INVESCO INC

Moderator: Marty Flanagan
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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, please press star followed by the 1. Today's conference is being recorded. If you have any objection, 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.

Marty Flanagan: Thank you very much, and thanks everybody for joining us. And I'm going to spend a couple of minutes just on the results for the quarter. Dan is actually going to spend time to give further context around the acquisition of Guggenheim's ETF business and Loren will go in to financial review and of course we'll open up to Q&A.

So let me begin by touch by hitting the highlights for the third quarter results which are in Page 4. Our long-term performance continued to be very strong in the quarter. 67% and 75% of assets were ahead of peers on a 3 and 5 year basis. This results in very strong long-term flow of $6.3 billion during the quarter. We saw this both in retail and institutional channels, and this resulted in, you know, organic growth rate of 3.4%, so all very strong during the quarter.

The adjusted operating margin was up meaningfully during the quarter. It came in at 40.7% and operating - adjusted operating income increased 10% quarter-over-quarter and up 18.5% as compared to Q3 of 2016.

So let's spend a few minute on flows and that's on Page 8. So we did see solid demand for both active and passive capabilities during the quarter. And as many of you know, we completed the acquisition of Source ETF business in August. Source has contributed to net inflows since that - since the close of the acquisition and it is going to continue to be a meaningful addition to our ETF business and our competitive positioning in EMEA and the greater ETF business globally.

If you take a look at the active capabilities, growth sales and net flows were the strongest since third quarter of 2016. We saw solid flows with taxable fixed income and international equities as well as alternative capabilities. Taking a look at passive, we also saw a strong close in the fixed income commodity currency in international equity, so literally by both active and passive you saw a very broad set of capabilities being in demand by clients.

Taking a look at both retail and institutional channels during the quarter on Slide 9, again very strong, again on both channels as you will note. And as an example, this was the 5th consecutive quarter we saw net positive flows in EMEA which are driven by nearly $3 billion of cross border retail flows and strong institutional demand.

And given that markets continue to test new highs, demand for risk mitigating strategies remain strong, particularly among institutional investors and the pipeline of one but not funded institutional mandates also continues to grow and remain very robust.

We did see a strong closing to global targeted return led by institutional investors as you would imagine and we also saw solid flows into European equities taxable fixed income and fixed income ETFs.

So let's spend a couple of minutes putting context around the acquisition of Guggenheim investments. And I'm on Page 11 if you have to be following. So as we have made very, very clear, we are intensely focused on helping clients achieve their investment objectives. And we built the entire firm with this notion in mind, the single focus on helping clients meet their needs.

And so as you would imagine, the investments that we make in the business are designed to position us ahead of client demand. And over the past decade, we continue to expand the comprehensive range of capabilities which has resulted in a very broad and deep set of active, passive and alternative strategies.

An example of this will be if you take a look at our factor investing capabilities, we have over $200 billion in factor capabilities and have 40 years of experience. It is a real strong, part of the organization and continues to grow and we expect that in the years to come.

We also have focused on enhancing our client experience and Jemstep is an example of that, which is our digital advice platform for advisors. The demand for the Jemstep application continues to be very strong and robust. And it's really our ability to draw on our comprehensive range of capabilities to provide solutions for our clients which really differentiates Invesco in the marketplace and positions us for long-term growth.

Turning to the Guggenheim acquisition, you know, the ETF business from Guggenheim. It really strengthens Invesco's global ETF platform while also accelerating our growth in the, you know, quarters and years ahead.

I would like to, you know, highlight a few of the elements of that on Page 12. The acquisition will expand the depth and breadth of Invesco's traditional and smart beta ETFs and further diversifying our offering while firmly placing us as the number two smart beta provider in the United States. We'll also provide additional scale that will strengthen our competitive position in the U.S. while enhancing our relevance in the growing ETF business marketplace globally.

Lastly, the acquisition brings scale benefits that will begin from our existing platform in investments, distributions and operations. And the addition, we'll also build from the momentum in ETF business to help drive further financial performance for Invesco. But that is a backdrop.

I'm going to turn it over to Dan and Dan is going to talk about our positioning and how Guggenheim ETF business will enhance that as we go forward. Dan?

Dan Draper: Thank you Marty. As we reviewed possible ETF acquisitions in the past, the Guggenheim ETF business is always stood out to us as the really complementary, you know, to Invesco, something that's been of interest to us for sometime.

So I think if you look at the business today and the ability to help us continued this global growth, you know, that Marty has talked about. The current franchise with Guggenheim's ETF business is about $37.3 billion in assets under management. About 60% of that crucially for us is in the - in smart beta products which I will, you know, go through in some more detail in a couple of further Slides.

Overall, they have 79 ETFs on the platform and their top five flagship products will help about half of those assets. If you look across their ability to help us as Marty mentioned, really to continue to build out our solutions capability. This acquisition brings us multi-asset class ETF capability across equities, fixed income and alternatives. Also looking, you know, at kind of pricing and margin very much inline with the - especially in the smart beta space.

If you look at the performance of the products, very strong performance around three quarters of their ETFs have Morningstar ratings of 3 or higher. And then I think also you just look at a very strong organic track record of - you know, on the platform seeing the compound annual growth rate of 26.5% over the past five years. And also we continued to currently see good flows. We've had net inflows across the platforms since we announced the transaction, you know, few weeks ago.

If you're following on the presentation moving to Slide 14, this is really where the addition - and I'll get into some of the additional products where a lot of the synergies come in. So if you look at Invesco's global ETF platform, you know, with the high focus we have on smart beta and factor investing, this is really where Guggenheim has had one of the flagship ETF products in smart beta for a number of years and that's the S&P 500 Equal Weight. So again, this will give us a leadership position in that category.

Equal Weight is one of the simplest, but quite openly one of the most effective smart beta strategies. And we've been very interested in getting this S&P 500 Equal Weight exposure really for quite sometime, but additional licenses were not available. Therefore this is going to be we think very, very complementary.

Alongside equal weighting, you were also going to have the pure style ETFs which again very complementary to our factor capabilities. And then we think in fixed income where today PowerShares offers the third most fixed income ETFs in the industry, the BulletShares is extremely important to us. These are defined maturity products and they're also able to utilize self-indexing.

And we want to, you know, continue that, but also leadership positions where we went first to market in fixed income areas like senior bank loan and others. We believe this is going to be extremely powerful and allow the ETF business at Invesco to partner even closer to Invesco's fixed income team. Also, you have additional leading currency shares products, you know, that are listed there.

If we move ahead to Slide 15, again we feel that this acquisition is going to be very, very strong for us to leverage at Invesco. Particularly a number of key factors that we think where we can actually help accelerate the already fast growth of the Guggenheim ETF franchise, notably looking at our distribution capabilities really around the world that Invesco is able to offer.

Also, Marty had mentioned the solution's capability which is one of Invesco's biggest organic growth focuses at the moment, our ability to bring additional capabilities, customized solutions particularly in the form of model portfolios, we really feel like these Guggenheim products will fit in very well there.

Also Invesco's very well-known consulting business, the ability to educate clients again around asset allocation and the utilization of important vehicles like ETFs. And increasingly as we have more of those clients really looking to access our solutions digitally, this is where again we see a lot of potential synergies through these new ETFs throughout Jemstep platform.

Overall, we continue to see the very strong secular growth in fixed income ETFs. We believe that many investors who previously didn't really look at ETFs particularly in some institutional segments are really starting to see the benefit of the (wrapper), the ability to have a single ticker, a single icing solution for rebalancing our portfolios as individual bonds. And in particular we think again having the maturity to find our BulletShares line up to be, you know, much, much better, you know, for us to be able to engage with those types of clients.

Also looking at the ability to manage the total cost of an ETF, we believe bringing our world-class capabilities in capital markets working with a lot of the sales side firms, but again we're going to be able to bring down value, you know, through the acquisition. And overall, if you just look at the 40 years of factor experience that Invesco has built and then also the 15 years of experience, particularly in smart beta ETFs, again we see this is extremely complementary in terms of the acquisition.

