FINAL TRANSCRIPT

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PRESENTATION

Operator

This presentation and comments made in the associated conference call today may include forward-looking statements. Forward-looking statements include information concerning future results of our operations, earnings, liquidity, cash flow and capital expenditures; industry or market conditions; AUM; acquisitions, debt, and our ability to obtain financing or make payments; regulatory developments; demand for and pricing of our products; and other aspects of our business or general economic conditions.

In addition, words such as believes, expects, anticipates, intends, plans, estimates, projects, and future or conditional verbs such as will, may, could, should, and would as well as any other statements that necessarily depend on future events are intended to identify forward-looking statements.

Forward-looking statements are not guarantees and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements, and urge you to carefully consider the risks described on our most recent Form 10-K and subsequent forms 10-Q filed with the Securities and Exchange Commission.

You may obtain these reports from the SEC's website at www.SEC.gov. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

Operator

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 (Operator Instructions). This conference is being recorded.

Now I would like to turn the call over to the speakers for today, Mr. Martin Flanagan, President and CEO of Invesco, and Mr. Wilbur Ross, President and CEO of WL Ross. Mr. Flanagan, you may now begin.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Thank you very much. This is Marty Flanagan. I'm here with Loren Starr and Wilbur Ross. So, thanks for joining us today for the third quarter results.

I'll be speaking to the presentation, which is -- all of us will, which is available on the website, if you're so inclined to follow. I'm going to give a brief business overview. Wilbur is going to talk about some of the developments during the third quarter, which we think will be of interest to you. And Loren will go through the financials, and then, of course, we'll open up to Q&A.

And I guess you really can't start any of these conversations around earnings without recognizing the extremely difficult environmental we're in. All of us recognizes what we do every day, we're in unprecedented markets and with economists predicting just continued challenges as we look forward.

Out of all of this, though, clearly the rising side of bad news really prompted unprecedented cooperation between governments and central banks around the world. And yet here in the United States, policymakers and market participants really focused and I think very incisively to try to get the credit markets functioning again. A number of us at the organization helped give some -- providing some input; the point being, we really think that the plumbing is being laid for some improvement there in the credit markets. And what the Treasury has done and what the Fed has done has really been, I think ultimately quite important to us.

We also saw TARP passed. And helping to shore up the financial system and again, I think those are the types of steps that we need. All of this, I strongly believe this type of cooperation, the work between regulators, governments and key market players is going to create this strong foundation. So we will have the special recovery that we all need. That said, however, we all recognize we're in a very, very challenging market environment.

Since we began these calls, I've shared with you my confidence in the strength of Invesco's operating model, and the environment that we're living today and what we're experiencing is clearly demonstrating the benefits of an independent global asset management firm. And in a moment, I'll highlight also how our relative investment performance has never been stronger across the institution.

And it's really the capital strength -- our stability and the disciplined approach that we've taken through these market challenges. And it's put us in a position we've largely avoided the credit liquidity problems that have impacted a number of other financial institutions.

And our broad diversification really enables us to provide our clients with investment solutions that they're looking for. The stability that people are looking for in this marketplace, from the safety and stability of things like stable value to some real opportunities that are emerging in stress investing through Wilbur Ross and his team.

And it's really this ability of our firm to offer these investment capabilities around the globe, we think, is what's, again, going to serve us well as we move through -- hopefully, come out of this very difficult period.

In spite of this, through September, which we would have already have characterized as a challenging market, we had very solid investment results. And we think as our single focus on investment management, broad diversification remained a real strength of the firm. And we're going to continue to seek opportunities to improve our competitive position during this market downturn. And really, as we've done for the last three years, I want to come back to our absolute focus on operating more efficiently, more effectively, has served us well through this period. It will continue to.

We've streamlined operations and moved to low cost centers and doing all those things over the last few years -- we're going to continue to do that. There's little question about that. And in this current environment, we're also going to have a renewed sense of urgency to drive down costs wherever possible, but at the same time, ensuring that we can improve our competitive position during this period. So, as a result, we believe we're in a better position in these challenging environments and maybe a number of other financial institutions.

Taking a look at the summary of the results for the quarter, the quarter did reflect what was a challenging market environments. Assets under management ended up at $409 billion, consistent with the market movements around the world and the depreciating equity markets, the dollar being also challenged, global asset managers, such as ourselves.

That said, net outflows of long-term funds improved during the quarter, and what was a very difficult market for cash products -- we really had some very strong performance in that asset class, which was very topical during then.

The operating profit margin was 32% during the quarter versus 35% in the prior quarter. And as we'll discuss later -- and we did at the end of last year, we have been taking a prudent approach to these markets, being very disciplined in expense management. And we're going to remain very focused on managing costs during this period, but not at the expense of what we think is the ultimate future growth of this organization.

And again, the other thing that we're going to do is right now, in this environment with the uncertainty, is continue to be very prudent with our balance sheet and our cash. As we mentioned last quarter, we've always used free cash flow to reduce credit facilities and buy back stock.

During the quarter, we paid down the credit facility $15 million and we did buy back $100 million of stock (technical difficulty) [last] quarter. Our cash balances increased to $740 million in the quarter but in this environment, we're going to be very prudent. And in the short-term, don't expect stock buybacks until there's greater clarity forward.

In the second quarter, the second quarter dividend is $0.10, is consistent with what we've announced in the first two quarters. Let's move on to quarterly flows.

Gross sales of long-term funds declined 13% during the quarter but also redemptions improved by 23%. And as a result, net outflows were $3 billion. And given the upheaval in the money market industry we experienced during the quarter, our cash business continued to show quite a bit of resilience in what was a challenging period for the money funds.

Despite really significant pressure in the short-term credit markets and the industry-wide redemptions in the prime money funds, in particular, our money funds continue to operate very normally and maintain the net asset value of $1.00 per share. And throughout the entire liquidity and credit crisis, our money fund portfolios have not experienced any credit downgrades. All the portfolio holdings continue to be rated in the top tier categories.

