

# FINAL TRANSCRIPT

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## **IVZ - Q1 2009 Invesco Ltd. Earnings Conference Call**

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## CORPORATE PARTICIPANTS

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

**Loren Starr**  
*Invesco Ltd. - CFO*

## CONFERENCE CALL PARTICIPANTS

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

**William Katz**  
*Buckingham Research - Analyst*

**Robert Lee**  
*KBW - Analyst*

**Jeff Hopson**  
*Stifel Nicolaus - Analyst*

**Mark Irizarry**  
*Goldman Sachs - Analyst*

**Cynthia Mayer**  
*Banc of America - Analyst*

**Dan Fannon**  
*Jefferies & Company - Analyst*

## 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 development, 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, estimate, projects, and future or conditional verbs, such as will, may, could, should and would, as well as any other statement that necessarily depends on future events or intended to identify forward-looking statements. Forward-looking statements are not guarantees and they involve risk, 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 this reports at the SEC Web site at [www.SEC.gov](http://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. Welcome to Invesco first quarter results conference call. All participants will be on a listen-only mode until the question and answer session. (Operator instructions) Today's conference is being recorded, if you have any objections you may disconnect now.

Now, I would like to turn the call over to the speakers for today Mr. Martin L. Flanagan, President and CEO of Invesco and Mr. Loren Starr, Chief Financial Officer. Mr. Flanagan you may begin.

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

Thank you very much. I want to thank everybody for joining us for our first quarter call in 2009 and it was just highlighted, Loren Starr is here with me, our CFO. I'm going to be speaking to the presentation that has been posted to the website if you are so inclined to follow. I'm going to hit a few of the business highlights. Loren will talk about the financial results in more detail and then we'll open it up to Q&A. I think to start with it is important always to put the results in the context of the marketplace and everybody on this call and all of us realize the first quarter was the most volatile and difficult markets that we have all operated in; I think all of us were also very happy to see the recovery that we saw at the end of March, but again, I think very few of us would have expected that we'd be sitting here in April with largely equity markets being down again, from 2008 when we were sitting where we were last December. But in spite of the external challenges, I believe the work we've done is simplified the organization to strengthen the business and our continued focus to be very, very disciplined about how we run the business and our approach to the markets, it put us in a really relatively strong position to compete in this environment. You'll see again, our relative investment performance across the firm remains quite strong and obviously that's something that helps you build relationships with your current clients and also gives the opportunity for further relationships when the markets do turn. During the quarter, we did see strong organic growth in several areas, which contributed to long-term positive flows, again, and also total flows were positive for the quarter also.

We did remain very, very focused on managing expenses during the period and trying to find ways to ever improve our operating efficiencies and I think also, important feedback that we are all getting, I was out with clients and consultants quite extensively over the past few months and in those discussions it is quite clear from clients that they are intensely interested in the stability of the firms that they are working with, they want to work with firms that have the resources to meet their needs and really the stability to deliver against the commitment that we have made to those firms and also to avoid problems. And I think we all are very aware too there is an enormous amount of money sitting on the sidelines and at some point that will come back into the market and we believe, given our stability during this market dislocation and our relative investment performance we are well positioned today do well when that does happen.

More specifically, let me hit a few of the highlights of the operating results during the quarter. We did end the quarter with assets under management of \$348 billion. We did see the improvement in net long-term flows during the quarter. Again, we had another strong quarter of flows into the money fund business, our net operating margin for the quarter was 16.5% as compared to 19% in the prior quarter, but overall, earnings per share was flat this quarter to last quarter. Loren will go into much more detail to explain those results in just a minute. We continue to be very focused on managing our capital position during this period of time.

I think the bottom line, with our operating results, is that things that we can control that we could control, we in fact did, whether it be the operating expenses of the business, but then also that complimented by the net inflows during the quarter and the relative investment performance. Finally, the Board did declare an increased dividend. The first quarter dividend will be \$0.1025. It is a 2.5% increase over the fourth quarter dividend last quarter.

Let me spend a minute just on flows. Overall, gross flows of our long-term assets declined 7.7%, quarter over quarter, but importantly, redemptions dropped 31% during this past quarter and as a result, that's how we add the net long-term inflows of \$0.7 billion, that's a \$1.8 billion improvement quarter over quarter. And again, our cash management business had another very strong quarter growing almost 11% during the period. And we continue to see strong interest in that area of our business. If you take a look at the flows by distribution channel, you can see that net inflows improved in both retail and institutional channels for us. The net inflow improvement in the retail channel was largely driven by continued strong flows in Invesco Professional and also the Invesco Power Shares side of the business.

