

**INVESCO**

**Moderator: Marty Flanagan  
Second Quarter Earnings Call  
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Coordinator: Welcome to Invesco's second quarter results conference call. All participants will be in a listen only mode until the question and answer session. At that time to ask a question, press star 1.

Now I would like to turn the call over to the speaker for today, Mr. Martin L. Flanagan, President and CEO of Invesco. Mr. Flanagan you may begin.

Marty Flanagan: Thank you everybody for joining us today for our second quarter results briefing. I'm joined today by Loren Starr, our CFO, and also Mark Armour, head of our Worldwide Institutional business.

Today's presentation is available on our Web site if you're so inclined to follow along. I will give a brief summary of our business results. Mark will focus on the Institutional business and the progress we're making in the very focused areas. Loren will go into greater details on the financials. And then we will open up to Q&A.

And if I can let me do a little context setting. Again this is the Second quarter that we've had our results in the United States. And within that and, you know Invesco is one of the few global independent asset management firms in the world. And we have a presence on many of the world's fastest growing markets.

We believe one of our greatest competitive advantages is the combined power of our distinctive worldwide investment management capabilities, with capabilities in virtually every asset class and investment style.

And with investment teams on the ground in 12 countries around the world we think we're very uniquely positioned to compete. By building on this foundation we believe we are well positioned for long-term success. So let's take a look at the quarter.

Let's state the obvious. The markets were very volatile during the quarter. But in this environment we continued to focus on what we thought were the most critical initiatives that will continue to improve our competitive position in the marketplace.

Broadly speaking, our concentration was on improving our client experience, expanding our offerings for our clients where we saw opportunities, continuing to strengthen our investment excellence capabilities and improving our organization to better position our business for long-term success. And, as I said, Mark and Loren will speak more specifically to these efforts as we go through the presentation.

Some of the highlights for the financial results for the quarter: during the quarter, assets under management moved roughly in line with the markets. We ended the quarter with \$461 billion in assets under management.

The average during the quarter was \$482 billion in assets under management so you can see, what happened as some markets depreciated during June in particular.

Net outflows during the quarter were \$6.2 billion - long-term outflows that is. And that compares roughly to the \$8.4 billion of net outflows in the prior quarter.

We continued to see strength in the cash business, where we had net inflows of \$4.7 billion. The second quarter results were in line with our expectations. We think they're good results, particularly given the very challenging markets we saw in this quarter versus where the world was a year ago.

Our net operating margin for the quarter was 35.2%, compared to 35.9% in the first quarter. And if you look back a year ago -- again when we were in a very different environment -- the operating margin was 37%.

As I mentioned in the last quarter, we're going to use free cash flow to reduce our credit facility balance and to buy back stock. During the quarter we paid down our credit facility by \$200 million. And we bought back about \$40 million of stock in the quarter.

And lastly our second quarter dividend is 10 cents per share. And this is consistent with the dividend we announced in the first quarter. And if you look at quarterly flows for the organization, flows in our long-term funds were similar to the level experienced in the first quarter. Again, given the environment, that was a pretty reasonable outcome.

I think it's instructive to look at the absolute level of redemptions, which were actually lower in this quarter than they were in the prior quarter. And, again, that, we think, is a pretty good indicator recognizing this environment that we've been in.

Our cash business had -- as I mentioned earlier -- a very strong quarter, growing 5.8% during the period and month-to-month growth went down. But, again, positive net inflows of \$4.7 billion.

And if you take a look at flows by channel you can see that if you look at the retail business, gross retail redemptions improved during the quarter from the prior quarter with generally fewer redemptions.

The Private Wealth Management business had net inflows during the quarter. And, again, this was an improvement over the prior quarter. Institutional net outflows also improved during the quarter in spite of a couple sizeable redemptions during that period. But I think, again, the color will come from Mark when he speaks about the Institutional business in greater detail.

If you look at performance, it's really the most important thing, if you look for, longer-term success. Obviously short-term performance, across the industry has been very, very volatile. But if you look at our long-term performance, it continues to be very strong for the organization overall.

If you look at the combined view of investment performance of our retail assets versus peers -- and our Institutional assets versus benchmark -- you'll see that 71% of our assets under management have a strong 3-year track record, either being above the 50% peer group or above the benchmark - largely in line with the first quarter.

Taking a look at investment performance a little more specifically - not a whole lot of changes during the quarter. But if you look at the retail investment performance you saw some improvement on both Lipper and Morningstar versus the second quarter.

In Canada there was little change in performance. Again, recognizing their investment style has kept them out of energy, plus the weak dollar and materials. So that value discipline was lagging during the quarter.

In spite of the volatility, the UK performance continues to be strong really on all bases. And the same is true of Continental Europe and Asia-Pacific, with strong longer-term performance.

Within institutional equity the capabilities did see some improvements on the 1- and 5-year basis. The quantitative equity team had a solid quarter, which is not unimportant given the pressure there had been on quantitative strategies over the last nine months. And 75% of their assets under management were above the peer group.

Alternatives and money funds continued to demonstrate strong performance on 1-, 3- and 5-year basis. What I would like to point out is if you look at fixed income against benchmark, 45% of the assets were beating the benchmark. And those that follow fixed income markets know the benchmark has been a very, very difficult thing to beat in these credit markets.

And best we can tell -- if you look at benchmark returns...

(Crosstalk)

performance over that 12 months. So in that context 25 % of our...

(Crosstalk)

...in that stock. So that (point tell)...

(Crosstalk)

I am going to stop there and turn it over to Mark.

