Mike Carrier: Good morning. We're going to get started with our next session. It's my pleasure to introduce Invesco. Here today is Loren Starr, Invesco's Chief Financial Officer. Loren has decades of experience in the financial services industry including time at Lehmann, Morgan Stanley, Putnam and Janus. At Invesco Loren has worked on growth and regulatory initiatives, efficiency programs to improve the operating margin, and maximizing their capital management strategy. Invesco is the second largest public asset manager by AUM that serves a global client base in a host of different ways. Invesco is one of the leaders within ETS with their PowerShares product suite as well as a leader in active management with a strong long-term investment track record across equities, fixed income and alternatives.

With that, we'll get started first with a polling question and then we'll get into Q&A. So can I get the first question up here? So this is just what would get you more interested in investing in Invesco stock? So first, consistent, above average organic growth, although they've been putting that up. Second, is a more favorable market backdrop. Third, more operating leverage. Fourth, longer-term FX hedges. And last, less regulation for the industry. We'll give you about five seconds. Okay and the results. So one, consistent above average organic growth, that was 48 percent. And then a close second at 38 percent is a more favorable market backdrop.

So I'll start it off. Loren, thanks for being here.

Loren: It's a pleasure.

Mike Carrier: So just in terms of the flow picture I think when we look at year-to-date you guys are at about a three percent organic growth rate which relative to the industry is pretty impressive because given a lot of the trends. So when you think about maybe what's working, what's not working, everyone's got that. But how do you see that trend over the next one to two years, assuming we're in a pretty stable like market backdrop?

Loren: Sure. Well, I think as you said we've been reasonably successful in terms of actually delivering that growth rate. We feel pretty confident that we can continue to operate in that 3 to 5 percent organic growth rate going forward. Why is that? So one is just in terms of the client demands that we've seen, we're playing to a lot of those themes. One is the search for yield. We have a lot of products that are providing yield to our clients and that need for yield is something that we think is going to continue, even in this environment.

We're seeing continued barbelling, so the use of alternatives on one side to get alpha and then the use of passive product on the other side to get market exposure. We have both and we probably have more of both than most of our competitors. So that's another element.

We think our institutional business is another aspect which is we're sort of undersized versus what the overall market is in terms of how much institutional assets we manage. We think that's an opportunity for us. It's something that we're seeing a lot of potential and a lot of flows coming into our institutional business as we've hired some very key leaders into that space and we've organized our investment teams around the opportunity in a much more organized way than we have in the past.

And the final point I'll just make is the business model for Invesco historically has been local products into local markets. That was really a function of the way the firm grew up. We were -- we grew up through acquisitions, buying a lot of businesses in local markets. It has really not been fully recognized in terms of our opportunity about taking some of those products and bringing them to our clients on a global basis, so being able to bring real estate fully on a global basis, being able to bring fixed income on a global basis, global equities, asset allocation products. So moving away from that local product into local market and moving into these global opportunities is an enormous opportunity which is going to continue to allow us to get to that 3 to 5 percent.

Mike Carrier: That's helpful. And I think when we look at one of the industry trends it's been ongoing for maybe a few years but accelerated in the last year has been the shift from active to passive. And you guys obviously have exposure on the passive side. But within active when you think about the areas that are, say, exposed to that trend versus maybe the areas that are more protected, meaning you're seeing demand from the client base, is there any way to gauge like what portion of that business is more like defensible?

Loren: Great question. I think, well one comment I'll just say. We don't necessarily think it's an active versus passive discussion. We still believe firmly as a firm that the best solution for our clients is being able to bring both as opposed to one needs to win, the other needs to lose. Every client is different. Every client has different needs. So sometimes an active product makes sense, sometimes a passive product makes sense. So that's kind of just the context.