Institutionally, net inflows also improved largely due to a sharp decline in redemptions during the period. And, again, the quarter, the markets were very, very volatile. The S&P, if you want to use that somewhat as a proxy indicator for some of the markets around the world was down 11% during the quarter and ending the quarter all the markets firmly in negative territory. But in spite of that, our long-term investment performance remains strong and if you look at the end of March, and look at our relative

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performance over one, three and five years on a one year basis 71% of all the assets, beat peers, on a three-year basis 69% of the assets beat peers and five-year basis 80% of our assets under management beat peers. There are the detail charts on our relative investment performance in the appendix if you are so inclined but let me just take a minute and talk about a couple of investment performance highlights.

Invesco Inc. continued to have strong investment performance, 54% of the assets now are rated four and five Star by Morningstar. Invesco Asian Pacific did well versus peers on a one, three, and five-year basis and also during the quarter the Asian Investment Team won 13 awards in eight countries at the 2009 Lipper Fund Awards and also, that includes being awarded the Best Equity Group for our China joint venture, which again, I think is quite a nice recognition. Long-term investment performance remains very strong at Invesco Perpetual in our traditional equity business but also our fixed income business which is just a growing strength within the organization. Our global and quantitative equity performance did well, again, against benchmark, and finally the worldwide fixed income team continued to have strong results for clients during the quarter and again, building this reputation as being sort of the safe hands manager in what has been a very, very volatility and challenging time for those people managing in credit also.

So let me stop there. Those are the highlights. And Loren will talk about the operating results and then we'll get the questions.

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**Loren Starr** - *Invesco Ltd. - CFO*

Thanks, Marty. During the quarter, we saw total net inflows of \$9.3 billion, which were more than offset by \$18.3 billion related to declining markets in FX. This led to a \$9 billion decline in assets under management. So the result we ended the quarter with \$348.2 billion in assets under management a decrease of 2.5% since the end of December. Our net revenue yield came in at 46.7 basis points, a some what larger decline than normal relative to the prior quarter and this was due to several factors that I'll review in more detail shortly. But first let's go to the income statement.

You'll see that total operating revenues declined 13.5% during the quarter and this is driven primarily by a negative AUM fee mix shift as well as lower performance fees and other revenues. Investment management fees were down 8.8% versus the prior quarter and this decrease is explained by the impact of declining global equity markets on our higher fee equity assets. Our equity AUM, as percentage of total AUM fell from 36% in the fourth quarter to 33% at the end of the first quarter of 2009.

Importantly, performance fees came in at \$11 million, as a result of strong investment performance in both the UK and Australia. However, this is less than half of what we earned in Q4 whether we were able to generate an additional \$13 million due to our performance by several of our quantitative equity strategies. There were some distribution revenues were down 12.2% due to the lower average assets as well as lower fund administration fees earned in Canada. Other revenues came in at \$12 million and that's down \$19 million compared to Q4. This decline is explained by much lower levels of transaction activity for both our real estate and private equity businesses, which is a direct function of the current market environment.

Moving on done the slide, you'll see that our total operating expenses for the quarter at \$487 million declined by 11.5% versus Q4 and this is consistent with the annual guidance that we presented to you last quarter, which called for a total decrease in year over year expenses of \$450 million or 17.6%, which assumes that markets in FX were flat to year end levels. We believe we are very solidly on track to achieve this level of savings and we are working very hard to do even better than what this guidance suggests.

Employee compensation expenses came in at \$235.8 million in the first quarter versus \$236 million in the fourth quarter. Our first quarter compensation expenses included a seasonal increase in payroll taxes of \$8.8 million, as well as \$13 million related to savings initiatives. You'll note that we had \$12.1 million in costs related to savings initiatives in the fourth quarter. Excluding these impacts compensation would have been down 4.4% in the first quarter. Third party distribution service advisory declined by 8.9% and this was in line with lower investment management service and distribution fees.

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Marketing came in down 14.1% as we scaled back advertising and sales related travel and entertainment. Also marketing support payments declined on lower average assets under management. Property office and technology decreased 20.9% due to continued cost discipline measures. In addition, there was \$5.1 million in costs incurred during the fourth quarter related to vacating lease property, excluding this fourth quarter item property office and technology would have been down 13.2%.