Looking ahead to Slide 16, I just wanted to emphasize here. We continued to talk about the real importance of first mover advantage in the ETF space and here is just a quick line up of really where the (property) of PowerShares business has been of the pioneer in getting first to market across some really important categories including our senior bank loan ETF are looking at low volatility, bringing the FTSE RAFI range into market over a decade ago, sobering debt, looking at high dividend, low-volatility alternative areas like commodities, looking at innovations like variable-rate preferred and et cetera.

So I think for us to have the strong track record and layering in a lot of the pioneering ETF such as the S&P 500 Equal Weight from Guggenheim, I think it just demonstrates I think the type of innovation that we've built and really what Guggenheim is going to add, you know, even more to that. I think more demonstration is showing the $25 billion of net assets that we've actually raised from these products, you know, since 2011 which is the third highest in the industry. So I think the ability for us to continue to build going forward and really add innovation to clients is going to be a crucial synergy in this ETF.

We also continue to believe that the barriers to entry while they maybe low, we do think the barriers to success remain very, very high. Having first mover advantage, having legacy, having track record as well as a very strong brand, we believe, you know, are absolutely crucial to investors. And as I point out on Slide 17, you could see that since 2010 or I should say 98% of the U.S. ETF industry's AUM does belong to issuers who entered the market in 2010 or before.

On a comparable metric, 96% of industry flows over the past 12 months, also have gone to issuers who've been in the market since at least 2010. And then as we go to, you know, our targeted segment area which is smart beta, you see a very, very same similar story where 94% of the smart beta AUM again belongs to issuers with track records in 2010 or prior and again net flows of 74% over the same time period.

And as you move to Slide 18, I think it really shows again our core focus around smart beta and factors. And this acquisition is going to help us increase - incrementally increase our market position there by 46% and actually puts just under 20% of market share in smart beta. But importantly having the largest number of products in that category with the longest track record of being able to offer again multi-asset class solutions, equities, fixed income alternatives, you know, 70% of those ETFs having more than a five-year worth of track record that we believe position us very well for growth in this really fast moving smart beta segment.

So with that, I will turn it back over to Loren Starr who is going to highlight the operating results for the quarter. Loren?

Loren Starr: Thank you very much Dan. So quarter-over-quarter, you will see that our total AUM increased $59.2 billion or 6.9% and that was driven by the acquisition of source ETFs which added $26 billion including approximately $18 billion of Source-managed AUM and $8 billion of externally managed AUM.

We also benefited from market gains of $15 billion. We had long-term net inflows of $6.3 billion, positive FX translation of $6.7 billion and inflows into our money market's capability of $5.4 billion. And these factors were somewhat offset by a small outflow from the QQQs of $0.2 billion. Average AUM for the third quarter was $890.8 billion, up 4.9% versus the second quarter. And our annualized long-term organic growth in Q3 came in at 3.4% compared to negative 0.3 in the second quarter.

Before turning to net revenue yield, I just wanted to highlight one quick update on a change this quarter and how our long-term inflows are being reported. In previous periods, any dividends or capital gains that were reinvested in the funds were included in the market gains and losses line item. So beginning in the third quarter and for future periods, these flows will now be included within our long-term inflows to conform Invesco's flow reporting with general industry practices.

And you also note from the footnote on Slide 20, the amount included in the long-term inflows related to this particular item was $1.1 billion.

So let’s now next turn to the net revenue yield analysis. You’ll see that our net revenue yields came in at 43.9 basis points and our net revenue yield excluding performance fees was 41.9 basis points. That was an increase of 0.1 basis points over the second quarter. Now looking at what the causes were, we had sold one additional day in Q3 that added 0.4 basis points. And we also saw the positive impact of FX in mix added 0.2 basis points. So these positive factors are then somewhat offsets by the dilutive impact of the source ETF business as we discussed in last quarter which reduced our yield by 0.4 basis points. And we also saw a decrease in other revenues which reduce to the yield by 0.1 basis points.

So next on Slide 21 is our U.S. GAAP presentation. My comments today however are going to focus exclusively on the variances related to our non-GAAP presentation adjusted measures which are found on Slide 22.

Net revenues increased by $70.3 million or 7.8% to $976.6 million which included a positive FX rate impact of $13.4 million. Within that net revenue number, you’ll see that our adjusted investment management fees increased by $54 million or 5.3% to $1.08 billion and that reflects our average - higher average AUM an additional day during the Q3 as well as incremental management fees from the acquisition Source. Foreign exchange increased our adjusted investment management fees by $16.2 million.

Adjusted service and distribution revenues increased by $6.3 million or 3%, reflecting higher average AUM in the quarter and FX increased our adjusted service and distribution revenues by $0.5 million. Adjusted performance fees came in at a much higher level obviously, $43.3 million in Q3 and they were earned by a variety of investment capabilities, but most notably $37 million from Invesco's mortgage recovery fund. Our FX increased adjusted performance fees by $0.2 million in the quarter.

The adjusted other revenues in the third quarter were $16.7 million and that was a decrease of $0.6 million from the prior quarter. Our FX impact on - just for the revenues was $0.2 million positive.

And next, third-party distribution service and advisory expense which we net against gross revenues that increased by $14.7 million or 4% and that's consistent with increased revenues drive from the related retail AUM and the additional day in the quarter. FX increased our adjusted third-party distribution service and advisory expenses by $3.7 million.

So now, let's move to expenses. As you move down the Slide, you'll see that adjusted operating expenses at $579.2 million, increased $29.4 million or 5.3% relative to Q2. FX increased our adjusted operating expenses by $7.3 million during the quarter. The adjusted employee compensation came in at $383.9 million. That was an increase of $23.3 million or 6.5%. This is driven by higher variable compensation primarily related to performance fees and as well, a $5.5 million non-cash charge related to the company's UK defined benefit plan. FX increased adjusted employee compensation by $5 million.

The adjusted marketing expenses in Q3 increased slightly to $5.4 million, 1.3% up to $30.1 million inline with the guidance that we provided last quarter. Our FX increased our adjusted marketing expense by $0.5 million.

The adjusted property office in tech expenses came in at $93.7 million, that was an increase of $5 million or 5.6% over the second quarter and this reflected increased depreciation cost on long-term projects that were recently brought into service. FX increased the adjusted property office in tech by $0.9 million.

Next, on to G&A, the adjusted G&A expense came in at $71.5 million, that was an increase of $0.7 million or 1% up inline with the guidance that we provided last quarter. FX increased G&A by $0.9 million.

And then going on down the Page, you'll see that our adjusted non-operating income increased $1.5 million compared with Q2 and that was driven by increases in earnings from our real estate investments that was somewhat offset by lower earnings from our private equity investments.

And then moving to tax, the tax rate, effective tax rate on pretax adjusted net income in Q3 came in at 27.6%, a little bit higher than guidance. We do believe going forward that our tax rate should drop to again roughly 27%.

That brings us to our adjusted EPS of $0.71 and adjusted net operating margin of 40.7%. So let me just quickly touch on business optimization. This is an ongoing multiyear kind of effort as you've heard. Given the opportunity on a number of initiatives including those around outsourcing or back office functions, we expect the optimization work to actually exceed our original target.

For run rate savings, we've achieved a run rate savings in Q3 of $38 million and we expect to deliver an additional savings by the end of 2018 of a total run rate savings of about $65 million which is up.

And then finally, because I know we'll get question, we'll just address it. Quarter-to-date, net flows through October roughly flat. We do continue to see very strong net inflows from Europe as well as from Asia Pacific. These were somewhat offset by outflows in the U.S. on the institutional side, largely quant, as well as some sub-advised U.S. retail early days. Since October, we are obviously feeling very good about the flow picture. Marty mentioned a robust pipeline, so again we think the trend is going to continue.

