

INVESCO INC

**Moderator: Marty Flanagan
September 29, 2017
7:30 am CT**

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Coordinator: Welcome to Invesco's business update 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 would like to turn the call over to your speakers for today. Marty Flanagan, President and CEO of Invesco, Loren Starr, Chief Financial Officer and Dan Draper, Global Head of ETF. Mr. Flanagan, you may begin.

Martin Flanagan: Thanks very much and thank you everybody for joining us. So what we'll do today is give an overview of the global ETF business as context to the Guggenheim ETF business which we announced the acquisition of last night. And then we'll open it up to questions, so hopefully that will work for everybody.

So let me say this. So Guggenheim is a part of our - is a part of the overall story for the organization, but it is not the whole story. And really to put it in context like you all know they've been really very focused on building a very robust range of investment capabilities, so you can meet all of our client's investment objectives. And what that really means is if you look at the business strategy over the last 10 years, we had a very deliberate approach to anticipating client needs with the goal of offering the products and tools that will enable their success really throughout any markets.

And so Guggenheim itself really demonstrates our commitment to continue to broad enough this range of investment capabilities and our commitment to having a very robust active, passive and alternative set of capabilities and that's expressed on page-4 if you're so inclined to be following the presentation.

And if you take a look at the quick summary of the Guggenheim business, if you turn to page-5, the investment of Guggen - ETF business builds on our 40 years of experience in factor investing and more of a decade in the ETF business alone. And when we're done with this, we'll have one in \$208 billion of factor assets within Invesco which has been very important of growth over the last period of time.

As we've also said on previous calls, the barriers to entry to this part of the business, the ETF business is very low, the various defects, success that will probably be very high and we anticipate that being the case going forward. We strongly believe we have experienced the coverage in expertise to continue to be grow and meet all the client needs within this area.

So to summarize before I turn it over to Dan on page-6, the Guggenheim investment business absolutely strengthens our global ETF platform and positions us for long-term growth. It is the fastest growing sector in all of investment management. And if you look at our smart beta lineup, it will be absolutely the broadest and deepest lineup in the industry.

And it will also provide additional scale for us to strengthen our competitiveness in the U.S. wealth management business in particular and increasing our relevance in ETF business globally. And again lastly, it does bring scale benefits which will come out in our conversations across

investments, distribution and operations and we will continue to build on this momentum in the years ahead.

But Dan, you want to pick it up?

Dan Draper: Great, thank you very much Marty. Invesco acquired PowerShares in 2006 and have built the ETF business from approximately \$3.5 billion in AUM at that time to now nearly \$160 billion. You know, today, Invesco has the 4th largest ETF business in the world.

If you recall earlier this year, Invesco acquired source ETFs in Europe and that expanded our capability especially around smart beta factor capabilities really globally and really increase the relevance by moving the PowerShares and Invesco businesses in ETFs from 19 in Europe to 7, so again this idea that scale in relevancy matter.

If you look at your slide-8 as well, I think you can really see the growth. But what we want to emphasize and we do think this is a unique message today about active management and passive and alternatives. So again these are “ands”, not “ors”. And this is really important in the world that we’re moving with client demand changing to more solutions outcomes obviously encouraged by more regulation in that way as well.

So specifically if you look at, the Guggenheim business represents 77 ETFs with \$36.7 billion in AUM. And many of these products that we’ll talk about are some first mover products that have been in the industry found strong track records and you can see through the Morningstar ratings 74% of these products have more - higher than a Morningstar rating of 3 or higher.

Then I think if you look to slide-9, it specifically drill down to some of the specifics around the ETF business. They're going to help us expand our leadership position certainly across the U.S., but now with our expanded global capabilities as well. We're going to be able to take hopefully some of these strategies to Europe, Canada and other parts of the world.

But what this does is this acquisition places PowerShares which was, you know, the first pioneer or the pioneer in smart beta ETFs back in 2003. This really consolidates our leadership position having by far the largest range of smart beta and factor ETFs, 128 in total. But importantly across multiple asset classes, equities, fixed income and alternatives including, you know, commodities for example.

So if you look, it's not only having the range, but having the established track record where you see that over 70% of our smart beta range has more than a five-year historical track record. This is absolutely crucial, because being able to take a differentiated smart beta strategy to clients which have some type of traditional benchmark orientation, they're not going to buyback us that information. They got to want to see historical performance. And I think this is where we have again on a multi-asset class basis our real track record.

And also importantly we have scale. Not only in the overall platform for PowerShares, but on an individual ETF basis, being able to show a high number of products with more than \$100 million of AUM which for larger clients is very, very important to minimize kind of concentration risk. I think if you then look at what Guggenheim brings in addition to what I just described to the platform. Particularly if you look at the fixed income area which is an area we're very strong, and already at Invesco.

If you look at the active fixed income capabilities in Invesco, have they've already been partnered into the ETF business. For example, having our bank loan team, active bank loans in actually managing our senior bank loan ETF which is the largest in the industry at about \$9 billion. Our Invesco fixed income team is also the manager for our variable rate investment grade products as well as our cash products.

In addition we've partnered with our active real estate team to run ETF. So hopefully, you're really starting to see this idea where we have the strong investment capability of Invesco increasingly being integrated into the ETF business and specifically where you see the BulletShare component.