(Crosstalk)

Mark Armour: Thanks, Marty. Sorry to have the long silences here. We seem to be having some technical issue which probably sounds, I think, was just resolved.

In the few minutes I've got what I'd like to do is just to remind everybody of what it is that makes up our Worldwide Institutional business. Marty mentioned performance. I'd like to highlight some improvements there.

I think more importantly though I'd like to talk a little bit about some of the new investment management capabilities and strategies that we're taking into the market and looking forward to have.

And then mention, again, some of the good cross-border sales that we've achieved, which is consistent with this kind of strategy making sure that we get the best of Invesco to our clients.

So as you can see on this slide, from our perspective we clearly think of ourselves as a leader in institutional asset management globally. Critically in my mind we do have the strength and scale to be relevant.

So we've got -- as you know -- well over \$200 billion in assets under management. We've got clients spread across the globe in over 20 countries. And I think as importantly -- and I'm sure you're aware of this -- we do have a very broad and very deep investment capability as part of our strong investment teams.

As well -- and I know we've spoken about this before -- we do have a very strong range of alternative capabilities. And these are needed in my mind to meet our client needs. And they're helping us to get significant flows.

And then finally, the global footprint that we have with major investment groups and sales capabilities around the world allows us to distribute our strong investment capabilities. Those that are here based in the U.S. to our clients globally and, frankly, those that are outside the U.S. to bring them back in. So we really are looking to take our capabilities around the world.

Over the past year I believe we have improved our position in the market relative to peers. Our investment performance has been good and improving. And consistently is our strategy in taking, frankly, advantage of the markets at the moment.

We have been making good progress in terms of upgrading our talent in specific areas. And we've continued to keep a good watch, I believe, on costs to ensure that we've got the resources to capitalize on those best opportunities.

Turning now to investment performance, I think we did see some good improvement over the quarter -- and now year-to-date -- with a number of strategies looking to be in better places.

Marty mentioned the quantitative's group much better first half. We've now got 3/4 -- or over 70% of our assets -- from the U.S. based strategies are now above benchmark, which is really good.

The slide that you've got there is showing the change in 1-year investment performance from the end of 2007 through to the most recent quarter. So we're looking at '07 and comparing it to the end of '07 and comparing it to end of June.

And we're looking at it either relative to peers or to benchmark. And you're probably concerned that I'm diving a bit here. But what we're really trying to do is to identify where it's most relevant to look at peers. And at other times I think it's more relevant to look at benchmarks.

So, for example, our quantitative strategies really should be referenced against benchmark, whereas, for example, in 16 countries Marty said the benchmarks, most of those have been under performing over the last little while. And you can see, for example, in the liquid assets diversified core and so on, you can see that we've got good results against benchmarks.

In the alternatives area, clearly very important for us and, again, I think you can see -- in a wide range of areas from our GTAA through our Multi-Strategy Fund which is that - sort of think of it as an internal fund of hedge funds if you like -- equities market neutral which is run by our quantitative strategy group Global U.S. rates. You can see that in nearly all of those areas the performance is either good or clearly looking to improve.

Cash shouldn't go without a mention. The returns have not only been good. But I think as people are well aware we've had - genuinely a lot of safety as well as liquidity and yield -- in Karen Dunn Kelley's terms -- in this group.

And the great job that our Cash people have done should not be underestimated.

I'd now like to move and talk a little bit, if I could, about some of the things that we're doing in terms of capabilities and new strategies. We continue to look to add capability and then strategies that are going to help meet client needs in what are clearly really very challenging conditions.

And what we're seeing is two trends, you know. First and foremost the interest in alternatives has not waned. If anything it's probably got stronger over the last 12 months. But at the same time the dislocation in the markets has provided opportunities for us.

So moving on you can see that in our real estate area we've got a number of new funds being raised globally at the moment and so mostly in the direct space. So these would be funds in different parts of the world either the local clients or oftentimes going to clients outside the domicile of the investments.

Very importantly for us, their Global REIT capability achieved – it's got this 3-year track record up now – very strong...

(Crosstalk)

...track records - puts us in the top quartile. And we know we're supported here by some very good writings from the major asset consultants.

As I said we're also introducing products both in the absolute return area and areas to take account of the market dislocation. I think many of you would be aware that we recently filed an S-11 for the creation of an agency group in the

United States. We're also fundraising in a number of other areas - certainly the vehicles which are capitalizing on the credit market dislocation.

In the alternatives space - one that you are seeing is that we have created what we call - Alternative Beaker Strategy - we're naming it Premier Plus -- which is looking to provide, kind of hedge fund type returns but with much increased liquidity.

So this is interesting. This isn't an alpha strategy. This is actually a beta strategy and looking at the data from a risk side rather than a return side - very interesting. And we've got a lot of interest in a short period of time here.

And finally we are doing a lot of work -- as I suppose we all do in this industry -- in terms of developing and delivering solutions that utilize the best of Invesco to meet more customized client needs.

Wilbur Ross has been doing a lot. This is clearly an environment which for him and his people is close to (Nirvana) with all this dislocation. So they are able to deploy capital really well right at the moment for the funds that were raised last year.

So there have been investments in things such as (Ambac) Mortgage Originator such as Option 1 in American Home Mortgage and also (spy check). And finally our Private Equity Fund -- the funds team -- has been able to build on its capabilities by identifying and investing in emerging private equity funds. So we've found some great interest in that space as well.

Looking now at Worldwide Institutional from a global distribution perspective, this slide just highlighting some of the things that we've done over the whole of last year.

