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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.

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Operator

Welcome to the Invesco fourth-quarter results conference call.

All participants will be on a listen-only mode until the question-and-answer session. (Operator Instructions).

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

Martin L. Flanagan - *Invesco - President, CEO*

Thank you and thank you all for joining us for our year-end and fourth-quarter briefing. I am here today with Loren Starr, our CFO. We both will be speaking to the presentation that's available on the Web site if you are so inclined to follow through that way. As we typically do, I will talk about the business results and Loren will go into greater detail about the financial results and most importantly, we will open up to a Q&A at the end.

So let me begin by stating the obvious that we all know too well. This has been one of the most challenging markets any of us have ever witnessed or experienced. But in that context, these very strong external challenges, by maintaining our focus and being very disciplined, Invesco significantly improved its investment performance and strengthened its business in key areas in 2008.

You'll note that investment performance across the firm is as strong as it's been in over a decade. Because we've been so disciplined in our approach to operating the organization, we've largely avoided the credit liquidity problems that have impacted so many different organizations across the financial services spectrum.

Finally, we continue to make progress within the organization, becoming more efficient and effective as a global investment management firm.

Let's take a minute and look at the results for 2008. Obviously, no one could have predicted these unprecedented market declines that we saw throughout 2008 but also very specifically in the fourth quarter of the year. We did adopt a cautious view coming into 2008 -- again, no way forecasting what ended up happening -- but that approach clearly was justified.

You can see, at the end of the year, assets under management ended up at $357 billion, down from $500 billion at the year-end 2007. The decline is consistent with market movements around the world and also with the strengthening dollar, which had the negative impact on Assets Under Management. Those two factors alone represented 91% of the decrease in our Assets Under Management. And also the decrease, the decline in Assets Under Management put real pressure on our operating results, the operating profit of $750 million and an operating margin of 31% was exceeded only by the year 2007 during this decade.

So if you take a look at the Firm, diversification is one of our absolute core strengths. We are diversified by client, location, by distribution channels and by asset classes. All of us in the industry recognize that diversification is very important factor as we weather different market cycles. We know what's good for our clients, but it's also very good for the business and it's very good for the shareholders of Invesco. Our view is that very few competitors can match Invesco's broad diversification, which is a significant source of strength and also stability for the Firm in these very difficult times.

If you look at the assets by client channel, it's largely equally split between individual and institutions. If you look at our client -- our Assets Under Management by client base, 35% of our clients reside outside of the United States. We have clients in over 100 countries around the world. Then finally again, this very broad asset class diversification has benefited clients, the organization and shareholders.

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Turning to quarterly flows, obviously it was an environment in the third and fourth quarter, the fourth quarter in particular, that industry was having just ever great increasing outflows and increasing reduction rates. Within that context, our net outflows have generally been stable. You'll note in the long-term flows that from the fourth quarter of '07 through the second quarter of '08 redemptions in absolute dollars continued to decrease. They were flat between the third and fourth quarters, and it was really third and fourth quarters fall-off in gross sales. But what that resulted in is -- and if you look at the money fund flows, a quarter-over-quarter change from third to fourth quarter of an improvement of $9.1 billion, much of that being driven by the flows into money funds during that period.

As you all know, a key strategic priority for us is achieving consistent, good long-term performance. It's our commitment to investment excellence that has continued to significantly improve the investment performance across the enterprise. A key reason, we believe, that the improved stability of our flows has been because of its improved relative performance. But I think also very, very importantly, it's our fixed income team's ability to avoid these credit problems and liquidity problems that were so prevalent during this past year.

If you look at the Firm as a whole, 76% of the assets were ahead of peers on a three-year basis at the end of 2008. That compares to 73% in the third quarter of 2008. Again, 76% at the end of the year compares with 70% one year ago. So again, that bodes well for the strength of the Firm if you look at -- consider the depth and breadth of the capabilities within the organization.

We've included the detailed performance charts that we started to put forward a couple of quarters ago in the Appendix, but what I would like to do is to highlight a few of the different investment capabilities for you more specifically. If we look at some of the improvement, I'd like to focus on a few areas.

Both Invesco AIM and Invesco Trimark generated strong investment performance. Invesco Perpetual had another very, very strong year of performance in winning a number of very important and key industry awards within the United Kingdom, both equity but also in fixed income. We've also seen important improvements in performance in the quantitative strategies, capabilities, and also the global equity capabilities. Finally, our money fund capability continues to perform very well in this tough environment. We've also had strong performance in our MBS, in municipal bond capability in the United States.

So specifically, if you look at AIM's strength, and if you want to use an illustration by looking at the MorningStar ratings, the ratings are the highest they've been since October of 2000 with 58% of Assets Under Management being either four or five star. If you compare this to a year ago, that was 20%, so just a dramatic year-over-year change.

I think one could fairly say that this strong investment performance has had a positive impact on the flows within Invesco AIM during the fourth quarter of the year.

Also, I would note that the redemption rate of the mutual fund business in the United States, the rate was lower than the industry average for the first time in eight years.

Also, I've noted, in prior conversations, Invesco Trimark has a well-communicated and recognized investment discipline. It's one that kept them out of the tech bubble during the [TMP] time. Ultimately clients were rewarded by that focus. During this last cycle, it kept them out of energy stocks for valuation purposes. As you can see in the performance right now through 12-31-08, that served investors very, very well resulting in the relative performance of the Invesco Trimark performance improving quite strongly during that period.