This is what I think really excites us is being able to bring a new technology and work with specifically around the self-indexing part of that BulletShare offering. But then being able to work with our active management teams to offer something very differentiated. I mean we kind of joke around. If you think about using kind of a Netflix example, being able to not only have leading third-party content which we do with existing third-party index providers, but particularly in this technology in fixed income, being able to use to build our own in-house content is so differentiated in the marketplace. We think again this is something that's going to provide a high level of differentiation in the market.

And additionally a well-known - the smart beta history that Guggenheim built through both the Claymore and Rydex businesses overtime, particularly in differentiated equal weight strategies as well as style and other smart beta - the equity capabilities which again tie in very, very well to our emerging and fast growing factor in smart beta equity strategies there.

So I think overall if you kind of move to looking at slide-10, as we view the Guggenheim ETF business, obviously very complementary to ETFs, but also very complementary I think to the overall investment capabilities, you know, at Invesco.

So I think as we kind of, you know then move over to looking at kind of slide-11, just specifically the acquisition is going to really increase, you know, not only the depth, breadth and scale of our global ETF business, but as we do focus globally it's going to increase our market share by about 24% as we kind of demonstrate again on slide-11.

And I think what it also does is really, you know, it cements our position as 4 globally, but really puts us and pulled us much closer to the top three in terms of assets under management and more importantly just quite relevant. Being able to speak around solutions, global asset allocation capabilities and also on a digital basis with working, you know, in-house with our Jemstep partners here at Invesco.

So if you then move over to kind of slide-12, so this is really the chart that we spent a lot of time as looking in our core area which is our smart beta leadership. And as again, you can see once we, you know, close the transaction with the Guggenheim business. This is really going to cement us in total AUM just behind the market leader in the number two position, but again I emphasize that the number of products, the breadth, the historical track record.

It really does set us apart we do think among, you know, competitors really in the smart beta area which is growing from a smaller base, but still growing at a much faster right than we find in the traditional bulk beta area. And again, this is a segment that we feel is going to double in size by the end of 2020.

So I think really with that, let me kind of close my comments and I will turn it over to Loren Starr, our CFO.

Loren Starr: Thanks very much Dan and Marty. So Invesco is going to acquire the Guggenheim ETF business as you can see on page-13 for \$1.2 billion, that's going to be paid in cash at closing, expected to be funded through the firm's own cash and debt from early through - thinking it through the credit facility at this point in time. In addition to very compelling strategic rationale for this acquisition, we expect this transaction to provide really strong shareholder returns.

So based on the current AUM levels of approximately \$37 billion, this business represents an additional \$108 million in our annual growth management fee revenues and \$72 million in net revenues to Invesco which reflects a revenue yield on the incoming business of approximately 19.5 basis points.

Also given the Invesco's current infrastructure and scale in the ETF business, the acquisition will require only a modest increase in headcounts and operating expenses and should produce an operating margin at 85% and above. Importantly, this translates to an increase in Invesco's overall incremental margin year-over-year of about 10 percentage points. So definitely set us up nicely for next year.

The transaction will additionally provide a significant tax deduction to the firm as we're able to amortize nearly the full purchase price for tax purposes. And this is going to result in a tax benefit with the present value of approximately \$360 million or nearly 30% of the total consideration paid.

The price of the operating business and that is the value of this tax shield if \$840 million.

Assuming modest revenue growth assumptions, the transaction should provide an estimated IRR of approximately 25% which is ahead of our financial hurdles. Excluding the impact of up to \$50 million in onetime integration cost, our pro forma EPS accretion is approximately \$0.07 or 3.6% for 2018 and \$0.14 or 5% for 2019. And note these accretion numbers - percentage of accretion numbers are based on the current consensus for Invesco's ETF of \$2.78 in 2018 and \$3.10 for 2019. And also note that the 2018 accretion number provided is based on an estimated April 1st closing date.

So as mentioned, the business coming over with a relatively high operating margin, 85% given the scale we already have in the existing business. And as the result, the transaction reflects evaluation that is a tax shield of approximately 11.7 times in 2018 EBITDA on a pro forma full-year basis.

And as previously noted, the transaction is expected to close in the second quarter of 2018 and the purchase price will be satisfied as I mentioned by a combination of cash on our balance sheet, but that's probably through the credit facility.

And with that I'm going to turn the call back over to Marty.

Martin Flanagan: Yes, thank you very much again. And so any questions? We're happy to take.

Loren Starr: Operator, could you open up the call for questions?

Coordinator: At this time if you'd like to ask an audio question, please press star-1. You will be announced prior to asking question. Please pickup your handset when asking your question. To withdraw your request, please press star-0. Our first question comes from the line of Ken Worthington of JPMC. Your line is now open.

Ken Worthington: Hi, good morning. So first Invesco has a number of deal criteria including IRR and cash payback requirements. Can you maybe tell us or help us understand what your organic growth assumptions are say over the next five years that are required to get you to the, you know, 25% IRR that you discussed in your kind of internal cash payback targets? And either a number or a range will be most appreciated.

Loren Starr: Absolutely Ken. So I think the basis of our analysis of the business, if you look at the history and it's been amazing, it took 27% to our compound annual growth rate. We are assuming 18% on the largest parts of the business, the BulletShares and the equal weighing and then the smart beta. I think the alternative piece is a little bit smaller and probably around 15%.

And then there is an incremental 1% just on the associated businesses that are going to benefit from this acquisition including Jemstep, our existing PowerShares lineup solutions overall, so which is a smaller piece of the overall revenue.