G&A declined 51.6% in the quarter. In the first quarter expenses included a \$9.5 million insurance recovery and in the fourth quarter there was \$3.9 million related cost savings initiatives. Excluding these impacts G&A would have declined 32% quarter over quarter. Below the operating income line equity earnings of unconsolidation affiliates decreased to \$2.5 million, this was due to net losses of \$3.9 million in certain of our partnership investments, which were unrelated to our Great Wall joint venture in China.

Moving on down, gains of consolidated investment products, as we have seen in the past, were largely offset by the losses attributable to noncontrolling interests in consolidated entities. These two line items are a result of FIN 46 which requires us to consolidate certain investment products. I would also like to note that the minority interest line item that had been in previous presentations is now called losses attributable to noncontrolling interests in consolidated entities and this change is consistent with our adoption of FAS 160 that occurred at the beginning of the year.

We saw that other losses in the quarter came in at \$4.2 million, this included \$6.6 million in unrealized investment write downs, related to CLOs and seed capital. Similar to the fourth quarter our effective tax rate, which came in at 39.8% was unusually elevated and this was a result of the investment write downs and partnership losses that occurred in zero or low tax rate jurisdictions. We had previously provided guidance to you that our 2009 effective tax rate forecast would be 31.5%.

Given the Q1 impact I just discussed and our current profit mix we now expect the full year rate to be closer to 34%. However, you should be aware this is based on the assumption of no further investment write downs occurring this year. So as a result, EPS came in at \$0.08 for the quarter which is basically flat to the prior quarter and the combined EPS impacts of the \$10.5 million in nonoperating losses as well as a \$13 million in savings initiatives expense offset by \$9.5 million of insurance recovery was a total impact of \$0.032.

Now I would like to turn to the next slide and talk a little bit about the change in your net revenue yields. So as I mentioned, quarter over quarter our net revenue yield declined by 7.3 basis points on annual analyzed basis. We thought it would be helpful to explain this change in a little more detail. The biggest factor contributing to the variance was the market driven change in our asset mix. Our equity AUM, with a blended net revenue rate of approximately 79 to 80 basis points decrease in line with global equity markets during the quarter and at the same time, through inflows, we added \$8.6 billion of institutional money market AUM, with a net revenue yield of about 11 to 12 basis points. And that explained three basis points of the 7.3 basis point variance. The decline in other revenues and performance fees accounted for 3.6 basis points in the change in yield and finally, with two fewer billing days in Q1 versus Q4 for our retail assets, that accounted for about 0.7 basis points in yield change. With that, I would like to turn it over to Marty before we open up to Q&A.

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

Great. Just to wrap-up the quarter I think you have to put it in a context of obviously the markets. We think we have made great progress over the last three years, strengthening the relative position of our business. And the interest that we are seeing. I think it's really the going forward prospects for the industry and for our company within it. We think we are very, very well positioned and we think the efforts that we have undertaken position us very, very well, again, with the relative performance of where we are standing. But why don't we stop there and get to questions, and move on from there.

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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions). One moment please for the first question. Our first question from Michael Kim with Sandler O'Neill . Your line is open

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### Michael Kim - Sandler O'Neill - Analyst

Hey guys, good morning. The first question I had is more technical in nature. Can you talk about the share count for the quarter? It looks like it was a bit higher than I had expected.

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### Loren Starr - Invesco Ltd. - CFO

Yes, Michael, we typically provide equity grants during February for the full year performance of 2008, in this case. So you saw the share count ticked up as a result of those grants being distributed.

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### Michael Kim - Sandler O'Neill - Analyst

Okay. And then kind of a more broader question. As it relates to the institutional side of the business. Are you guys starting to see a pickup in RFP activity now that the markets have stabilized more recently? And if that's the case, kind of what are some of the strategies that seem to be generating the most interest?