If you take a look at the Invesco quantitative strategies capabilities, you can see one the quarter one year, three-year, five years against benchmark is really quite strong. One thing I would highlight is the structured core equity capability, which is really the flagship capability. It hit its 25th year anniversary and it outperformed benchmark and remained in the top quartile against peers on all relevant time periods.

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Then finally, if you look at the global equity capability, it just had a tremendous turnaround if you look at that quarter, one year, three years, five years, all periods 100% exceeding the benchmark, other than the fourth quarter of last year, which was 90%, so just very, very strong.

Now, let me take a minute and talk about fixed income. We all know that fixed income is just an ever-large and growing opportunity estimated to be about $6 trillion worldwide. All of us are recognizing the aging populations around the world. As people get older, they tend to seek more income and fixed being an important part of that formula.

Also within the fixed income market, the fixed income products are becoming increasingly sophisticated for investors and institutions looking for a broadly across the credit and duration spectrum. I think, within that, it's been such a volatile year that it sure seems that there's going to be an opportunity just also with the natural move probably towards fixed income over the decades ahead but also the unprecedented volatility in the market has really caused some challenges for a number of the managers in the industry. So, it should present an opportunity over the medium term.

Looking at Invesco, we think we are very well positioned for the opportunities in the fixed income market. We manage about $150 billion worldwide in fixed-income capabilities, making us -- ranking us one of the largest fixed-income managers in the world -- the 124 investment professionals on that team. Karen Dunn Kelley, who you all know, has just done a tremendous job with her team navigating this credit crisis and really building a reputation of safe hands as a manager. Again, I think that is one that is separating us and in highlighting us during this very challenging time.

As you will note, if you look at the investment spectrum, we have everything from cash products all the way to -- you know, more fixed income to more aggressive alternative fixed-income capabilities, the MBS capability being one that's very, very strong, and also the much more sophisticated products with good track records in senior secured bank loans, CDOs and the like -- again, areas that are being highlighted as investment opportunities by investors generally right now.

Now, before Loren goes into the fourth-quarter results, I would like to spend a minute to put our multiyear strategy into the context of how we are approaching 2009, because that is how we are approaching the year. Our four strategic priorities have not changed, but they are very applicable to the challenges in our marketplace right now, and they really play off and reinforce our unique strengths, which is the basis on how we are building a successful organization over time.

First a foremost, we continue to focus on investment excellence by strengthening our investment-management capabilities. Second, we will continue to focus on our relationships with clients by providing solutions that meet their needs. It's a pretty simple notion and it's really aligning our investment-management capabilities against our clients' needs, supported by delivering them in the way that they want them. Thirdly, we made significant progress simplifying the organization and improving the business in 2008. We are going to continue that work as we go into 2009. Then finally, we will continue to become stronger and stronger as a more competitive organization as we are continuing to upgrade and enhance the opportunities and challenges for the talent within the organization.

So again, we are very committed and remain very focused on a multiyear strategy that you all know so well. This is a time where we think we will have an opportunity to improve our competitive position.

With that, I'm going to stop and turn it over to Loren.

Loren Starr - *Invesco - CFO*

Thanks, Marty. Let me begin with the financial highlights for the quarter.

Period-ending Assets Under Management decreased 12.8% from Q3 to Q4. However, our average AUM actually declined by 20.4%, which in turn caused our operating revenues to fall by 23.3%.

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Our operating income declined 56.7%, quarter-over-quarter. This decline included $16 million in charges related to savings initiatives and $5.1 million related to our vacating leased office space. Excluding these charges, the net operating margin would have been 23.4%.

In addition to the $21.1 million in operating charges I just mentioned, fully-diluted EPS was impacted by $14.2 million in nonoperating write-downs related to our seed investments and $7.7 million related to nonoperating foreign exchange losses on our long-term, intercompany loans. So excluding the combined impact of these charges, EPS would have been $0.17 instead of $0.08, and our net operating margin would have been 23.4% instead of 19%.

So now, let's turn to the quarterly asset growth story. During the quarter, we experienced falling markets paired with a strengthening dollar, which led to a $50.4 billion reduction in our Assets Under Management. So as a result, we ended this quarter with $357.2 billion in AUM, a decrease of 12.8% since the end of September. However, our average AUM decreased by a much greater amount, 20.4% quarter-over-quarter, since the most significant market and FX impact occurred at the end of the third quarter and early into the fourth quarter.

Our net revenue yield, excluding performance fees, decreased by 2.1 basis points versus Q3 through the market-driven changes of our asset mix.

Next, let's go to the operating results for the quarter. You'll see that our total operating revenues declined 23.3% during the fourth quarter, largely a result of the unfavorable markets and the FX movements we've discussed. Within the operating revenue number, investment management fees were down 28% versus the prior quarter, driven by a lower average AUM but also driven by the decline of equities within our asset mix, again consistent with the sharp drop in our global equity markets. Our equity AUM, as a percent of total AUM, fell from 42% at the end of the third quarter to 36% at the end of the fourth quarter.

On a positive note, our performance fees came in at $24 million, up 31.5% versus Q3. This was due to the relative outperformance of some of the products managed by our Invesco Quantitative Strategies Group, and also by the Invesco Perpetual team.