Ken Worthington: All right.

Martin Flanagan: So - and Ken from my perspective, you know, our view is along the same. You know, actually pulling down the growth assumptions we don't anticipate slowing growth, but we thought we just be conservative, you know, as we look at this transaction. And from my perspective, you know, 1%, you know,

synergy through the organization is incredibly modest and that's when you look at, you know, Dan was talking about where we're going with solutions, the uptake we're seeing in solutions, the pipeline towards Jemstep. You know, we look at the opportunity; it's been really very, very robust.

Ken Worthington: All right, good. That feeds into the sort of the follow-up. Can you talk maybe more specifically about how you improve organic growth for Guggenheim from where it has been more recently? So things we've found like you can now obviously plug Guggenheim into your model portfolios, you can plug it into Jemstep, I assume you're going to be adding PowerShares distribution. But to some extent I think you lose a little bit of Guggenheim distribution. So what is that maybe more specific path for enhanced growth and then how much do you think you will have to invest in the business to drive this incremental growth? Because you're investing in Source, you're investing in Jemstep, what kind of investments are really needed for Guggenheim as well?

Martin Flanagan: Yes, let me make a comment and then Dan will chime in. So yes, our perspective is a little different than that and in fact quite different. The value of Guggenheim business in Invesco's hand is dramatically stronger. If you look at the depth and breadth of our distribution force, its magnitude is larger than Guggenheim's. And if you look at the depth of the relationships, the magnitude is larger than Guggenheim's. And so literally it is not a separate line of business, but it's only broadening out what we have in our existing capabilities. So we think that's an incredibly powerful way to look to the future here.

And Dan had mentioned the self-indexing capabilities and we look at that as a huge opportunity for us. And again the product development following on from this we think is going to be very important. From the standpoint of how much more do we have to invest, we don't. That's why you see the 85%

margin. We absolutely have the scale in place to drive this business, you know, very holistically. It's only going to make our distribution sales force much more capable and with the broad range of capabilities. But Dan, will you add to that?

Dan Draper: Yes, thanks Marty. And I think it as well. In the distribution side, quite simply looking at this experienced range of products, you know, deepening our relationships particularly in areas like the warehouses particularly after, you know, the DOL announcement, you know, last year as shelf space gets more narrow, you need to be able to go deeper. And I think the investments that we're making as Marty said around solutions, many more of our clients are talking about multi-asset class and outcomes base. So we have to be able to offer a much richer range of products.

And we particularly think, if you look at market conditions today as kind of the quantitative easing environment changes, certainly the U.S. starting, you can really see the better performance active management has had this year. So active management will continue to we think have better opportunities and security selection in a more normalized market. But also on that journey to active, a lot is going to stop we think on the way in smart beta factor and this is really where solidifying in this new kind of economic environment, solidifying our position in smart beta is crucial and complement to Invesco's active capabilities.

Ken Worthington: Great, awesome. Thank you very much.

Martin Flanagan: Thanks Ken.

Coordinator: Thank you. Our next question comes from the line of Michael Carrier of Bank of America. Your line is now open.

Michael Carrier: All right, thanks guys. You know, maybe just a few questions just around the accretion and the assumptions. Just on the revenue growth, you know, I think I just want to I guess maybe look at the 18% or the 19% asset growth versus maybe revenue growth just given, you know, some of the pricing, you know, pressure that we're seeing throughout, you know, the entire industry.

The incremental margin just be 85%, I'm just wondering like as Guggenheim comes on, you know, where it was running versus I'm assuming that you're going to get it, you know, to that 85%. And then just on capital, in terms of buybacks, I'm assuming that's going to be, you know, be toned down, you know, in the near term, you know, just given, you know, the source deal on this deal. But just any update, you know, on how you're thinking about that, you know, maybe over the next one to two years?

Loren Starr: Yes. I mean there is I think probably modest assumption that there is going to be some fee reduction that's just going to happen industry wide and that is baked in our model. I think we have about 1 basis point decline over a few years and it's probably worth Dan to talk a little about some of the, you know, stickiness of pricing in this space relative to what you've seen in some of the cap weighted side. And so I will definitely segue to that.

The capital in the buyback is definitely a topic in the sense that to complete this deal by assuming that on our credit facility, you know, is something that we're going to need to address. And so our plan is to curtail the buyback as we've done with source until we get the leverage ratios back down to where they currently are. And so that would take us probably, you know, sort of (fly marks) to everything sort of static to roughly the end of 2018 for us to get to that level. So a good question, but it's definitely part of our capital plan to bring us back into sort of strong investment grade level.

And then maybe Dan, do you want to just talk a little bit about fees and (unintelligible), yes.

Dan Draper: Sure. Yes, you know, I think from - you can see really from, you know, PowerShares's inception in 2003, I think we've done a pretty good job, you know, really actively monitoring, making sure that our products are providing, you know, great value to the shareholders of the bond. And so in terms of, you know, pricing element, we actively monitor and kind of watch those developments.

But I think, you know, before I get into specifics, I think it's coupled like three metrics I want to kind of throw. One is that if you look at global assets under management in the ETF industry, you can attribute back over 70% of that AUM to the first mover in that particular ETF strategy. So being there early matters.

