INVESCO INC

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Coordinator: Welcome to Invesco's third-quarter results conference call. All participants will be in a listen-only mode until the question-and-answer session. At that time, to ask a question, press Star 1.

Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now I'd liked to turn the call over to your speakers for today, Marty Flanagan, President and CEO of Invesco's, and Loren Starr, Chief Financial Officer. Mr. Flanagan, you may begin.

Marty Flanagan: Thank you very much and thank you for joining us on our third-quarter call. As is our practice, I'll repeat the business results for the third quarter and then we'll go on to greater details about the financials and we'll open up to Q&A after that.

So, let me begin by highlighting the firms operating results for the quarter, and you'll find this on Slide 4 if you happen to be following the presentation, which is available on our website. Long-term investment forms remains –

continue to be very strong, 68% and 79% of actively managed assets were ahead of peers in a 3- and 5- year basis respectively.

Our continued (unintelligible) between our broad investment capabilities provide meaningful solutions to clients contributed solid operating results during the quarter in what I think all of us would describe as a difficult business environment for money managers.

Drawing investment forms helped drive robust long-term net flows of $1.2 billion during the quarter reflecting solid retail institutional demand across both active and passive capabilities, and total flows during the quarter were just over $19 billion.

Adjusted operating margin was 39.7%, an improvement over the prior quarter that reflects our continued focus on running a disciplined business. We also returned $176 million to shareholders through dividends and stock buy-backs during quarter.

Assets under management for $820 billion at the end of the quarter, up from $779 billion in the second quarter. Adjusted operating income was $339 million in the quarter, up from $330 million in the prior quarter.

Adjusted, diluted EPS was $0.60 this quarter vs. $0.56 in the first quarter, and as noted earlier in the year, we raised our quarterly dividends to $0.28 per share, we still have nearly 4% from the prior year. We also continued our stock program during the quarter. And before Loren goes into detail on the financials, let me take a moment and review the investment performance and flows for the quarter.

Turning to Slide 7 now, our commitment to invest in excellence and our work to build and maintain strong – a strong investment culture helps us deliver solid long-term investment performance across the enterprise during the quarter. Looking at the firm as a whole, 68% of assets were in the top half on a three-year basis, 79% were in a top half on a five-year basis.

On Page 8, you'll see the quarterly long-term flows of $12.2 billion were quite strong across both active and passive capabilities. Flows from the passive capabilities were driven by strong-demand from Invesco's Power Shares capabilities, which has an all-weather line-up that's well-positioned to meet client demand in any type of market.

This was the second-best quarter for Invesco Power Shares in its history, with roughly $4 billion in net flows, and strong flows are helping us continue to gain ETF market share. As we noted, during our recent investor day, the strong passive flows reflected our longevity in the ETF market, our deep experience, our comprehensive range of factor and smart beta capabilities and our significant track record of innovation.

Results on the active side were equally as impressive with solid demand in multi-assets, dividend income capabilities, fixed income and other capabilities such as real estate. A focus on delivering strong investment performance and bringing a broad range of capabilities to clients contribute to positive results in Asia-Pacific with strengths across both retail and institutional channels.

Globally, we saw institutional flows during the quarter which continues a series of positive institutional flows going back more than two years now. Client demand turns remain consistent with particular interest in fixed income, multi-asset and real estate, and are won but not funded, and qualified opportunities are at an all-time high.

Retail flows also were strong as gross sales rebounded nicely and redemptions moderated during the quarter. This includes the $6.5 billion Rhode Island 529 mandate.

Before I hand the call over to Loren, let me say a few words about how Invesco's position against the changes being brought by the DOL fiduciary rule. We are actively engaged with clients as they work to align their platforms to the demands of the fiduciary rule.

As we've made clear since the rules' approval, the key positions reside with the discretion platforms but we are actively supporting them. The market has gotten an early steer from Edward Jones, Merrill Lynch and just last night Morgan Stanley.

But I believe we are still in a very dynamic period with regard to how it will play out. It's clear each distributor has a different business mix and will implement the rule in a manner that will meet its client's needs.

Based on the discussions were having with clients, we continue to believe that our comprehensive range of capabilities, our distribution expertise, our market leadership, all positions us extremely well to help our clients as they adjust their business to the provisions of the deal-well rule.

If the shift is towards passive, as some believe, our decade of ETF experience, our comprehensive range of factors, smart beta capabilities, our scale, our significant track record of innovation – all put us in a very competitive position.

As we mentioned during the investor day, there are low barriers to entry but very high hurdles to success in the ETF business that will make it difficult for late-comers to do well. Now I'll turn the call over to Loren, and you can review the financials.

Loren Starr: Thanks very much, Marty. Quarter-over-quarter, our total assets under management increased $40.6 billion, or 5.2%, this was driven by positive market returns of $23.6 billion. We also saw long-term net inflows of $12.2 billion, which included, as you know, $6.5 billion related to Invesco's Rhode Island 529 plan win.