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### Martin Flanagan - Invesco Ltd. - President, CEO

Yes. It's very interesting dynamic and I think we are all living it from the time we were spending the middle of fourth quarter through recently in the fourth quarter you characterize the interactions with consultants and clients just frozen, just really wondering what to do. The feedback we got starting in January was what large and dominate foundation pension plans and the like were doing, they were stepping back to reassess their asset allocation plans and that in expectation of changes, mandate movements toward the second half of the year, and with the exception being sort of -- situations where there were sort of emergency need to move, it seems to me that as the markets get better, you can see that start to pickup more. What we are seeing, very specifically for us, is obviously the cash business for those people in the business, it's been a very active area. But longer dated on the risk side, it is looking at bank loan type products. Real estate continues to be a very high level interest for us institutionally. Also, our S allocation capabilities with our getting an awful lot of interest from clients and just generally on the alternative side, what we are seeing more on the see side is more inquiries in some of the core equity type products is what's happening now.

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### Michael Kim - Sandler O'Neill - Analyst

Okay. And then just finally, I know it's still early. But given the recent market rally, has your thinking in terms of reinstating the share buy back program changed at all? Or are you kind of just likely to remain on the side lines until you get past, I guess the debt repayment at the end of the year?

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### Loren Starr - Invesco Ltd. - CFO

Michael this is Loren. It's the latter. I think we are still not, can't predict where the markets are going to go. And we do think that looking at the debt repayment it is probably a more likely scenario for us at this stage.

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

Okay. That's helpful. Thanks.

**Operator**

Thank you, our next question from William Katz with Buckingham Research. Your line is open now.

**William Katz** - *Buckingham Research - Analyst*

Thank you and good morning, afternoon, everyone. My last quarter you provided a slide about expense outlook relative to a flat market, I think was the way you positioned it. And FX being flat. So wondered if you could give an update to your thinking relative to that expectation?

**Loren Starr** - *Invesco Ltd. - CFO*

Okay, Bill, yes, I think we feel good that in the quarter we certainly managed well within what we were guiding. Obviously, it's an annual guidance and not a quarterly guidance and the market has been quite volatile. Just even within the quarter with quite a bit of a decline and then some snap back. So we think we are certainly on track to manage to that guidance, and again, I think we feel that we are going to be working hard and then hopefully will be successful to do better than what the guidance suggested.

**William Katz** - *Buckingham Research - Analyst*

Okay. Within that, I noticed, I guess the comp was relatively flattish. Ex the FICA change and the restructuring charge I guess that reflects the step up of restricted stock grants. But your headcount was down about 4% sequentially. Is there any relief to compensation just related to that change?

**Loren Starr** - *Invesco Ltd. - CFO*

Well, I think again, if you look at employee compensation, with excluding the severance impacts and you look at a quarter over quarter comp would have been down around 44.4% again excluding the payroll for, again, I think it is one of these things that some of the changes took place throughout the quarter and so, it wasn't a full quarter's worth of impact. But I'd say again, that generally our guidance is structured more around looking at the total expenses and again, getting focused just on the employee comp line maybe misleading you in terms of what we're able to do in terms of our total outlook on managing expenses.

**William Katz** - *Buckingham Research - Analyst*

Okay. That's very helpful. Marty sort of curious a competitive talk about interest in [TALF] and PPIP and other government mandate, sort of wondering it seems you would have the criteria to at least put your name in the hat. Wondering where you stand in terms of that that opportunity and one other follow-up question.

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

Sure. We are very very interested in the PPIP, which everybody is referring to it right now. In fact we filed our RFP response yesterday. Needless to say we think it's a very, very competitive response. And we are very hopeful that we end up being one of the people that are selected to be one of the managers.

**William Katz** - *Buckingham Research - Analyst*

Okay. And the last question I have you may have answered in your question around the debt and capital management. But there are a number of sort of seemingly other properties now coming up for sale. There's been some talk of Columbia, whether [BOA] it is going to sell or not. I think Lincoln Financial announced the other day they are looking to sell Delaware and I'm sure there are other names like that likely to come out in the next few weeks and months. Just sort of curious how you are thinking strategically now given the core business seems to now be turning in a reflection point is there enough leverage to the core business to continue to or are you at a where you could step function the franchise to an acquisition?

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

I think your question is almost the answer. You know, we feel really good about where we've gotten to with our business. Obviously, I think we are all going to look back is this is likely going to be coming out of one of the most difficult quarters in our history. And with that said, the way we position the business we feel very good about where it is organically. That said, we also feel we have the capacity, if it makes sense for us and our business to acquire an organization if that makes sense. But I just, I want to stay on track to say it's got to be consistent with our strategy. We are still going to be financially very thoughtful when we do it but we are not going to do something stupid and I think what you are seeing also in the core business, if you look at the depth and breadth of our capabilities from cash to alternatives and the global nature of such, we feel good about our relative positioning, within the marketplace.