So expense ratios, they're important, absolutely, but there are couple of other important metrics too, trading liquidity back to cost and now and this is why the track record matters is you move into smart beta and active ETF strategies is also performance. And normally we kind of measure that through tracking errors. So as you're seeing the maturity and the sophistication of the market, yes, definitely, expense ratios matter.

Again we think we do a very good job on that, but also the trading liquidity and that's where the size and scale and the access of these products makes a big difference and we obviously have a capital market's team who works very closely with a lot of the market makers to make sure we do that well.

And again, now that having their performance which we can point to by having really the longest track record in smart beta and factor strategies. So those are all important.

And then I think you get to the uniqueness of the Guggenheim range really starting at the top with the S&P 500 equal weight ETF. This is a unique property in the marketplace. No one else has the license quite openly. We pursued for years trying to get the license for this kind of iconic smart beta, you know, ETF and so really now through acquisitions. We appreciate as many potential new entrants try through cloning strategies and things like that. But again coming back to that first mover advantage and particularly, you know, the focus on the S&P 500 in whatever form that is the biggest benchmark in the industry. So for us to be able to get this is important.

And let me just leave with two other comments on this idea of kind of scarcity and first mover advantage. If you look at the total AUM in the ETF industry today, 99% of that AUM can be attributable to players who are in the market in 2010 or prior, all right. And even if you look at the net inflows that have come into the industry over the trailing 12 months, 96% of those inflows again can be attributable to businesses, to ETF businesses that were started in 2010 or prior.

So this idea of building a track record, getting scaled is really important and that's why those legacy in Guggenheim businesses both from Rydex and Claymore are so valuable having these first mover products and being able to again put them into the solutions capabilities at Invesco.

Michael Carrier: All right. That makes sense, and an initial quick follow-up and maybe for either Marty or Dan. You know, when you look at both and Marty, I think you are getting to this in the last question on distribution...

Martin Flanagan: Yes.

Michael Carrier: ...I'm just trying to gauge like when you look at where Guggenheim is distributed today, you know, versus maybe over PowerShares, is there any way to size that in terms of like the number of platforms or channels, you know, that you have kind of the opportunity, you know, to, you know, sell or distribute that product and then same thing on the types of products meaning, you know, you talk about like the equal weight.

Is there, you know, opportunities with source, you know, with PowerShares, you know, in different areas where you can take some of that, you know, like their applications and use it for a new product innovation, you know, in some of the different, you know, parts of the market that maybe Guggenheim is not targeting today?

Martin Flanagan: Yes, so let me make a couple of comments and then have Dan chime in. So, you know, if you just start by, you know, looking the PowerShares lineup to the Guggenheim lineup, it is incredibly complementary and that's, you know, something really important. We would never be able to have replicated this organically nor would anybody else in the industry and I think that's important to recognize.

It's a 100% consistent with our strategy of, you know, having this very robust set of active, passive and alternative capabilities and we are absolutely seeing, you know, incredible growth coming out of the solution's capabilities and the robustness now in this passive side of the business, smart beta in particular is really, really helpful to us.

We did look at the distribution channels as you would imagine in some instances they're complementary and we just get stronger on the platform. In others, there is real opportunity for us to, you know, bring the Guggenheim capability into, you know, a greater array of distributors in partners that we work with.

And finally it is really important for, you know, the models that we are building. And again there are not many things that we don't have now for our team to build the models and those models are kind of key part of Jemstep. And as I've said a couple of times now, early days for Jemstep, but the pipeline is beyond my expectations.

By the middle of next year we could be working with 20,000 financial advisors that we never had a relationship before. It is slow, because it's - you know, you're installing an application from the standpoint of the uptake, but again from a competitive point of view, it's really quite amazing. So these are all part of the overall strategy. They're not separate and they are all self enforcing.

So Dan, would you?

Dan Draper: Yes, I agree. I think being able to take the global footprint and again emphasizing the investment strategy we have with leading third-party providers, but increasingly with our own in-house or active teams and being able to represent that now. Clearly with source you think about their success, but our now ability to bring particularly areas like fixed income, areas of alternatives and vice versa in a source.

The European market is arguably more institutional in terms of client base. So a lot of those institutional byproducts, we can bring from Europe to

potentially put them here into '40 Act ETF. So a lot of synergies globally and I think we're obviously, you know, we just closed the source transaction of August 18, but, you know, we're just starting really to identify and put into place a lot of those synergies.

Martin Flanagan: And let me just add and Dan hit on this, but I - it's worth probably repeating. So don't think of this is just, you know, ETF is getting launched with a lot of investment acumen of how they're very much different than that. We had a factor capability for over 40 years. This is not a new idea to us. They're incredibly talented group of people. Our self-indexing unit which we've been building out over the last year is made up of those people internally bringing on the self-indexing capability that Guggenheim puts us in, you know, a really, really strong position and Dan was hitting on the BulletShares. That's going to be, you know, one of the first areas where you can just see incredible opportunity, but not limited to that by any stretch of the imagination.

So the way to think about it is, you know, us building that indexes by our investors and that's very, very different than what many of our competitors can do.

Michael Carrier: Okay, thanks a lot.

Martin Flanagan: Yes.

Coordinator: Thank you. Our next question comes from the line of Patrick Davitt of Autonomous. Your line is now open.

Patrick Davitt: Good morning, thank you. On your point on the S&P equal weight strategies, I think it sounds like you think that's quite defensible, maybe you can talk a

little bit about what drove the decision and to cut the fee so aggressively in August if it really is that defensible?