We also saw inflows from money marketing QQQ's of $5.9 billion and $1.1 billion respectively. These were offset by negative FX translation which amounted to $2.2 billion. Our average AUM for the third quarter was $814.1 billion – that was up 3.8% vs. the second quarter.

Our annualized long-term growth rate in Q3 was 7.1% and that was up from 2.6% in the second quarter. This measure represents our long-term flows in the quarter divided by the beginning of the period long-term AUM which excludes the institutional money market assets and the QQQ assets.

Our net revenue yield came in at 42 basis points which was 1.1 basis points lower than the prior quarter. A change in mix, largely driven by currency, reduced the yield by 1.1 basis points. This was primarily results of the declining pound sterling rate which was 8.4% lower, on average, during the third quarter compared to the second quarter.

Also, we saw a decrease in other revenues which reduced the yield by 0.7 basis points and lower performance fees in the quarter further depressed yield by 0.3 basis points. These factors were offset by one more day in the period, which increased the yield by 0.4 basis points.

A little bit of guidance here – looking forward to the fourth quarter, we would expect our yield to be roughly in line with the third-quarter level at 42 basis points, assuming consistent market and FX level in line with today.

Moving on to slide 12 as we've done before, we provide the US GAAP operating results for the quarter. My comments today, however, will focus exclusively on the variances related to our non-GAAP adjusted measures which can be found on slide 13.

Slide 13 you'll see net revenues decreased by $1.9 million, or 0.2% quarter over quarter to $854.7 million which includes a negative FX rate impact of $18.5 million. Within the net revenue number, you'll see that adjusted investor management fees increased by $19.8 million, or 2.1%, to $9.87 million.

This reflects higher AUM for the quarter, partially offset by the impact of currency on our AUM mix. FX decrease adjusted investor management fees by $23 million. Adjusted service and distribution revenues increased by $10 million, or 4.9%, reflecting higher average AUM for retail products.

FX decreased adjusted service in distribution revenues by $.1 million. Adjusted performance fees came in at $3.8 million in Q3 and were earned from a variety of different investment capabilities, including $2.3 million from bank loan products.

Foreign exchange decreased these fees by $.1 million. Again, some guidance here, in Q4 we'd expected performance fees to be in line with our historical guidance at $5 million in the quarter.

Adjusted other revenues in the third quarter were $19.3 million and that was a decrease of $12.4 million from the prior quarter, primarily due to a decrease of $7.3 million in transaction fees from real estate and a $2 million decrease in transactional sale charges form our UIT products. Foreign exchange decreased these revenues by $.1 million.

Some guidance here, looking forward to Q4, we would expect to see this number increase in the range of $23-$25 million. Third-party distribution services and advisory expense, which we net against gross revenues, increased by $13.8 million, or 3.9%, and this movement was in line with higher revenues derived from our retail assets under management. FX decreased these expenses by $4.8 million.

Moving on down the slide, you'll see that adjusted operating expenses at $515.4 decreased by $10.8 million – or 2.1%. Relative to the second quarter, foreign exchange reduced adjusted operating expenses by $8.2 million during the quarter.

Our adjusted employee compensation came in at $339.1 million, a drop of $8.8 million, or 2.5% and this was due to lower variable compensation on performance fees. Foreign exchange decreased adjusted compensation by $5.1 million.

Adjusted marketing expenses fell by $2.2 million, or 7.6%, to $26.8 million reflecting fewer client events held in the quarter, FX decreased adjusted marketing expense by $.3 million in the quarter.

Our adjusted property office in Tech expenses were $82.1 million in the quarter – a decrease of $.7 million over the second quarter and FX decreased these expenses by $1.2 million.

And then, adjusted G&A expenses at $67.4 million, increased $0.9 million, or 1.4%, and this was driven by costs associated with several new product introductions. Foreign exchange decreased adjusted G&A by $1.6 million.

Again, some guidance for Q4, we would expect to see these expense line items roughly flat with the third quarter, other than marketing. We expect marketing to – marketing spend to increase to the range of $32-$35 million which is seasonally consistent with prior years.

Continuing on down the page, you'll see that our adjusted non-operating income increased $9 million compared to the second-quarter. This was primarily driven by a $4.9 million gain realized on our pound sterling US dollar hedge as well as due to marked market gains on our seed money investments in the third-quarter.

The firm's affective tax rate on pre-tax adjusted that income in Q3 came in at 26.5% consistent with the prior quarter. Some guidance here, looking forward to the fourth quarter we believe our tax rate will increase slightly to 27% largely due to the currency impact on the mix of our earning.

And this brings us to our adjusted EPS of 60 cents and adjusted net-operating margin of 39%. I would say – just generally, as you probably would expect – that foreign exchange has had a real impact on our operating results as reported in US dollars.