And again, I'm really just recognizing Karen Dunn Kelly and the Fixed Income team. They've been working very, very hard and have just done a tremendous job during this period. We're really seeing the strength of the whole fixed income capability in this marketplace.

If I take a minute and talk about flows by channel, although we had net outflows during the quarter, retail institutional categories both improved quite a bit. Net outflows improved in the retail channel, and this was largely driven by improvement in Invesco Trimark. Private wealth management continued in slight net inflows during the quarter, and the institutional net outflows improved during the quarter due to the one-off outflow we talked about in the prior quarter, the second quarter. But we are seeing continued interest in things such as stable value and alternatives, and we'll come back to that in just a minute.

What I would like to highlight is if you look at the investment performance highlights table, you can really see investment performance has had very strong relative performance across the institution. And as best I can tell, it's broad and it's strong as this institution has ever seen -- both Invesco AIM delivering the strongest relative performance it's seen since the year 2000, and Invesco Trimark discipline coming back very, very strongly during the period.

Invesco Perpetual continued to be strong with 75% of its assets ahead of peers on a one, three, five-year basis. And the global product range, which is the offering that's sold into Asia and to Europe, has top quartile performance in some of the key core asset categories, that which they've never seen before, as broad as they have.

The other area of real strength is the fixed income team, where we're leading MBS capability and performance; tops amongst peers over one, three, five years -- top performing meaning bond offering and again, continued strength in the money fund performance.

And if you take a look at overall performance, obviously, it's one of the most critical things we do as an organization and one of the most important judges of what will be our future success. And as you can see at September 30, 73% of all of our assets are beating peers -- are in the top two categories against peers.

If you then turn to investment performance, we've made quite a change in presenting it to you. We want to give you a better sense of how we're doing, and so we're really enhancing the investment performance overview. And if you take a look at the first chart, you can see what we're focused on -- our 14 different categories of investment management capabilities and presenting both how we're doing against indexes and how we're doing against peer groups. The blue bars on the left are the assets in excess -- beating the benchmark. And on the right, the green and the blue bars are how we are doing against peer groups.

And as you can see, we have some literally outstanding performance in things such as US core, strength in growth, the US value as an intrinsic value management capability, which I've seen challenges in these markets. I feel very good about the strength of that team. The other area that I would highlight, if you look at fixed income again, just on money funds, US fixed income and global fixed income, again, very competitive investment performance.

An area that I would want to spend a little more time on because it's been a focus, one of the key areas of investment performance is the Invesco AIM performance. And as you take a look at the Morningstar ratings over the last number of quarters at September 30, 57% of the mutual fund ratings within the complex are four or five-star rated funds. That's up substantially from the prior quarters and again, a very, very important driver of future success.

The other area that was of interest is the relative Trimark performance. And as you can see on the quarter, 99% of the assets are beating peers; 81% year-to-date beating peers; and the longer-term performance much stronger than it was just a quarter ago. So it really shows what does happen staying dedicated to your discipline.

And again, it's looking at some of these broader categories where some of these flagship funds in the US, the AIM Charter Fund, AIM Mid Cap Core, really top quartile, top decile type performance. It's those types of things we think, when this market turns, our strength will be shown.

Taking a look at the diversification of the firm, again, it comes back to the stability of the business in a very challenging environment. There is really no place to hide in the quarter; I know there's little question about that. But it is this relative world where we were challenged -- it's really the more narrow firms that are facing even a more challenging environment than what we are.

If you look at the broad diversification and sources of strength of the firm, is one that few can really match. And we think during these challenging times, it's going to set us apart. It allows us to be very, very focused on our clients. Largely half of our clients are retail; half institutional. It's an opportunity for us to build deeper and stronger relationships during this market. And again, if you look at diversification by the client base, 40% of the clients remain outside of the United States, and non-US business continues to be quite an opportunity for us and a very broad, diversified range of products.

So, moving on to -- what have we been doing to improve our competitive position during this period? I'm going to stop here and introduce Wilbur and have him talk for a few minutes just on some of the things that he's helped -- been driving just recently. So Wilbur, if you don't mind.

Wilbur, maybe -- is your [read] button on? If you want to --

Let me -- I'm going to get started while Wilbur dials back into the phone. He got knocked off, so I apologize for that.

Some of the areas that, during the quarter, one of the really important wins was Invesco Perpetual was awarded the Edinburgh Investment Trust, which is a large trust unto itself; $1.8 billion mandates. It is really one of the oldest, most prestigious investment trusts in the UK. Just a fantastic win in this market.

The other area that we're feeling, again, really great, great improvement in strength is the fixed income business. I talked about the money fund area, the mortgage-backed security area and really, the muni bond area -- all areas of interest in this marketplace, as we're seeing it right now.

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Marty, I had gotten knocked off for a second. It's Wilbur.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Perfect. All right, good. Wilbur, so I'll turn it over to you.

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Okay. When we joined forces with Invesco in October of 2006, one of our hopes was that there would be some real synergies between existing activities at Invesco and ourselves. And the recently announced joint venture with Huaneng Power pretty much confirms that. Huaneng, as you may know, is the largest electricity company in China and is the third largest in the world.

Marty and I and some others were there a few weeks ago, and announced a joint venture, which is the creation of a venture that will invest in energy infrastructure throughout China. It's a 50/50 venture with Huaneng. And we have hired as the point person an excellent individual called Zhongmin Shen, who had been the Managing Director at China Light and Power, a Hong Kong company, which is the most successful independent power producer in China.

The way that this whole venture came about was that, historically, Invesco had had a money management, a conventional portfolio management venture with Huaneng of quite a huge amount of billions of dollars of capital under management from Chinese institutions, including the Central government, invested in the Shanghai and Shenzhen markets.

So it's really building on that original venture that we were able to create this new product line. And we're very, very excited about it because it's another step toward having us evolve into a more broadly-based private equity fund.

We're obviously not running away from the distressed space; that's still very much our core, but we believe that there are other aspects of private equity and infrastructure to which our skill sets can apply. We've had a lot of experience restructuring distressed electric utilities, and so that will help some coming over here, along with Invesco's skills.