With that said, we have certainly seen more and more clients move to passive. When we look at our business and we carve out the parts of the business where we've not really been seeing that trend, so first of all you would take everything outside of North America and generally move that off, we have not been seeing that same demand for passive and active losing when you pull that out. And then when you look at what's left in the US, you pull out obviously what is already passive and then you pull out products that probably will not be substituted by passive product, stable value, money market, all those other products. Our exposure, which really just boils down to sort of active equity and some active fixed income in the US, non-alternative, is under 25 percent.

So again, and we'd say well, even within that you could carve further, which is the products that are active products that are performing and adding alpha are probably not as prone to be substituted versus those that may be underperforming. And so that probably cuts that number in half yet again. So we really have a limited exposure we believe in terms of kind of what might get lost if that trend were just to continue to accelerate as it has.

The flip side of course is we have passive product and we have great sort of financial benefits of being able to sell that product too. So it's not necessarily a losing proposition for us.

Mike Carrier: And then maybe one more on active/passive. So it seems like maybe from a cyclical standpoint we could potentially be getting into a period where like the environment is more beneficial for active managers. And so just wanted to get your take on are you starting to sense some of that in terms of the demand from the customer base? And then on the passive side, if the structural growth continues where can that kind of level out in terms of as a portion of this?

Loren: So I think, I mean given recent events it's hard to say if there's anything sort of that I can point to that says people are changing. I think generally there's still a reasonable amount of uncertainty. I think where markets are going and what clients are doing, there's probably a reasonable amount of let's just see how things settle out before we sort of have a radical change in behavior. So that's kind of one point.

But generally I'd say we think that smart beta, which is what we sell, is growing 40 percent faster than overall ETFs. We think that that's something that's going to continue to grow and that we're going to be able to continue to ride that and we think that is something that is going to happen DOL or non-DOL-related.

In terms of the active capabilities, I mean we were very gratified to see some of the market changes. I think that will help potentially set up a more constructive environment for active management generally and it's one that we're very able to demonstrate skills and be able to sell product into as a result of that. But I can't say that people are suddenly changing in terms of what they're doing. They're still very focused, as they have been, on alternative products and on ETFs, that barbelling approach in the US.

Mike Carrier: And then maybe one on just from a product standpoint. Just given the recent rise in rates, if we get some pressure on fixed income returns do you expect money either to flow out of fixed income and potentially into equities alternatives and just more in that environment how is Invesco positioned?

Loren: Yes. I mean good question. Again, too early to say if there's a real trend. We aren't seeing it in the yearly in flows. Things have been kind of quiet despite all the activity in the markets. We have about $210 billion of fixed income and of that about half of it I would say is non-floating rate or short duration. So we have about $100 billion of longer-term types of assets. That could be exposed to a rising interest rate environment. Within that, about 60 percent is retail. There's about 40 percent that's institutional. The good news is on the retail side, so that's really munis on one side and the other part is largely on the retail side our corporate and euro bond offerings and those products have been underperforming historically because they actually shortened the duration and are holding a lot of cash really in the event of exactly the market that we're beginning to see, which is a rising interest rate environment. So we would expect certainly their performance will dramatically have improved in this current environment, which will help I think generally with them being able to retain assets and not see sort of big outflows.

But we don't have a lot of exposure. We have a lot of floating rate offerings, bank loans, stable value money market. That'll be the predominant offering of our fixed income business which I think sets us up for success in a rising interest rate environment.

Mike Carrier: Let's bring up just the second polling question. And it has to do with rates. Because just given the recent rise in rates and Trump's policies, what is your outlook on fixed income performance and flows versus equities? So first, weaker fixed income performance flow, stronger equity performance flows. Second is flat on both. Third is stronger fixed income, weaker equity. Fourth, stronger fixed income and equity. And then last, weaker fixed income and equity. And I'll give you about five seconds.

Loren: Great.

Mike Carrier: And the results, so the majority, 52 percent weaker fixed income performance and flows and then stronger equity performance and flows and then coming in second at 24 percent is weaker fixed income equity performance and flows. So that's helpful.