Just to quantify that for you, when we look at our Q3 versus Q2 results, our operating EPS was resulted 18 cents lower as a result of foreign exchange as well as our margin being impacted by 0.3%.

Looking at year-over-year, Q3 to Q3 – the numbers are larger obviously – EPS is down $0.034 due to currency and our margin is down 0.7% as a result of FX only.

So, with that, before I turn it over to Marty I would also like to provide a quick update on the business optimization work that we implemented in Q4 of last year. We've made very good progress on our optimization efforts and have generated approximately $14 million in annual run rate savings by the end of the third quarter.

Some of the bigger opportunities are ahead of us however, but we are confident that we'll be able to achieve the targeted run-rate savings number – as we discussed – of $30-$45 million in 2017. And with that, I'd like to turn it back to (Marty).

Marty Flanagan: Thank you Operator, could you open it up for questions please?

Coordinator: Certainly. At this time, if you'd like to ask an audio question, please press Star 1. You will be announced prior to asking your question. Please pick up your handset when asking your question. To cancel your request, please press Star 2.

Our first question is from Robert Lee, with KBW. Please go ahead.

Robert Lee: Great. Thank you and thanks for taking my questions guys. Marty, could you maybe breakdown – I guess put a little more color on kind of the retail flow trend? I know you – I think you mentioned a Asia Pac, but kind of give us some sense of what you're seeing – Asia, US, versus AMIA then maybe if you're getting any sense that the head of DOL implementation is starting to – at this point – starting to change kind of investor behavior or activity levels in the US.

Marty Flanagan: Yes, good question. I'll make some comments and ask Loren to come in for some of the more specifics. So, Asia Pacific in particular is having a tremendous year – both retail and institutional – and it's also very, you know, broad based there.

EMEA continues to be strong for us here with – we've had that, you know, with the breaks it – and we have some of the challenges on the continent it's generally – it's lower than what we had seen previously, but the UK would – has really come back from that sort of abrasive low.

But again, not robust (unintelligible) as we saw you know, a year ago, but again I feel that we feel we're on track. In the states, with regard to DOL rule, it's hard to point to the behavior with anything to do with the DOL, I think it's still more the active passive debate that's really probably driving the behavior more than, you know, than anything right now.

Is – you know, will it change going forward? It will definitely put an awful lot of money in motion in the U.S. retail channel, there's no question in my mind as people make the changes from brokerage to advisory and as brokers they'll narrow the platforms of money managers. And so, what that sets up are – there will definitely be winners and losers.

And again, those firms with the breath of capabilities and both active and passive capabilities are going to be the ones that, you know, do well out of it. But, Loren, you want to add a little bit more…

Loren Starr: Yes. I mean – just a little bit more color – I mean in Asia pack we're seeing significant flows coming in, $2 million to Japan, Shinko REIT's been a big winner there. We're also seeing our China mutual fund flows and our joined venture providing a good lift, and that's been pretty consistent.

In continental Europe, net flows continue to really you know be a little bit mixed but our GTR product in particular – just every quarter – continues to grow, both in the UK and in continental Europe.

So, that's a continued trend and we're very excited about some of the new product introductions, FYI, you know, in terms of the income oriented product that is similar to the GTR product. In the U.S. it's been sort-of a mix of things.

We're seeing very strong take-on on products like our diversified dividend product, our Core Bond Plus Fund is doing very well, and then certainly ETF's – very strong flows into our senior loan products and other fixed income products.

I think we're the third most successful ETF provider in fixed income to date in the U.S. So that's a trend. And then some of that in the U.S. though has been some outflows and some of the other products that are more value – you know – oriented that have seen performance take down a little bit. So hopefully that gives you some good color.

(Robert): Yes, thanks. And then maybe this quick follow up – and sticking maybe with the DOL theme – I mean obviously there's been all this focus of whether it's due to the mutual fund business and brokerage versus advisory, I would expect that if more money moves to advisory as I think for the expected, that benefits the S&A business.

So, could you maybe update us on kind-of how you feel about your positioning in the S&A business? Is that a part of the business that, you know, you've – how big is that for you? And do you feel like you have the right offerings there or need to invest in that – in those strategies?

Marty Flanagan: Yes that's a good question. So, we have an S&A capability – have for a long, long time like many people – so again it's not limited to – you know, at all – a limitation force. So we would look at it as just another vehicle offering to deliver our investment capabilities and again that would be – I agree with you, it's a need that firms are going to have if they don't have it.

(Robert): Thank you. Thanks for taking my questions.

Coordinator: Thank you. Our next question is from Craig Siegenthaler with Credit Suisse. Please go ahead.

Craig Siegenthaler: Thanks. Good morning.

Marty Flanagan: Morning, Craig.

Craig Siegenthaler: I have a follow up on the DOL role and I'm assuming I probably won't be the last one on this call either. But I'm just wondering, are you actually seeing brokers shrink the numbers of partners they work with just yet?