Invesco has been running very successfully an open market investment fund in infrastructure companies throughout Asia. So this is the first of what we hope will be a whole series of very fruitful, intellectual interactions as between ourselves and the rest of Invesco. And so, I could not be happier with this confirmation that one of the underpinnings of our original transaction is now proving to be true.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Great. Well, thank you, Wilbur. And Wilbur is going to remain on the call and we're going to turn over to Loren and then we'll open up to Q&A.

Loren Starr - *Invesco Ltd. - CFO*

Great. Thanks, Marty. Let's move on to a review of the asset roll-forward for the three months ending September 30.

During the quarter, as Marty mentioned, we had net outflows of $3 billion, but this was a $3.2 billion improvement compared to Q2. And as we spoke about earlier, the institutional money market outflows in the quarter were $8.1 billion.

We also saw declining markets in FX decreased our asset levels by $40.6 billion during the quarter, and therefore, as a result, we finished September with $409.6 billion in AUM, a decrease of 11.2% since June 30.

Our net revenue yields, excluding performance fees, declined by about 3.1 basis points in the third quarter. Again, that was based on the market-driven changes in our asset mix. And again, given the deep market declines that we've all seen since the end of September, as we've done in the past, we think it's probably prudent just to mention that we expect our net revenue yield to decline again. This -- so again, net revenue yield excluding performance fees could probably decline by similar amounts that we saw in the prior quarter, somewhere 3 to 4 basis points potentially.

So let's now move to operating results -- and that forecast is really with respect to the fourth quarter.

So next, moving to operating results, you'll see that our total operating revenue declined 11.6% during the quarter; again, driven by markets but also foreign exchange, which accounted for about 2.5% of the decline. So within that number, investment management fees were down 9.8% versus prior quarter; a decline, again, explained by lower average AUM, shift in asset mix due to the market impact. Again, this -- the market particularly affects our equity AUM, which tend to have the higher net revenue yield.

And in fact, our equity AUM as a percentage of total AUM fell from 45% in the second quarter to 42% at the end of the third quarter. One bright spot -- performance fees came in higher than our expectations at $18 million. Over half of these fees were generated by our Quantitative Strategies business, which continued to deliver very strong investment performance. The remaining amount came from several other investment areas of the firm.

Service and distribution was down 9.7%, in line with our lower mutual fund asset level, and other revenues decreased by $18 million. This was due to lower real estate transaction fees, front end commissions related to the sale of our retail funds in the UK, and also PowerShares revenue from the QQQ.

Moving on down the slide, you'll see that our total operating expenses for the quarter came in at $632 million. That's a decline of 9.1% versus Q2. Similar to what we talked about for revenues, foreign exchange accounted for about 2.5% of that decline. And as part of the number that we were talking about for expenses, employee compensation decreased 6.6%. This was largely due to reductions in our variable compensation. Third party distribution, service and advisory declined by 9.8%, in line with lower investment management fees, and service and distribution fees.

Marketing was down 8.9%; again, a result of lower levels of marketing support payments and fewer promotional expenditures. Property, office and tech fell 9.3%. This was largely due to a non-recurring downward adjustment in our rent costs for subletting office property -- that was $3.5 million. One should not expect that to recur into the fourth quarter.

G&A decreased 16.5% in the quarter. This included reductions in legal expenses -- it's about $5 million -- as well as in fund expenses and other discretionary spending, such as travel. The G&A line item is one that I think is roughly in line with going forward, although we would hope that G&A is an area that we can continue to manage down.

Below the operating income line, equity earnings in unconsolidated affiliates decreased by 16.7%; a result of the market impact on our Invesco Great Wall China joint venture. At the end of September, the joint venture had about $7 billion in assets under management, of which we own about 49%.

And although we had a higher cash balance on September 30 than June 30, the primary driver for the decline in interest income was lower average yield in the third quarter. Interest expense declined slightly on lower average credit facility balances and rates during the quarter.

The gains of consolidated investment products was largely offset by the minority interest of consolidated entities. As we discussed in the past, these two line items are a result of the accounting which is FIN 46, which requires us to consolidate certain of our entities that we manage.

The other thing worth discussing -- other losses in the quarter came in at $10.4 million. This includes the recognition of an unrealized loss of $9.4 million related to our co-investment for certain of our CLO products. This unrealized loss was primarily driven by an increase in implied discount rates and longer dated payback periods that are assumed in our valuation models.

Our effective tax rate after minority interest was lower than normal. It decreased to a 27.2% level for the third quarter. So, included in this tax rate was a $9.9 million benefit, which reflected the expiration of the statute of limitations of a tax matter that we'd previously reserved for under FIN 48. Due to similar statute expirations, we could realize additional tax benefits in the next few years -- could be another three years that we see a similar pattern.

We expect the effective tax rate to return, however, to approximately 32.5% in the fourth quarter, assuming a relatively status quo business environment, which is not easy to imagine. So, and anyway -- finally, EPS came in at 33%; that was $0.08 lower or 18.8% lower than Q2.

So, with that, I'm finished and I'd like to turn it over to Marty to give some final comments before we go to Q&A.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes, thanks, Wilbur. Thanks, Loren. Well, obviously, a very, very challenging market environment but in this environment, again, just underscoring Invesco's focus on its competitive strengths -- independent asset management, product diversification, global depth and breadth. And we are very mindful of the environment we're in; a real sense of urgency to be very, very thoughtful in managing costs is what we have been doing and to continue what we're doing.

But again, we want to use this time to improve our competitive position. And all in all, we think a very solid set of results in a very challenging market. And I'm going to stop there and open up to Q&A to anyone of the three of us.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dan Fannon, Jefferies.

Dan Fannon - *Jefferies & Company - Analyst*

A question on the performance fees. You said about half has come from your quantitative products. Can you give us some color on how those products have fared thus far in October? And then also talk about some of the other segments that are contributing to about that $9 million in performance fees.