Services and distribution revenues were down 21.6%, in line with the lower mutual fund asset levels and management fees. Our other revenues actually increased by $16 million on higher transaction fees earned within our private equity business.

Moving down the slide, you'll see our total operating expenses for the quarter at $555 million declined by 13% versus Q3. Total operating expenses were elevated by $21.1 million in charges, made up of $16 million related to cost savings initiatives and $5.1 million related to vacating leased office space.

Employee compensation decreased 10.6% due to the reductions in share-based compensation and pension costs, offset by bonus expense tied to improved investment performance as well as performance fee revenues. Compensation costs in Q4 were elevated by $12.1 million of the previously mentioned $16 million related to savings initiatives that occurred in the fourth quarter. The costs were generated from our ongoing efforts to streamline our operating platform, and they consist primarily of severance and relocation expense. Excluding the $12.1 million charge, compensation would have been down 15% quarter-over-quarter.

Third-party distribution service and advisory expenses declined by 26.4%; that's in line with investment management and service and distribution fees. Marketing was down 10.1%, largely due to lower marketing support payments.

The line item "Property, Office and Technology" actually increased by 14.9%. This was due to the $5.1 million charge resulting from our vacating leased office space in a handful of locations, including the US, Canada and the UK. Recall also that, in the third quarter, we had a $3.3 million reduction in this expense line item. That was due to a downward adjustment in rent costs for an unrelated sublet office property. So excluding these items, our Property Office and Technology would have decreased by 1.7%, quarter-over-quarter.

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Our G&A line item increased by 0.5% in the quarter. Included in these Q4 costs are the remaining $3.9 million of the previously mentioned $16 million related to the savings initiatives. This $3.9 million charge is due to a variety of factors, including the outsourcing of certain back-office functions in Europe, completing the transfer of a portion of our UK pension and administration function to another third-party provider, and incurring a higher level of professional services required to implement our savings initiatives. Excluding these factors, G&A would have been down 5.8%.

Below the operating income line, equity earnings of our unconsolidated affiliates increased by $3.3 million. This line item reflects the results of our Great Wall joint venture as well as the WLR joint venture in China, as well as some other interest.

Interest income declined 10% from lower cash balances and yields, while our interest expense was flat for the quarter. The gains on consolidated investment products are largely offset by the minority interest of consolidated entities. Just as a reminder, these two line items are the result of FIN 46, which requires us to consolidate certain of our investment products.

Other losses in the quarter came in at $21.9 million. This includes write-downs of $14.2 million related to investments in certain of our seed capital and CLO products, as well as $7.7 million related to the impact of foreign exchange on our long-term, intercompany loans.

Our effective tax rate after minority interest increased to 52.9% for the fourth quarter. This is obviously an unusually high rate, and it's directly related to investment write-downs that I mentioned and to the fact that they occurred in a zero or very low tax-rate jurisdiction. So in other words, these losses had no associated tax deductions.

So excluding these one-time items, the effective tax rate would have been 32.2% for Q4.

Just as a reminder, the third-quarter effective tax rate was 27.2%, which was also -- this was unusually low. That was due to the release of $9.9 million of our income tax reserve recorded in accordance with FIN 48. So the full effect of the full-year 2008 effective tax ended up at 32.9%. Based on our current position and assuming no further investment write-down, we would believe that a reasonable forecast for the 2009 tax rate would be about 31.5%.

Now, let me move to our capital position. Despite the volatile markets and the challenging times, Invesco has continued to maintain a stable capital position. During the quarter, we paid down our credit facility by $160 million, leaving only $12 million drawn while maintaining a prudent level of cash on our balance sheet.

Importantly, we want to stress that we remain well within the financial covenant limits of our credit facility. I should also point out that we have no concerns staying within these governments throughout 2009, barring a dramatic market downturn from here.

Finally, as Marty had mentioned previously, we have put the stock buyback on hold. We expect to continue to focus on building cash and debt management until we see more market stability.

Next, let's go to expense guidance. Given the dramatic decline and the ongoing uncertainty of the markets, we thought it might be helpful to provide some transparency and guidance related to our 2009 operating expenses.

Over the past three years, the entire firm has been actively engaged in the continuous improvement programs. As a result, we've achieved a level of greater efficiency and effectiveness, and we frequently discussed these improvement programs with you on private calls. You'll recall they include initiatives such as moving to global operating platforms, utilizing lower-cost enterprise centers, implementing common technologies, and in general more fully leveraging our centers of expertise on a global basis.

2009 guidance reflects an acceleration of these efforts. We understand the need to quickly respond to our lower asset levels by reducing costs, and our actions will provide meaningful savings.

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But it's important to impress upon you that the cost-savings initiatives in Q4 of this year and throughout 2009 in fact largely represent a continuation of the direction and strategy we embarked upon three years ago. In other words, the cost savings that we're going to discuss are not a knee-jerk reaction or a panicked response to the current market environment. They represent a core part of our strategy. These efforts will continue even after the market eventually turns around.

So with that said, let me say that we plan to reduce our 2009 total operating expenses by 17.6% or $450 million so that we would end up with $2.11 billion versus $2.56 billion in 2008. This $450 million reduction is made up of three components -- third-party distribution, which naturally declines with assets; but also employee compensation and other expenses. The other category includes G&A, marketing, property, office and technology.