As we're aware the institutions that we're dealing with are sophisticated and demanding. And they're certainly not getting less so. But I think that works, frankly, to our advantage because as a firm we do have global breadth and depth of investment capabilities.

We do have a broad range of investment capabilities. And, frankly, having significant teams on the ground in locations - I mean we are able to build that strong, personal relationships with these bigger institutions.

So we've spent significant time looking to distribute the best of Invesco to our Institutional clients globally. And I think, as you can see, on this page we are having some real success in terms of distributing these capabilities to a broad range of different types of institutions and geographies in a broad range of geographies around the world.

And I think I'd like to finish on the distribution side by saying that we're working very hard right at the moment in terms of upgrading our talent in certain locations. And, frankly, what's going on in the markets has been good for us here. I think we're able to access a better quality of people than maybe we were able to do a year or so ago when the markets were hot.

And, finally, I think we're doing an increasingly good job here in terms of capitalizing on our global footprint by ensuring that our sales are coordinated to get the best of Invesco to these key clients.

So to conclude -- and this is a slide that you would have seen before -- if we go back to basics, what we believe that we have as our strengths is that we've got a wide range of investment capabilities. I think we're able to package

these up in vehicles for our clients as well as probably anybody and, in turn, take this into our clients.

So for us in the Institutional space, we're taking advantage of this wide range of capabilities and the wide range of packaging options to be able to deliver to our Institutional clients the solutions that they need.

I'd now like to stop and hand over to Loren Starr, our star CFO.

Loren Starr: Thanks, Mark. Let me move onto a review of our asset roll forward for the three months ended June 30.

As Marty mentioned during the quarter we did have net outflows of \$6.2 billion and that was a \$2.2 billion improvement compared to Q1. Furthermore I'd like to point out that just over half of this quarter's net outflows were due to the natural maturity of a single CDO as well as due to the termination of one low fee fixed income account in Asia-Pacific.

And the blended fee for these two products was actually less than 10 basis points. And, furthermore, offsetting much of these outflows were strong growth in our Money Market product where we saw net inflows of \$4.7 billion in the quarter. And month-to-date through July the demand remains quite strong for our money market product.

We also saw declining markets reduce our asset levels in the quarter by \$6 billion. And, therefore, as a result we finished June with \$461.3 billion in AUM. And that's a decrease of 1.9% since end of March.

I should also point out that the June ending assets are 4.4% below our average AUM for the quarter which was \$482.6 billion. And again -- it's sort of

obvious -- but if sustained it would suggest that we're going to experience a lower revenue run rate for the third quarter.

Additionally our net revenue yield -- excluding performance fees, you know -- could possibly decline by about 1 to 1-1/2 basis points in the third quarter. And this is all based on our current asset mix.

I mean obviously the markets are very difficult to predict and quite volatile. And we saw the asset level actually drop below \$460 billion in July. And now it's coming back. So it's anybody's guess where this ends. But we're very vigilant on this point since this will have an impact on the Q3.

Now let me move to the operating results on the next page. You'll see that total operating revenue grew 2.8% versus the prior quarter. And this is primarily due to increased performance fees as well as other revenues.

Performance fees increased \$11 million in Q2. And of the \$22 million performance fees, \$13 million was generated by our Real Estate business with the remaining \$9 million coming from several other areas of the firm including Invesco Quantitative Strategies, Invesco Perpetual, Asia-Pacific and our Bank Loan group.

The other revenues increased by \$10 million. And that was largely driven by greater levels of transaction fees within our Alternative areas which would include Private Equity and Real Estate.

And then moving on down the slide you'll see that total operating expenses for the quarter at \$696 million grew by 1.9% in Q2. And within that number employee comp increased 3.7%.

And this was a result really due to a full quarter impact of annual salary increased as well as due to the amortization of new year-end deferred share-based compensations both of which became effective March 1 in the First quarter. The declining payroll taxes that everyone expected were offset by some increases in the bonus pool in line with our higher operating income.

Marketing -- as a line item -- was down 13% as Q1, in general, is a peak marketing quarter - particularly in Canada and the UK. So this was a seasonable decline.

Property, office and technology was up 11.2%. That should come as no surprise. As we disclosed in last quarter we had about a \$4.9 million property credit booked in Q1.

The G&A line item did increase this quarter by 8%. Importantly this is really a result of the way we account for certain funds. And many of our newly launched funds do not allow expenses to be directly netted against their associated revenues.

An example of this would be some of the newer ETF launches which are now using an all-in unitary growth fee structure. And which really means we receive a higher advisory fee. But we now must pay for these fund expenses that otherwise would have been paid directly for by the fund.

Below the operating income line, we saw the equity earnings of our own consolidated affiliates that decreased quite a bit - 46.4%. This is due to lower average AUM in our joint venture in China. As everyone has seen -- well publicized -- we had quite a decline in the A share market in China in the quarter.

Interest income and interest expense both declined as we used our cash to pay down our credit facility largely during the quarter. And we did about \$40 million of stock buy backs.

And then gains of consolidated investment products are offset in - by a minority interest of consolidated entities. These two line items are really a result of an accounting rule called FIN 46 which requires us to consolidate certain of these entities that we manage.

Finally other losses in the quarter came in at \$1.1 million. That's a decline from Q1 '08. And that reflects a variety of items in the quarter that largely offset each other. So quarter-over-quarter our EPS was up 2 cents to 41 cents.

So with that I'd like to turn it back to Marty for some final comments before we begin with Q&A.