And with that, I will turn it over to Marty.

Marty Flanagan: Operator, so we'll open up to Q&A please.

Coordinator: Thank you. At this time if you would like to ask an audio question, please press star followed by the 1. You will be announced prior to asking your question. Please pickup your handset when asking your question. And to withdraw your request, please press star followed by the 2. One moment for the first question.

Our first question is from Mr. Brennan Hawken from UBS. Sir, your line is open.

Brennan Hawken: Yes, hi. Thanks for taking the question. I was wondering if you could maybe comment on an updated view on the impact they said - given the adjustment in applying via for the RPAs. And I know it's really, really short notice, but we did get a no action letter out of the SEC this morning. Do you have any early reads on that and what kind of relief that might apply?

Marty Flanagan: Let me make a - this is Marty, I'll make a couple of comments and Loren can chime in. So, you know, it clearly is a moving target at the moment. We know where the end state is going to be. So from our perspective in Europe, the financial impact will be very manageable.

The U.S., the early read is it looks like it's contained a MiFID topic to Europe, but that's - you know, it's a 30-month review, so we'll have to see what happens there. But I take it back to a bigger topic. I mean it is an industry topic. I do think the notion of paying attention to impact on capital markets has been missed in Europe. This will have a negative impact clearly on liquidity around small cap stocks, mid cap stocks which is not a good thing. So hopefully, the U.S. will think of capital markets impact in capital formation around this topic.

And I would also say what it does is firms like us were financially very strong. We have 700 analysts throughout the world. We have every resource necessary to ensure that our analysts have everything they need. It will continue to put firms like us in a competitive advantage to smaller firms. It's just a real challenge, you know, the onslaught of ongoing regulatory cost and cyber cost, et cetera, et cetera on smaller firms. So, you know, as this evolves, again, firms like us will just end up in a competitively stronger position going forward.

Loren Starr: Yes. In terms of quantifying, I think it's a very much moving target in terms of what the impact is. I mean I think we've sort of indicated it was not material, you know, maybe 10s of millions kind of without negotiations really taking place around the pricing. All that is sort of happiness as we speak and therefore, you know, you'll have a clear view as we sort of get into 2018.

But I do think even as we get through 2018, you know, it's going to be a moving target, because there is no expectation of setting, you know, sort of one price in the last - you know, it's locked in, I think it's going to be an evolving topic overtime.

Brennan Hawken: Sure. You know, that's all very fair. And then from follow-up, you know, you made reference to the fact that this is going to of course disadvantage some of the smaller firms in Europe. I guess, do you think that's going to lead to opportunities for acquisitions as you see some of the smaller firms come under more and more pressure. And also more broadly, after - now that you've completed two smart beta ETF deals, should we assume that you would have continued appetite in that space or do you feel as though you're associated at this point? Thanks.

Marty Flanagan: Yes. I think I'd answer the question this way. Yes, our strategy, you know, continues to be no different than in the past. And, you know, our first effort organically is to focus organically in organic investments. And we would then approach inorganically when we see an opportunity or a gap in - you know, somewhere in the lineup. We see very few gaps within the organization right now, you know, regardless of investment capability or some of these platforms. The last two ETF acquisitions really put us in a very, very strong spot in the ETF market. And in particular, factor and smart beta where we think there is the greatest value for our clients at the end of the day.

We all have been talking about the impact of the changing dynamic, it is just the fact that it is your smaller money manager anywhere in the world there is - you have pressures that are at a level that you've never seen before. And, you know, commonsense would lead you to believe that there should be more combinations that continue to be complicated to do, because the fiduciary nature of the business is in the people that are involved, et cetera, et cetera.

So there will be more. You know, the pace is probably slower than what people have thought, but you could also see quite frankly organic growth for the more competitive firms pickup at the expense of, you know, smaller firms quite frankly.

Brennan Hawken: Well that's fair and helpful color, thanks Marty.

Marty Flanagan: Thank you.

Coordinator: Thank you. Our next question is from Mr. Bill Katz from Citigroup. Sir your line is open, you may begin.

Bill Katz: Okay, thanks very much. I did join a few minutes early - late, excuse, it's been a busy morning. So I apologize if this is redundant. Loren, I was wondering if you could tie together your commentary that you're running a little bit head on the optimization with the pro forma impact of the margin contribution from Guggenheim Investment spend MiFID and all that. How are you sort of thinking about the incremental margin both for '18 and '19 versus where we were at this time last quarter?

Loren Starr: It's a good question Bill. So we certainly had indicated on the last call that the Guggenheim impact itself was probably going to add, you know, 10 percentage points to our incremental margin. That's a very positive thing to the original guidance that we provided which was in that 40%, 50% range. We've also benefited from stronger markets which has been helpful. Foreign exchange has generally been a positive impact as well.

The MiFID II quantification as I mentioned is a moving target and so at this point I think we'll be hesitant to sort of give real numbers around that. You know, if we gave you the worst case, it will be, you know, probably a reasonable offset to some of the good things we were just talking about. We're hopeful it's not going to be that case.

So, our thought is that we'll be in a better position as we get into year end and maybe the next call or the one after that to provide much more solid guidance around incremental margins. But I'd say the overall trend to incremental margin has been more positive than negative for sure, relative to that original guidance.

Bill Katz: Okay. That's helpful. And then just little surprised by your flow commentary for the quarter. Could you maybe peel that back a little bit and talk a little bit about maybe active versus passive and maybe go around the regions in a little bit more depth, some of your peers a little bit more robustness. And just given your product mix and your repositioning, I would have thought you'd be a little bit better, all else being equal. So where you're seeing the weakness versus some of the strength?

Loren Starr: You're talking about the more October, right?

Bill Katz: Correct.

Loren Starr: Okay, so again…

Bill Katz: Well, I thought I heard flat quarter there.

Loren Starr: …it's a partial month. So again I won't read too much into it and I was hesitant to even talk about it, but I know if I didn't, people would misread. We've actually seen very good strength into - you know, Europe, I think we're about, you know, $1.2 billion of flows just coming into EMEA on a long-term basis. We've also seen very solid long-term flows in to Asia Pac.

So again the - you know, where is it coming in Europe, it's a same element that have been flowing before well across the wide range Pan-European equity, corporate bond, GTR, all very, very helpful.

Institutional pipeline in Europe is the highest it's been I think ever and so they've had, you know, really great success and so we think that is an accelerating positive thing.

Asia again had a little bit of a slowdown as we mentioned earlier, but they seem to be better recovering from that into the third quarter. The U.S. in particular were just a little bit lumpy. So I talked about sub-advise, so there was, you know, sub-advised termination that was kind of lumpy as one, sub-advised client went to index as, you know, we're seeing that happen a few times. So that's, you know, sort of episodic, not a trend I would say.

And then quant, you know, we're seeing some outflow on quant in the U.S., but that's been offset by quant inflows elsewhere. So again, I think it's really just two soon a timeframe to really draw a conclusion about anything. And so as I said we're pretty optimistic about the full picture into Q4.

Bill Katz: Okay, thank you guys.

Loren Starr: Yes.

Coordinator: Thank you. Our next question is from Mr. Craig Siegenthaler from Credit Suisse. Sir, your line is open.

Craig Siegenthaler: Thanks, good morning.

Loren Starr: Hey, good morning.

Craig Siegenthaler: You guys have completed two acquisitions in a pretty short period of time. I'm just wondering, you know, are you still looking at building scale in the ETF space via M&A? And are there other capabilities you'd like to add maybe in the technology or alternative space?

Marty Flanagan: You know, as I just mentioned a minute ago, I - you know, we feel that, you know, the combination of both Source and Guggenheim put us in a very, very strong spot and we don't see, you know, many gaps. And as Dan talked about, if you look at, you know, the number of ETFs that we have and really important, our long-term track record really position us, you know, quite uniquely.