So I guess maybe shifting to one of the more topical questions is the Department of Labor fiduciary role.

Loren: Never heard of it.

Mike Carrier: So a lot has shifted in terms of potential policies going forward with the election. So I guess when you look at the outlook running, I don't know what that is, running your business, how do you kind of...

Loren: Manage?

Mike Carrier: ...manage it? Because obviously there's a timeline and the distribution platforms are working with the product firms. But then on the flip side there's potential for change.

Loren: So as much as we'd like to say everything's changed, let's put it all on hold, I think the reality is that's not feasible for us because we've got an April implementation date and then we have things well into motion. So we're operating as a firm under the expectation that DOL in some form or fashion is going to get approved. Of course, we're watching it closely. We're going to keep listening to news. There is a potential, as you said, for things to either be delayed or perhaps stopped. We'll see what happens if there's a new head of the Department of Labor that gets named. I think that person might have the opportunity to delay or slow things down.

But right now, sort of the train is out of the station. It's moving. We're on the train and we need to continue to move as if it's going to happen.

Mike Carrier: That's helpful. And when you look at your experience just being a global firm and what took place with RDR and kind of the beginning, the middle and then how things kind of played out, how do you think about when you're dealing with a new set of regulations in a new country and like the potential impact to the business or the potential opportunities because there's kind of both sides?

Loren: I think, I mean absolutely there are opportunities and I think we always try to find those opportunities as opposed to finding the negative in something that's changing. We have always prided ourselves as being pretty dynamic and flexible and being able to manage through change as a firm and we've found that to be the case with RDR. That sort of came and went and there was really no impact whatsoever in terms of our business model and our success in the region.

In some ways, the DOL provided a similar opportunity, even though it was sort of a game-changing type of regulation. The idea that we are having more different types of products, greater set of investment capabilities that we can provide share classes as needed in a very quick and dynamic way, that we have strong relationships with our providers generally can match off with them on an institutionalized basis which is what they would require in a more DOL type of framework in terms of the corner office and sort of the model need. We think that plays to our strengths.

So what we found in RDR, as I said, was there was a lot of work that needed to be done. But ultimately it didn't change and we were actually as well-positioned if not better positioned afterwards. It would be our hope in a DOL type of situation that we could say the same type of thing, that we would actually end up as being a sort of winner in that space and that ultimately it would be something that would probably continue to distinguish the winners and losers in the space, which again we would view that as being an opportunity.

Mike Carrier: Some of the industry have discussed just given the trend of flows into passive and active that potential pricing changes could potentially make sense. And I think the challenge so far is like the mechanism that might actually make sense isn't available in like a fund structure. But when you think about like an option where you have a lower base fee with upward potential in terms of both performance and fees, like that mechanism, is that something that like the industry could manage like given how the industry works, the cost structure? Or are there some hurdles there or something?

Loren: So you're talking about more of a performance fee-based pricing mechanism?

Mike Carrier: Yes.

Loren: I mean I think some firms have done that. There's a fair amount of volatility already in earnings. And so, when you add on another level of volatility to that it creates an even other more difficult dynamic in terms of managing against that outcome. And so I think obviously it could go down that way. But on the retail side I think in particular it's probably not something that I think a lot of people are talking about. On the institutional side I think there's always that case where you'd say lower fees traded off with performance fees and that might be something that's done more.

We've generally found that performance fees have played less in our revenue stream and it's always been more of a base management fee. And we're not necessarily seeing a dramatic shift in that and if there is a shift it's certainly more on the institutional side than it is on the retail side.

Mike Carrier: Maybe we'll throw one more of these polling questions up more on the active and passive. So do you see improving cyclical demand for active management despite structural headwinds and if so, where do you think active/passive share settles? So first is yes with the share settling near the current 70 percent active, 30 percent passive. Yes, but structural will persist with the share heading to 60 percent active, 40 percent passive. No, and structural will persist with the share heading to 50 percent active and 50 percent passive. And again we'll give you about five seconds.