And I'm also wondering, what key components of Invesco's platform do you think the firm – well, do you think will help the firm remain large at the main

US brokers and in some cases do you think you'll actually be able to increase your share?

Marty Flanagan: So, again I'm – I don't want to get ahead of what announcements have been made and not been made because I'm not sure what's public and what's not.

It does seem – and it's going to be different firm by firm so I think that's the first point.

I think – so often when we have these conversations we think it's going to be a generic outcome and it's not. And, as I said, if you look at where Merrill Lynch is going, where Edward Jones seems to be going, and where now Morgan Stanley seems to be going, with all the public information now you can see that they're taking different approaches to it.

That said, the firms that are going to do well – which we've been expecting, and it seems that we're getting early confirmation – are those firms with broad ranges of capabilities that are strongly performing, they're going to – they'll do fine in this. We will put ourselves in that category.

Those firms that actually have ETF's – a long track record of ETF's – they'll also do well. Those are capabilities they'll need and I put a third element into it where – again, its different firm by firm, but – those firms that can take the capabilities – whether it be a mutual fund or an ETF vehicle – and help create solutions for clients, and this is even at the broker level are going to do well.

The other element that people are talking about I think – and I think we all have to get into the right context – the price sensitivity, it is real. The way that the financial advisor's going to meet that need is really a combination of active and passive capabilities that will drive down the overall effect of the rate for their clients which is a good thing.

And again, I think specifically, vehicle by vehicle you need to be you know, competitively priced. If you are selling at a – you know, at a premium price and you know, if you have very strong performance, you probably – hopefully can keep it there, but there's going to be real pressure there.

If you're at a premium price/you're not performing well, you're in a lot of trouble. So – and we do believe that the platforms – some will – they will be narrowed and they'll be – and again each firm's going to be different – and we look at ourselves as being on the right side of those outcomes.

Craig Siegenthaler: Great. Thanks for taking my questions.

Coordinator: Thank you. Our next question is from Bill Katz with Citigroup. Please go ahead.

Bill Katz: Okay. Thanks very much. I can't help myself either – on DOL, could you give us a sense of what percentage – if you have it, I know it's tough giving me "on the bus" relationship that you have with our distributors – if you have it, what percentage of your retail's (unintelligible) into brokerage-oriented qualified accounts versus advisory?

Marty Flanagan: Yes, Bill, I don't have that right now. But again, I'd still come back to – the point that you're probably making is – if you're in brokerage it's going to go away – it's all going to go to advisor and you're going to be a loser, and I don't think you can make that – draw that conclusion from what we're seeing.

You know, again, just look at the – Morgan Stanley in a month, months from today they're going to keep advisory and brokerage both opened.

And again, I think it doesn't really matter how our capability is there – whether it's in the broker channel or the advisor channel – if you have good capability, you're going to continue to be there. So, again I know I'm not getting to the specific number you're talking about, but I just don't have it handy, so…

Bill Katz: Okay. I appreciate that. Stepping back, there seemed to be a bit of a pick-up of M&A discussion. You've seen it in some of your markets – right? – with Janus and Henderson when a no-premium merger equals.

What's your sense of how industry deals when this conundrum of sort-of excess capacity and need of actively flows, and some of the regulatory changes, would you anticipate a big wave of consolidation? And what how – what kind of shape of form do you think it takes and what's Investor's role in that?

Marty Flanagan: Yes, good question but I - look, you've been around the industry a long time and so have I now, you know, there's been this declaration of massive consolidation for a couple of decades. I would say the reality is, the environment we're in now would support that notion more than ever before.

And, I'd say much of its being driven by the regulatory environment principally and just the ever-increasing costs. You then add things like cyber-securities – you know, areas where we all spend a lot of money where we never did before.

And then the extended period of, you know, the active passive movement – which again I would also say, when you read about the paper every day it's probably gone too far, right?

It's not going back to where it was, but it will moderate and I do believe there will be a very strong place for active capabilities too. And again, we're in a position of – we think the answer's active and passive, so we're well-placed regardless.

So, I think what you're going to have happen on the M&A front is, if you are a firm without scale, I think you're going to need to do something. And, so, I think you're going to see the likelihood of combinations of under-sized firms as probably higher than it's ever been before.

And the other point, though, is somebody has to be a willing buyer and not everybody's going to be a willing buyer of some of those firms. So, I think what you'll see is, you know, organic growth coming from firms that really are not well-positioned in this environment.

Bill Katz: Okay. Thanks for the insights.

Coordinator: Thank you. Our next question is from Michael Carrier with Bank of America, Merrill Lynch. Please go ahead.

Michael Carrier: Thanks guys. Hey, Loren, maybe just a couple for you on some of the guides that you gave. So one is just on the other revenues, like the rate that – or the level that you gave is a little bit lower than where our expectations have been, so just – is that just fourth quarter, or heading into 2017?