And so the platform is very strong, very robust and our ability to, you know, product develop and off that in response to client needs is very strong. And it does go back to this heritage of, you know, 40 years of, you know, factor capability and applying that to some of the work that, you know, Dan and the team does in product development. So we don't see a, you know, much of, you know, a need to continue to participate in that market. If something obvious comes up, we pay attention as we always do. But it doesn't seem likely from that perspective.

I did mention around technology like, earlier Jemstep continues to be - you know, the demand for the Jemstep product is very, very strong. We will start to see probably impact in the middle of next year, because their long-duration, you know, installations as all applications are, it will very, very supportive of our solution's business, our model business. And as I've said right now we would estimate that later part of the next year, we'll probably be working with 20,000 financial advisers in United States that we have not before. So that's the early indication of, you know, what's possible in time.

And, you know, we continue to invest, you know, strongly in technology with things like predictive analytics and big data for our research teams, et cetera, et cetera. So we look at that as more, you know, continued evolution of use of technology than anything else. It's, you know, core to what we do and we'll continue to do that.

Can I just add? Dan, would you add anything to that?

Dan Draper: No Marty, I think that's absolutely right.

Craig Siegenthaler: Thanks Marty. And then just as a follow-up on a pricing, there really hasn't been much fee pressure across your business as you look at the fee rate this year. And I think a lot of us were concerned that it could be a difficult year for fees given the DOL role. How do you think about product pricing? When will you consider reducing pricing? And have you been, you know, tweaking breakpoints to some of your products over the last year?

Marty Flanagan: Yes. So look, it all starts by why is there not pressure because we're priced fairly and I think that's really, you know, the way to think about it if you, you know, are delivering the results that you would expect at a competitive, you know, rate you're going to do well. And I think the way to think about it is, you know, just sort of a matching, you know, a continuum of investment capabilities. In the one hand, you have, you know, cap weighted indexes. You don't get very much form. They're an important tool in the toolbox, but you don't pay much. You know, by definition, there is no alpha generation.

If you go to active, you're going to expect more alpha and out performance of the fees will follow that and they will be higher than that end. You know, in between the two will be factor and at the highest in alternatives. And so it makes sense that the more alpha you expect, the more you will be willing to pay a fair fee and that's how we think about pricing, you know, as an institution. And I think it resonates with clients, but it is just clarity of what clients are trying to expect and, you know, any firm's ability to, you know, meet that performance result over a market cycle which is very important.

Craig Siegenthaler: Thank you guys, thanks Marty.

Coordinator: Thank you. Our next question is from Mr. Glenn Schorr from Evercore ISI. Sir, your line is open.

Glenn Schorr: All right, thanks.

Loren Starr: Hi Glenn.

Glenn Schorr: Hello there. Just a further question on Guggenheim side, so I get - and like the BulletShares, the pure style of the current ETFs and a lot of those products, and it's just a question on pricing on the equal weight side. There is plenty of people that feel like it's not a race to actually zero, but that there is constant price pressure on that side. So I'm just curious on how you get comfortable with the recent price adjustment as the right price for now? And I will ask a follow-up if I could.

Marty Flanagan: Yes. Dan, do you want to take that?

Dan Draper: Yes, sure. This is just a state upfront that obviously the two businesses has - they're under regulatory review continued to operate separately. So kind of any pricing discussion adjustments on the Guggenheim side, that's really done by - there's executives in their fund board, so we're not involved in that at this stage. But that said, if you look since the price adjustment was made in RSP which is that ETF we mentioned, there has been a positive response and the net inflows into the product.

But I'd say overall if you're thinking about "pricing", you know, we feel very strongly that you have to think about pricing in a broader context. 1, you know, outside of pricing is performance, particularly more sophisticated if you will institutional like clients always start with performance. And while index is or ETFs may found similar, quite openly, the actual differences in index construction methodology rebalancing can lead to, you know, substantial differences. So as we always do with clients, we start with performance first.

Secondly, then when you get to cost, there are couple of different areas of cost. You know, first move really to the entry and exit cost of an ETF i.e., liquidity and being able to work with our sales side partners to make sure there is a lot of liquidity. And I think that's where the first mover advantage, the scale, everything we've emphasized is crucial, because you really - it takes time to build the ecosystem. And as the AUM grows, the liquidity becomes, you know, really enhanced.

And I think third - the other area of cost focus is obviously annual management fee. And I think this is where not just within ETFs, but across Invesco, you know, we're very diligent, always monitoring trends and, you know, making adjustments, you know, were possible. But I think, you know, looking in total that's where the ability for us would especially those clients who look at asset allocation, look at solutions, those diversification benefits we have in the products around performance and risk, this is where we're excited.

And then I think we also feel we're going to bring a little bit of enhancement we hope around capital markets and the liquidity. I think clearly we'll continue to monitor pricing. But right now, you know, we think we're in a good place and we're obviously excited especially with the adjustment in the Equal Weight S&P 500 to really see a positive response from clients thus far.

Glenn Schorr: I appreciate that. A little quickie on the equity side, it could be a super short timeframe, but if I did the math right, it feels like equities might have flipped back into inflow in September for the first time in a long time. I don't know if that's the great performance at equity income, I don't know if it's something we can count on, but curious, your thoughts on the equity side.

Loren Starr: Glenn, yes. I think you're probably picking up something that we are seeing which is, you know, certainly a continued interest in a fair amount of our equity. If you're talking about in the U.S, it's probably going to be more on the, you know, PowerShares side than necessarily our value capability. And then in Europe, absolutely the case and we're also seeing that in Asia as well. So, you know, I think the interest in equity is, you know, seeing a little bit stronger globally and perhaps most - in terms of the active, most strong outside the U.S.

Marty Flanagan: You know, again, you know, I would just add, you know, you're hitting on a specific topic, but there is something broader here. So it has been a very unique period of time since 2009 and, you know, we feel very strongly that this is a very important role for active investment management. You know, clients cannot hit the return objectives and manage their risk without the use of active and it's really a combination of passive, active and alternative, that's how you create the best portfolios. And, you know, in these markets, when it starts to turn like that, hopefully people will pay attention to it.

Glenn Schorr: All right, thanks.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question is from Mr. Michael Carrier from Bank of America Merrill Lynch. Sir, your line is open.

Michael Carrier: All right, thanks guys, good morning. You know, when I look at Asia and Europe, you know, you pretty consistently, you know, have had healthy growth, you know, in those markets. In the U.S., you know, obviously it's been, you know, more challenging. You know, when I look at, you know, over the next couple of years given what you're doing, you know, on the ETF side, on the technology side, it seems like the retail part of the market, you know, you should have more momentum.

So I just want to kind of get your take on, you know, how much can that offset some of the core industry pressures, you know, that we're seeing going, you know, from active to passive? And then in the institution side, it seems like it's still been healthy, a little bit, you know, spotty from time-to-time. But just where you're seeing demand, you know, from the U.S. institutions, you know, across the product offering?

Marty Flanagan: Yes. So look, the U.S. is probably, you know, market is probably going through the most changes, but on the - in the retail market in particular, you know, as providers are changing how they're, you know, reforming their businesses, you know, it is, you know, a period of change.

I think the important thing is, this - the assets to manage are not going to go away and so it's a transition period. And it is those firms we believe are one that have the broad range of capabilities to create performing products and this range of active, passive, alternatives. Those are the winners. And so we think we're positioned very, very well.

What are the some of the headwinds that Loren has talked about, you know, so UITs and some of the movements, you know, with the insurance company in the sub-advise, you know, those are, you know, headwinds in the - what you want to call, the intermediate term. But, you know, we look out in the next, you know, year and a half or so some very strong things, you know, heading our way. And again, we've been talking about the solutions capability as real, it's meaningful for us. We're uniquely placed and be able to do that. Jemstep is an important tool, for our distribution partners it's a very important tool along the way.