**William Katz** - *Buckingham Research - Analyst*

Okay. Thanks very much.

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

Thanks, Bill.

**Operator**

Next question is from Robert Lee with KBW. Your line is open now.

**Robert Lee** - *KBW - Analyst*

Thanks, good morning, everybody. Quick question actually on the money fund business. Just like to get your thoughts of it. Obviously, you had another strong quarter. But putting aside probably some expectations of market stay better get better you'll have some outflows, longer-terms strategically, I mean, how do you think of that? And I mean the context of the ICI proposals, which to some degree seemed to commodore ties the business a little bit more and some chatter about putting in capital requirements here or there. Definitely some of your competitors view that others don't. Your thoughts on that business and where you think it's headed.

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

Sure. Just in total, our money fund business we look at as a part of our whole fixed income capability. I think if you look at the relative results, it's because of very strong credit capabilities and that sort of follows through to the rest of the fixed income capability. For us it's important business. It is going to continue to be an important business and I don't know if that report that was chaired by Jack Brennan for the ICI, it was a number of us in the industry that did an enormous amount of work with some good, good support from the expertise of the ICI. And I feel really good about the recommendations. They are very thoughtful, they also were not just us looking at each other across the table, but literally getting out in the marketplace and talking to the issuers of commercial paper the people that are users of money funds, very, very broad, deep amount of work. And I think I disagree with you a little bit on the commodity of the money fund business. The fact is, it sort of upped the ante. The fact is, if you are going to be in the business, you need to have a very strong credit capability and I think at some level the bar went up in the recommendation. And I think the recommendations are very, very thoughtful from the standpoint of minimizing the outlier risk if you want to say, want to call it that. So in summary, I'd say it's a very, very good vehicle, it's a necessary vehicle and it will continue to exist. And I personally think with the recommendations that have been put forward, the likelihood of capital requirements behind it are not very high at all.

**Robert Lee** - *KBW - Analyst*

Okay. Great. Maybe one follow-up question. Recognizing that it's probably still early in the process, and they are going through some turmoil. But are you starting to get any sense from some of the big movements in the broken deal world? Whether it's Merrill BOF A, Wachovia, whoever, Smith Barney, Morgan Stanley, trying to get any sense of how things are starting to shake out, whether you think that's kind of good or bad for you or that they're starting to move ahead with making decisions about who's going to be on their preferred list and things like that?

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

Yes. I think, so far I think it's too early. I think all of those combinations are big and important and difficult as they always are. And they're really just getting their lineup in order, organizationally. So I think all of us, there is any number of predictions out from what the outcome is. And so it's speculation on all people's parts. But I will say probably, state the obvious. The most important thing you can do as an organization is have broad, deep capability and good relative investment performance and the ability to match off against those organizations and meet their needs and those terms we'll do fine. But my sense is, it's the conclusions are still, probably a quarter or two or three away.

**Robert Lee** - *KBW - Analyst*

Great. Thanks a lot.

**Operator**

Our next question is from Jeff Hopson with Stifel Nicolaus. Your line is open.

**Jeff Hopson** - *Stifel Nicolaus - Analyst*

Okay. Thanks a lot. One of your competitors talked about in the UK some movement on the retail side away from fixed income into equity. It didn't seemingly have any impact on you guys in this quarter. Any thoughts there? And maybe in Asia, give us a sense of what's happening market by market.

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

Yes, no. We are not seeing that. Again, the Invesco Perpetual franchise is very, very strong in the UK and historically has been off (inaudible) and quite frankly the fixed income team has done a very good job there so we are seeing flows into fixed income also in the UK. That's been to our experience. I can't speak to others's experience. With regard to what's going on in Asia, as you know, we have a strong Asian business, the greater China business in particular is very strong. Our local joint venture in China is still leading, it's the third largest joint venture in China. And again, it's somewhat of a similar story to what you are seeing in the United States. As the markets are covered, you can sense some recovery in attitudes. Probably the slowest from our perspective is Japan, right now. And again, I think that's probably an industry wide situation also. So our outlook for Asia is continuing to be quite optimistic.

**Jeff Hopson** - *Stifel Nicolaus - Analyst*

Okay great. Thank you.