I know it's lumpy and hard to predict, but just wanted to gauge kind-of what's driving that. And then, I think on the expense side, you know, you get a lot of color you know on FX in terms of how that's impacting you know the revenues, the expenses and then the hedge you know, and then on up. And I know you've got the efficiency program in place to – you know, to lower the run-rate.

But if we were – continue to be in this environment, is there any other, you know, levers that you know that you can pull on the expense side or how much can be offset, you know, by FX by you know, pulling that down just to try to manage through this, you know, volatile FX, you know, back-drop.

Loren Starr: So, good questions. So, on the other revenues that was explicitly just for Q4 guidance. We don't think it's really a trend. Obviously it moves around – it's hard to predict and we've seen that line can be somewhat volatile based on timing – just in terms of transactions happening, they can lump up in a particular quarter or be a little bit absent in a quarter.

And then certainly when there's, you know, more volatility uncertainty in the markets you can see that number either speed up or slow down, you know. There's a component of our UIT sales that have slowed down just in line of – or in respect to the DOL uncertainties. And so, I think that's something that should, you know, hopefully begin to be more clear as to whether that's a true run rate or if it can come back.

But I think, you know, for right now we're looking quarter to quarter on that line item. So that's – in terms of expenses, is there more to be done? I mean there's always more that can be done. We're continuing to look beyond some of the things that we identified in the optimization to see if their other sort of larger opportunities that can be realized into 2017.

You know as we all know when we get into our - looking out three years and understanding the need for our, you know, incremental margins to be where we want them to be, you know, we have, you know, to continue to look and find ways to organize ourselves in a way that would provide that outcome.

So I would say there is more - more to come on that to the extent that we can identify them but certainly in the near term in terms of the optimization, you know, we're easily going after those.

Michael Carrier: Okay. And then, Marty, maybe just as a follow up on the question, you know, on M&A and the industry, I guess has anything changed for you guys? Meaning it seems like, you know, you've done things in the past that have kind of created, you know, the business mix that you have.

You've been more focused on, you know, either launching products, you know, small things on the side and then, you know, capital management whether it's the dividend or a buyback.

So just - is there anything that you see shifting in the industry that would, you know, cause a firm like, you know, like that has scale, you know, to think that you need to, you know, become bigger or, you know, do something, you know, that's, you know, maybe not - that hasn't been, you know, the default over the past couple years?

Marty Flanagan: So I'd say, you know, we continue - like always, you know, we continue to pay attention to what's available, you know, in the market place and the way that we look at it it really has not changed.

There's a, you know, feeling of skill gap for us or, you know, a reach in, you know, those types of, you know, obvious things. We'll continue to do that. There are fewer gaps now than we've ever had. I mean and it gets back to the comment, you know, to Bill's question and, you know, others like DOL.

We think we've put the firm in a position where client demand is, right? Whether it be alternatives, you know, you know, passive capabilities through factor investing, ETFs, you know, et cetera, you know.

The traditional business continues to be, you know, a huge opportunity for us and the like. That said, you know, we'll continue to pay attention, you know, to what's going out there.

I think it's, again just my opinion, those firms that are narrowly focused are going to be dramatically more challenged than those firms that have - that are global, in the retail market, in the institutional market, and have a broad range of, you know, high conviction fundamental factor-based capabilities.

So, but again we'll continue to pay attention.

Loren Starr: Michael, maybe one more point because I know your question is legitimate but I think we're spending more time honestly thinking about ways that we're going to grow revenues as opposed to, you know, we're going to be in a position where we're having to cut, cut, cut costs.

So we're continuing to invest around new product introductions, you know, continue to strengthen our capabilities. As Marty has mentioned, I mean, we think we're well positioned to actually succeed in this environment and so that's really been our focus.

And, you know, being able to grow organically in that 3% to 5% range I think, you know, should provide us with the ability to continue to spend margins going forward and, you know, we are not sort of looking defensively to protect ourselves. We're - we're I think thinking about the opportunity to grow in this market.

Marty Flanagan: So let me stay on that because I think - I think this is what is different today than, you know, prior, you know, challenging times, you know, when there's a pullback.

I mean the traditional playbook was, you know, market pullback, you know, focus on, you know, cutting expenses where ever you can do that with, you know, an eye to making sure that you don't, you know, disadvantage the firm.

You know that was really more an environment and we thought it was competitive, you know, five years ago and ten years ago but it's nothing like today, and not just competitive but the market shifts.

So we feel again we're uniquely placed with the capabilities, you know, we have that it would be stupid of us not to continue to invest and grow the, you know, the ETF business or the institutional business or the solutions business.

And I think to your point earlier the most dangerous thing you can be doing if you are a narrowly focused firm challenged right now is not investing in the future. And I think that's what a lot of firms are finding themselves having to do and I think that's your confirming of that outcome as far as I'm concerned but you have to be disciplined, right.

