Capital Markets - Analyst*

Yep, yep. No, it's apparent that there is a lot of detail here that needs to be studied. So thanks very much, Loren.

Operator

Roger Freeman of Barclays

Roger Freeman - *Barclays Capital - Analyst*

Hi. Good morning. I might have missed this earlier. Did you say what percent of long-term flows were IBRA last quarter?

Loren Starr - *Invesco Ltd. - CFO*

I think we have a chart that shows that long-term flows for IBRA in Q4 were roughly $5.7 billion -- I'm sorry -- $2.7 billion. Forgive me. $2.7 or $3 billion. So there is a chart that was in our deck.

Roger Freeman - *Barclays Capital - Analyst*

Okay. It looks like the performance at least relative to peers over the last quarter or so has fallen off. I heard your comments before about how it performs in a good or bad market. Is it just sort of that dynamic or is there anything else that you can point to, pointing out there?

Loren Starr - *Invesco Ltd. - CFO*

In terms of the flows.

Roger Freeman - *Barclays Capital - Analyst*

Performance in the fund.

Loren Starr - *Invesco Ltd. - CFO*

The performance of the fund obviously on a near term basis may have seen a little bit more challenge because of the very strong equity markets and attempts to balance its risk across commodities, equities and fixed income. We have not seen any impact in terms of sales or flows as a result of that. And I think the question which we have been asked and I still think we are obviously yet to see what ultimately happens but we don't think it's going to have any sort of major impact in terms of customer demand for that product because it is certainly designed to provide a balanced return over a longer period of time and is not a rocket ship that's going to go up when markets are up and fall when markets are down. It's specifically used as a diversifying safety element in people's portfolios which I think is still in demand.

Roger Freeman - *Barclays Capital - Analyst*

Okay. Lastly, you talked a little bit before about selling alternatives into retail. I am actually curious, I've had some questions just generally about this. Where have you seen the most success either in sort of segments of the retail market or channels? And what are the biggest challenges that you're facing there?

Loren Starr - *Invesco Ltd. - CFO*

Our greatest personal success has been in the area of real estate as an asset class and REITS. That's been a global phenomenon. The largest part of that $30 billion that I mentioned is definitely in that category. We have seen it though in terms of commodities. That's largely in the ETF space that we offer those types of products. So that has shown up in retail and it's not just ETFs. It is our balanced commodity product too is being used as a mutual fund by retail investors. We have focused on some other asset allocation capabilities that are sort of offer total return type of capabilities that are introduced and have been introduced into retail segments. And that's one that is sort of pretty new but one that we think has a lot of opportunity to grow. So again, I think as I said the script is being written on where this is going but it is one where when you think about retail investors and what they're looking for, I think a lot of things that alternatives offer are interesting and attractive to them. The biggest issue is making sure they understand the product, understand the risk of the product, and importantly the liquidity of the product. Can they get in, get out? If they can't, obviously they have to be qualified investors who understand these issues.

Roger Freeman - *Barclays Capital - Analyst*

Okay. All right. Thanks a lot.

Operator

Steven Wharton, JPMorgan.

Steven Wharton - *JPMorgan - Analyst*

So I have a couple questions. They are kind of inter related. So fortunately I'm going to come back to comp question which seems to be the topic du jour. I guess what I'm trying to understand is I cover about seven large publicly traded asset managers and if I'm not mistaken, you've got the second highest comp ratio. The only one worse I think is Leg and they're kind of a basket case. So I understand what you are saying about the [BU] realization rate and how it's trended over the years but it just seems like it's taking a long time for you guys to get operating leverage on that line item. And it also makes me wonder overall just how is management at Invesco being compensated.

Can you just refresh my memory on the what sort of targets you have you know that total shareholder return versus peers? Is it pretax margin if you have a target? I'd like you to refresh my memory on that as well. Is it organic flow rate? Is it EPS growth versus peers? Either an absolute or a relative basis. Because all of this of course comes into consideration when we have to do the stay on pay vote. What I am seeing on the comp line is not particularly encouraging.

Martin Flanagan - *Invesco Ltd. - President & CEO*

Steve, let me give you a couple of thoughts on that one. One, yes, I think we see where the comp to revenue ratio is. I think AllianceBernstein like Mason have higher ratios than we do but obviously that's not how we have organized our comp. It's not sort of investment banking model or anything that sort of is that formula because we have the view of paying for long-term performance as the biggest part of our compensation and certainly as we've said our comp and our investment performance is probably the strongest as you have ever seen it. So compensation in some ways reflect that. That's kind of one point.

We think that's the right way to manage an asset management firm. One thing, one data point there. In terms of -- and a lot that is deferred too. That is another element that is important. Obviously if it's deferred it's somewhat fixed and it won't vary based on the market and so the challenges. That's one of the realities of how deferred compensation is accounted for. Our senior managers and how they're paid, I think if you go to our proxy statement last year, it lays it out pretty explicitly in terms of how it's thought about and just to run people to the extent you haven't seen it, it thinks about compensation, incentive compensation as a percentage of pre-cash operating income. As pre-cash operating income grows or shrinks, so does compensation for senior management. That's what you should expect to see.

So again, you shouldn't have an issue in terms of stay on pay because obviously the compensation numbers that you are seeing for the firm as a whole may not be reflective and probably in this case won't be reflective of what's going on for senior management because operating income is actually down year-over-year and so that is the reality of how compensation is going to work for senior management. So again I think, good point. It's something that we're aware of. It's something that is not lost in us. We think the way we are doing compensation is right.

The real topic I think ultimately has to do with it's easy for me to say is the revenue issue. Do we have the right sort of revenue dynamics to support the teams that are in place? That's all about growth and finding these global products that scale and making sure that our resources are focused on building those capabilities. And as you can imagine, it's very expensive to provide local capabilities locally because they can never truly scale unless it's exceptional like in the UK where you're number 2 or number 1 in the market. So that's the challenge of the dynamic that is I think you're probably aware of with Invesco. It's one that I think is manageable and one that I would expect as you are going to see in 2013 that comp to revenue ratio will decline and should begin to normalize in a way that you'll be pleased with as a shareholder.

Steven Wharton - *JPMorgan - Analyst*

Okay. Because the only follow up I'd just make is if AllianceBernstein and LegMason both of which have had massive outflows are the only two better, that shows there is a problem because there is a lot of other asset managers with kind of weakish organic growth because it is a difficult environment admittedly but they still have much lower comp to revenue ratios. So it just suggests to me that the overall cost structure is a little high there or that you have invested in these teams and this infrastructure and the revenue pay off has not yet come. It's just the question are we waiting for Godot or are we actually going to see it? Or you are going to have to do kind of a restructuring and bring down this.

Martin Flanagan - *Invesco Ltd. - President & CEO*

I appreciate your point. It's much more broad based than look at flows and look at comp. We don't comp people based on flows. We think that's a flawed way do it. That said, being in net inflows is a whole lot better than being in net outflows. I think it would be very instructive to take a look as Loren said, the again, you look at operating expenses as a percentage of average assets under management as what's happened over the last number of years has been extraordinary. Also in this environment of the effective fee rate dropping in this environment with an asset mix change. Those are the principal dynamics. I think you'll find -- be hard pressed to find an organization with the same level of operating expense discipline that you will find here. But happy to engage with you on it.

Steven Wharton - *JPMorgan - Analyst*

Okay. Thanks.

Operator

At this time, I show no further questions.

Martin Flanagan - *Invesco Ltd. - President & CEO*

Thanks very much everybody. Appreciate the time.

Operator

Thank you. Today's conference has ended. All participants may disconnect at this time.