Dan Draper: To be frank, I can't really discuss, because, you know, the business decision was made at Guggenheim and as you know, we've announced the transaction, we've yet to close, so the Guggenheim and PowerShares business will continue to compete and operate separately. So I really - I can't comment on the Guggenheim decision. Again, what I'm going to say is our track record against the 2003 of managing our product range we think very effectively keeping focus on price. So, you know, from our perspective, it is an analysis if you have more attractive expense ratio, can you basically pickup even more growth and volume.

And, you know, I would assume - well, I shouldn't assume, but that's the approach we will take when we're considering it. But again I want to really emphasize the expense ratio, there is only one consideration. For example, if we do see that we have an opportunity to really get more market share or increase the AUM, we also think about liquidity and this is what our capital markets team really does is being able to talk to market shares, are we able to increase seed levels to make it bigger, can we really work on finding more innovative ways to hedge.

Again the trading, liquidity and spread is another very, very important consideration just specifically to larger institutional investors as well as performance. Can we find better ways to track the benchmark to produce tracking error? So that's why I really want to give this holistic picture to you. But I think if we find that overall after focusing on liquidity, giving performance enhancements, then if we do need to make a decision around price, we can certainly do it.

But again I think in the smart beta factor area, the first mover advantage is very, very important and I think this is where again we've built the PowerShares business and again this is where I think Guggenheim has been so complementary.

So, you know, we're looking at the current state that we're purchasing today. I feel like this is a very competitive product that we can really take to our existing clients, but also other clients that we would like to access. This is an important range and I don't want to leave short, but also the equal weight S&P 500 sectors, that's again very complementary not to mention the style, the (style) of ETFs.

Martin Flanagan: And just to, you know, sum it up, I mean, you know, Dan just went through the various factors that you look, there is the reason why there is only one of these and that is the reason, you know, and there is a huge advantage of, you know, being first to market and it is all those factors that matter.

Patrick Davitt: But to that point though as it sounds like part of the reason is also because the S&P won't license it?

Dan Draper: Again, I can't comment specifically for various confidentiality reasons. But again we've tried to access over the years we know many other competitors try to. It is a unique property.

Patrick Davitt: Okay, thank you.

Coordinator: Thank you. Our next question comes from the line of Craig Siegenthaler of Credit Suisse. Your line is now open.

Craig Siegenthaler: Thanks, good morning everyone.

Martin Flanagan: Good morning.

Dan Draper: Good morning.

Craig Siegenthaler: So on the tax shield, is there a ceiling on the level of profits you can shield from U.S. taxes in a calendar year? And then also how should we actually think about the benefit to the tax say it on a run rate basis?

Loren Starr: So I mean there is - we have so much operating income in the U.S. I mean this provides like a \$30 million benefit per year which is, you know, absolutely well within, you know, the amount that we could use. So it feels for us completely, reasonably certain cash flow benefits over 15 years. And so it's a 15-year every year, you know, \$30 million benefit that is provided through our ability from a tax perspective to amortize the value over that period.

Did I get your full question Craig or did I miss one part of it?

Craig Siegenthaler: No, it's perfect. And then I have a quick follow-up here. I didn't see it in the slide deck, but did you give us the mix of cash and debt for financing and also can you remind us what the rate is on the revolver when you pull that for the financing?

Loren Starr: Yes. So I assume about 15% of the price is going to get handled by the cash and the rest will be done through the revolver. The revolver is at roughly LIBOR or LIBOR plus the 100 basis points, roughly 2.3% right now.

Craig Siegenthaler: Got it, thank you Loren.

Loren Starr: Yes.

Coordinator: Thank you. Our next question comes from the line of Jeremy Campbell of Barclays. Your line is now open.

Jeremy Campbell: All right, thanks guys. I just wanted to circle back and clarify something from Mike's question. The 277 consensus for '18, I think mostly contemplated a resumption in the buyback. So I wanted to clarify that your \$0.07 accretion number for next year gets it to that mid-280 space just on kind of fundamentals alone and contemplating no buybacks, right?

Loren Starr: That's right. The \$0.07 do not assume any buybacks. The percentage, it was just a complete, you know, kind of mechanical grab of consensus ETFs.

Jeremy Campbell: Yes. And just - thanks. Quick follow-up on Craig's question, you know, that tax shield, is it just a free cash flow tax benefit or are we going to kind of see it reflected in the report in P&L?

Loren Starr: It's going to be reflected in the P&L and it is free cash flow as well, so it's both.

Jeremy Campbell: Got it, okay. And then finally just as you think about kind of leverage, you know, ratios going forward and the cadence of, you know, paying down the revolver, how should we think about that on a go forward basis?

Loren Starr: Well, I mean we're going to obviously do on the revolver and then pay it down overtime where we're going to get the ratios as I said, we believe certainly at current levels by the end of 2018. So sort of radically paid down at which point in time we will be obviously bringing the buyback back into the fall.

If we can sort of do it faster, we will do it faster in the sense of, you know, right now we actually have a lot of things that are helping us with, you know, assets and markets and effects. So - but the real point is we want to get the leverage ratios back down to where they are currently. And so it totally kind of do that role, we will be postponing the buyback.

Jeremy Campbell: Got it. Great, thanks a lot guys.

Martin Flanagan: Thank you.

Coordinator: Thank you. Our next question comes from the line of Chris Shutler of William Blair. Sir, your line is now open.