Importantly, I should emphasize that this guidance for 2009 assumes a continuation of the business environment as of year-end 2008. In other words, it assumes flat markets and no changes to FX rates. Obviously, the guidance would not work if the markets were to move from here or FX.

Let me also provide some further insights into this guidance on the next page. So we ended up 2008 with total operating expenses of $2.56 billion and in estimating our 2009 expenses, we've accounted for lower third-party distribution expenses, we've used current FX rates and we've applied other normalizing adjustments.

On top of these reductions, we expect an additional $140 million in savings. These savings will be generated by our continued movement towards global operating platforms, further leveraging our low-cost (inaudible) centers, tightly managing discretionary spending, better leveraging our centers of expertise on a global basis, and of course effectively managing staff expenses. Most of these savings will flow straight to the operating income line, but we will continue to reinvest in our business in the areas that we see the greatest opportunities. So we've allocated about $35 million of reinvestment this year, and this reflects our ongoing investment in areas, notably in private equity, ETFs, continued investment beyond in technology platforms, and institutional sales and client service.

You also see on this chart that there are transition expenses that are necessary to achieve some of these savings. They amount to $15 million when added to the prior total results in the final expense forecast of $2.11 billion for 2009. Just for those of you who are modeling, we expect that half of these transition expenses to occur in Q1 with the remaining amount spread throughout 2009 relatively evenly.

Let me end by saying that we seek to identify and we will seek to identify and implement savings opportunities above and beyond what this guideline suggests. However, we thought this expense guidance establishes a meaningful baseline for you to use in your models and for us at this point in time. Of course, we will update you, as we have done in the past, on our progress each quarter.

That concludes my remarks. I would like to turn it over to Marty for any final comments before we turn it over for Q&A.

Martin L. Flanagan - *Invesco - President, CEO*

Thank you, Loren. So let me try to put the context of what Loren just talked about as we look forward.

Invesco has one singular focus; that's investment management, and that's all we do. We think this, along with the broad diversification of the organization, is a real strength for us in this very challenging time.

We're going to continue to seek opportunities that will strengthen our competitive position during the year also. We're going to remain very, very focused on executing against this multiyear strategy we talked about in delivering our investment capabilities around the world to meet various client needs. It's really all the work that's been done over the past three years is what's put

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us in this strong position to compete in this current environment and to make the changes that we've been talking about. The primary focus is going to, again, just be to try to improve our competitive position during this time.

So let me just stop there and open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Roger Freeman, Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

Good morning. I just wanted to come back to your expense guidance. In the context of rolling forward or accelerating sort of longer-term plans that are underway, so if I look at at least one of the components, the compensation, can you just put a little more color around that? So is that actually, that involves assuming, I assume some additional cuts, but you're saying it's part of a longer-term plan as opposed to resizing to the current sort of AUM. Is that right?

Loren Starr - *Invesco - CFO*

Hi, this is Loren. Yes, I think the point is we are very much focused on managing our expense base in this current environment. There are clearly activities that we have been through over the last three years that have taken our total staff costs down. It's a process that we're going to continue to engage in.

We are trying to accelerate some of these activities. I mean just as an example, obviously leveraging lower cost enterprise centers is a good opportunity for us to reduce staff expenses. You know, we use an enterprise center in Prince Edward Island; we have one in India. These are things that we can continue to focus on using, but it isn't something that you can do in the span of a month. It's something that actually takes quite a bit of time to orchestrate. So these are the things that we will be working on throughout 2009 that will help us manage our staff costs, but it is by no means sort of an across-the-board headcount reduction that we are talking about here.

Roger Freeman - *Barclays Capital - Analyst*

Okay, so what does the plan assume for overall change in headcount on a percentage basis, '08 to '09?

Loren Starr - *Invesco - CFO*

Again, what I would point to you, Roger, is we ended up with headcount for the year at 5,325 and that was down about 3% versus the prior year. If you continue to look back each of the last three years, we've been averaging about 3% decline in our headcount really, again, consistent with the strategies we have in place. I would suggest that you should look for a sort of a similar trend going forward into '09.

Roger Freeman - *Barclays Capital - Analyst*

Okay. Then just sort of last around the comp, I mean if you look at comp to revenues adjusted in the fourth quarter, adjusted for the one-time costs, the severance I guess, it's like 35.3% I think. Are there any other unusual items to think about with respect

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to reversal of prior-quarter comp, bonus accrual or anything that would have distorted that, or is that a reasonable sort of run rate, barring what we just talked about?

Loren Starr - *Invesco - CFO*

No, I think it's a reasonable run rate because it really is reflective of, I think, where we are in terms of investment performance. Obviously, there were things that were offsetting, but I would say that level is representative of run rate.

Obviously, we do describe reductions in compensation into 2009, so I don't want you to think that compensation is going to be by any means flat, but it is, for where we are today, that was a reasonable level of compensation, given our assets and performance.

Roger Freeman - *Barclays Capital - Analyst*

I got it, okay. Then just on the revenue yield, the management fees as a percent of AUM, you know, you talked about the mix shift with less equities, more fixed income. Within equities, is there anything to talk about in terms of shift from higher-fee products to lower, more specialized, more generic, anything like that that we should be thinking about?