Loren Starr - *Invesco Ltd. - CFO*

I think the investment performance for our quantitative strategy group continues to be strong. Again, it's a very volatile market, so I hate to draw any trendlines. So I would not want to lead you to believe it's necessarily going to occur again in the fourth quarter. That group does paid quarterly performance fees, though. So if performance were to remain at the level, it is a potential that we'd see more performance fees in the fourth quarter.

The other areas that generated performance fees for that group, I think, included -- let me just see here -- we had some coming from real estate and I think we had some from the UK as well; our Atlanta investment center. So it was really several groups that were contributing to the other half.

Dan Fannon - *Jefferies & Company - Analyst*

Okay. And then can we also [talk] about the last kind of three weeks or thus far in October, we've seen -- there's been various commentary about redemptions and outflows. Can you talk about how -- what you guys have seen in terms of activity with your funds throughout the various segments?

Loren Starr - *Invesco Ltd. - CFO*

You know, it's really -- I'd love to give you some definitive answer, but there's a lot of activity that tends to happen at the end of the month. And so, if I tell you something based on where we are today, it could change just within days or two. So, I think it probably is something best to wait before we sort of give people a sense of where it's going to end up for the month or for the quarter.

Dan Fannon - *Jefferies & Company - Analyst*

Okay. And then lastly here, what is the size of your CLO investments? And how should we look about potential further write-downs or marks in that segment?

Loren Starr - *Invesco Ltd. - CFO*

Well, after this most recent write-down, we have I think roughly $20 million left in our equity investments, I think maybe $21 million. Based on the most recent write-down that we had, we would not expect further write-downs unless the market got materially worse than where it is today. So, hard to say what is going to happen.

Again, the market has been slowed down considerably for these types of products, so the observable kind of inputs that we'd normally look at to judge the valuations are much less apparent now. So we're really being driven somewhat by model. And then that really is what's driven the most recent write-down -- based on assumptions of cash flows being delayed and pushed out and a higher discount rate.

Dan Fannon - *Jefferies & Company - Analyst*

Okay, great. Thank you.

Operator

Michael Kim, Sandler O'Neill.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Just to start off, are you guys seeing any signs of institutional investors maybe starting to pull back in terms of putting new money toward private equity or other alternative investments, just given the performance issues across the industry? And perhaps maybe starting to reallocate back toward more traditional equity or fixed income strategies?

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes, this is Marty. And again, I think it's -- as you know, the institutions tend to be very, very disciplined about their asset allocation, what they're trying to achieve, and it continues to be an area for us where we are very much -- where the interest area is. I mean, it is in areas like private equity. It is in real estate. It is in quantitative portfolio.

So a lot of those things are still an interest. I would probably suggest that decisions would be slowed down; but again, we're not in the game of some of those areas that you've seen -- or seen or heard about being very, very challenged. So it is very -- so for us, we still look at it as an ongoing part of strength for us as an opportunity for us as an organization.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. And then more specifically, can you maybe just give us an update on your outlook for flows in the alternatives bucket for the fourth quarter? And maybe if Mr. Ross could give us some color on where he is in terms of investing the latest fund and how quickly you guys may come to market with a follow-up offering.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes. So, let me talk about -- just the flows. And again, it's just so difficult -- one can be forward information is a challenge; just not a practice that we do. And I just think it's -- once we get into the alternatives world, it's really hard to talk about pipelines because they're the private offerings and as you know, you can't talk about those.

So, we're not trying to dodge the questions. Where we can talk about it is where they're not the private offerings. And again, real estate, we continue to see real interest. GTAA, Global Tactical Asset Allocation, multi-strategy, those are areas where we are continuing to see continued interest from these pensions and the like, and endowments and foundations.

So again, it's just such a cautious time that I think we all should just expect decisions to be slower than what they would have been in the past. And I think most of the institution's asset allocations have been now challenged because of the steep fall-off in the equity markets. So, their asset allocations have just been knocked out and they need to readjust them.

But I'll stop there, and Wilbur can clearly talk about his investments, where he is in that.

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Yes. We're about 30% invested on WLR Recovery Fund IV and slightly less than that on the India fund. We had been fairly bearish about the economy and about values to date. And therefore, we've been wanting to keep quite a little bit of powder dry.

In terms of WLR Recovery IV, our principal holdings have come into the financial services space, most specifically, the mortgage servicing where we acquired American Home Mortgage Servicing. We acquired Option One and then we acquired a few smaller pieces from other entities. And that business has been progressing, at least in line with budget. And we will very shortly announce a quite extensive refinancing of its advances.

As you probably know, mortgage servicers, when the underlying homeowner goes into default, initially the mortgage servicer makes the advance. It then becomes the most senior and most secured lien on the property. And so when the homeowner brings himself current or when the property is foreclosed and sold, that money comes back.

We have about $1.200 billion of advances out, and I'm happy to say this week we're completing the refinancing of the related bank lines. So we've had a little bit of first-hand experience with rolling over credits in today's market. And our lenders have been quite supportive, largely because management's performance has been quite good in terms of its book of servicing business. So that's the largest single investment that we had.

In terms of when we could come to market with another fund, as Marty said, under SEC rules, we can't say things that specific, but like most funds, our partnership documents preclude us from coming back to market with a new fund until we've invested or committed 70 or so percent of the existing fund.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. That's helpful. And then just finally, on the expense side of the equation, do you fell like you may not have, I guess, a lot of flexibility in terms of cutting costs going forward, just given the amount of streamlining that you've already done in the last couple of years? Or do you still feel like there are areas that can be scaled back relatively quickly?

Martin Flanagan - *Invesco Ltd. - President and CEO*

I mean, and that's really what we -- we've been at this for three years and I think we've shown the progress we're making. So I guess at one level, the low hanging fruit is not there. But we are continuing on the path -- this is not a new effort for us. We are still on the path of, as I call it, dropping our [pre-inner] cost production; we're going to continue to be very focused on that. But at the same time, be very, very disciplined on discretionary spend. It's a responsibility of us to do.