Loren: You should have the right answers. And the answer is...

Mike Carrier: That's right. And the results, so pretty close but the majority, 50 percent is number two, so that's yes but structural will persist with the share heading to 60 percent active and 40 percent passive. And then a close second is number three at 40 percent, so no, and structural will persist with share heading to 50/50.

So one of the things that you guys have been working on is managing the expense base and the efficiencies in operations. And I think you guys alluded to it on the call this quarter is on one hand you're focused on that and you've already realized some of those efficiencies and more in 2017. On the other hand, the industry is facing like a ton of change. And so there's like investments that need to be made, whether it's in innovation, in new products, distribution. So I just wanted to get your sense on where your focus may be on more the innovation investment spend, I mean versus where you're looking for...

Loren: So I think we've always as a firm invested every year. That has been critical to our being flexible, being able to adapt and grow as investor demand grows, as product demand shifts. And so we've pretty much every year I've been involved with the firm been focused on saving money in order to invest in what is important to our clients and to where client demand is going.

We've probably spent on the investment side, I don't know, at least $50 million more in compliance costs and legal costs just because we've had to. That's a requirement of the price of admission to the business on a global basis. But on top of that we've probably spent at least $100 million more on how we're organized around data generally. That would be one area of complexity, client data, operational data, investment data. When you think about having disparate systems, systems that don't work or connect with each other, those are costly. They can create errors. And so we've spent a lot of time and effort streamlining our data architecture so we can access data more quickly, we can analyze data more effectively. So that would be one example.

There's innovation around technology that we're looking at using and continue using around automation and just the term robotics is used, but how we effectively minimize how many people need to sort of touch data and basically have it all automated straight through processing whereas information is moved from one system into another system and then into another system. You're not going to get one system that's totally integrated across all these things but you can actually create a layer of technology on top of it that actually seems to move information through. So things like that we're actively pursuing. Some of the topics around big data, block chain, all of those things are sort of proof of concept or still early days in terms of actually devoting real money to it. But we are devoting real money to certainly data and data architecture as an example.

And then certainly around our teams and systems that they need, the portfolio, analytics, risk management, those are things that the level of sophistication required and what's being required of us by distributors is the bar is only rising every year. So those things, again, we need to continue to at least match if not exceed industry standard.

Mike Carrier: And then on the efficiency side, meaning in terms of trying to fund like the investment spend?

Loren: Yes. So we, I mean we had talked about an optimization effort that we kicked off last year and we expect, fully confident that we're going to get that $30 to $45 million of cost savings in 2017. A lot of that is through some of the things I was just talking about around automation, use of technology more effectively, using shared service centers, so getting global scale in places like India or even our enterprise center in Prince Edward Island, other places as well. So those provide lower cost of, lower unit cost of operation.

Some of outsourcing possibly as well, where there's certain activities that we just know that we're never going to be able to be as effective given that we're not going to have the scale of some other providers. And so you're going to see some of those things rolling through this year and hopefully more. We're certainly not stopping there. We want and we know we're going to have to continue as a firm to find other ways to be more effective, more efficient because it's not any easier, it's not getting any easier and costs are not going away.

Mike Carrier: So just with managing that, when you look at the outlook on both the efficiency side versus the needs for investment and innovation, again have things changed much or as long as you have a decent market backdrop and you guys are generating that, let's just call it around 3 percent organic growth, are you still able to see what you guys have delivered is just some positive operating leverage over time?