Loren Starr - *Invesco - CFO*

The only thing that I would point out, and it's probably a [nit], is that we did -- you'll notice in the way we described our assets in the back of the presentation, we moved a couple of categorizations around, and there was a shift. About 1% of our equity went into the balanced product as we reclassified certain of our fixed income and equity products into a more consistent definition. So, that's the only noise, I would say, within our equity number that you should be aware of.

Roger Freeman - *Barclays Capital - Analyst*

Okay, the last question -- ETS -- just some thoughts around that. There was tremendous activity late in the year as institutional investors in particular moved to ETS to sort of play short-term trends in the market. Do you see that continuing, or do you think, as volatility comes out of the markets and the markets normalize, that sort of the interest level in ETF starts to come back a bit?

Martin L. Flanagan - *Invesco - President, CEO*

This is Marty. You know, yes, I think you are right on the topic. You have to look at it in the context of the environment. I think ETFs are a vehicle that it's an important vehicle. Much of the activity you saw were really in the more broad-based, index-type ETFs during that period. Just as you say, it was really people trying to get exposure to the market.

Our approach has been, with PowerShares, it's really much more focused on investment solutions for broader capabilities for the investment advice channel. We think it's an important vehicle for the industry, but also for us, and we think the future is really quite strong. It's always hard to predict the future, but in this environment, I think even more so.

Operator

Michael Kim, Sandler O'Neill.

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Michael Kim - *Sandler O'Neill - Analyst*

Good morning. The first question I had was it seems like you continue to invest through the cycle in terms of either building out manufacturing or distribution capabilities, whether it be at PowerShares or WL Ross or other parts of the business. I'm just curious. Where do you think you are in terms of the whole cross-selling initiative? Has your timeline been pushed out to some extent, just given kind of the market environment?

Martin L. Flanagan - *Invesco - President, CEO*

Yes, great question. I would say we are continuing to -- as I said, the simple focus on understanding client needs and deliver our capabilities to them. You know, the time line is probably -- at one level been slowed. If you look at institutions, foundations, endowments and the like and individuals in particular, they got quite scared during the fourth quarter, so the activity in the fourth quarter was people just stopped. So from that point of view, obviously activity stopped. But you know, we spend a lot of time and myself out with clients, consultants and distributors really just in a mode of understanding how can we -- what can we all do for our clients during that period.

I would say the reception we are getting in the market with how we are operating the Firm is strong; it's been since I've been here. So again, I think the most important driver is going to be when investors start to get confident and have a willingness to move out the risk spectrum. Your guess on that is probably as good as mine.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Then, secondly, it seems like you pretty much turned the corner on performance, but unfortunately it has just come at a time of really unprecedented markets, so I'm just wondering what your current thoughts are in terms of maybe what you're doing to make sure you are positioned to fully leverage your outperformance when retail investors do start to eventually take on more risk.

Martin L. Flanagan - *Invesco - President, CEO*

It's a similar answer to the prior question. The best thing that we can be doing right now, as a firm in our approach during this environment, is twofold -- one, spend time with the clients and the advisors and the distributors and understand their needs and wants and be responsive to their challenges in this marketplace. So everybody is very focused on that, so it's been a very outward-focused effort, even during the fourth quarter and it will continue to be.

The other thing that we're doing just as a firm -- and I think Loren put it out there for you -- we are doing everything we can to control what we can control. I don't know where the market is going, nor do probably anyone else on the phone, so just laying in place what we think is a very, very thoughtful and credible approach to the market in controlling what we can and in the meantime, focusing on achieving consistent, good long-term performance. Making sure that we have investment capabilities that clients want is the most -- is the highest level of focus for us as a firm.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Then just finally, I know your retail money market fund business is pretty limited, but I'm just wondering if you could give us an update on where some of your institutional funds stand in terms of yields, and how much flexibility you have on the fee side, assuming yields do stay where they are today for an extended period.

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Martin L. Flanagan - *Invesco - President, CEO*

Yes, you know, I don't have the specific assets in my mind between treasury, agency and prime funds, but the prime funds really are in a different place than the treasury funds. I think that's where some of the popular press is sort of focused on the yields and the treasury funds. But prime funds, the yields broadly across the industry are probably north of 125 basis points to 175. So, I think there is still some capability there for them.

But I think, most importantly, to focus on what clients are looking at within the money funds is probably the most important thing to understand. They're not yield seekers; it's a product of seeking safety, liquidity support, at the end, yield. That is what has made the product competitive and probably very important to understand.

Loren Starr - *Invesco - CFO*

Michael, just of $84 billion of money markets, about $27 billion that is treasury-related. We are not seeing any issues in terms of having to waive fees because our fees in the institutional business are low, 12 basis points. We've been able to reinvest it at higher rates. So any sort of issues around sort of fee reductions is not an issue. I'll just put that out.

Michael Kim - *Sandler O'Neill - Analyst*

Okay, that's helpful. Thanks, guys.

Operator

Mike Carrier, UBS.

Mike Carrier - *UBS - Analyst*

First is a question on the expenses. You know, when we look at the guidance that you've given so far for '09, if the markets continue to be under pressure, obviously the third-party distribution service and advisory expenses, those will decline with the assets.

But on the other side, on the compensation component, do you feel like you have as much flexibility because your relative performance is improving? I'm just wondering like how much flexibility you have there when you are determining that, meaning versus performance, versus just the operating environment for the businesses under pressure.