And that's why we're, you know, we're very, very disciplined. We're always looking to be more efficient, more effective and all at the same time invest for the future.

Michael Carrier: Okay, thanks for the call.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question is from (Dan Fadden) with Jefferies. Please go ahead.

(Dan Fadden): Thanks. I guess, Loren, you talked about a flat fee rate, you know for the fourth quarter. I guess if we think about the ins and outs with regards to products from a kind of a flows and your backlog and what you guys are seeing strengthening, can you talk about the direction of fee rate based on that X, you know, kind of the markets and currencies?

Loren Starr: Yes, I mean it's all positive so we're continuing to see the institutional pipeline at a much higher revenue yields coming in than what's going out and so there's a mix generally of the products on the retail side. You know, Asia, China, you know very positive relative to, you know, the overall fee rate for the firm.

So that, you know, which would make you think well the fee rate must be going up has been offset obviously due to the effects, impacts because obviously the pound has declined even further from where we were in the third quarter and that's why it's in this flattish kind of range.

But again the trends that have been there for a long time are still there in terms of the types of products that we're offering, more alternatives, things that do support a higher fee rate are absolutely still there.

And so we feel, you know, that it's not necessarily a situation at all where we're going to see the mix being anything but a positive for us other than the effects which we can't control.

And certainly in the operating results, you know, you're seeing that and so people shouldn't read too much into the U.S. dollar, you know, numbers.

(Dan Fadden): Right and then I guess, Marty, you know, the comments around, you know, each of the brokers or the wire houses coming up with different solutions, I guess, you know, from a servicing perspective and how you guys are dealing with that.

It seems like that's a burden on the industry to now have to deal with all the various different platforms in a - not in a uniform way and so that seems like costs, that seems like, you know, more investment on your guys' side I guess.

Is that the right way to interpret that or?

Marty Flanagan: It's a good question and here's my view on it. So at one level there's no change from the standpoint of that those firms have always had, you know, brokerage business and advisory business. And the move into advisory has been a trend and a desire of the broker, you know, the distributors for a number of years. So the industry is already set up to serve that way.

Now again I'd come back to in this environment whether it is - there's an awful lot of work to comply with the DOL and so it's firms like us that have, you know, the depth of capability, you know, through wholesalers and industrial consulting that can help make the move because they are real moves that, you know, with the client base.

So again we have the resources. We have the capabilities and we can help them make those changes.

I think the biggest concerns that I think that everybody has heard, you know, most recently was a real concern that there was going to be a large proliferation of share classes because each distributor wanting, you know, to serve their clients in a different way.

And, I know this is no great insights but it seems to be the industry's coalescing probably on a couple share classes which would be - there's some costs associated with it but I mean that's, you know, very doable and I think a much better outcome for, you know, ultimately the end client.

So again I think that what I'd do is go back to the firms that have resources and capabilities to support their clients through this change are going to be in a better position than those that don't and again this gets back to the other prior questions about, you know, skill and M&A.

I mean if you can't support your clients beyond just an investment capability you're in a disadvantage.

(Dan Fadden): Makes sense. Thanks.

Coordinator: Thank you. Our next question is from Brennan Hawkin with UBS. Please go ahead.

Brennan Hawkin: Hey, thanks, good morning. Thanks for taking the question. Sorry to add to the extensive row of tequila shots that are the DOL questions but I have a couple more for you, sorry.

I'm not asking for attribution here but, you know, thinking broadly in the dialogues that you had with your partners and obviously they're at a greater depth than we are seeing out in the press and such. Can you give us a broad sense or even, you know, a range of how much you expect that the wealth management product shelf could end up shrinking for commission accounts?

Marty Flanagan: It's hard to answer that question. I would say that what is a truism, you know, across the board is you would get the feedback that the pace to advisory account will pick up at a material rate driven by the DOL. But again I think that's consistent with, you know, the direction of travel that has been in place and but again you see cross currents in that, right?

So Morgan Stanley has I think they're going to support both channels right but that's that their advisory business has been growing quite dramatically and it will continue to so.

It's hard to size but I think if you look back, you know, five years from now the predominance of assets will be in advisory. I think that's a fair conclusion to draw.

Brennan Hawkin: Okay. Well okay that's fair. Good enough.

And then thinking about maybe down the line where this might lead to potential cost cutting opportunities and of course understanding that this isn't a near-term thing right because you just highlighted earlier how you're going to need to be there to support your partner as they go through this transition but, you know, ultimately beyond near term this is probably going to lead to some pretty substantial differences in distribution dynamics.

You guys do tend to have a pretty large wholesaler team and so when you think about how the selling dynamics into this channel might change, what kind of expense cut opportunity could that lead to if we end up seeing, you know, a channel that is more focused on home office and less on the field?