Loren: Well, we like to target that 50 to 65 percent incremental margin. That's been something we've talked about in the past and we still believe strongly that that should be something that we should be able to deliver as an asset manager. There's a lot of operating leverage inherent in our business and if we're able to grow 3 to 5 percent we should be able to deliver those incremental margins. That should allow us to continue to see margins expand as we grow over time. There may be some mixed topics around currency and so forth that it's been a little hard to see some of that in recent quarters just because every step we're taking forward we're getting knocked down by currency. But it's not like we're cutting fees in the UK or

Europe at all. It's just really translation of the currency. So we think that those kind of situations will correct over time and you'll begin to see some of what we've been talking about in terms of the operating leverage really being a wind at our back here.

Mike Carrier: And then maybe on the currency side you just mentioned. So I think from a long-term perspective you have a very top tier franchise in the UK and they're doing well but obviously the currency impact can have, can weigh on results. So you guys have put in hedges in place to try to mute some of that impact. When you think about maybe the cost of that versus the benefit and I think maybe the longer-term potential, maybe there's ways to lock in where instead of for a year it's three years, is it just when you do that cost benefit analysis is it like too costly?

Loren: I sleep better at night. No, it's worth(?) it a lot. No, it's an insurance policy. It always has been. It doesn't take away some of the upside. I mean so that what we did is we have out of the money puts which really protects kind of against the worst case scenario if some of the currency exposures really move a wrong way. The reason it's important to us is because we have dividends, we have a desire around buying back our stock, as real cash flow. We bring these dividends back. It is important for us that we don't lose that capability.

So the cost isn't that much. I think it's somewhere around $6 to $7 million a quarter. Obviously it's not something that we want to do forever. We really have those hedges in place really in light of the unusual times that we're in right now. And at some point we'd like nothing better than to let those currency hedges just expire. But we have them in place through the end of 2017 both on the pound and the euro, locked in at 1.25 for the pound and for the euro at 1.072 I think is what that is. Again, it's really just a disaster scenario as opposed to us really trying to manage the currency portfolio. That's something that we really aren't trying to offer to our clients.

Mike Carrier: And then maybe just one more on the expense side. If we do get into an environment where the US corporate tax rate does go down to 15 percent or maybe 25 percent, but somewhere in that range, just when you think about maybe the initiatives that you're working on is there things that you would say, oh, we can use that kind of benefit to invest or is a lot of that just going to be a different cost structure?

Loren: Because we're a Bermuda company it really doesn't impact us other than we would pay less on our US taxes because it's a territorial tax regime is the one that we're in right now. We do think having a lower US tax rate is probably a net positive obviously for firms maybe wanting to come back into the US who may have moved away from being in the US. We were in the UK as you remember and we moved. We tried to get into the US and we couldn't get there because it was a very negative tax consequence to our shareholders. I mean it could open up the door to think about would we want to actually move into the US.

So I don't know if that would provide a huge benefit. But it certainly would reduce some of the complexity of having a Bermuda domicile which was never our desire. When we were moving, we really wanted to go all the way to the US when we first made that move.

Mike Carrier: And then maybe just shifting to cash. So you guys had elevated buybacks in the first half of the year and then more recently announced another $150 million accelerated repurchase program. So I just wanted to get your thoughts on when you look at the cash flow, where your capital stands now, just the priorities. Obviously buybacks are a big priority and then where maybe the other options, whether it's dividend, small M&A.

Loren: So I mean our capital policy is still the same as it's always been. I mean first of all use cash for organic needs, which is almost entirely seeding new products or co-investing alongside some alternative investments. Those numbers are, have been historically sort of reasonably steady around $100 to $200 million a year. It's all good. We get great returns on those products. We recycle that capital once those products are launched. And it is in some ways a competitive advantage to those who can't do that. And it's almost required. If you're starting up a new fixed income product or some real estate kind of capability, you need big blocks of capital to get those products off the ground.

The next would be dividends. And so for us, we think about our dividends in terms of being able to raise our dividends under all market environments, positive or negative. Probably single digit growth would be what we would be looking to do. And then stock buybacks would be the next form of return, all with sort of roughly about $1 billion of cash in excess of what we have required from a regulatory capital perspective.