Martin L. Flanagan - *Invesco - President, CEO*

You know, I understand why you would ask the question; it's a very hard one to answer. What we are trying to do is give you the greatest insight into '09, recognizing that we don't know what it's going to be.

But the way that we have structured compensation, it's at the highest level of the Firm's operating results, but really it's very, very important. What we've done is put compensation plans in place around the investment management teams that are consistent with generating consistent, good long-term performance. So it will depend on a combination of the two.

So I wish I could be more specific; I can't. But I think the real thing I think I would point you to is the clarity that we are laying out in 2009 to give you a sense of what it would look like in sort of a consistent environment as we are right now.

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Mike Carrier - *UBS - Analyst*

Yes. That's fair. Then just one other one -- you know, I think both on the retail side and then on the institutional side, you know, there is a lot going on, on the client side, just first people sitting on their hands, just trying to figure out what to do going forward in terms of allocations and rebalancings.

In fixed income, you guys had inflows. Just any insight on where that's coming from? Is it on the institution side, just different products?

I guess on the retail side, just given the consolidation among the broker-dealers, is distribution going to be more and more of a tough thing to get to? Do you feel like you are fairly well-positioned, just given the platforms that you are on currently? Plus, you have the improving performance.

Martin L. Flanagan - *Invesco - President, CEO*

Yes, I think these are -- I'll make general statements, and you can take specifics and prove it wrong. But I would say the general statement is, as in the past, it's really the more institutional-like decision makers are continuing -- they are more inclined to make moves in the market, and more so than the retail investors. There has not been a huge movement right now out the risk spectrum right now. There has been some babbling; you've heard it all and have seen people -- the opportunities in muni bonds for individuals and the like, and some of the returns that can be generated and some of the credit areas on the fixed-income side. So I wouldn't make a broad, sweeping comment.

With regard to the changing distribution landscape through the consolidation of the broker, the wire houses in particular, it's early days to draw conclusions of what the final outcome is going to be in that. I would say we just all need to pay attention.

I would say, as an organization, the people that are broadly diversified that are already in those channels are much more likely to succeed than those that are really new entrants to the market. I think it is going to be a much more difficult market to be successful in going forward, so I would say, if you want to use the phraseology, the barriers to entry are -- I think you can absolutely conclude have gone up.

Mike Carrier - *UBS - Analyst*

Okay. Then the last one just on some of the smaller items -- in the nonoperating income or loss areas, anything that you guys can do just in terms of hedging the exposure, whether it's on the investments or the FX, or is it just one of those things where, in good times, you benefit and in bad times it's more of headwind?

Then the only other thing is other revenues. I'm just curious. You said the increase is related to transactions in private equity. So was it just investments that were longer-term and it just seems interesting in this environment? That's it, thanks.

Loren Starr - *Invesco - CFO*

So, on the topic of hedging, I would say our philosophy has been to not hedge. Obviously, given the volatility that we've seen, hopefully this is not an ongoing kind of environment that we're going to be in. So we probably, if we put a hedge on it, it would be at [perfectly] the wrong time to do it. So I think the point is you are probably right. In good times, it's good and in bad times, it's bad.

Importantly, too, is that these are not realized, so in fact what's down could come back and will be a gain, so hopefully people can see through some of the forced accounting, how we have to treat these things. But these aren't cash sort of outflows for us.

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On the issue of the other revenues, the transaction fees, that was specifically revenue that came from one of the portfolio companies in one of the WLR funds that there was an acquisition done, and the team was able to facilitate that and they received a fee. So that's how we generated that fee.

Operator

Dan Fannon, Jefferies.

Dan Fannon - *Jefferies & Co. - Analyst*

Good morning and thanks for taking my questions. Just kind of building on that last question quickly, in terms of other revenues and also with performance fees, as we kind of look into '09, I mean what should we look at for kind of good baseline levels to be looking at? I understand there will be one-off stuff, but just what is more -- certainly on the other side, what would be more consistent? Then, in terms of performance fees, do you have some outlook as to the reasonability of generating those into 2009?

Loren Starr - *Invesco - CFO*

It's a great question. I wish I were that smart to be able to predict it. I think I can say that obviously performance fees are very hard to predict, as are the other revenue line items. It is -- obviously, when it comes to transaction fees, it's hard to know when they happen. When they happen, they tend to be chunky.

I do think that, if you look at other revenues, it was probably on the light side in the third quarter. It was probably, again, because of this large fee coming in, it is probably on the heavy side in the fourth quarter. Probably something in between the two quarters is a more realistic ongoing sort of smooth line estimate.

As for performance fees, again, we've talked about in the past we think it's an ongoing positive for us. We do see performance fees typically heavy in the first and the fourth quarter. A large part of that has been driven by the outperformance in the UK in their investment trusts. The UK continues to do very well, and therefore, again looking at the historical pattern, may not be a bad guide for you thinking forward. But again, it's hard to predict with huge certainty.

The other positive is the performance in our quantitative strategies group, which was responsible for a fair amount of the performance fee. The largest part of the performance fee this quarter came from that group. They do tend to pay on a quarterly basis, and so there is a potential that we will continue to see stronger performance fees on a quarterly basis through the year. But once again, those are a little bit hard to predict, and so I'm not going to give you a number on that one other than to say there's probably more reason to be optimistic than pessimistic that performance fees are going to be reasonably healthy.