Can you help us try to frame what kind of opportunity ultimately that might lead to from an expense cutting perspective?

Marty Flanagan: Yes, so, interesting perspective. I think the answer is more along this line. I don't think the demand for support is going to go down. It will probably only go up but it will be different, you know. And so if you go back, you know, ten years ago if the role of a wholesaler was to, you know, here's a great fund and here's why you should put it in your portfolio. It's a great growth track record, you know, isn't that great?

The nature of the support is going to be very different and, you know, the field support if you want to call it that, will be much more of individuals focused on solutions and, you know, how to - well working on their asset allocation how do you help them, you know, build a portfolio range of different investment capabilities; a range of different vehicles that would meet their needs?

So it will be a very different type of support so what you can't size right now is, does it stay the same but just a different skill sets or is there a, you know, sort of a, you know, size issue that you're talking about?

And I'd say it's too early to conclude, you know, whether or not there are, you know, "cost savings" there. My instincts would be the demand for the support is going to be there but it's going to be different so the cost savings opportunity might not necessarily be there.

Which then gets you back to the prior questions that again if you're not a firm with the resources and capabilities to support the client you're extremely disadvantaged in this environment going forward.

Brennan Hawkin: Okay great. Well a lot of uncertainty but thanks for the color and helping us walk through that.

Marty Flanagan: Good, thank you.

Coordinator: Thank you. Our next question is from Alex Goldstein with Goldman Sachs. Please go ahead.

Alex Goldstein: Thanks. Just sticking with the theme, so Marty, so you - in one of your earlier comments you mentioned refocus on management fees obviously is one of the pretty critical criteria as the shelf space shrinks and people kind of rethink who stays and who stays off.

So can we drill down a little more into that? We obviously haven't seen any aggressive fee cut reductions from the active community yet. Do you anticipate that's coming? And I guess more importantly, thinking through Invesco's product line up, which products could be more susceptible to fee cuts and I guess, do you anticipate yourself making reductions to secure shelf space?

Marty Flanagan: So again, it's a, you know, in the light of the environment and, you know, from a macro view I think, you know, that's a - that's a good question. I think the reality is that if you look at, you know, the larger firms right now, their fees are already very, very competitive because they have the skill to have, you know, lower fees.

So I don't sense that there's going to be, you know, a massive, you know, within those firms, I don't think you're going to see much of a change. I think the firms that are disadvantaged are, again, back to if you don't have scale and your asset levels, you know, your fees are almost by definition higher, and you're disadvantaged and you've got us all that one way or the other and there's no pleasant way to solve that.

So again, specifically - and again, we do, like everybody else, so we broker our fees all the time. We know they're very competitive. And we also have the added benefit too of having, you know, the factor-based capability so we can actually help also drive down the blended fee rate, you know, within these, you know, for a financial advisor.

And we also have solutions capability that we can help him build that portfolio too.

Alex Goldstein: Okay, thanks. And then just the second question, I guess, around the robust solution offering that you guys bought a couple quarters ago. Can you talk a little bit about that opportunity, I guess, to leverage that as the distribution dynamics evolve? Not sure there's a way to expand that on more of a B2B concept or is this just all going to be largely targeted on working directly with the client?

Marty Flanagan: Yes, no, so, you know, early days we're thrilled with Jemstep. And it is focused on, you know, supporting our business partners. And, again, I would put this in the context, again, of firms need more and more tools to help clients, you know, meet their needs. And it is definitely going to help us, you know, with that.

We see that already with the interest in it. And, you know, it's frankly an additional tool that will help clients with things like onboarding in a more efficient and effective way with. With this allocation, you know, it is open platform so, again, it's very supportive of what they're doing.

And, you know, we think it was a, you know, important development for us.

Alex Goldstein: Okay, thanks very much.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question is from Glenn Shorr with Evercore ISI. Please go ahead.

Glenn Shorr: Hi, there.

Marty Flanagan: Hi, Glenn.

Glenn Shorr: Hello. Just a quick follow-up on a lot of this. I'm curious in terms of the factor base at ETF world specifically as the business evolves. You know, you gave us some good stats on the importance of first-mover advantage.

But when you talk about "supporting" your distribution partners, how important is the established three to five-year track record in terms of not just being on the shelf but actually getting the flows? Because, you know, what we're all seeing is a huge proliferation of product being put out by everyone and their mother these days.

Marty Flanagan: Yes.

Glenn Shorr: But, given your presence, how much is that three to five-year track record advantage?

Marty Flanagan: It's huge. Look, I think, you know, again getting to the Macro point that we've all talked about, don't extrapolate your, you know, your knowledge on mutual fund development with ETF development, right? So there is a limit to how many ETFs there can be, you know, within, you know, if you want to call it, a certain segment, and it's typically three that are successful.

Contrast that to a picket, you know, a U.S. equity income fund. I don't know how many there are in a category. It's probably, I don't know, 400 or something. So, you know, there is an inherent limitation right there.