We're definitely living to that policy. We did accelerate a little bit more into this last quarter with the ASR that we put in place as $150 million, probably about double the quantity that we would normally think of doing in a quarter, really reflecting the fact that we felt our stock is still overreacting to the DOL situation, that the expectations for rapid shifts of assets in a meltdown in the industry is probably well beyond what really happened. As DOL gets implemented it'd be a much slower process we think and, plus, we think we'll be a net winner in that versus a loser. So all those reasons led us to do a little bit more.

Mike Carrier: And then maybe just on that. So we've seen some pickup in industry like M&A activity over the past really three to six months, still more on the smaller side, a few bigger deals. But just when you look at the outlook and whether it's some of the regulations, maybe some of the cost pressures, do you expect more? And then from Invesco's standpoint, it seems like you have everything you need but is anything changing in the environment that you would reconsider in terms of you need to be much bigger or not?

Loren: So I think, I mean whether DOL is in place or DOL is not in place, I mean the trends that we're seeing have been in place for a while, just generally around regulation, generally around the cost of operating, the idea of just the distributors narrowing how many manufacturers they're using. These have been in place for a while. The use of advisory accounts is another example. That's been around for a long time.

So I think what this did was just accelerate a lot of the conversations around what could be done in this space and I think a lot of those conversations probably have been going on. Whether this new rollback idea of DOL or so forth stops the dialogue, I don't know. I mean it could be that there have been enough sort of discussions going on that things actually continue in the pipeline to actually happen. But I would not be surprised that we continue to see firms that are smaller scale look for opportunities to get bigger because it's obvious in terms of the need, in terms of being able to operate on a global basis. It's almost impossible to become a global asset manager if you're a domestic one. The cost of starting that up yourself is just so prohibitive that you almost have to find a partner if that's something that you feel that you need to do.

So it may go a little bit more slowly but I would not be surprised if you see more activity. But not from us, okay? I just want to make that clear.

Mike Carrier: And then just on other regulations. I think in the US we focus a little bit less on it just because it's not here. But some of the stuff with MFID-2 on like potentially on bundling and how that's going down the path, just given how you guys are more global versus some of the asset managers, how do you look at that going forward? And I know it's still not 100 percent.

Loren: It's very noisy. And so when I ask that question, I do at least once a quarter, how's MFID going? Why aren't we looking at having to go hard versus soft? It's just noisy. So I don't know if there's been any further level of conviction on what that happens. I mean our exposure to that is not so material that I'm concerned. I mean it's something that we've been managing as if it were going to happen. Again, it's tens of millions of dollars but it's not hundreds of millions of dollars. And so it is something that if it were to happen I think we would certainly be able to manage through quite seamlessly.

But with that said, I think there's still a reasonable amount of disagreement amongst the European countries about how to implement that particular part of the unbundling aspect. So I'm not sure if there's any further clarity on whether it's actually going to happen or not today as it was three months ago.

Mike Carrier: Maybe we'll see if there's any questions in the audience. I've got one up here. Just wait for the mic, right up there.

Q: So you mentioned actually with kind of shifting into ETFs is much more prominent in the US versus abroad. So my question is is it just an issue of time or are there structural issues? And if yes, with jurisdictions do you expect this movement to repeat after what is going on in the US versus countries where you don't see it happening?

Loren: So I mean good question. I mean one of the things we see is when we look at the topic of active management has underperformed passive, you have maybe more data points to make that case in the US than you do outside the US. I think outside the US it's not been nearly sort of clear that that's the case, that you certainly are seeing cases where active management has outperformed passive more distinctly. So that's kind of one point.

I think another one is there are certain very clear tax advantages in the US in terms of using ETFs versus outside the US where you don't see those same tax advantages. And then finally I'd say in the regulation when you have an advisory account using ETFs is quite easy. You get paid for them as a distributor. You'll get a fee. That isn't as clear outside the US in terms of the economic model for the distributors to actually get paid for using ETFs in the same way. So that's sort of a jaded view of why some of that may not have happened.