But the other element is you can't cost-cut yourself to success. And I think that's really what you're seeing too from Wilbur's comments. We are -- the organization just hasn't dried up. There are -- you see the relative investment performance that we have on the traditional long side, along with the strength that we have in alternatives -- we are dealing with clients. They're going to make the decisions, but from, as I said, that range of -- it's really the benefit of the broader client base from retail investors to institutions to the global nature of the firm, that again, we want to be on our front foot in a very challenging market. But again, I just want to be clear -- we will be very responsible on where we can save money, we're going to save money in a very uncertain time.

Michael Kim - *Sandler O'Neill & Partners - Analyst*

Okay. Thanks for taking all my questions.

Operator

William Katz, Buckingham Research.

William Katz - *Buckingham Research - Analyst*

Just sort of following up on that expense discussion, if I might, Marty. You mentioned that you're well-positioned to take advantage of what's going on. So I presume that reflects other companies that might just now be starting some headcount reductions in dealing with maybe deeper earnings degradation.

So as I think about your statement, are you talking more now just because of amplifying the marketing and spending side of things? And/or maybe looking from an acquisition perspective to leapfrog to a bigger platform?

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes. Right now I'm speaking of the organic opportunities that we have as an organization. They probably -- and from -- at one level, where we've gotten the firm, the depth and the breadth of the offerings and the performance is an investment opportunity -- a skill set or a performance opportunity that we've not had before so broadly as a firm. So, that's first and foremost. And there's a broad, deep client base and that's the first important call.

With regard to M&A, it's unclear what's going to happen out there. And I'd say that -- the same thing that we've said in the past is that our first dollar's going back into the organization. We'll continue to pay attention and if it makes sense for the organization and it's strategically but also financially, we will pay attention.

But again, we think we have things to work with right now as an organization; but again, we're not naive enough to put forward the notion that in this market right now, you're going to see huge inflows. But if you're a believer that this too shall change, this is an opportunity.

William Katz - *Buckingham Research - Analyst*

Okay, that's helpful. And then just to play devil's advocate with you on capital management for a moment. Your balance sheet seems like it's in pretty good order. Certainly, the earnings have come down in line with the market environment, but it seems like your strategic position is going up. So, if you think long-term, as it sounds like you 're doing, I don't understand why you would slow down the buyback notwithstanding the deep market impact. I'm still trying to understand your return on investment discussion -- more so than just the near-term earnings impact.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes. And I think -- I can't argue your point. And we've been having the conversation internally and -- as you would imagine. And we think the better part of valor at the moment is -- it's been such an uncertain period and bullets have been flying from -- you didn't know where they were coming from.

The wiser thing to do, until there's a little bit more transparency of where the world is going, is -- patience is a virtue. But again, we understand your point of view and it doesn't go beyond us also. So --

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William Katz - *Buckingham Research - Analyst*

One last question, if I may. Just in terms of the money market business and maybe you can lump in your stable value bucket as well. Some of your competitors have seen some very strong organic growth coming out of all this uncertainty. Just sort of wondering if you could discuss your competitive positioning of the business and how you see that going on a go-forward basis. And specifically, if you could sort of talk to any issues in terms of the guaranteed investment side of life with stable value.

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes. It's been -- what a whirlwind, right -- in the last six weeks or whatever it's been. I'd start from our competitive positioning. It's a strong business for us. They've just done one heck of a job. And I think that's a very, very good place to start.

It is a business of -- if you're doing it as a sideline business, it's not worth it. And I think that's what people are sort of realizing. The future of the business I think is -- it's an importance part of really the financing environment. And I think that's what everybody has learned through this period of time. And -- but it has been an area that I think all of us in the industry are paying attention to, to make sure that the virtues of it are clear. And again, I do think people will reassess if it's the right thing for them as an organization.

Operator

Ken Worthington, JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

To follow up on a previous question, to what extent does the poor environment for hedge funds spill over into the alternative real estate business? Like I'm not sure if they're getting lumped into the same bucket at all or if they really are considered distinct by our customers. And you had mentioned that a number of real estate products were being launched in the coming couple of quarters. Are those launches still going to occur?

Martin Flanagan - *Invesco Ltd. - President and CEO*

Again, I can just talk about our direct experience. Again, our experience has been continued real interest in the real estate business. It's a very, very good team with a very good track record. And institutions in particular still seem very interested in having the exposure. So, our experience has been that it's -- it has not been sort of lumped into the macro hedge fund world. And it's an asset class that people want in their portfolios. So we look at it as a continuing strength of this organization.

But again, I think all of this -- there are real opportunities. And as Wilbur talked about, there's real buying opportunities in the distress world and ultimately, with what we've done in China, as Wilbur just spoke about, these are real opportunities. But again, I think you do have to temper what you think would have been the success to just lengthen a little bit -- I think that's the smartest thing for us to be thinking.

Ken Worthington - *JPMorgan - Analyst*

Okay, thank you. And then thank you for the new performance disclosure. It's really helpful. The hole seems to be in the US value franchise. What are your thoughts there?

Martin Flanagan - *Invesco Ltd. - President and CEO*

The manager and the team -- it's a very, very strong team. They are an intrinsic value manager and they have -- their style has clearly been one that has been challenged in this environment. And again, we think they are talented and we think -- and we have confidence that their performance is going to come through.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

Sorry, guys, but one more derivative question on the expenses, but just coming from a different angle. When you think about one of your biggest variable expenses, which is distribution expenses, and really, when you look at it as a percentage of revenue, it's kind of flat sequentially -- maybe that's not the best way to look at it, but I'm just thinking here with sales down probably faster than AUM, how do you really look at this ratio?

And again, this is expenses relative to AUM, trending over the next few quarters. Do you see it improving here? Because actually it deteriorated during the bull market and a lot of that was replaced by higher fees in terms of [FC] rate on the revenue side.

Loren Starr - *Invesco Ltd. - CFO*

I think in terms of distribution expenses, they will generally move in line with asset levels and sales. And so I would expect that you would see that line item effectively move in that pattern. So, there may be some lags in terms of how that shows up quarter to quarter. But that is the general trend. So it should be a variable to kind of the business activity that we're seeing.

Craig Siegenthaler - *Credit Suisse - Analyst*

But as your ratio of expenses through revenues, I guess, do you think that should, over time, be flat? Maybe a little bit volatile here, but you don't see any, let's say, secular changes in that ratio?