**Operator**

Next question from Mark Irizarry with Goldman Sachs. Your line is open.

**Mark Irizarry** - *Goldman Sachs - Analyst*

Great. Thanks. Can you guys just comment on the performance fees just seasonally, it looks like the historic over the last couple of quarters at least the second quarter has been historically a seasonally stronger period for performance fees. Can you give us some color there?

**Loren Starr** - *Invesco Ltd. - CFO*

Yes Mark, Loren. We have certainly seen seasonality in the first and fourth quarters. Those are the quarters I think we have definitely seen trends. In terms of performance and that usually comes largely from the UK investment trust and, again, given the strength of the UK business we saw that again this quarter. I think the off first and fourth quarter performance fees have come from a variety of different places, whether it is from our quantitative strategies group, real estate or Asia. They are much harder to predict and so again, I think it is something that we would have a hard time providing any real guidance on, in terms of timing. Obviously, the markets we are extremely volatile in the first quarter, hard to see where things go in the fourth quarter. A lot of these fees are paid on performance out performance versus the bench mark and has a lot to do with how the bench mark is moving and what's driving the bench mark as to whether we generate a performance fee on the quantitative strategy side. Hard to give you any real forecast as to what to expect in the second and third quarters other than again I think the first and fourth quarter phenomenon are the ones that have shown up every year I have been here.

**Mark Irizarry** - *Goldman Sachs - Analyst*

Okay and then maybe Loren you can just give a little more color on the comp line, some of the severance items there? I presume we should consider that somewhat one-time and maybe you can talk about what the headcount reductions were this quart and your plans for if we do see continued market weakness over time, over the next couple of quarters, what that means for cost cutting going forward?

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**Loren Starr** - *Invesco Ltd. - CFO*

I think I mean generally, I would point you to the guidance first and foremost, Mark, in terms of what you should expect from us. And in that guidance, we actually provided a fair amount of detail as to what to expect in the various buckets of expense and employee compensation, third party distribution and marketing. So of the 450, I think we guided to roughly \$158 million reduction in employee compensation. And then that's really just again straight from what we showed last quarter. So I would say that's probably again kind of a starting point where you should expect things to sit. We obviously, given the environment in the first quarter, it was a worsen environment that we expected at the end of the year. So there was probably a heavier amount of transition expenses that we incurred this quarter than we had originally provided guidance for, because we had originally talked about \$15 million of transition expenses, as part of our guidance. There was \$13 million of transition expenses in this quarter, so there was more front-loaded than we had originally anticipated. So, again, I think that should provide some degree of benefit for us through the rest of the year. But beyond that I'm not sure if we are comfortable sort of telling you what to expect further on headcount.

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

Mark this is Marty. If I could just have some color too. It is rightfully a very specific question but I think we have to answer in the whole, if you have looked at what we have done over the last three years, you have seen a sequential decrease in the number of employees that we have had and it has been a result of the strategic direction of the firm in executing against those efforts. And it is leading with our separate distinct investment management teams in sort of lining of the delivery and service mechanisms behind it, and which you can't see looking at just an number is where the overall numbers have been coming down over time, there are areas where we hire and we continue to hire. The areas where we think we need to and want to strengthen we are still hiring. That's why we went out to give guidance for the con tech of the whole for the whole year. We think that's different than what others have done, because again we want you to look at our efforts in total of the strategy that we are executing against. So I know that's not as specific as you would like but again I think the way that we want you to, I don't think you are going to get as clear total guidance from anybody else as the way we have given it you.

**Mark Irizarry** - *Goldman Sachs - Analyst*

No that's really helpful. Appreciate it. Marty maybe you can just elaborate a bit more on the differentiation of retail behavior, particularly overseas? Maybe in the UK versus what you have seen on other parts of the globe, as the markets have strengthened a bit?

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

Yes, again, I would be somewhat careful on the forward-looking type information. But, again, for us just an absolute strength has been the Invesco Perpetual business in the UK and it's gotten to be a quite broad result where we have such a leader in Neil Woodford there but, again, it is really the European equity team coming along, the fixed income team, very, very strong. But if you sort of follow that around the world you are also seeing as confidence is coming back here in the United States. And I think we probably all in the we are seeing people coming back into the markets really through ETF, which I think we would all sort of that makes sense as you are putting your toe in the water followed by the historical retail business here in the United States gaining some level of I don't want to overstate it but let's call it momentum on the back of that, and we are also seeing that in Asia and in continental Europe. So as the markets are coming back, we are starting to see ourselves some better activity with investors. But again, I think it's, I think for all of us, we don't want to get ahead of ourselves and it's tentative, but I think all very positive

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**Mark Irizarry** - *Goldman Sachs - Analyst*

Okay that's great. Loren just one more technical question on some of the other gains and losses. How big is that portfolio of CLO? What's sort of left in that bucket as we look forward? How big is that bucket?