Chris Shutler: Hey guys, good morning. Can you just break down the Guggenheim ETF business by channel, so how much is kind of FA versus self-directed retail versus institutional? And within that FA channel, how much of it is selling to the home offices versus individual advisors?

Dan Draper: Yes, let me go ahead and figure this. Let's just give us a second, all right. Okay, so kind of the metrics that we can provide with you is really focusing on the top five platforms that Guggenheim has today and what it kind of means really for Invesco.

So if you look starting with Merrill Lynch, this will be a 10% increase to add about 2.6 billion of relevance at Merrill which we'd give a total footprint of 26.2 billion, just kind of running quickly through the percentage numbers, Morgan Stanley increases our relevance by 9%, Fidelity at 26% increase from Guggenheim, Schwab at 55% increase and UBS at 10%. So this gives you a flavor of I think the distribution synergies.

And again just, you know, framing this all around the impact that the DOL announcements had where again you need to be able to go much deeper in these clients as the shelf kind of narrows.

Chris Shutler: Okay. So fair to think of this is primarily retail, correct?

Loren Starr: It is, yes.

Dan Draper: It is. But I think the BulletShares is an area if you can imagine, you know, having this final maturity open ended ETF product obviously with a specific duration. That these characteristics we believe in the areas like insurance, if you think about asset liability matching, being able to really specify a exposure with kind of cash flow certainty and maturity, very attractive there. So we do see some institutional benefits from this acquisition as well.

Chris Shutler: All right, great. And then on the BulletShares, Dan, the - I know that iShares, they've rolled out investment grade muni target maturity bond ETF, but correct me if I'm wrong. I don't think they've rolled out the high yields side. Maybe just walk me through why Guggenheim has been comfortable with that or why you're comfortable with that?

Dan Draper: Well, again I think the - I can't really speak for a direct competitor, but certainly from what we've seen from the transactions, you know, Guggenheim, you know, has very good fixed income capability and I think for them to be able to show case particularly the high yield exposure through, again we feel very similar, we have very strong capabilities. You know, Invesco has made a really big investment in fixed income, great performance track record that's being built. So we would want to continue I think that good work and maybe even find additional ways that we can use the

BulletShares wrapper to, you know, represent the strong team that we have here.

Chris Shutler: Okay, thank you.

Coordinator: Thank you. Our next question comes from the line of Chris Harris of Wells Fargo. Your line is now open.

Chris Harris: Thanks, hi guys. So we might see some tax reform later this year, perhaps next year. Is there anything in the proposals that you guys have seen that might put into jeopardy some of the savings or benefits you expect?

Loren Starr: I think, you know, all firms would have to look at all their different taxes, they had some benefits in light of a reduced corporate tax rate. And so for example, our tax shield that we just talked about is based on a 40% corporate tax rate that would go in half now and so it went to 20%, right, so mathematically that's what happens. But the good news obviously is that the earnings, you know, get the benefits and so, you know, just going from 40% to 20%, you know, gives you a 33% increase in earnings. So that more than offsets any sort of impact on the value loss to this particular transaction.

You know, the other parts of the - what they're talking about, who knows I mean whether you can detect interest or not. I mean, certainly there were a lot of things in there that we just have to sort of wait and see what happens. But I'd say if they were just a simple drop of the corporate tax rate that will be a definitely good guide from our perspective with obviously some immediate impact, you know, just on the value of some of the deferred tax assets that we have.

Chris Harris: Got you, okay. And then the difference between gross in that revenues, you know, it seem that's distribution cost. Can you expand a little bit on why the distribution costs were so high for this platform?

Loren Starr: You know, that's not really distribution cost. So ETF is kind of an interesting thing, so there are two types of ETFs. There is, you know, ETFs at do unitary fees and then ETFs that don't. And the unitary fee concept is, you know, single fee and it pays for management fee, but it also pays and reimburses directly for audit fees, other listing cost, things that are product expenses for ETFs.

Other types of ETFs, all those product costs are born directly by the product itself and you never even see them in the revenues. And so really what this does is it nets those product related costs directly against the gross revenue for this unitary fee ETFs and that's why it's as large as it is.

Chris Harris: I see, thank you.

Coordinator: Thank you. Our next question comes from the line of Robert Lee of KBW. Your line is now open.

Robert Lee: Thanks, good morning guys. Most of my questions were asked, but I think I - Loren, I didn't hear a couple of your comments has kind of came through a little tough on my phone here. So much of the funding are you expecting at close to be built up versus draw down on the revolver? Is it roughly one-third, two-thirds? I missed that number.

Loren Starr: Yes, I mean it's a little hard, because it's so far away to be precise. Right now in our modeling we have about 15% of the purchase price being funded with cash and the rest with the revolver. It could be more cash if we have more,

you know, sort of estimated cash on hand we can definitely do more, but we were being conservative in our thinking.

Robert Lee: Okay, great. And then the annual cash tax benefit, did you say that was \$30 million or again I didn't come...

Loren Starr: Yes, so it's really this tax shield. So we get to deduct from a tax perspective of about 95% in our modeling of the purchase price and amortize that over 15 years from a tax perspective. And so that amounts to about \$30 million a year in tax shield which has again a present value of about 360.

Robert Lee: Right and that's at a 32% tax rate, right?

Loren Starr: No, that's at a 40% tax rate corporatized, yes.