Loren Starr - *Invesco Ltd. - CFO*

And you're talking about distribution revenues or total revenues when you say that?

Craig Siegenthaler - *Credit Suisse - Analyst*

Expenses relative to distribution revenues.

Loren Starr - *Invesco Ltd. - CFO*

Yes. Because distribution revenues -- it's a little bit of an apples and oranges comparison because the distribution expenses are obviously what we pay our distributors. The distribution revenues are really reflective more of the US business more than anything else, because it reflects the 12B-1 revenues coming in. And many other of our retail businesses do not have 12B-1 fees.

So, you will see, for example, in the UK and Canada, most of the revenue -- there is no distribution revenue. It's all within the management fee. So the ratio itself that I know people like to look at is one that I generally don't look at, because I don't think it's actually informative.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. And on prior calls and meetings, you talked about kind of two-thirds, one-thirds; meaning two-thirds of your expenses are fixed costs, one-third is a variable, and that's after some of the cost-cutting or cost improvement and management over the last two years.

If those ratios hold up and we're looking at AUM could be down 25% in the fourth quarter just through to October, maybe a little bit less than that, because of the fixed income nature base, how can you, I guess, adjust the fixed costs item? I'm sure there's back office, certain area systems, less travel things like that to reduce, but how can we think about that two-thirds of the number being reduced?

Loren Starr - *Invesco Ltd. - CFO*

Yes, but I think as we've said in the past, obviously when revenues go down, expenses can't move down as quickly. There is a variable component within our expenses and the two-thirds, one-third is probably still roughly in the right territory. Trying to chip away at the fixed expenses, it is the obvious areas that we'd be looking at. We are going to continue to look at -- whether it's rents or property costs, as an example.

The other part is more fixed salaries and other things. I mean, we've been working on this for -- as Marty said, for the last three years. I think we're going to benefit from the activities that were put in place over these last three years that will allow our fixed expenses to decline over time and hopefully, make more of our expenses variable than fixed.

So it is going to be those two primary areas that we're going to continue to look at in terms of trying to effect the fixed line item. But they aren't things that you can do in a quarter very easily. So those things do take time. And again, the one benefit is that we've been working on it for the last several years.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. And just one other question on the PowerShares. I didn't actually hear any news on them recently. I'm wondering if they're focusing their product launches now on a conservative based product that could do well in this market. And also, where did AUM finish for this fund? And how are flows for PowerShares overall in the third quarter?

Loren Starr - *Invesco Ltd. - CFO*

I think on the last part, PowerShares has continued to have positive flows ever since we bought them or they became part of the firm. So I think that's, again, a positive trend for us.

The number of product launches have become fewer and there has been still an emphasis of the international side more than the domestic side where we have many, many offerings. So I think right now it's been sort of promoting what we've got as opposed to putting up new products and making sure that they're competitive.

I think you heard recently that some of our FTSE products were recently -- the pricing was reduced on, I think, it was 11 FTSE products. And we think that's going to position those things competitively going forward. The total assets I think are roughly in the $10 billion are (multiple speakers) -- $11.7 billion, thank you -- $11.7 billion is the total AUM.

Martin Flanagan - *Invesco Ltd. - President and CEO*

But what I would add on PowerShares is where the team is taking it, and I think it's a real opportunity for the future. It's really moving much more into providing solutions. And if you look at the latest ones, the more asset allocation type ETFs, which I find very, very interesting. You talk about what might the world look like, and to me, it's finding solutions for people in the structure of ETF with asset allocation capabilities, one that we think is going to be, in time, prove itself to be a very, very good thing.

Craig Siegenthaler - *Credit Suisse - Analyst*

Great. Thanks for taking my questions.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

A couple of quick questions. First one, the large mandate for the Edinborough Fund Investors, did that fund in Q3? Or is that expected to fund in Q4 or coming quarters?

Loren Starr - *Invesco Ltd. - CFO*

That came in Q3.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Okay. And I apologize if you went over this, I had to step off the call briefly, but if I look at the stable value business, you had some closed there. And you, I guess, understand why in the current environment you may hopefully continue to see flows there, but some competitors have had issues with obviously performance. And one large competitor I believe is probably having trouble retaining some of the insurance companies that they claim are stepping away from the market.

Are you seeing any challenges in that business with some of the RAF providers deciding they just don't want to do it anymore, it's just not worth it, and that will make it hard to grow that business?

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes, again, back to my point of view, hats off to the fixed income team. They've just done a heck of a job. And when you look at -- as you pointed out -- what a lot of people look at is the book to market ratio, and it's very, very strong -- industry-leading.

And so we've had a good experience with our RAF providers. And again, we think we're going to be one of the solutions in that world.

Loren Starr - *Invesco Ltd. - CFO*

Right. And just to point out, we have had positive flows and it continues to be an area that's growing, not shrinking for us. And we maintain our very strong market position in that area. So yes, we feel well-positioned and we can certainly compete and have not had issues with our insurance providers.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Okay, great. And if I could maybe just go back to capital management for a bit, just to -- want to make sure I kind of cross all t's and dot the i's. If I remember correctly, you do have some debt that matures in 2009. I don't remember the precise amount.

Can you maybe update us on what that is? I think maybe it's later in the year, but what your current thoughts may be around that. And as that relates to trying to, I guess, build cash levels, is there thinking of maybe actually accelerating some debt reduction? Or is it really just -- you just want to build cash and see how things land?

Loren Starr - *Invesco Ltd. - CFO*

Okay. I guess we do have $300 million that's coming due at the end of the year. And so -- what's that? (multiple speakers) Yes, at the end of -- sorry, 2009. Forgive me; I'm already into 2009 trying to get past this year. So at December of 2009.

So what our approach is there is -- I think we want to have flexibility to pay that down at the time, should the market still be in a sort of challenged period. So that's part of our thinking. We do have a credit facility -- it's $900 million -- that we could always access as well, which matures in March of 2010, so it provides another layer of flexibility with respect to the payment there.