And as Loren started to mention, the institutional capability region-by-region is probably as strong as it's ever been and that would include the U.S. The U.S. has had - in the - probably behind Asia and Europe in its development for us. We feel very good about the team there. And the same thing we're seeing in one but not funded is growing, you know, quite materially. So we look at the U.S. as a very important part of our business and the opportunities are material. And we think we're managing to, you know, where we see the client needs are.

Loren Starr: Yes. And in terms of the U.S. clients, I mean I think it's around the normal things we see in the past, real estate will be a big continued draw. We certainly see it continue just in some of our fixed income capabilities including stable value, multi-asset capabilities as well and then increasingly, you know, GTR type offering has been of interest. It's a - you know, it's only a third - at least a minimum of third of our pipeline is coming from the U.S. and the rest from Europe and Asia.

Michael Carrier: Okay, and then just - Loren, just a quick follow-up on the P&L. So just anything - it seem like the expense lines were fairly normal, you know, excomp because of the performance of these and then just the performance of the outlook. I guess given which products have performances and given how strong, you know, the backdrop has been, you know, any indication just going forward in terms of what to expect or, you know, any nuances whether it's fourth quarter going into '18?

Loren Starr: Mike, you know, how good I am at forecasting performance fees. So yes, I mean I think the, you know, performance has been quite good on the alternative side. The idea that we may continue to see some good performance fees into 2018 is something we would certainly support and offer up.

In terms of the actual guidance and when they hit very, very hard for us to really nail that down. You know, I think obviously this one very large performance fee coming from the mortgage recovery fund I would say is a little bit unique and unusual and isn't something I would necessarily say, you know, is going to happen again with certainty into 2018. But real estate bank loans, you know, continue to offer performance fees as does, you know, some of the private equity offerings that we have as well.

So I think, you know, the level of performance fee is maybe X, what we've seen in this particular mortgage recovery is certainly something you should build into the thinking for next year and into Q4. Again, I just don't have a line of sight that I can offer with great certainty other than sort of 5 - I think we said $5 million to $7 million is kind of the guidance. And I know it's not helpful, but that's what I would offer again for Q4.

Marty Flanagan: And I just might come back to your bigger questions and put in, you know, context of beyond the quarter. I mean if you go back, you know, as a firm we've been in net inflows since 2009 in total. And if you look at the strength of the organization by, if you look at close by region, it has always rotated. You know, 2009, UK was the leader, ‘10, ‘11, ‘12, the U.S. was the leader, ‘14, ‘15 Europe was, last year Asia, back to Europe. It’s a fundamental strength of the firm. And, you know, you’re starting to see it now with the organic growth rate, you know, above 3 and, you know, again the market sort of - you know, without a shock to the market, we anticipate - you know, we see it growing and so you’re seeing evidence of it, you know, this quarter.

Michael Carrier: It’s helpful. All right, thanks a lot.

Loren Starr: Thank you Michael.

Coordinator: Thank you. Our next question is from Mr. Ken Worthington from J.P. Morgan. Sir, your line is open.

Ken Worthington: Hi, good morning. My question is on ETF distribution. So can you talk about your expectations for how ETF distribution evolves and maybe how access to ETF distribution evolves particularly in the U.S. and Europe? It’s been sort of interesting to see Vanguard eliminated from a number of the platforms based seemly due to its unwillingness to pay platform fees. So talk about the evolution of payment for shelf space in ETFs either directly or indirectly in the context of DOL rules, RDR, MiFID, so a lot of rule changes. And is there any extent to which having an active platform really helps secure or maybe even subsidizes distribution for ETFs? Thanks.

Marty Flanagan: Let me take the last part of the question and maybe Dan can pickup and Loren. So, you know, our basic view has not changed, right. You know, we really believe strongly what our clients looking for and think of, you know, intermediary clients, whether it’ll be a, you know, distribution platform or a consultant or a large institution around the world. A firm that has the depth of capabilities is much more attractive to those firms, because it's easier to work with firms that way and the more you can get from firms like ourselves where it will be top of your ship or, you know, client experience that's, you know, differentiated.

And so where they fix you is, there is no question in my mind that as these - as the business evolves, those that have a range of active, passive and alternatives are uniquely placed and it does reinforce, you know, the ongoing success, distribution success of an organization.

Dan, do you wanted to pick up on your thoughts maybe in the ETF revolving landscape distribution?

Dan Draper: Yes. You know, thank you very much Marty. You know, look I think it's a great question. Let me just start from the top. I think if you look at kind of global regulations whether it's DOL, you know, MiFID II in Europe, you previously had retail distribution here in the UK. I think all of those has clearly been kind of net positives for ETFs for different reasons.

As you look at distribution, I think it's really important to kind of separate out the U.S. market from say, Europe and EMEA. In particular the U.S. is heavily and always has been dominated by the wealth management intermediary space, particularly areas like RIAs. But what we've now seen is, you know, with DOL in particularly in the U.S., you know, the stronger focus by many segments like the wirehouses for example, as the focus on more advisory accounts fee-based moving there.

And I think that's where investor's longstanding stream of covering those clients, you know, those home offices and having access, I think the ability to educate, position our products in those areas has more advisory business grows, not just wires, but, you know, IBDs and other areas that we see, that's a huge advantage to be able to leverage those long-term relationships.

I think overall in the U.S., we continue to see as Marty said, you know, the portfolio model builders and others in this new fee-based world really focus on combining the best of active, passive and alternatives. So there is a huge amount to leverage and I think that we're obviously in the midst of adapting and working that way at Invesco.

If you move to Europe, Europe is very different. Europe, I would estimate, probably has over 80% of the current demand for ETFs in the institutional space. Now, by definition, we would include like discretionary portfolios of private banks in that institutional definition. But that's why scale is absolutely crucial in Europe.

You have yet to see broad based retail demand emerge for ETFs in Europe. I think MiFID II quite clearly with a lot of the focus on transparency of fees, but particularly for ETFs, ETFs were actually omitted from the original MiFID. By including ETFs, this is actually a big advantage. You're actually going to have the requirement now for market makers to have pre and post-trade reporting for example of ETFs.

So a lot more transparency around the liquidity which is an important building block step to eventually getting bigger retail demand in Europe. So we think that's positive, but I think that's where the crucial step for us to buy Source to really get the bigger platform, because these bigger institutional investors in Europe, they have concentration limits normally. They need to have bigger ETFs, bigger platform, bigger scale before they can engage with the provider. So hopefully that helps with that overview.

Ken Worthington: Okay, great. Thank you very much.

Coordinator: Thank you. Our next question is from Mr. Alex Blostein from Goldman Sachs. Sir, your line is open.

Alex Blostein: Great. Hi, good morning everybody. Marty, question for you guys around Jemstep. It seems like it remains a pretty big source of investments for you guys. You know, your increased headcount there substantially and Guggenheim I guess as supposed to further kind of enhance growth profile there. Can you help us better understand and really kind of track the progress you guys are making in that platform?

I heard you say earlier 20,000 FAs and that's obviously a lot of access. But anything with respect to assets that those FAs have that could come on to the platform, what percentage of those you hope to get, you know, Invesco product and, you know, where that could go sort of overtime and when the platform is ultimately supposed to break profitability? It seems like an important element here without a ton of color yet.

Marty Flanagan: Yes. No, that's - and we've not colored it yet on purpose. So as we're, you know, moving through this from the standpoint of - again the demand is very high we are taking on clients. We are - as an organization do a much better job of telling you what the answers are as suppose to predicting. But here is what's happening. So you're seeing a pipeline that is, you know, growing very strong and the challenge is the lead time, it's a application installed. So I think six months to, you know, nine months for large institution, that's the tail. So you have to invest to get - you know, to have the application come online.

It is open platform and can use a range of capabilities ETFs for mutual funds. So it is a very attractive part of a digital strategy for a number of firms. And secondarily, it will be, you know, default models, you know, in those portfolios. And, you know, our - what we are seeing is more likely than not if you think of the relative market share of, you know, a firm like Invesco's model at a existing platform versus what could happen at a Jemstep. You could see materially different, you know, asset levels or market share of models on those portfolios.