Robert Lee: Okay. And then I guess lastly - well, I guess you kind of answered it, so there is really a diminishment amount of definite life intangibles that will pass through at least the GAAP P&L I know you were just about in your statement. So there is really not much else in the way of amortization on...

Loren Starr: At this point, yes. We'll have to go through that analytical accounting exercise of pulling out intangibles versus goodwill. But right now the estimation is - you know, based on our best estimate is largely goodwill which would not obviously be amortized at all from a GAAP perspective. But - and certainly if it were, whatever intangible that we would based on our prior processes, you know, from a non-GAAP perspective back that out, because it's a non-cash element.

Robert Lee: Right. You know, that was actually all I had. Thank you for taking my questions.

Loren Starr: Sure Rob.

Martin Flanagan: Thank you.

Coordinator: Thank you. Our next question comes from the line of Brennan Hawken from UBS. Your line is now open.

Brennan Hawken: Hi, good morning, thanks for taking the questions at this point, just a couple of follow-ups. I think Loren, you said that the tax benefit wasn't just cash that it would flow through your P&L. So we've been using, you know, maybe 26 and change percent to think about 2018. Does that mean we need to ratchet that down by, you know, 200 basis points in order to net a roughly \$30 million benefit to the income tax expense in the P&L?

Loren Starr: Yes. I think we would have to just - it's a little weedy, so there is going to be some puts and takes. I think so maybe if we can sort of address that question offline then that will be better, because I don't want to give you a number that we're still looking at some of the - you know, where this hits a...

Brennan Hawken: That's...

Loren Starr: ...GAAP too, so there is some, you know, complexity there.

Brennan Hawken: Sure. I guess it's just important, because if we could - if you get that benefit flowing through the P&L then that might offset largely the loss of the buyback which I think will be - which makes it the deal will go out more attractive. So I look forward to that follow-up.

One more then will be you've spoken in the past about how using your index partner's IP instead of being viewed as a competitor in creating indices the way some smart beta players have chosen to do as a benefit. Has that benefit diminished over time and is that why you're more comfortable going - moving in this direction which seems like a different one than you've done in the past? Can you - or do you think that maybe this particular asset is different and therefore it doesn't create the sort of friction that you have highlighted as might be an issue for you in the past?

Martin Flanagan: Let me make a comment Dan and then I will defer to you. So, you know, our existing partners will continue to be important partners and, you know, thought partners with us. The addition of the self-indexing though, it is different skills. Again, it's indexes that will be created by our investors and, you know, we think we're - it's our unique capabilities that can do that. So they go hand-in-hand, you know, as we look at it as an organization, but can you add more color?

Dan Draper: Yes, I'm happy to. So I think we kind of eluded this. But if you look at, you know, the world's largest fiduciaries, I mean, you know, most of them have, you know, a benchmark, you know, and an established third-party benchmark. So quite openly if you're looking at the - if you have the pie of availability of assets for ETFs, you know, the pies really still stack towards leading third-party index providers. So we're going to continue to maintain this relationship.

But if you think about differentiating your brand and capabilities and really showcasing again a lot of the active synergies that we can build, we have done and we will continue to do, that's where the self-indexing comes in, because then you're able to come in with differentiated product and, you know, we can talk about it. But I think that's what a fixed asset class is so interesting, fixed

income indexing is much younger if you will than compared to equities for example.

And the nature of those securities that are traded over the counter that kind of liquidity constrains, that's where an active manager can really add value and frankly our senior bank loan ETF, that's where we've seen that. So this is a traditional index, the holdings are disclosed every day, but by having our active senior bank loan team manage it, understanding the execution, the nuance of that marketplace, we believe that information helps them on their active portfolios, but then we can also leverage it frankly through better performance in the passive.

So I think you take that, that is again an index product then if we're able to move the needle and really show maybe the opportunities to generate alpha, you know, concept around self-indexing, that's where I think it gets kind of really more interesting for us.

Loren Starr: And Brennan, just one more point. I was just going through my notes on this one. So the reason it was confusing is because there is a different GAAP and non-GAAP treatments to this particular tax shelter. From an adjusted operating income, we would definitely count the \$30 million as a benefit the way that we handle sort of the cash and cash flow benefit of those taxes. So, you know, we would show up in our adjusted numbers as positives in our cash flow.

Brennan Hawken: Cool, great. Thanks for walking through that.

Loren Starr: Thank you.

Coordinator: Thank you. Our next question comes from the line of Michael Cyprys of Morgan Stanley. Your line is now open.

Michael Cyprys: Hi, good morning. Can you talk a little bit about the self-indexing capability that you're acquiring here and how their exempted release on the SEC differs from yours in that regard?

Dan Draper: Well, again I don't want to - you know, we - Invesco and PowerShares specifically, we have received exempted release for self-indexing, we have yet to use it in an actual product. I think clearly, you know, looking at what Guggenheim has not only had in place, but obviously use, you know, the track record specifically through the BulletShares, it's something very, very interesting, you know, for us. So we have a really good start in self-indexing. We've got as you said the exemption to do it, but I think this really just accelerates a path that we're really on.

And then I think on top of that thinking about BulletShares as a technology really with this - you know, again final maturity, you know, ability. So it's really kind of accelerating what we were doing and then adding the BulletShare capability on top of the self-index, that's exciting.