Marty Flanagan: Great - thanks Loren and Mark. As we've said all along, we feel very, very strongly that our long-term success is, really dependent on being very focused on our strategy and very aggressive execution of that strategy which we continue to be on even in these difficult markets.

And I really feel that the steps we've taken to strengthen our business to be more effective as a integrated global asset management position has positioned us very well. And, we're continuing to improve our competitive position in this challenging market.

And with that why don't we open up to questions for, Loren, Mark or myself.

Coordinator: Thank you. At this time if you would like to ask an audio question, please press star 1. You'll be announced prior to asking your question. Please pick up

your handset when asking your question. To withdraw the request, please press star 2. One moment for the first question.

Our first question is from (Dan Fannin) of (Jefferies).

(Dan Fannin): Good morning guys. Thanks for taking my questions. In terms of the performance fees as well as the other income, Loren you gave us some color on what drove that. I mean how we should look at that going forward - both of those revenue line items in term of the sustainability and the levels of those revenue streams.

Loren Starr: (Dan) that's a great question. I think they are generally bunchy. I mean there's a difference, I think, between the performance fees we saw this quarter versus a year ago.

You might remember we had about \$22 million in performance fees that came from China a year ago in the second quarter. And that, I think, was largely a one off performance fees. We actually generated performance fees from a variety of areas within the firm which is what you would expect given our significant portfolio of different businesses.

Obviously the magnitude and how they come in is much harder to see. I mean I think there's a substandard level of some amount of performance fees. If you look it up historically, every quarter, we've certainly seen some they tend to bunch up generally around the first quarter and the fourth quarter. And I think that's still largely the case.

However, as performance picks up certain of our businesses -- particularly IQS - Invesco Quantitative Strategies -- can generate quarterly performance

fees. And so that is something that obviously we look forward to. But it's hard to predict exactly how big they are.

The fact that Real Estate is coming in with a large performance fee, I think, is something that is probably somewhat of a bunched quarterly phenomenon. But we do expect more performance fees. It's just hard to say exactly in which quarter they're going to come in.

So I know that's not a perfect sort of predictor of this model. But we do think there's certainly a sustainable amount of performance fees that one should model into our numbers.

(Dan Fannin): Okay and then in terms of the other income, it would seem like the transaction activity picked up. And if we look at that comparison to 1Q is it safe to say that the 1Q level was more of a depressed level than kind of where we're at today if you look comparison to '07 and what you did in this quarter is more of a standard type run rate?

Loren Starr: Again I think it's a little hard because we - there was quite a bit that was coming - I mean, again, happily it's coming from different areas. So we had Real Estate. And then we had our Private Equity business coming in with these types of transaction fees. And there are actually a variety of different ways that these things are - I mean transaction fee is a broad term that covers many different things.

Again I hate to give you a forecast. I do think probably Q1 was at a low level. I'm not sure if Q2 is at a run rate level. But the reality is it's probably somewhere in between.

(Dan Fannin): Lastly in terms of the comp expense, your headcount was down about 2%. But we do see comp going up.

Is it - there are some mix issues as performance fees go up, and we will - some of the mix of revenue we'll see the comp go up. Or is it some of the things that you just talked about that, some of the costs just coming in from higher salary increases?

Loren Starr: Yes, it really is primarily from the salary but even more so probably the stock amortization - the amortization of stock that's coming in that became effective March 1. So I would say, our bonus pools will generally move in line with operating income.

So I mentioned, there was some growth in the bonus pool which offset some of the payroll taxes. But the increase Q1 to Q2 is really due to the salaries and the amortizations.

(Dan Fannin): Okay thank you.

Loren Starr: Sure.

Coordinator: The next question is from Ken Worthington, JPMorgan.

Ken Worthington: Hi - good morning - a couple questions. In terms of performance -- particularly in the U.S. and in Equities -- it doesn't seem like it's where it needs to be to generate sales.

You've been making changes to personnel. Can you talk about what changes were made during the last quarter and other strategies or things that you're

doing over the next, say, second half of the year which go to address and improve performance in the U.S. and Equities buckets?

Marty Flanagan: Yes - this is Marty. We do the best we can to sort of give a summary of investment performance. And some times it does a disservice though.

If you look at what's in mutual funds right now - and this is asset weighted so that has an impact on it also. Right now the core equity teams are performing very, very well. They're above top quartile, 1, 3 and 5 years.

The growth team - as you know we made some, leadership changes earlier in the year. Our largest fund had been really a drag for us. And we made a leadership change there.

The person taking it over manages the fund at a top quartile performer at 1, 3, 5 years. If you look at the growth lineup, it's really quite strong, other than, this one fund where, again, we made a leadership change. So I feel very good about that.

The value suite is relatively under-performing. It's not dissimilar to what we're sort of seeing in this environment. We feel good about the team. We think they're very talented. But they have suffered with the environment that we've been in.

The other thing that's happened is sort of the broadening of what's available in the suite. And that was again over the last couple of years we, introduced the IQS theme into it. The Japan portfolio being managed out of Japan, the China portfolio being managed out of China, etcetera - but, again, those are not large funds because they are relatively new.

We also realigned the IQS managers - all the quantitative funds available now in the lineup. And, again we made some changes on a smaller global fund that's being managed out of a broader core equity team in Atlanta.

And also very, very importantly the International team has a very strong, 3-year, 5-year track record. It has lagged some year-to-date. But again it's consistent with the strategy. But still, they're very highly ranked portfolios.

So when you get at the fund level and you look at the suite, I think it's stronger than what these sort of roll ups on an asset weighted basis show. And that's the feedback we're getting. And I really feel very good about how we're positioning ourselves there.