But with all that said, when you actually look at the growth of ETFs in the US and then you plot the growth of ETFs let's say in Europe or outside the US, it's on the same trajectory. It's just ten years earlier. So you would say that if it just keeps going it's just ten years removed and you actually will continue to see that movement. So I mean we're actually organizing ourselves to be able to be successful with ETFs outside of the US in a very major way, understanding it takes ten years to actually see this thing show up. And that's where we were ten years ago in the US when we started back in 2005.

Mike Carrier: One right here in the front.

Q: You talked about the opportunity on the institutional side for growth. What do you see as the opportunity? What's the strategy to tap into that?

Loren: So there are a couple things that we've done. I mean so one is just structurally we put in some brand new leaders in every one of our regions in the US, in Asia and in Europe. These are people who came from places that were highly renowned for being high quality institutional leaders as well. So in terms of what we were doing before, we were leveraging a lot of our retail infrastructure to get that done and it's very separate. It's a very different mindset. That's one thing.

Another thing is in terms of just our own being ready for those institutional meetings, the consultants, the clients, our teams, we're probably not as polished in terms of being able to talk to some of the institutional clients about their investment process and the risks and how they manage that as they needed to be in order to pass through some of these things. So that's just a matter of being ready and preparing for these meetings in a way that they haven't in the past.

We're also very focused on which products to bring to our institutional clients. We're not trying to bring everything that we have. We have a very clear checklist and just the way a consultant would look at it. How long has the team been together? What's the performance? All these elements with the risk management aspects. And so we really have focused on sort of seven to ten key opportunities and been focused in terms of bringing that in as opposed to scattering consultants with everything we have. You're not going to get everything ready. You're not going to get everything through. So that approach in itself has provided just a huge lift in terms of us being successful at getting things rated and getting products sold into things.

The other part I would just say, Asia in particular is one region where we've just seen huge growth. Our Asia business has grown I think more than 40 percent year-over-year just in terms of assets under management. A lot of that is being driven by institutional demand, both in China and in Japan. And so we've been very, very fortunate, lucky or skilled, however you want to say it, in terms of bringing all of what Invesco has to offer, fixed income, bank loans, real estate, into the regions and being very, very successful getting -- opening doors that were closed to us before. So again, I don't want to say there's some sort of brilliant strategy. It's just really execution around, a clarity and focus around what it takes to win in the institutional space that we didn't have before.

Mike Carrier: One in the back.

Q: I've got a loud voice. I don't need this. I have two questions if I can monopolize this. One is I'd like to know how you feel about interest rates because interest rates have been edging up the last six weeks and if you follow the TBT, which is shorting(?) the 20 year government's, it's up 15 percent since the summer, and 9 percent since the election. So I don't know what your outlook is. Nobody really knows, but what your outlook is number one. The other is how do you handle cyber security? It's a simple question.

Loren: So on the interest rates, I mean I don't think we have any brilliance about telling you where interest rates are going to go other than kind of what you're seeing too. I mean we would not be surprised to see interest rates continue to tick up. As we talked about, our exposure is such that we're probably going to fare pretty well in that environment relative to others who may have more exposure. But certainly we'll see how policies are implemented and how the President-elect really organizes some of the more inflationary kind of aspects of what has been discussed.

In terms of cyber security we've spent a lot of time focused on cyber security. We actually, maybe about a year ago we hired a very senior person, Deputy of the FBI to run our whole security effort and we've been investing significantly heavily in both the technology around protecting our clients and the firm as well as building out intelligence efforts as opposed to sort of sitting passively and getting attacked, really understanding what is going on ahead of activities. So probably more than ever before we are ahead of the curve on the cyber topic. I don't want to say we're ahead of the banks. Probably the banks are yet one step ahead of all the asset managers. But we have -- it's been probably one of our number one, number two places of investment on the technology side and the people side across the globe.