**Loren Starr** - *Invesco Ltd. - CFO*

Sure. After the write downs what's left on sales is about \$14 million. And other, kind of the other areas where we've seen some write downs. We have about \$20 million left on seed capital related to some ETF, which is where we had seen some of these other write downs take place in the past. Again, these are nonrealized and other than temporary impairments, as required by US GAAP. So the mark-to-market rule did not apply to this type of

**Mark Irizarry** - *Goldman Sachs - Analyst*

Okay great. Thanks.

**Operator**

Next question from Cynthia Mayer, Banc of America.

**Cynthia Mayer** - *Banc of America - Analyst*

Hi, good morning. Just a question on power shares. It seemed like in terms of ETF in 1Q, there was a bit of a swing back to active managers from ETF in terms of flows. I'm wondering if you see this as seasonal pattern because of 401ks or reversion demean and I guess in general do you expect power shares to follow overall ETF trends?

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

Hard to answer the question. But let's compare and contrast what power shares is and isn't. And as, our interest in it was if you compare it to some of the, the other ETF providers. They largely are more passive managers, index funds that were expressed through ETFs. What power shares created was, I call it really sort of further up the risk spectrum, to the point now where we are starting to take active ETFs to the market where it makes sense. So the people that you'll see moving into power shares are those trying to get different types of exposure, whether it is sort of a fundamental view to the marketplace and the like. So again, we are positive on the power shares generally, and we think as the market gained some confidence, we expect to see the flows continue to increase in our shares,

**Cynthia Mayer** - *Banc of America - Analyst*

Okay and just some follow-ups on some of the other questions. On the perpetual flows are those mostly retail? Or institutional? And what's the pricing like on those? Would those affect the fee rate at all?

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

Yes, I have talked about the flows and Loren the fees. It's broadly into unit trusts, but you have a lot of institutional investors within them.

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**Loren Starr** - *Invesco Ltd. - CFO*

Yes, and so I think it is, interestingly, we have been selling quite a bit of fixed income in the UK. And the fee rates are you know, very similar to the equity fee rates there. There may be a couple ten basis points differential but it's a very similar net fee rate, somewhere around I think 80 to 90 basis points.

**Cynthia Mayer** - *Banc of America - Analyst*

Okay. Loren, maybe you went over this. But in terms of the expense initiatives I guess some of them entail up front costs and I wasn't sure whether there would be some more of that ahead for instance in this quarter? Paying a little up front for longer-term savings?

**Loren Starr** - *Invesco Ltd. - CFO*

Again, we provide guidance of transition expenses that we thought were important in order to get savings and as I mentioned, there was \$13 million in this quarter relative to our guidance of 15. Again, we are working hard to do better than the guidance might suggest, so I do think there is a potential that there may be more transition expenses that we incur through the course of '09, as we strive to do that. But it's again too early to really tell you exactly how much and when that would occur.

**Cynthia Mayer** - *Banc of America - Analyst*

Okay. Thanks.

**Loren Starr** - *Invesco Ltd. - CFO*

Sure.

**Operator**

Next is from Dan Fannon with Jefferies. Your line is open.

**Dan Fannon** - *Jefferies & Company - Analyst*

Good morning, guys. In terms of the other income, just given the reduced level of activities, is it safe to say this is kind of a low point for that kind of item? Or is this something we should look at given the continued uncertainty in the markets kind of a baseline for the next couple of quarters in terms of the revenue? Other revenue?

**Loren Starr** - *Invesco Ltd. - CFO*

Yes, I think again the other revenue is hard to predict. But, given the current market, and the fact that there has been really a lack of activity on sales and transactions just generally, I'm not sure if I would prick the market turning around immediately into the second quarter. So I would say, probably with as much information as you have, I would say it's probably going to be sort of modest levels along the lines of what we might have seen in the first quarter for probably the next quarter. But again it could turn around. Again it is very hard to predict for us as to when an actual transaction might happen when we actually might sell a property or buy a property or have a transaction take place.