Ken Worthington: Okay great. Thank you. Then another initiative that you had talked about in the past is sort of the cross selling - opening up different products to Invesco's various distribution channels. And again where can we get an update for the quarter and then an outlook for the second half?

Marty Flanagan: I want to have Mark talk about that because he's been very instrumental in helping execute a number of those and if you can Mark that'd be great.

Mark Armour: Yes thanks Marty. In the slide - the slides that I had on the achieving global institutional distribution I mentioned or highlighted some of the successes there. I mean the difficulty for me is, maintaining the confidentiality from a client level.

But, factually we've had major styles as we're seeing here, from our US-based investment management groups. In the Europe, into Asia in particular I think we're seeing some significant interest in the obvious areas - the areas with large amounts of assets.

I mean we've had very good ongoing success with IQS with their international and global products, some of those in 15 or 20 different countries around the world.

Our global REIT capability is one that again has gotten large takeup globally and frankly the interest in that – not withstanding what's going on in the markets at the moment – has only gotten bigger and better.

In the absolute return space and the private equity space people are aware that Wilbur's fund last year was distributed globally. I think as far as looking forward I can't say too much.

But as new funds come forward I think you'll see that as we've got our global distribution mission – particularly on the institutional side – frankly humming a little bit better than it might have been in the past. I think you begin to see that globalization of the distribution is only going to get better.

I think we've also made a lot of progress in terms of working with our cash folks. We've got a great capability there. And again we're broadening the scope of what we're doing on the cash side so we've got some significant mandates in the truly institutional space – in Asia for example, billions of dollars over the last quarter.

So, we are really starting to see what I believe is increasing momentum there in terms of taking in particular the major categories that are US headquartered if you like, but also, bringing some of our specialist categories in other parts of the world. So for example out of Asia, out of Japan, out of China and out of Europe to the rest of the world.

Marty Flanagan: And I think also Ken if you look at other elements, the active ETFs which were launched earlier this year again we take that sort of longer term phenomenon.

But those also would be introduced in Europe the beginning of this year and they'll be introduced into Canada shortly here. And so again I think if you look at the makeup of the different investment themes, where they are seeing success it just continues to broaden.

To be clear it's not where we want it to be and that is what we look at as a great, great opportunity.

Ken Worthington Thank you.

Coordinator: Your next question is from (Jeff Hopson) of Stifel.

(Jeff Hopson): Okay thank you. Can you comment on the alternative flows - maybe a little bit softer in this quarter. And in general can you give us a sense of the institutional pipeline across the board in a tough environment?

Mark Armour: Okay. Look I think if we look at the... just in terms of the flows... for the quarter on the alternative space the numbers that have been reported have been heavily biased by the fact that there was a major CDO that came to maturity in the quarter. So that was sort of frankly hiding what was actually going on in the alternative space.

Where we're at in alternatives is if we go through it sort of area by area there is lots of activity on the real estate side. I mean the commitments to this will run ahead of investments. So what we're going to see is in terms of reported

AUM that there's going to be a lag between us doing fundraisings which are for example happening over 2008.

But given the market conditions the investment of those funds may not happen, in a big way until we get through '09 and '10.

But a lot of activity on the real estate side and I mean because a lot of these private market, things like I can't actually talk to in detail about them.

Secondly on the private equity side we actually have been again increasing the amount that's going into the funds space. WL Ross and Co – there's nothing that we can talk about right at the moment but I know that over the next 12 months there will be things that'll happen in this space and when we can talk to you about it we will.

We're also doing some good things in the hedge fund areas. So there was a good win from outside which was I think probably in WL Ross & Co. from a nice public fund in the East Coast of the US into Wilbur's hedge fund. So that will be funded - we'd expect the funding to be this quarter.

And so I think what I'll say is that the momentum's there. Frankly the flows within the alternative space they're going to be lumpy but the trend here in terms of the revenue that's coming from the alternatives is going to continue to be an increasing trend.

And I think in that regard it is important to recognize that, when you look at the total institutional flows and we're seeing negatives there do understand that we have flows which still obviously have some year to date at a stable value and some other fixed income areas much, much lower fees than the inflows we've been receiving.

So on a net revenue basis our revenues in institutional are frankly continuing to increase.

(Jeff Hopson): Okay and how much was the CDO?

Mark Armour: Nearly one and a half.

(Jeff Hopson): One and a half, okay. And then on the money market business any near term expectations for that business? It seems like it's softened overall in June but any thoughts on the direction of money market?

Mark Armour: Yeah Loren may want to add something here as well. But look do remember that we've gone over a major sort of quarter end there in June. And so what's happened is that, literally in the last couple of weeks of June we saw some significant outflows and it's come back in.

So if you were to look at where the AUM today is it's going to be meaningfully different in the right direction than it was at that quarter end. So look that trend continues to be there. And I think, from my side what's important is that working with Karen's cash people who were just fabulous - Karen Dunn Kelley's cash team we really are I think doing a meaningfully better job in terms of globally distributing this capability.

So we've got a very strong presence in the US marketplace. We've clearly got a presence outside; that presence is expanding. And frankly the way that group is being able to manage the cash flow means that our standing within that market segment is continuing to improve.

The trend's intact is what I'd say and it was really a quarter end phenomenon for the June quarter.

(Jeff Hopson): Okay great, thanks a lot.

Coordinator: Our next question is from (William Kent) of Buckingham Research.

(William Kent): Thank you. Good morning everyone. A couple of questions. First I guess in terms of capital management it looks like you had a preference of debt reduction this past quarter.