Mike Carrier: One right there.

Q: Just on the DOL, so I'm just trying to understand since Trump's been elected there's the assumption maybe DOL goes away. But it seems like so much has kind of happened already. And I mean everyone you talk to is focused on implementing it by April. And so when you think about just consolidation of asset managers on the different platforms and I mean it's more of a focus on performance and I think some of like Merrill and UBS, have already kind of announced what their plans are. So I just want to understand like what changed? It seems like it's already kind of the ball's rolled down so much that...

Loren: Yes, great question. So what changes? I'm not sure if a lot changes. So these are trends, as I said, that have been in place for years now, a lot of the things that we've been looking at. The DOL actually was an accelerant to a lot of these trends. And so you might say, well, it may be the acceleration of this trend slows down a bit more. Maybe people aren't quite as rushing to do things. Maybe there's a little bit more of a balanced approach in terms of what can be done. Probably from the bank's side it reduces hopefully some of the legal liability and the risk that might be associated with what activities they're doing in terms of advising their clients.

But what we're doing and certainly having talked to our team on the US side, everyone is organized assuming that this is the train's left the station and we're going to continue to operate with the share classes being offered as required and being prepared to deal with the DOL as it is. It is currently affecting kind of where we're seeing flows and certainly we're seeing parts of our business that aren't doing as well in a DOL context. So even though I'd say it's all roses, I mean there's some parts of our business that have done less well.

Our UIT business, which is about a $20 billion business, is not doing as well as it used to under this DOL. And why is that? Because there's a big upfront commission that gets paid when these products get packaged at the launch and then they're held in their clients' accounts for some period of time and no management fee during that period of time. But when you take that upfront cost and you spread it over the life of that UIT, some of our distributors of UITs said that's not really, that doesn't work and it's too expensive. And so those products have just stopped selling. And so we saw our other revenue line item, by the way, drop quite a bit this last quarter really as a result of that UIT business being affected by the DOL. And by the way, DOL has not been fully implemented yet but people are anticipating it.

So whether that comes back or not, I couldn't tell you. That may be one part of something that could open up the door for UITs being sold again. But I kind of think that once the train's out it's a little hard to stop the train. So I'm a little bit in your camp. But there's a wide range of thought about this so I don't want to say I know what the answer is going to be.

Mike Carrier: One more?

Q: Loren, as you look across your product suite from a strategic three to five year perspective, considering the varying and pretty consistent degrees of intensifying fee pressures, which products do you think offer the highest return on capital?

Loren: Highest return? Which one has the highest?

Mike Carrier: Returns on capital, yes.

Loren: I mean that's a good question. We've seen historically that the businesses out of Europe have some of the highest return of capital. It is not very capital intensive, the European business, the cross-border business. So this was a part of the European market where we said let's take our existing teams and you can sell these products through all these different markets under the CCAF(?) banner and it's been -- it was a fantastic source of operating leverage for us with a lot of capital and investment required because it's leveraging the existing teams. I'd say that's a good example.

Other areas, ETFs is another place where once they're launched, I mean they just kind of sell. There's not a whole lot more you have to do with an existing product.

So if you can actually create a pretty big product in an ETF space, that's one that really hits the bottom line very nicely, a lot of good incremental margins there.

Beyond that, I mean we are looking at all the places where we can scale our assets more fully than they are right now. If you were to look at Invesco just generally, when you look at the size of our products relative to some of our peers we're very under-scaled relative to most of our peers in terms of the largest fund or -- and so generally that just feels like as a firm we have a great opportunity to have us by just continuing to grow that 3 to 5 percent at minimum but being able to grow on our existing base without having to add a whole lot more infrastructure.

Mike Carrier: We're at time. We'll stop it there. Thanks a lot for the time, Loren.

Loren: My pleasure. Great questions. Thank you very much, everybody.

END