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**Dan Fannon** - *Jefferies & Company - Analyst*

Okay. And then in terms of your guy's interaction with the consultants, wondering how that's changed here in light of your improvement on a relative basis and performance across-the-board? Has there been any change in your position is with the consultants and particularly on the fixed income side?

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

Yes. Absolute him as I said we have been out spending an awful lot of time with consultants and clients also. A couple of things. If you look at the don't and breadth of the capability and the performance, it's very, very strong. And so, it's a relative positioning is quite good with the consultants. But again, I don't think you can underestimate the value of being a stable institution in this marketplace. If you just put yourself in a position of consultant or a large institution, the last thing they need to be worried about is their money manager being that would in this market place. So, our stability as a firm and our ability to, having so far, dodged these bullets, has served us very, very well. And again, you don't want to -- we will claim success after it happens, but if you want from a leading indicator point-of-view, our relative position has improved quite dramatically with the consultant community again, which is great. On the fixed income side, we have historically been very, very strong and said two ends of the curve the cash side that is an area where the consultants are getting very involved where they had not been list historically, so we'll do well there and also our capability around sort of bank loans and the like that is an area of interest and the risk spectrum. Quite frankly, we have some real strength in the global fixed income capability where we are getting interest and also very, very much in mortgage related capabilities and that is an area where we think there is a great opportunity not just in the marketplace but also for us and we are going to be working very, very hard to be successful there.

**Dan Fannon** - *Jefferies & Company - Analyst*

Great. Thank you that's helpful.

**Operator**

Last question today is from Roger Freeman with Barclay's capital. Your line is open sir.

**Steven unidentified** - *Barclay's Capital - Analyst*

Hi, good morning. Steven here for Roger. Just wonder a little bit more about the fee capture rates. I appreciate the slide you provided. Wand to know if there was anything underlying that was more kind of permanent in nature? Such as perhaps, fee pressure? Or anything like fee wavers, given the growth in money markets? Any kind of underlying trends here would be helpful. Thank you.

**Loren Starr** - *Invesco Ltd. - CFO*

Steve, good question. I think we are happy to say no. There is nothing fundamentally that's changed in our business. We did provide some detail around the fee rates for the different products and no, these are the net fees. So no pressure on fee wavers. No more than the usual on distribution expenses. What really took place in the quarter, far and away in terms of the impact was the drop off in other revenues and performance fees, hard to predict, they can come back. It is really just a function of what's happening in the portfolios on a particular quarter and the mix, which is really being driven by the equity markets. To the extent equity markets will rise and some of our higher fee equity assets will rise as well. This slide should probably give you a better tool for forecasting what to expect in terms of our net revenue yield quarter over quarter.

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**Steven unidentified** - *Barclay's Capital - Analyst*

Just wanted to talk a little bit more about fixed income. Can you talk in terms of initial initiatives are doing in terms of more core type products. You talked about the cash and the bank loans and more of the specialized products. What about the core fixed income offering, please? Thank you.

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

As I said, our real strength there, and right now, again, we have applied to be one of the PPIP Managers. We think the depth and breadth of our capability from the security side to the whole loan side to Wilbert Ross's capability there is really very, very strong. We have actually filed, in January, two active fixed income ETFs, around mortgage-related securities. Again, it's still in registration so it's not in the marketplace. But again, it is very reflective of our capability there. And our relative investment performance on (inaudible) related portfolios is very, very strong. So it is an area that we are going to be spending an awful lot of time in the

**Steven unidentified** - *Barclay's Capital - Analyst*

Okay. Thank you.

**Operator**

I have no further questions, I'll turn the call back over to Invesco Management.

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

Thank you very much. I want to thank everybody for their time. And again, I think we are all happy to look back on this very, very difficult environment. But looking forward, again, just hitting the highlights, strong, relative in investment performance, net inflows for the quarter we think we delivered very strongly on those things that we can control within the organization. And again, all the changes that we are making we feel very strongly that they have been strategic in nature and strengthening our business. So as we look forward we have an optimistic outlook and we just need a little bit of wind at our backs from the marketplace, all of us. And I think we'll all be doing an awful lot better. So thank you very much and have a good rest of the day.

**Operator**

This concludes the conference.

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