So wondering if you could, help us thinking ahead, is the one point some odd million shares you repurchased this quarter which was down pretty sharply from where you were running the last four quarters or so - is that sort of a new trend? Sort of curious of the slowdown in light of what's happening with the share price. That's the first question.

And then the second question is it looks like headcount is down again sequentially about 2%. I understand the seasonality and the impact of amortization. But how should we be thinking about sort of compensation leverage on a go forward basis as well?

Loren Starr: Bill on your first point I think we had sort of telegraphed in the first quarter that we were going to use some of the cash to pay down some of our credit facility which ended I think at the end of the first quarter around \$387 million. So it's back - it's down about \$187 million now.

So again with the markets being where they were - assets going down, the credit ratios actually took a step back because we had completed the \$130

million contingent payment for PowerShares, there was the contingent payment associated with the WL Ross business as well.

And, our capital hierarchy as we've always said is to use our cash first for growing organically if we can. The next will come from acquisitions. We never said we were going to do acquisitions and lever up to do acquisitions.

So the way people should think about these contingent payments is, these are going to be used – we're going to be using cash flow to obviously pay for acquisitions as opposed to taking on debt generally. That's the right way to think about it.

I'd say it pretty much did take a big dent out of the credit facility. Our capital priorities remain intact. So again in normal markets I'd say we will be using the bulk of our cash flow really to do stock buybacks. These have been anything but normal markets however.

I do think, we're not going to say, quarter by quarter this is our commitment to stock buyback. We do think the price is interesting and an attractive one but there has been a degree of sort of prudent supply to take the leverage down.

So again I think the broad message is our capital priorities are intact. This was marginally doing what we said we were going to do in terms of paying back for the acquisitions. And then beyond that we're largely maintaining our capital priorities.

Marty Flanagan: Yes, I agree. (Unintelligible) also on the compensation there I think your point you're trying to identify what sounds like inconsistencies with where we are in the market.

And the stock grants were granted based on last year's results. They kick in by the time you get through all the internal processes.

So we continue to be very focused on, sort of people management but what we are doing is upgrading talent at the same time. So there's not an inconsistency with how we're managing the business. It's just the timing of these things more than inconsistent actions. I don't know if that helps but that's...

(William Kent): No I didn't think it was inconsistent. I'm just sort of curious with sequential decline that we would see some further operating leverage as revenues repair.

Marty Flanagan: Yeah. It literally was when the, just sort of when the math started to kick in as opposed to, again we are, our overall compensation philosophy is in place. And, if we earn less it's a bonus pool and if we earn more there'll be more.

(William Kent): Okay so from here just you gave quite a lot there Loren. From here, where are the contingent payments that are left for either WL Ross or PowerShares? So if that sort of slows for a bit of time then all else being equal buy back would step up?

Loren Starr: Well yeah. Now I think the one other wild card in all this is, our second priority is to do acquisitions if they strategically make sense and if they hit certain hurdles. I mean that's always a wild card. And I think, in the markets obviously opportunities do seem to be surfacing quite a bit.

I'm not saying we're looking at acquisitions but I do think it is one of these things that, if we're going to live by our capital priority we're going to continue to look at these types of opportunities as well.

But again ex-acquisitions, yes absolutely stock buybacks are back to the number one priority.

(William Kent): Okay terrific. Thank you.

Coordinator: Our next question is from (Cynthia Maher) of Merrill Lynch.

(Cynthia Maher): Hi good morning. Just a couple of follow up questions. Could you go over one more time the gains? I know you said 1046 but what assets are moving that around? And is it possible to break it out into buckets? Is that Canada?

Loren Starr: No, no, it's really related mostly to two private equity fund investments that we had. And so, the second quarter gain that we saw really rose from valuation increases to investments. Clearly volatile, this whole category's pretty volatile in terms of valuation.

The other thing is to bear in mind that those gains are on about a billion dollar portfolio so it's really not that material when you look at it as a return off that billion.

So hopefully that's a little helpful but it's all in the private equity area. That's where that's coming from.

(Cynthia Maher): And so that's all mark to market as opposed to a realized gain?

Loren Starr: Some are mark to market and some are valuations sine they're not public stuff.

And again the important thing is that it's been offset completely by the minority. So in terms of the P&L the way to think about that 1046 is more

immaterial to our earnings. It is there because we need to disclose it for (unintelligible) purposes.

But either other entities obviously that we're bringing in as we have.

(Cynthia Maher): Got it, got it. Okay and then on the new funds and ETF launch costs is that a line item you would just sort of expect to build forward? Those are one time costs associated with launches but do you have a pipeline of launches that you think will make that go up some more?

Loren Starr: Well I think those are more than one time costs. I think they are sort of general servicing costs but it is a mixture of some one time and some servicing in that number. Again importantly those expenses are being offset by revenues above.

So if we're going to a unitary fee essentially you're getting a higher management fee or advisory fee (unintelligible) that's offsetting these costs. And prior to that you basically have these costs being paid for directly by the fund.

The ETFs that we're launching are all now using the unitary fee so as we grow you would expect to see, that line item potentially grow - again offset by revenues above.

(Cynthia Maher): Okay so I guess a slight headwind to your margin because of that.

Loren Starr: Yes.

(Cynthia Maher): Okay. And then on the equity (unintelligible) I'm just wondering if you - to what degree you think the changes you've made in terms of leadership actually are causing some of the outflows.

Marty Flanagan: To the contrary. Morningstar's actually written some really positive reports about the leadership changes - which is great.