Michael Cyprys: And just coming back to the distribution side, you mentioned that you see the deal enhancing your distribution constrains. You've mentioned some numbers earlier in terms of the platform, how much that would add across the (unintelligible) firms. But just curious how you're thinking about the sales team that's coming onboard, you know, how many sales people should we think about coming onboard and are you thinking about retaining them to enhance the relationships? Because I think that they're well known in the industry for having good relationships and distributions, right?

Loren Starr: I mean our - we haven't gone into specific numbers of people. I mean as we said, we're not bringing up our lot of individuals, the ones that we are all largely focused on the distribution side because of their capabilities. And so we are actively - and looking forward to bringing them onboard to help strengthen our overall approach. But it is again a limited number of people that we are bringing up with.

Michael Cyprys: Okay. And if you could just circle back on the attacks number, Loren, that you mentioned the \$30 million, will that be incremental to the EPS accretion that was in the slide deck then if that's the case?

Loren Starr: No, that's counted in there.

Michael Cyprys: It's counted in that, the \$0.07 and the \$0.14?

Loren Starr: Yes.

Michael Cyprys: Okay. Thank you for the clarifications.

Loren Starr: Yes.

Coordinator: Thank you. Our final question comes from the line of Surinder Thind of Jeffries. Your line is now open.

Surinder Thind: Good morning guys. I'm actually just filling in for Dan Fannon this morning. So Marty, I would like to start with a big picture question here. In the last six months you guys have done two major deals here. Can you talk about the deal environment at this point and maybe what's kind of changed in these last 12 months or so versus if we were to rewind to a year ago or maybe before that when there was a lot of discussion of M&A, but, you know, the triggers

weren't being pulled? Is it just that there is a lot more willing sellers in the marketplace or any color there that would help?

Martin Flanagan: Yes, hard to answer the question specifically. It - you know, I still think if you look at the environment, the environment is still such and the competition in the industry and, you know, the maturity of the industry still leaves all the, you know, makings of an industry that you will think would naturally see or consolidation than you've seen in the past. So that's not changed.

As we said often that the consolidation goes slower than anybody really anticipates. You know, what I am sure of is that the stronger getting just stronger here and to me the open question is those firms that are less well equipped, there is an assumption that they will be acquired and you'd really have to ask the question are they worth acquiring.

So I think that's part of what's going on here in the marketplace and that's why I say the strong could just get stronger and that's why the combination of, you know, Jemstep, Source and Guggenheim really improve our competitive position just quite dramatically, you know, within the solutions asset allocation, you know, side of the business and factor that seem particular.

So again the environment hasn't changed as far as I'm concerned. It's just transactions are complicated.

Surinder Thind: Understood. And then a quick question on the - there is a class in there where the deal price is subject to adjustments based on the revenue number changes uniquely from its current run rate. Is that more just a macro risk at this point or is there any other things that we should be thinking about as moving from Guggenheim to within the Invesco umbrella?

Loren Starr: Yes. I mean I think the biggest trick with this, one of the bigger tricks with this, you know, part of the \$50 million one-time cost is - are need to solicit shareholder votes to move those ETFs over to our platform. So there is a reasonable amount of cost and efforts to secure those votes.

And this really protects us in the event that not all those votes get - you know, and not all the platforms get moved. So that's what this is really, so it's contemplating more than anything else.

So I think it also contemplates obviously if there are flows in that market related - both well related, you know, really bad market, we'll be protected if the assets coming over the revenues were significantly lower than what we have anticipated.

Surinder Thind: Understood. And then one final really quick question here. Can you just reiterate what your minimum balance sheet cash preferences will be or targets are and then relating to that what's your actual - maybe a quick walk through of your criteria for doing deals?

Loren Starr: So we target right now \$1 billion of cash in excess of what is required from the regular perspectives of largely in the UK and Europe which is around \$650 million roughly right now. So, you know, our kind of steady stay will be around \$1.6 billion, \$1.7 billion of cash. That will be what we're shooting to have over, you know, business as usual periods.

After that point in time, you know, we look to first feed our products organically. This is what we've done and continue to do as we launch new and alternative capabilities and fixed income and alternatives tend to require a firm amount of capital to get them started.

So that's, you know, could be about \$200 million of cash that sort of goes to the tax of products in a particular year. Then we have dividends that will be our next priority, sort of single digit growth steady under all market scenarios to both, you know, \$250 million is going to that right now. And then the reminder will be buybacks and so historically we've taken rest of that cash out of our sort of \$1 billion of free cash that we generate or operating cash that we generate here and that goes back to buybacks and that can be, you know, \$400 million or so.

So, you know, that is all subject to opportunistically looking at acquisitions if they come up and they make a big difference strategically in terms of or the strength the firm, you know, we will impose that as an overlay within that capital priority. But generally one should not think of us as being on the hunt of acquisitions that really is more of an opportunistic positioning as oppose to part of our capital priorities.

Surinder Thind: I understood, thank you.

Loren Starr: Yes.

Coordinator: Thank you. At this time speakers there are no more questions on queue. You may proceed.

Martin Flanagan: Yes, thank you very much everybody on behalf of Dan, Loren and myself, we appreciate the time and the questions and hopefully we were able to put the Guggenheim transaction in the context of, you know, the overall strategy and the efforts over the last decade. And we really do think it creates a very, very unique competitive advantage for us in the smart beta environment in particular, but generally in our passive capabilities overall.

So with that, you know, thank you very much and look forward to talking to you soon.

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

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