On our credit facility right now, we have about $172 million. Our expectation is that over the course of this year and into '09, that we can bring that balance down. So where we're positioning right now is obviously one of some prudence, given how volatile the equity markets are and our assets that we want to be not in a position where we're having to make some tough decisions on that debt.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

Okay. And maybe a follow-up question -- are there any kind of covenants on the facility or any of the debt offerings that, given the pressure on assets, even early in the quarter while still obviously things have to shake out, that you're getting it all -- thinking about or concerned about tripping to some degree?

Loren Starr - *Invesco Ltd. - CFO*

Rob, happily, no. Absolutely not. Whatever the covenants are, are so -- we're so far away from those that it's not an issue.

Robert Lee - *Keefe, Bruyette & Woods - Analyst*

All right, great. That was it. Thanks, guys.

Operator

Jeff Hopson, Stifel Nicolaus.

Jeff Hopson - *Stifel Nicolaus - Analyst*

The flows in Europe and Asia, I guess, were better than I might have thought. Any quick thoughts on what's happening in those markets that's helping you relative to the dire environment right now?

Martin Flanagan - *Invesco Ltd. - President and CEO*

Well, I think we -- in Asia, obviously it's been challenging and in Europe, the markets. Our product position has been good in those markets, particularly in, let's say, Europe, some of the products that we're doing very, very well where the commodities, agriculture, the things that were very nichey.

And so, as Marty mentioned, the products that we have right now are sort of core, sort of all-weather types of products, are performing very, very well. So I think we're positioned as well as one can be in the current market environment.

Asia, as well, I think we have a very strong performance relative to our competitors. Again, the markets themselves have been quite up and down. But we have sort of avoided, I think, the very nichey types of products that have suffered badly.

Jeff Hopson - *Stifel Nicolaus - Analyst*

Okay, great. Thank you.

Operator

Cynthia Mayer, Merrill Lynch.

Cynthia Mayer - *Merrill Lynch - Analyst*

Just a couple of follow-ups. On the PowerShare fees, I'm just wondering if they're -- what the outlook is for further fee reductions and how do you avoid making that a race to the bottom in terms of fees?

Martin Flanagan - *Invesco Ltd. - President and CEO*

Yes. The products that Loren was talking about were very clear and very separate than the whole line-up. So we don't think it's a -- the beginning of [sort of]a fee-cutting war. This is not a war that we plan to participate in.

And again, it's always been the thing that attracted us to PowerShares -- its pitch wasn't where a listed index fund that's the cheapest one around. It is really the solution notion. And I think that's really where we are. I think the product offerings, as I mentioned just a few minutes ago, I think it's really getting to a very, very good spot.

Cynthia Mayer - *Merrill Lynch - Analyst*

Okay. And then just going back to your talking about wanting to gain share on things. What's top priority? Where do you see the best opportunities? And what's your thinking on money markets? Do you want to get a lot bigger in money markets? Or are you comfortable with the size you're in?

Martin Flanagan - *Invesco Ltd. - President and CEO*

Just -- let's see. Yes, on the money markets itself, again, the team has shown they're very, very capable. And we expect that business will grow for us. And that is a good thing. And I don't have a narrow answer to your question, because again, if you just look at the opportunities in front of us right now, they're quite broad and strong. The broader retirement market in the United States is a focus area, and one that we're working very, very hard at right now.

And from our Core institutional business to the performance of the Core long-only product, for the DC components of those plans, is very, very attractive right now. And then, again, looking into the alternatives world, with Wilbur's leadership in the areas that he's been leading are strong again with real estate GTAA. So it's really pretty broad-based. And I wish I could be more narrow, but it's just not what we're seeing at the moment.

Cynthia Mayer - *Merrill Lynch - Analyst*

No, that's fine. Good to have options. The other thing is, just last follow-up is on performance fees. Can you remind me what your performance fee AUM is? What percentage of your AUM receives performance fees and what percentage of that is payable in 4Q?

Loren Starr - *Invesco Ltd. - CFO*

Cynthia, so the number of assets that we have that actually pay performance fees are probably in the $20 billion-ish range. It's not a significant part of our total assets under management. The areas that typically provide them, that you've seen in the past have been in the UK -- the trust in the UK. And those tend to be centered on the first quarter and the fourth quarters.

We have IQS, or Invesco Quantitative Strategies, which you saw showing up in this quarter, which does pay quarterly. And beyond that, we have private capital with Wilbur Ross, but those are areas that are probably more in the future than in the past and harder to predict when they show up.

And then you'll have real estate on occasion showing off with performance fees as well. So I would look at our history really to give you as best a sense of what to expect going forward, as opposed to giving you a number, which it is very hard for us to predict these things internally. But there probably is some pattern on the first and the fourth quarter at a minimum.

Cynthia Mayer - *Merrill Lynch - Analyst*

Great. Thanks a lot.

Operator

Mike Carrier, UBS.

Mike Carrier - *UBS - Analyst*

Marty, just one question. More on the Strategic side. Given the turmoil, you don't want to focus too much on the near-term, but a lot of times during times of stress and crisis, sectors or industries change. And some players can kind of emerge stronger than they were during the -- or even prior to the crisis.

So when you kind of look at what's going on, given the current environment and you look at like equity returns over the past 10 years, at least in the US, are you seeing anything from clients?

I know it's very short-term right now, but in terms of just indications of different products, whether it's on the retail or the institutional side or in the US or outside the US -- and just potential shifts whether it's allocation or product shifts over the next couple of years. And if so, how do you think you're positioned for that?

Martin Flanagan - *Invesco Ltd. - President and CEO*

You're exactly on the right question. What are we doing as an organization? We are looking at this -- if you haven't gotten the message -- very, very clearly as an opportunity for us to come out the other end of this much stronger than we've ever been as a firm. And it's really been this last three years of building a broader, deeper, stronger firm globally in multichannels that is going to give us that opportunity. And whether it be from -- to the cash side all the way to the stress investing, we think those are the opportunities.