So, we'll - we are anticipating an Investor Day first part of next year that we will give a much deeper communication of the strategy and where we are.

Alex Blostein: Got it, thanks for that. And then just wondering if you guys can give a bit of an update on GTR and sort of where things stand there, a big growth initiative that could drive outflows for you guys outside the U.S. I think in the U.S. things have been a little bit slower. I think the product has a three-year record, but I don't think it's been a big contributor to flows just yet. So maybe just speak to the reception and different channels of the product, what sort of have been the hurdles and what do you guys need to see to accelerate growth of GTR in the U.S.? Thanks.

Loren Starr: Yes. We've seen GTR really grow much more rapidly outside the U.S. and in U.S. right now. Although I'd say on the institutional side it's beginning to get rated and so we're actually quite hopeful that we're going to see growth maybe on the institutional side even faster than the retail side in the U.S.

The take on has been extremely robust as you know over the last year and plus. We are in the midst of launching new product GTI, which is the income oriented flavor of GTR in the UK and that's, you know, a fair amount of marketing is going to be put behind that effort in Q4 and we'd expect to see some take offs in performance has been good. Asia has really been the door that's opened much wider now in terms of using GTR and we're seeing some big wins in places like Australia and China in terms of the use of GTR.

On the retail side, I think the story around GTR around is still excellent, but it's not probably as well under - well known or understood as it is in the UK and I think generally, you know, we're seeing the product get through kind of the gatekeepers and get a better understanding of that. But it's still been slow which has generally been the case I'd say for alternatives offerings in retail. That, you know, we've sort of a slowdown of the take on the alternative retail product. And so I think that's somewhat consistent with an overall theme in the U.S. as oppose to a GTR specific story.

Marty Flanagan: And I think the reason for that is probably twofold. Some of the headwinds would have been, you know, what is the derivatives role, what was the impact on a product like that so the platforms were, you know, very cautious and slow to take it on. That was one of the headwinds. And then secondarily most of the platforms are focused on, you know, product rationalization at the moment, not product additions. And so again, two basic headwinds that are somewhat intertwined there. But again, we think it's a very, very strong, good capability and we anticipate in time, you know, we'll continue to have success in that space too.

Alex Blostein: Yes, it makes sense. Great, thanks guys.

Coordinator: Thank you. Our next question is from Mr. Dan Fannon from Jefferies. Sir, your line is open.

Dan Fannon: Thanks. Can you talk about the early traction with Source and kind of what they contributed to flows? You know, I know there was a link close for partial quarter. And then I guess from an integration perspective, can you talk about what you're doing with distribution, with the three brands now and how we should think about the sales effort? How that might change?

Loren Starr: Dan, do you want me - Draper, do you want me to handle the flow part and you can talk a little bit on the other aspect?

Dan Draper: Yes, that's great.

Loren Starr: Okay. So in terms of flows, it's been good. You know, probably not off the chart is good. I think they contributed about $0.5 million since in the last two months which is about 12% organic growth rate. I think the - there has been some, you know, degree of slow down just as the integration has been going forward and, you know, the repositioning of the brand and so forth is, you know, being contemplated.

There are a number of product launches that are in the pipeline which I think will help really sort of reboot the growth and the efforts there. So there is a lot of work that's being done right now to sort of improve the competitive positioning of the products in the line up and really sort of, you know, accelerate the growth opportunity around source. And certainly, some of the synergies that we, you know, haven't explicitly been talking about have taken place. And so I think in terms of the profitability of the business, as we originally said, it wasn't really making money at the beginning to sort of all come into play in a positive way.

So Dan, I don't know if you want to get in a little more explicit about kind of some of the things that are happening around repositioning of brand overall on a global basis.

Dan Draper: Yes. No, so I think just to state upfront, I think clearly the intention, you know, Invesco has one ETF business and I think it's going to be reflected, you know, through one brand. Certainly, it's - you know, Guggenheim for example, there clearly - Guggenheim Asset Management will remain in mutual funds, UTI and other areas, so that's probably the most apparent. So they're really keeping that name for the overall business. So they probably see a little bit more of a rapid transition. But again, we have kind of a longer lead time to closing in the next year on that.

The source obviously is strong brand within the space, but again, we're in the middle of transitioning that into 2018. They're currently co-branded having Source and PowerShares. But again, you'll see a single brand emerge from that in 2018.

I think overall, looking at how Source, the integration, and Source actually had quite a strong pipeline even going into the sales process. So they continue to execute well, you know, as Loren mentioned, net inflows since we announced and closed the deal on August 18. And those flows are fairly well diversified and the commodities has been strong for them this year picking up equities.

What we're really been focused on is on product development, that's where, you know, the product development pipeline in Europe had slowed a bit during the sales process with Source and particularly looking at fixed income. And we also - you know, we launched our first kind of joint or not joint, but the first product since the close a couple of weeks ago in preferreds. There was no preferred offering that we're able to take kind of our U.S. capability and launch it in the usage fund in Europe and that's gotten off to, you know, a really good start.

And I think you'll see it's continued to fill up the new product pipeline with fixed income being a headline. So I think really continued the momentum that Source has built with clients in Europe. I think getting more products to those clients is such a big priority and then just continual integration, you know, in larger Invesco and EMEA.

Dan Fannon: Great, that's helpful. And then Loren, can you - just looking at the balance sheet and thinking about capital return, you know, from a buyback perspective, you know, as you look into 2018, you know, how should we think about capital return?

Loren Starr: Dan, thanks for asking that question. Again, I think as we described related to the Guggenheim acquisition and similar to what we've done with respect to financing the source acquisition, we've curtailed the buyback program as we are building up cash right now in order to largely pay for, you know, the acquisition through the use of our credit facility and also through a spare of cash.

So our thought is to, you know, course of 2018, you know, we're going to curtail the buyback, continue to curtail the buyback, still being opportunistic if, you know, certain situations present themselves. But largely want to make sure that our leverage ratios are going to be by the end of 2018, you know, inline with where they are pre-Guggenheim acquisition. So, you know, I would say generally put in, you know, minimal if any in terms of the buyback expectations through the course of 2018 until those leverage ratios get back inline.

Dan Fannon: Great, thank you.

Loren Starr: Yes.

Coordinator: Thank you. Our next question is from Mr. Brian Bedell from Deutsche Bank. Sir, your line is open.

Brian Bedell: All right, great, thanks very much. A question for Loren in the short term and then a longer one for Marty. Just on the fourth quarter alone, I might have missed some of these, but did you gave - I don't know if you gave color on the non-comp expense outlook for fourth quarter? And then also what your overall fee - you know, your core fee rate ex-performance fees will be with a full quarter of source. And then also just on - I appreciate the $1 billion of dividend inclusion in total flows, but fourth quarter can be seasonably higher in that. I don't know if you have an outlook on that.

Loren Starr: I'd say - last part of your question, I didn't quite get the full thing. Let me get the first part and then you can just clarify the last one. So in terms of guidance, I think we're roughly inline with what we provided before. The only sort of deviation in guidance this quarter relative to last quarter with respect to compensation which was really due to some of the outside performance fee. So I think we originally sit around 370 and so that's roughly kind of where we would expect.

All the other elements are inline with what we prior year guided which again was, you know, if you need it was, adjusted marketing was, you know, $36 million to $38 million. We provide guidance on adjusted property office in tech of $92 million to $94 million and then G&A was in the range of $70 million to $73 million. So all that is kind of roughly inline borrowing some FX and other things, right, which obviously have a little bit of a inflation factor on those levels.

So that was kind of your first question. Can you just make sure I cover the other two?

Brian Bedell: Yes, just the - for fee rate now that we have the full quarter - Source for the fourth quarter.