Dan Fannon - *Jefferies & Co. - Analyst*

Okay, that's helpful. Then, your long-term net flows were positive in the UK. It is that where you see kind of the most opportunity as you look out in terms of growth when you think of the performance at Perpetual and others in those areas?

Loren Starr - *Invesco - CFO*

Well, I would say that we are actually very optimistic about all our retail platforms. The Perpetual has achieved such a great position in the UK markets, it's hard to imagine it could get much better than it already is at, but it does obviously and continues to perform very, very well. I think we are extremely excited about where the US and Canadian businesses are going, given the fairly significant improvements in performance. So I guess, on a personal basis, I would say I would be more excited about the

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changes in those latter two platforms than in the UK, even though I think the UK has every reason to expect to continue to perform.

Martin L. Flanagan - *Invesco - President, CEO*

I would add to that, too. It's the combination of, again, the relative investment performance that has been generated, which puts you in a good place to start and also consistent with one of the prior conversations, just the long history in the distribution channel is another one that's important. But I think another thing that makes us very, very unique, again, is not just the capabilities but the mechanisms to deliver them -- yes, mutual funds, which are very good and very strong, but again, ETFs are, we think, going to be a growing and important factor in the advice channel and something that we are, over the longer-term, think are going to be an important part, growing in importance within this organization as we look forward and in particular here in the United States. It's been introduced in Europe but Canada is on the horizon for this next year also.

Dan Fannon - *Jefferies & Co. - Analyst*

Great, thank you.

Operator

William Katz, Buckingham Research.

William Katz - *Buckingham Research - Analyst*

Good morning, everyone. I just wanted to follow up on just a couple of topics. I'm sort of intrigued by your comments about trying to improve the competitive positioning in some of your businesses. So it's sort of a two-part question. I'm sort of wondering. As you look into 2009, are there any businesses that might be subscale in the scheme of where you are? I guess I would be specifically curious if your discussion in the money markets, given what's going on in that business, inclusive of stable value.

Then on the other side, I hear what you are saying in terms of building cash and cutting debt, but where are you in terms of thinking from an acquisition perspective? You've been pretty timely in the past with PowerShares and Wilbur Ross. You are highlighting fixed income as a great opportunity here. But how do we think about de novo versus external growth?

Martin L. Flanagan - *Invesco - President, CEO*

With regard to the issue of I guess relative scale, Bill, why don't I do that? You know, the way that we have approached it, and if you look over the last 3.5 years, what we have done is sort of focus on these centers of excellence. So the narrowing has been through, whether it be fund mergers or eliminating areas of mandates that we just didn't think were competitive, or we didn't do very well. So that's been one way that we've been dealing with that topic over time.

With regard to money fund stable value, you have to understand the whole business that were in. It's really the credit will of the whole thing, and it's part of the whole fixed-income capability. That said, within money funds by themselves, we done a tremendous job. I feel very, very good about the scale that we have, the reputation that have, the opportunities in front of us. Again, you will find very few firms that have not had a single security downgraded within their money fund portfolios. It's really that credit capability in the safe hands that we think will be not just benefiting (inaudible) as he move further out the credit spectrum.

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If you look at the other end of it, it's really in some of the bank loan products and our capabilities there that we've done well. Again, I think once people sort of start to get a little more confidence in the future, I think those are the areas that should serve us well.

With regard to acquisitions, I would say the same thing that we have in the past. The first and foremost effort is focused on improving our business and organic success. We will continue to pay attention, in the marketplace, to opportunities, you know, lots of productions about consolidation going forward.

I think the message so far, though, has been -- and you do this every single day -- looking at these businesses, it is unclear in a number -- you know, I would probably say it has been too early, probably, to pull the trigger because of the total of uncertainty that has been in the market. But I think, as greater clarity comes out, I think you could probably see some transactions. But again, that's a broad statement.

For us more specifically, it just needs to be consistent with our strategy. We will do what we've done in the past, make sure it's consistent with the strategy, be very focused and disciplined in the valuation but also the execution.

William Katz - *Buckingham Research - Analyst*

Okay. Then just one other follow-up question. Sort of thinking about your comments about getting good reception with clients as you sort of go around and speak with them some in the fourth quarter. How would you quantify the institutional pipeline today versus either the end of September or a year ago, and maybe your win or capture rates within that?

Martin L. Flanagan - *Invesco - President, CEO*

Yes, Bill, we've not published the sort of pipeline or the capture rates historically. By the way, I don't have them off the top of my head. But what I can tell you is it's easier for me to put this in the context of 12 months ago or 24 months ago, 36 months ago, just a world of difference. The client reception, the consultant reception, is just at a very, very different level.

The gating factor at the moment I would say is just that, as endowment, foundations, corporations, pension plans and the like, it has been one of focusing on the events of the fourth quarter and the uncertainty. Our engagement simply during that period was just on that, you know, how can we be helpful during that period.

So again, I think most important thing we can do is do what we've been doing. As time changes, we would think we would put ourselves in a position to be a beneficiary during that period.

William Katz - *Buckingham Research - Analyst*

Okay, just one last one and I always appreciate your thoughts on the industry. You always seem to highlight things just before they take off a little bit. Obviously, you've spent a lot of time today on the fixed-income business.