And the other thing, you're looking at real track records, you know, with these factor-based ETFs so you have a long track record as opposed to, you know, extrapolating back testing type experiences and no one needs to take that risk, you know, when you have a broad range of capabilities.

The other element that, again, we've talked about and others have talked about, it's the total cost of ownership of those ETFs. And it's not just the fee. It's the liquidity.

And those firms that, you know, have a presence, you know, they're going to get the backing to, you know, create the liquidity which is going to drive down the total cost of ownership also. So we have found it to be a realism that the breadth of product, first-mover advantage - but, by the way, the long track records really matter a lot.

And I think, as we said before, you know, the barriers to entry are very low, but the barriers to success are very high.

Glenn Shorr: Yes, I appreciate that. Just one follow-up. You mentioned in your comments on Japan the success in selling some re-product there as they look for yield. Can you talk about just real estate demand in general?

You got a big real estate business but it didn't hear too much of it in the puts or takes in terms of the current environment.

Marty Flanagan: Yes. No, it continues to be, you know, as we look forward in that sort of, you know, institutional pipeline and qualified. It is in high demand globally. So again, I think they're - I think it's one of the best teams in the business and they, you know, they continue to be doing very, very well. And we don't expect that to end anytime soon.

Glenn Shorr: Okay, thanks. Appreciate it.

Coordinator: Thank you. Our next question - our last question - is from (Michael Seiffers) with Morgan Stanley. Please go ahead.

(Michael Seiffers): Hey, good morning. Thanks for taking a question.

Loren Starr: Hi, (Michael).

(Michael Seiffers): So, Marty, if I could just follow up on your point earlier on that price sensitivity, is real, just curious how Invesco is planning to deal with that over the next few years, particularly as DOL goes into effect. It just seems like there's just more money shifting into passive and lower-fee products. Just how do you think about competitively pricing active management and the elasticity of demand?

And then just the second point there is, just given your scale, how do you think about the opportunity to be more aggressive?

Marty Flanagan: Yes, look, again, those are broad questions. Hard to answer a broad question like that because it gets very specific. So how I would answer it is, you know, we look at where we are priced.

Our prices are very competitive. And, you know, they tend to be very competitive with, you know, again, those firms that have a certain size and have very competitively priced products. And, you know, with consistently solid good performance, you know, you're going to continue pretty well.

I don't know how to answer it other than that. I think, you know, what you could see, probably, in the future is, I do think that the stronger can only get stronger. More money's going to go towards those firms.

With more money, more break points. These will drop. But, you know, again, that will be a continuation of what we've had in the past. Again, I just think it's the smaller firms that are under a lot of pressure.

Loren Starr: I think a bigger impact is probably going to be the share class that gets introduced as we're seeing, you know, sort of low-cost share classes that are stripped down, don't have, you know, transfer agency costs, sub-TA, all these things. I mean, that's going to be the biggest sort of near term impact. And, but I mean, obviously, the management team's going to get looked at as well.

Marty Flanagan: Yes, actually Loren does bring up a very good point. I don't know how much attention's been paid on it but, you know, part of it in sort of a low return environment's, you know, this active-passive movement that we've talked about and have seen dramatically. You know, there's active managers and packaged products have been at a real disadvantage just because of the expense ratio where, frankly, it's a pass-through for, you know, a lot of expenses whether they be, you know, 12B-1, sub-TA.

And you're probably, on average, at a disadvantage. And an average fund of, I'm going to say probably 45 basis points, every year. And as these pure share classes come out, that's going to be a benefit for active management also and the competitive returns vis-à-vis passive funds.

(Michael Seiffers): Okay, great. Just last follow-up here. DOL, you mentioned more money moving from brokerage to advisor. Can you talk about how you position to capture those flows? And maybe you can elaborate a bit more in terms of marketing and sales efforts there that you're putting in place to capture that and also vehicle delivery changes.

Marty Flanagan: Yes, so I mean, it is vehicle but I - and again, everybody's going to solve that. I don't think that's going to be much of a competitive advantage one way or the other. You know, you're going to respond to your partners, as you need.

Again, I think the thing that's going to be different shading is those firms that can help their partners, you know, make a shift from where they need to, from brokerage to advisory. And again, it gets to firms like ourselves that have things like Invesco Consulting, broad field support, thought leadership, field them, work through those changes and, again, a broad range of capabilities.

So we think we're, you know, positioned very well for that. And, you know, with the money - we like the money in motion. That's going to be a good thing and we think we're going to be a net beneficiary of it by the time we get through the other side.

(Michael Seiffers): Okay, thank you.

Marty Flanagan: Sure. Okay, well thank you, everybody, very much. And we'll talk to you next quarter. Have a good rest of the day.

Coordinator: Thank you. That concludes today's conference. Thank you for participating. You may now disconnect.

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