So there's no real clear direction right now, but I think you're exactly right on the point. I'd rather be where we are than a lot of people from the standpoint of -- we have been working on improving the business for three years, the depth and breadth of the performances, as strong and as deep as its been, and we're moving forward in the environment.

So -- and we are absolute paying attention to the near-term challenges/opportunities. And we have been -- take advantage of them as we see them. So, but a specific question to this as the answer, I don't have it. I think it's going to be multiple of them.

Mike Carrier - *UBS - Analyst*

Yes. Makes sense. And then just then, Loren, just on the tax rate, you mentioned it goes back up to 32.5%. It sounds like you're still working on that tax planning room or more efficiencies during the next couple of years.

Just trying to get a sense over the next couple of years, is getting to like a 30% rate still something that's achievable? I feel like a lot of companies are now saying that, at least in the US on the stateside, every state is trying to raise tax rates because they need additional revenues. So just trying to balance like that environment versus what you could do on the tax planning side.

Loren Starr - *Invesco Ltd. - CFO*

And I think we know for certain that there's certain reductions in country tax rates that we're going to benefit from in 2009. And so we'll have a full year worth of reduction in the UK. It went from 30% to 28% as opposed to three quarters. In Canada, they've gone from 33% -- sorry, I think it was 33% down to low 30s.

So these are things that we are going to benefit from, which is completely independent of anything we're doing. And so on top of that, we continue to work on tax planning -- just normal, straightforward things that most global companies do. So I do feel that we have a great opportunity to continue to lower our tax rate over time.

And so I think the 30% level over the next two years is quite -- it's potentially achievable, if we continue to see the mix within our business as being roughly what it is today, and barring any obviously significant changes in tax rates in other countries.

Mike Carrier - *UBS - Analyst*

Okay. Thanks a lot.

Operator

Marc Irizarry, Goldman Sachs.

Marc Irizarry - *Goldman Sachs - Analyst*

Great, thanks. Marty, it seems like you've got a lot of areas of performance improvement. And my interpretation of what you have going on in the product side is you're maybe looking to a GTAA, multi-strat and potentially PowerShares as a way to sort of stimulate the top line, if you will, maybe in a tougher environment.

Is that sort of the right way to think about the strategy, A? And then, B, if you look at the redemption rates, they've obviously been coming down here. Can you just speak to that as well?

Martin Flanagan - *Invesco Ltd. - President and CEO*

No, you're exactly on that point and also the other thing I'd -- even when you have a core product too, that's a top [decile] performer, you know, one, three, five years, those are the types of things that get into platforms. And this is when platforms start to open up their minds again when there's been a storm and ships have been knocked around. And that is exactly what we're looking at as an organization.

And the redemption rates, again, it is a function of a number of things. And be a more effective as an organization; be more effective as dealing with our clients. And you can't minimize a performance improvement.

I am really reticent to make any predictions, if you want to call it post-September 30 -- I mean, it's been such an incredibly challenged month. But that said, I think our relative positioning is pretty strong. So I would think that on a relative basis, our redemptions are going to still look pretty darn good.

Marc Irizarry - *Goldman Sachs - Analyst*

Good. And then if Wilbur Ross is still on the line, if I can just ask --

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Yes, I am.

Marc Irizarry - *Goldman Sachs - Analyst*

-- hey, how are you? Just a couple of questions. Can you talk about your sort of expectations for the pace of capital deployment and sort of how you see that happening? And then maybe you could talk about the mark-to-market of the portfolio currently.

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Well, mark-to-market, our compliance people don't really want us to talk about because, as you know, all of our stuff is private placement. But since we're only 30% invested, even if they were a negative mark of some sort, it doesn't amount to much relative to the overall committed funds.

In terms of the capital deployment, we would target first quarter of next year as being a very big period for capital actually being deployed -- first calendar quarter of next year. There are some investments that will be deployed fourth quarter of this year, but we see first quarter of next as particularly big, given where we are with backlog and with negotiations.

Marc Irizarry - *Goldman Sachs - Analyst*

Okay, great. Thanks.

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Our fees, as you know, are based on committed capital rather than deployed capital. Namely capital committed to the funds as opposed to capital committed by the funds into investments. And our fees, therefore, do not get mark-to-market if we have unrealized appreciation or for that matter, depreciation in an asset, it does not change the basic fees. Then the performance fees are based on actual realization, not on mark-to-market. And that's what makes them lumpy.

Marc Irizarry - *Goldman Sachs - Analyst*

And if you do end up putting out capital quickly and having positive returns and returning capital to investors rather quickly, is your strategy to raise up the next new fund? Or would you actually recall -- hold onto investor capital and recall the capital, if you will?

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Well, the way our partnership documents work is during the four-year investment period, we repatriate all earned income and all realized gains quarter by quarter. After -- but we reinvest the original principle.

After the four-year investment period, we repatriate 100% of all realization. So it really depends where we are in point of time. At present, we have two funds that are open in terms of being in their investment period. There will be a law of recovery three and there will be a law of recovery four. And then we also have available capital in our India fund. So, in the aggregate, we're about as liquid as we have ever been.

Marc Irizarry - *Goldman Sachs - Analyst*

And then as far as other raise ups and more private partnership vehicles, what's sort of the LP appetite out there right now?

Wilbur Ross - *WL Ross & Co. LLC - President and CEO*

Well, I think it's pretty good. The biggest issue that the LPs have been having is most of them, by edict of their Boards, put alternatives as a certain percentage of the portfolio. So as the open market stuff has gotten [whacked], they are having to go back to their Boards, or in the case of some of the state funds, even back to the state legislature to get relaxation of the percentages.

And as far as I know, none of our investors have had trouble getting their percentages raised because logically, the fact that some other segment is underperforming is certainly not a good reason to divert funds from private equity.

Marc Irizarry - *Goldman Sachs - Analyst*

Great. Thank you.

Martin Flanagan - *Invesco Ltd. - President and CEO*

All right, well, I want to thank everybody for their time. It's obviously a challenging time, an important time. And appreciate your engagement. I want to thank my colleagues, Loren and Wilbur for the call. And we will be in touch soon. Thanks very much.