Is it your supposition that there's really more, a little bit more of a market share capture opportunity here, given what you said about some of the dislocation comments earlier, or is it more of a more structural shift, given the aging demographics plus the [bags off] for the last two years that is driving that slide?

Martin L. Flanagan - *Invesco - President, CEO*

Yes, I think it's both and at different time frames. I would say, just generally in the industry broadly, there is likely to be a market share shift that we've not seen in probably since TMT blew up, right, whether it be equity or fixed income. So I think that's the

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shorter-term reality, and that's over the next 12-18 months. So I think that's -- all the ships have been rocked, so I think open eyes everywhere there. In it, I would say fixed-income, too. I think, if you look at some of the fixed-income performance that's been generated, I think some firms have done very fine for their clients, others have not. I don't think anybody would've thought that their base income would return to what would could have been as challenges they had been.

So I would say, on the fixed-income side, I think the first movement is just sort of the market-share move. The longer term is really the demographic thing. I think we all know it all too well. But I think the combination of the two are probably important.

William Katz - *Buckingham Research - Analyst*

Okay, thanks very much.

Operator

Robert Lee, KBW.

Robert Lee - *Keefe Bruyette Woods - Analyst*

A quick question on the distribution -- you know, with the significant disruption in retail distribution, whether it is consolidation or just the turmoil, one of the things you seem to be seeing is an acceleration in the trend towards more independent registered investment advisors, broker-dealers, a few more throwing in the towel on the bigger firms. Is that at all impacting or changing how you are thinking about your retail distribution strategy? I know you put a lot of time and effort into trying to focus on some of the bigger distributors really to the market, to the home offices. Is it causing you to kind of rethink that or alter it in any way?

Martin L. Flanagan - *Invesco - President, CEO*

Let's see. I think your observation is a good one. I think we are still sort of unclear where it all shakes out, but I think it's -- I think we all sort of bet the likelihood of the independents becoming larger than they are now feels like the right thing.

We also have been -- part of the focus, half the focus has been in the independent channel. We look probably like everybody else in the industry and would adopt accordingly if that was the case. But again, I still think the core is one of useful phraseology. Wirehouses are still very, very important. But I think declaring an outcome at this moment would be a little premature.

Robert Lee - *Keefe Bruyette Woods - Analyst*

Okay. I'm just curious if you could update us on any of the Ross' capital-raising plans. I don't know if there is anything you could talk about in the pipeline or expectations over the coming quarters.

Martin L. Flanagan - *Invesco - President, CEO*

You know, it's a great question. I would hate to say it. We can't answer the question just because of the way that stuff works with being privately registered. I think, though, the reality is (technical difficulty) one heck of an investor, and I think it's really the investment opportunities are probably going to be the primary focus in the next little while.

I think the other reality is you've all heard of this denominator effect largely within the pension plans and endowments foundations where they've woken up with their asset allocations really being out of whack, which too much of it being an alternative simply because of the (technical difficulty) and equities and fixed income. So these are broad comments, not -- so these are macro-industry

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comments. So I think what most people are seeing or expecting their expectations for fundraising are put back a couple of quarters until people get a sense of how they want to move forward. So again, that's a macro comment, just to be clear.

Robert Lee - *Keefe Bruyette Woods - Analyst*

Okay. Maybe one last question -- and I know you made some comments in fixed income about maybe some investors somewhere edging a little bit into some riskier assets. But can you give us any color from the retail perspective? I mean, I know it's only a month and a lot of things can still change. But any sense of how the feel or tone may have evolved over the last four weeks compared to kind of where things were? Just any sense if things have settled down?

Martin L. Flanagan - *Invesco - President, CEO*

You know, my personal view is it's a relative view, right? So, the fourth quarter was just very unsettling for everybody, and probably everybody on the phone, too. So recognizing the starting points, I think it's an improved attitude. You can just sense it where people are -- it's sort of that slow move from everything getting -- people thinking it's just getting worse and worse every day, the tone is I think much more along "I can see the opportunities; valuations look good, and the opportunities, whether it be muni bonds or high yield." So those conversations are there, which was just not the case. That is, I think, what ultimately becomes the beginning of a better environment.

Robert Lee - *Keefe Bruyette Woods - Analyst*

Great. I appreciate the time. Thank you.

Martin L. Flanagan - *Invesco - President, CEO*

Good. We're going to take one more question, if that's okay.

Operator

Ken Worthington, JP Morgan.

Ken Worthington - *JP Morgan Chase & Co. - Analyst*

I'm sorry, all my questions have now been asked and answered, so I apologize for wasting the spot.

Martin L. Flanagan - *Invesco - President, CEO*

That's a great question! With that, let me just conclude and wrap up. Again, thank you very much, everybody. What a time we've lived in, and it could be a harder time to be an analyst following companies, but again, I think, in total, 2009 has got to be better than 2008.

Hopefully, we got across the message of our focus and gave you some clarity on how we are moving forward. You know, we just look at the depth and breadth of our investment capabilities relative to our performance as a good starting place, and really the reputations of those firms and whether they be safe hands during this period I think are also things that are going to resonate very, very well as you move forward.

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Again, as through some of the questions, it's -- the opportunity for those firms that are positioned I think in the eventual rebound should bode well for those firms. We are working very, very hard to be one of them.

So again, thank you very much. We will be talking to you in our next quarter. So, thank you.

Operator

Thank you for participating in today's conference. You may disconnect at this time.

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