So I think quite frankly if you look at the absolute redemption levels they're actually going down, not up. The redemption rate's staying about the same so those are, to me, small wins. But I feel really confident about, some of those changes.

And again just to see that we're getting from, gatekeepers and the platform wins we're winning are as high as they're ever been. So yes I understand they're sort of hidden in there but it's the timing of when they hit and the like.

But those are important indicators that we're looking to for the future

(Cynthia Maher): Okay. And one last small one. You said that marketing's down - that's seasonal. Do you expect that to pop back up next quarter?

Loren Starr: Again I think it - probably the bigger potential is in fourth quarter. Third quarter is maybe a little bit higher than second quarter. It's hard to predict exactly. I just think that it's certainly coming off of the first quarter. The first quarter was more the anomaly than second quarter.

(Cynthia Maher): Okay and tax rate - is this a good run rate?

Loren Starr: Yes, exactly.

(Cynthia Maher): Okay thank you.

Coordinator: Your next question is from (Mike Killier), UBS.

(Mike Killier): Thanks guys. Recently you've been pretty active on the new product front with the active ETFs and then you had the Wilbur Ross - the partnership and then the agency security IPO.

Just curious do you see more products or opportunities in the pipeline given, certain client demand? And then also any type of, color around either the size of fee structure on these alternatives, particularly the Wilbur Ross?

And then finally just do you have any gaps that you feel like - I think in the past there really haven't been any big gaps that you wanted to fill. But just what we're seeing in, I'd say the financial services sector with, particular banks, needing to raise capital and offload their asset management arms to raise capital.

Would you be potentially interested in some of those opportunities if they came up at pretty good prices? Or do you feel like you're pretty good in terms of your product capability?

Marty Flanagan: Just on the product launch side, that's sort of the balance we're striking right now. We have a leadership position in ETFs. We believe in, we want to continue to go forward with that and where there's client demand we'll respond to it.

And what flies in the face of that is in a tough environment you want to spend the money. Our view is we really want to take advantage of the things that we

can right now. And so we're going to continue to focus on introducing product where it makes sense in the marketplace.

Secondly our private equity capabilities are strong and there is no fee pressure. It's just a highly in demand skill set, those capabilities.

So, I think as Loren has addressed, there is a lot of noise in the marketplace, so what might be happening in the financial services dislocation and again our first priority is organic improvement and growth. But again if there are opportunities that are strategic and make sense, we will pay attention to them.

(Mike Killier): Okay and then one for Loren. You mentioned it and it's not specific to Invesco but just the pressure on, the average AUM going into the third quarter. We're only 20 something days into the quarter. But, given what the markets did in June, the revenues will be under pressure.

When you're looking at your expenses whether it's on comp, marketing, or G&A is there anything in the short term that you feel like you guys can manage down for the second half of the year? Or are there still things that you guys need to invest and then (unintelligible) just not going to be that much left (unintelligible)?

Loren Starr: Yes I think, we're committed to continuing to invest in the areas that are going to be very important for our future. And so that's not going to be sacrificed and we're going to do that through funding and through some areas that quite honestly are less important. So that's an ongoing process. It's one that we've been engaged in for several quarters and actually even longer than that since it really started with the whole transformation of the organization.

I think the obvious areas like discretionary spending are areas that we continue to look at closely. And I don't think – there's always more that you can cut someplace. But for us we have a pipeline of projects that we believe will help us fund our growth going into the second quarter and into 2009.

So we feel good about the environment in the sense of being prepared for it. We had presumed that the markets were going to be this way and in fact unfortunately it's coming true. So I think we did feel like we were well prepared for where we are today.

(Mike Killier): Okay thanks.

Coordinator: Your next question is from (Robert Lee), ABW.

(Robert Lee): Thanks. Good morning everyone.

Just curious - can you comment a little bit on your China JV? I mean I know at least in 2007, maybe somewhat before that had been a nice contributor to - I believe it's including your assets under management - had been a nice contributor - some growth there to flows and sales.

And can you maybe bring us up to speed on what's been happening there lately and how you think about that or at least over the next several quarters?

Marty Flanagan: Maybe I'll make a couple of comments and Loren can then...

Again, greater China is we think a real strength of ours, China in particular is a real strength of ours. And, we think, if you look at those JVs - ours is called Invesco Great Wall - we're one of the very few if not the only one that has - at

least with our name and we have three point five million clients, in China, investing in local - in the Chinese securities.

We know what's happening, the markets obviously so that's clearly had an impact on contributions to our business this year.

But long term we just think it's a great opportunity. And out of that we are seeing as (Mark) talked about earlier, not just seeing and are participating in, a number of these more institutional type wins coming out of that area.

So we're just very excited about the opportunities there longer term. But maybe Loren...

Loren Starr: I think - pardon me. Obviously the assets were impacted just through the markets normally. And redemption rates spiked up a little bit. But it is actually, given the decline it's not been a terribly, bad experience. People are still buying funds in China.

There has been a general lack of new fund launches so people are actually buying existing funds so that's been a very positive trend. My understanding is given the Olympics and given, where things have been with the earthquake that, a lot of the new fund launches have just been on hold until that clears out.

So we're actually I'd say optimistic about the Asia Pacific business going into the last half, probably better positioning than in the first half. But, we still maintain the dominant position as Marty mentioned and we are still continuing to invest in that business with the expectation of it coming back.

(Robert Lee): Okay and maybe a follow up. I know you've spoken a bit about PowerShares and continuing to roll out products there. Could you maybe just give us a little

bit more color on - I'm assuming the trends aren't any different than what you see elsewhere.