Loren Starr: Yes. So I think we said the fee rate was going to - in the second half was going to be, you know, largely inline with the second quarter. Obviously it's slightly offside. There were some more money market in some other sort of passive lower fee of product growth coming into play. So I think, you know, sort of inline with current levels ex-performance fees is probably the right guidance for now.

Brian Bedell: The 41.9 basis points?

Loren Starr: Yes, exactly.

Brian Bedell: Okay. And then the longer term for Marty. On, you know, just I guess with the Precidian application and with the SEC sort of getting - you know, moving a little bit closer. I think, you know, like your comments last night, they were a little bit optimistic on that. Always tough to predict what the regulators are going to do.

But as you just - I guess broader thinking out, we have a little bit more broader, the - you know, Marty, what's your view on active non-transparent ETFs and if that does get approved, I think PowerShares is included in that application if I'm not mistaken. But if that does get approved, obviously a different angle then the factor-based strategy that you've embarked upon. But I mean what would your view be on the potential growth for non-transparent active ETF longer term for the industry?

Marty Flanagan: Yes, I'll make a comment, but then I'm going to ask Dan because Dan spent more time on it. Look, it's hard to predict. You know, at one level you could say - you could imagine a take up there. I just point to our experience where on the active ETFs that we launched now - I'm going to lose talk at time maybe eight years ago, there was no traction behind them at all. And so all we can point to is, you know, our experience, you know, historically.

But Dan, why don't you comment?

Dan Draper: Yes, thanks Marty. So yes, you know, I think, you know, we know Precidian very well. We had - we were included in an earlier filing as you're aware, the SEC they asked, you know, previously to kind of remove filing. So there is - you know, it did a couple of swings if you will at this in the past. We continue to monitor closely and we'll be remained engaged in those discussions. But I don't think we feel there is anything that's going to happen, you know, urgently in the development of that space. But clearly, I think (unintelligible) - sorry, the abilities for Invesco to participate in that if it evolves.

One thing I would point out though that if you do see non-transparent active evolved, you're still going to have the same kind of (financial) situation you have with active today where particularly some strategies are going to be capacity constrained, because it's really being driven seeking out for around security selection. So I think that's where you see the predominance of ETFs really coming more from an asset allocation and particularly the larger products which are much more scalable.

So absolutely, could there be demand, should we, if you will technology be approved? Yes. And we clearly will be participating in that. But I think the -

again the big growth in ETFs, in the large products that we see continue to be much more asset allocation focused. But quite frankly, the transparency is much more of a requirement and the ability to go out and build more scalable products. You know, that's the core of the range.

Again, we'll continue to monitor and engage, but again at this stage, you know, we don't really see, you know, the approval being eminent really in the short term. But again, we'll remain engaged and I think adjust to our business model if necessary.

One thing I would say though is that away from just the non-transparent active, we do see as we mentioned in the Guggenheim transaction self-indexing becoming a bigger, you know, part of our business. As Marty mentioned, we do active transparent, we obviously work with leading third-parties and I think really up for us to bring toward the self-indexing piece we think is probably more immediate growth opportunity that we're excited about.

Brian Bedell: Okay, that's great. Thank you.

Coordinator: Thank you. Our next question is from Mr. Chris Shutler from William Blair. Sir, your line is open.

Chris Shutler: Hi guys, two questions, first on the equal weighted ETFs at Guggenheim. Can you give us a sense of what percentage of those assets today are in the retail or advisor channel relative to institutional?

Marty Flanagan: Dan, do you know that much?

Dan Draper: Yes. I can't give a specific number. But I would say a high - very high percentage is going to be what we would call the wealth management intermediary space, particularly in the hands of RIAs and, you know, some of the other platforms, home offices, what have you. But a very high percentage is retail today.

Chris Shutler: Okay. And then secondly, different question. On the UK equity franchise, maybe just talk about, you know, they have great long-term performance, but the 1 and 3 year numbers are challenged. What are you seeing there from a flow standpoint and on retail and institutional? I think it's mainly a retail franchise, but just give us an update there, thanks.

Loren Starr: And Chris, it's actually quite benign. The full picture is no, we haven't seen accelerated outflows at all. Sales may have come down just a bit, but overall the levels of flows in that product and those products are as good as they've ever been in terms of history.

So I think people understand the rational, you know, Mark Barnett and his team, you know, having described their position and why they believe some of the holdings that they have are smart and are going to ultimately pan out. And so, you know, they've been through periods of underperformance in the past and have gone through that with, you know, significant out performance following it. So I think people are being patient and not sort of reacting on a short term basis.

Chris Shutler: Okay, thanks guys.

Coordinator: Thank you. Our next one is from Mr. Michael Cyprys from Morgan Stanley. Sir, your line is open.

Michael Cyprys: Hi, good morning, thanks for taking the question. Just wanted to circle back on some of the investments that you're making in the business, in particular on the institutional side if you can just update us on that front and how you see that business evolving over the next couple of years in terms of your positioning and some of the initiatives that you're putting in place?

Marty Flanagan: Yes, so, you know, a little bit of a repeat. So the way that we, you know, look at the business is, you know, first of all we have to have a set of capabilities that, you know, the institutional market wants. And so over the last decade, you know, that has developed very, very strongly. You know, a lot in the alternative area, lot in the fixed income area, strong performance, strong reputations. So that's the first, you know, critical building block of the whole thing.

Now with the leaders that we have in place in each of the three regions, I think they're some of the strongest leaders - they are absolutely strongest leaders we've ever had and I'd say they're some of the most talented people in the industry. And, you know, as Loren had spoke of, you know, the one but not funded pipeline globally has really never been higher and it continues to grow. So I would use that as a proof point. We would say that we're not where we want to be or need to be.

So we see it as a rapidly growing part of our business and it's beyond an aspiration that's actually happening right now. And, you know, I think we'll look back in three years from now and see it's - we've been a, you know, important contributor to our success as an organization.

Michael Cyprys: Okay, maybe just circling back on performance fees outside of private equity and outside of real estate and those sorts of alternative strategies. Can you just remind us how much AUM is subject to performances I guess in some of your more traditional strategies and how that's changed and evolved over the past couple of years? And then if you were to kind of look out over the next couple of years from here, how you see that evolving in particular with asset owners we're hearing seeking more performance fee structures, a better alignment? I'm just curious, any color you could share on that front.

Marty Flanagan: Yes, there is not - we don't have a large - if you look at the percentage of assets, they're not very large at all. And, you know, this topic of performance fees is, you know, there are vehicles where it makes sense, there are others where it does not. And, you know, you talk about alignment of interest and some of the things that are emerging, I think they do not align interest really at all. To get back to my comment earlier, I think what you really need to have a fair competitive fee and what you really want to do is hold the manager accountable to, you know, their investment philosophy and process and, you know, measure them over a period of time.

The issue with performance fees is that how does the misalignment come, because they are based on various measures that are based on where by calendar quarter or performing against an index or a benchmark and it almost always goes counter to what you want the portfolio managers do, want the organization to do. And, you know, the risk of the investment organizations you would hope not with making bad decisions because of the economics being so difficult and the downturn really I think is quite dangerous personally.

Loren Starr: So yes, I mean in terms of the trend, I don't think we're - a significant trend one way or the other in terms of the views, the performance fees. Certainly on the retail side, not, you know, I think on the institutional side as we continue to build out our capabilities that's probably growing inline with our overall institutional business. So we may see more performance fees just generally as we become more institutionally oriented. But I don't think it's something that has a philosophy where sort of say let's deliver more performance.

Marty Flanagan: No, and let me be clear. So I want to clarify the point that Loren is on. There are vehicles of strategies where it makes sense and, you know, whether it'll be in a number of the alternatives, in some private equity, in real estate, it makes sense. You get the alignment, it makes a lot of sense. We do that, it makes sense, very a supportive of it.

To me, it's this fulcrum fee notion that tends to happen in a retail environment that is really countercyclical typically to what you want to have happened. So thanks for, you know, the point there.

Michael Cyprys: Thank you.

Marty Flanagan: Yes.