But does that business - are you experiencing more volatility in that business? I don't mean from an asset perspective but kind of, a creation in, redemption process?

Marty Flanagan: Yeah it's (unintelligible) precisely correct but generally correct. Since we've teamed up with PowerShares, I think almost every day that I've looked at net flows we were net flows every single day to varying degrees. As the markets fell off they slowed down.

But literally through June in particular we saw base of net outflows so the volatility did generally trend down with investor preferences but then some literal outflows. But again it's sort of gone away so it has been more volatile.

But the real opportunity is for us - we think we're very early into where this part of the business will end up is it's really - it is a vehicle and it's not going to make any other vehicles go away.

But the fact is, it's here to stay and having more - I think it's more adopted by the advice channel with more solutions within them is really the opportunity going forward.

So we think the mid to long term horizon is very strong but yes it has been volatile in the short turn.

Loren Starr: And just one more point more specific. Actually, I mean, the flows from PowerShares were ahead in the second quarter versus the first quarter by almost half a billion - actually a little bit more than half a billion. And the

redemption rate which was high in the first quarter actually has come down quite a bit.

So I'd say we're looking actually more normal with our ETF flows than in the first quarter.

(Robert Lee): Okay. Just one quick follow up on PowerShares. I mean do you have a feel - do you have an effective way to track as your wholesalers and I'm assuming they're out there talking about PowerShares and how to - advisors should use them in portfolios.

Do you feel like you have an effective way to really track how that's been working?

Marty Flanagan: It is a difficult thing - there's no question about it. It's just not in the mutual fund world it's all very well, delineated and clear it's much less clear just because of the nature of the vehicle.

So you need to figure that out and we've done the best we can to figure it out and try to incentivize people, appropriately, within their suite of skills.

But yeah you're right on that topic it's you need to know.

(Robert Lee): You feel comfortable that even though it's tough to track that's been having an impact?

Marty Flanagan: Oh yeah - no question. Oh absolutely. Yeah absolutely there's an impact.

(Robert Lee): All right great. Thank you very much.

Marty Flanagan: Thanks very much.

Coordinator: Your final question is from (Michael Kim) of Sandler O'Neill.

(Michael Kim): Hey guys, good morning.

Loren Starr: Hey (Michael).

(Michael Kim): I apologize for missing this but just for clarification you had the one and a half billion redemption from the CDO product and then a sizable I guess fixed income outflow during the quarter.

Can you just clarify what the size of that fixed income account loss was and kind of the rationale for the closure there?

Loren Starr: Yeah I think the fixed income was somewhere under \$2 billion and I think it was an inflation fixed income product in Australia. I don't have the rationale for why you know...

Mark Armour: It was two things. The very declines that we've had in Australia they've been changing their - frankly their investment strategies and doing two things in terms of taking some assets in half and this was an example of that. But they're also changing some of their strategic asset allocations, more in line with some of the trends we've been seeing globally.

So this was one that our Australian colleagues were notified about more than - we've known about this for more than a year. We just didn't know exact timing and when it was going to occur.

So it had nothing to do - and this is always frustrating - with what the couple very long term clients also in the OQS area this year where we've delivered two mandates but they're making strategic asset allocation changes oftentimes to move say from active to index and we've had a couple of those this year which have dented our flows in the institutional space an example of one of those.

Loren Starr: And again I should just point out again.

(Michael Kim): Okay and then just more broadly, I understand the markets have been pretty volatile really across all regions during the quarter. But aside from the UK seems like you've got ongoing outflows really across Europe and Asia.

Can you just talk a little bit about where the redemptions are kind of focused either by product or channel? And then do you think this is just really a function of kind of the overall market weakness as opposed to kind of a longer term shift in kind of risk appetites more generally?

Mark Armour: Well I'll just talk very quickly. On the institutional side, frankly our inflows are very much in line with our expectations. Our outflow's a little bit above and where they've been above is often because of these completely unexpected runs and these strategic asset allocation changes.

So on the institutional side there's no trend. I think it is different though on the retail side and we've seen just a normal reaction to the volatile markets.

And so if you look at the net numbers I mean typically what's going on it's not that the outflows have increased but rather that the inflows have slowed which is, frankly typically retail investor behavior in market conditions like this.

But Marty?

Marty Flanagan: Yeah let me just add - I think we've probably seen, continental Europe that, just on the strategic side, you did see structured notes, really take a, a meaningful, part of, largely mutual fund flows over the last, 12 months, 18 months. So that was probably more the macro factors that you talked about that what was out there.

So therefore a difficult market in total there. But we're still positive on the outlook. Again we think things like introducing ETFs, into that market will serve us very, very well and, side by side to our open ended products there with some of those changes.

And, Asia again I mean it's, happen on to those markets and, generally it's more that retail behavior and such. So, mid to long term we're positive. I think, risk appetite will come back. The question is when and I'm sure all of us on the phone have a different sense of when that is.

But the best thing that we can do in the meantime is keep pushing forward to making ourselves better. Where you see less of that though as Mark was saying it's really the platform institutional plans more in particular - they just continue to make their decisions.

So we would expect that client to continue to move forward and, more quickly than, toward risk product and the more retail type client.

(Michael Kim): Okay that's helpful. Thanks.

Marty Flanagan: Okay well thank very much everyone. Again we've had, in light of the environment a good quarter. Just recognizing the environment we're in so we're keeping our heads down.

But at the same time we're very focused on continuing to move the business forward and putting us in a position to be just that much more competitive when this market environment changes, which we expect it will.

So thanks very much. Have a good rest of the day.

END