Coordinator: Thank you. Our next question is from Mr. Kenneth Lee from RBC Capital Markets. Sir, your line is open.

Kenneth Lee: Thanks for taking my question. Just want to focus on the Guggenheim ETF business, from the earlier comment, it sounds like the business is mainly focused on the retail side. Maybe tell us more about the opportunity for expansion to institutional customers. You know, what would need to be done before you can start getting traction on that side?

Marty Flanagan: Dan, will you take that?

Dan Draper: Yes, sure. So I think just looking kind of legacy strength and focus on distribution, I think that's - you know, at Guggenheim that's where you've seen a lot of the strength in their success thus far. So I think as, you know, Mary and Loren, both have mentioned I think the growing strength of our institutional business at Invesco. I think this plays into that bigger wider distribution opportunity we have taking this business, you know, in-house. So I think frankly, getting more education I think particularly in fixed income.

So if you look at these BulletShare products, having a final maturity date on the ETF is very unique, having an open-ended fund file but with a final maturity. That allows for things such as asset liability matching which clearly plays very strongly in to the instrument space for example. So I would really kind of hope that we'll be able to particularly get in front of some of Invesco's strong insurance relationships with the BulletShares existing products, but perhaps even more importantly building new products for some of those.

And I don't want to limit that. I think the BulletShare also would have interest particularly with endowments, you know, smaller pension, other areas in institutional. So that's why we're really keen to look for additional kind of synergies through that.

I do think also if you look at the way that many institutions have been looking at factors really for decades or longer, for us to really introduce some of it's factor exposure in the ETF wrapper, so the wrapper maybe due to them, but helping again, educating with whitepapers, research, overall thought leadership to institutional clients we think is pretty exciting.

But I definitely put my finger on the fixed income BulletShares is the area that we have probably start with expanding and leveraging the institutional capabilities at Invesco.

Kenneth Lee: Great. And just a follow-up question on the ETF sales in Europe. It sounds as if post-MiFID II, there could be some material pick up in ETF retail sales due to the increased transparency. Will that be a fair statement or there some - still some additional structural changes better need in the European market before we see more rapid adoption of ETFs? Thanks.

Marty Flanagan: Dan?

Dan Draper: Yes. So I think the - you know, our view overall, if you look at growth trends, you know, we believe that, you know, overall AUM growth, that Europe is probably 7 to maybe 10 years behind where the U.S. was in that growth curve, but obviously growing quite rapidly.

You know, as we have mentioned, broad based retail demand is not yet present. I think with the MiFID II impact, we do think medium to long-term, it will be significant and ETFs will be a beneficiary. However short term, if you look at - there was a regulatory change in 2013 in the United Kingdom, so retail distribution review had an impact very similar with transparency, eliminating complex of interest for example in the certain product areas, ETFs did get a bit of a boost, but it was fairly modest. I think it continues to grow.

I think our expectation therefore for MiFID II is that this is a crucial cornerstone change. I think particularly improving the liquidity, on-screen liquidity of ETFs will hopefully sooner under MiFID II. As I mentioned, there were no requirements for market makers in Europe to put up pre and post-trade recording. So those indications are really important to encourage liquidity.

So I think if you get liquidity moving earlier then I think you'll get more confidence, more visibility for ETFs with retail investors and their advisors.

So just to manage expectations, we do think it's a medium to long-term very positive. But short term, based on kind of the RTR UK experience, it will probably be modest, you know, out of the gates. But we'll continue to monitor. But I think this is where again having the scale platform that has been built largely through institutional demand in Europe with the Source brand, that's really where when the retail demand does come, they're going to be looking for scale products, the liquidity with the track record.

And that's where everything that we're doing now with the distribution business and ETF business in Europe is really crucial when that retail demand does come.

Kenneth Lee: Great, thank you very much.

Coordinator: Thank you. Our next question is from Mr. Chris Harris from Wells Fargo. Sir, your line is open.

Chris Harris: Thanks. Hey guys, just a couple of follow-ups on Jemstep. So things are going well there. You highlighted that, you know, Jemstep isn't the only platform of its kind I don't believe. So can you guys talk to us a little bit about what differentiates Jemstep? Why an advisor would choose Jemstep over another offering? And then related to that, as the market evolves, do you guys envision advisers coalescing around just a few of these digital offerings? Or do you expect the market to be a lot more fragmented than that?

Marty Flanagan: Yes. So the characters that are unique to Jemstep, you know, first of all, you know, the digital technologies are being adopted quite broadly in - you know, all throughout our industries in different ways.

The robustness of the Jemstep infrastructure is unique. It was eight years in development and that really becomes all of us with now being in this industry, you know, the piping in the industry is complicated and it's necessary to be robust and strong, so that's one. But really, it is the open architecture nature of it. So - and it's directed to advisers only. So it is not available direct to consumer. So there is no channel conflict. It is to support our client's business and that's very attractive.

It also can use a range of vehicles which is more unique, so ETFs, mutual funds and the like. Those are absent in most of the competing capability and its ability to be embedded in an organization's infrastructure is unique. So it's not a black box. So those are some of the characteristics that make it unique.

And the note - and so think of it as a - we've all been through it, you are installing in an application and we all know its hard work, it takes time. The notion that an organization will have more than one of these is hard to believe. And so there really is a first mover advantage to it and we think we're in a very strong position. And just, you know, the demand would suggest that.

Coming back to a prior question of, you know, how big can it be and the like, it's just a long tail and we never put our chin out there to, you know, speculate about, you know, the possible, you know, impact, but it has all the makings of being very, very strong contributor to the firm.

Loren Starr: The one thing I will just add to that really makes it even more unique is the fact that we've got this incredibly robust offering around models and solutions that we can bring alongside. It's not just the technology solution that is being offered. It's actually some of the most valuable part is the ability to tailor models to the clients to the client's need at a very attractive price.

And so I think when you add all those things in, in terms of the open architecture, you know, the fact that we're integrating this into people's systems and it's not a black box and we've got the models, actually positions it almost in a way that is - does make it stand out as a unique offering.

Chris Harris: Very good, thank you.

Coordinator: Thank you. Our last question is from Mr. Robert Lee from KBW. Sir, your line is open.

Andy McLaughlin: Hi everyone, good morning, thank you for taking my question. This is actually Andy McLaughlin in for Rob. I just had one quick question, a lot of mine have been asked already. But I appreciate the update you gave on the business optimization. Kind of how should we think about those balancing between needed investments going in the next year? And, you know, what line items in particular might we see the optimization in?

Loren Starr: So, I think again in terms of the guidance on the ultimate need for investment, you know, I think there we've already built in into that guidance our need for investments. More savings helps offset, you know, some of the - or boost the incremental margin so that's a positive thing in terms of the things that help improve our incremental margin outlook.

We still think we're in a situation as a firm and the industry that there is so much going on that the need and the criticality of investing behind some of these trends are key for success in the future. But again, there is only so much you can actually invest in at once and do it well. So that's kind of some context to thinking why, you know, generally the things that we're talking about are helpful for our incremental margin story. In terms of the - sorry, the other question that you had was?

Andy McLaughlin: Just kind of where we might see…

Loren Starr: Where we see the savings? Yes, so because of the - I mean the large part of it has to do with outsourcing. You know, really looking at moving expenses out of compensation and then moving them into that property office tech which is where we have all the third-party payments for outsourced service to - it'll really be a moment, you know, into expenses into that category off of comp.

Andy McLaughlin: Great, thank you very much.

Loren Starr: Sure.

Coordinator: Thank you. I would like to hand the floor back to our speakers.

Marty Flanagan: Yes. On behalf of Loren and Dan and myself, just want to thank you very much for your time and interest. And look forward to engaging in the future. Have a good rest of the day.

Loren Starr: Thank you everybody.

Dan Draper: Thanks.

Coordinator: Thank you. And that conclude today's conference call. And thank you all for joining. You may now disconnect.

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