FINAL TRANSCRIPT

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PRESENTATION

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We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

Operator

Welcome to the Invesco investors conference call. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time. 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.

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

Thank you very much, and I want to thank everybody for joining us today. We want to provide some additional background to what we think is very exciting news regarding Invesco's acquisition of Morgan Stanley's retail investment management business, which includes Van Kampen.

But first, in addition to obviously welcoming the analyst community, we're joined by some colleagues at Invesco, but also Morgan Stanley and Van Kampen, and welcome to the call. Loren is here with me, and between the two of us we'll cover the transaction itself, but also we will talk to the third-quarter results, which were released this morning. We're going to be speaking to the presentation that got posted this morning around 730 on the website if you are so inclined to follow that.

So, let me start and put this all probably in perspective. And for those that have been following the Company for a while, this will sound familiar, but again I think the perspective is very, very important.

Over the past four years, we've been guided by four strategic priorities and the first, of course, and most important, is focus on achieving consistent, good, long-term performance for our clients. Second has been a strategy of delivering our distinctive investment management capabilities to our clients wherever it meets their needs.

Then thirdly, as you know we've put considerable effort into working more effectively as a global firm, seeking to get greater efficiencies from our global operating platform, and then finally, spent a lot of time building a high-performance organization that attracts, retains, motivates, and rewards outstanding individuals for outstanding results.

So together, it's really these four strategic priorities that form our multiyear strategy and it's really by successfully executing against them that we've built this unified business globally that has just, we think, put us in a strong position to -- and set the foundation for today's announcement.

It's really the work that we've done over the past four years, as well as the disciplined approach that we took to the markets over the last 18 months, and have put us in a position when the markets recovered and the economy recovered that we would participate and become that much more competitive.

So the acquisition we announced yesterday, last evening, is fully aligned with these strategic priorities, and it really represents for us what we think is a tremendous opportunity.

You saw in our press release we entered into an agreement to acquire Morgan Stanley's retail asset management business, including Van Kampen Investments. And you can see, if you are following this, on slide four, the transaction includes the associated investment management teams, funds, mandates, and assets under management of that business.

And we are particularly pleased to expand the exceptional talent we have with what will be about 650 individuals, investment professionals, distribution professionals, and support professionals, that will be joining Invesco at the time of our close.

So, why don't we take a look at assets under management by asset class, by channel, and domicile to start to put this into perspective. I'm just going to refer to the total $119 billion that are included in this transaction as Van Kampen for simplicity. You'll see that it is somewhat broader than that, but what you'll note is one of the reasons we felt this opportunity was so compelling was the highly complementary nature of the business.

Collectively, we believe both firms are better off in meeting their client needs, which we think is just very, very important and probably a hallmark of successful transactions as you look at them. And Van Kampen's investment capabilities are highly complementary to Invesco's, with strong equity and specialized fixed-income capabilities.

In addition, you'll see there is additional balance mandates, but also there is a UIT business and some elements also in alternatives for us. And again, if you look at it by domicile, it's principally a U.S. business, but there's a solid footprint in Japan that's coming across and smaller elements in continental Europe, Canada, and the UK also. But you can see the comparative nature of the two.

When you look at the firm combined, the total assets under management will be about $536 billion under management, if you use today's figures. But again, if you look at it from asset class, channel, and by domicile, it continues to be a very diversified asset base within the combined firm.

Now if we take a minute and look at the combination, it aligns very well with our long-term strategic direction as well as the criteria we've established for acquisitions, and it provides clear benefits for our clients, shareholders, and, quite frankly, for employees also. And we've outlined the acquisition criteria with the strategy on slide seven, and you will note that the combination really from our point of view is an opportunity to expand the exceptional investment talent we have within the firm.

Again, if you look at Invesco and Van Kampen, they share complementary teams and cultures that are committed to investment excellence that we believe, again, this is going to be a very, very good combination for shareholders, but also that inclines the shareholders, but again will make the combination of the two post-closing one that will go very, very well.

Also, it's going to continue to expand the depth and breadth of our investment strategies and vehicles, which will allow Invesco to operate in a more comprehensive range of investment capabilities to our clients. And then finally, the combination represents a tremendous opportunity to deepen the relationship with our clients and further strengthen our overall distribution capabilities. We'll get into these in more detail in just a minute.

We expect this to close in mid-2010. It's subject to the normal approvals. The transaction does exceed all the financial targets that we use for acquisitions as we've discussed in the past. The consideration for the transaction is $1.5 billion, a combination of cash and stock. But Loren will go into greater detail in just a minute.

If you take a look at performance, and again, it's one of the reasons that attracted us to Van Kampen, with a shared focus on delivering consistent, good, long-term performance for clients. The investment teams' cultures and approaches to investment excellence, again, as I mentioned, are very complementary across the business.

And you can see on slide eight, the long-term investment performance is really very, very strong. And if you look at the combined firm, at September 30, you can see on a one-, three-, and five-year basis, 69%, 72%, and 73% of the assets under management, respectively, would've been in the top half of their peer group, so again, just a very, very important element of the combination.

Additionally, Van Kampen will enable Invesco to offer even more comprehensive range of investment management capabilities for our clients and, again, if you look on page nine, you can see the relative strength of Van Kampen and the relative strength of Invesco, and we put them together, it's just that much stronger.

It really broadens the presence for U.S. investors, particularly with the addition of expanding our value capability and also our municipal bond capability, probably stick out as the biggest differences, but again, you can see just in total across the spectrum, it's very complementary.

In addition, there are elements for the institutional business and the non-U.S. business that will come along, but again, the lion's share of it is principally U.S..

Again, another key strategic priority for Invesco is to deliver our investment management capabilities in the way that our clients need them. So if you look on page 10, what you can see, there is the addition of closed-end funds and UITs, which are areas that we have not traditionally had vehicles in that area, but again if you look at the combined platform, it is just very, very strong for mutual funds to ETF, closed-end funds to UITs. It really will allow us to deliver our investment management capabilities in very unique ways to meet client needs.

Another advantage of the combination is the opportunity to further strengthen Invesco's relationship with leading distributors across the different distribution channels. And the complementary nature of this is just actually striking. You almost could not envision a better combination of two firms.

And if you look by the assets under management by different channels, whether it be broker-dealers, independent financial dealers, insurers, the fund contribution defined-benefit, and this is a U.S. view, you can see in the blue where the strength of Invesco is and in the yellow where the strength of Van Kampen is, and they are just very, very complementary.

And also, when you look within some of these channels, the broker-dealers, Merrill Lynch, Wells, Wachovia, UBS, of course Morgan Stanley Smith Barney, they just get stronger and deeper, and that is also true on the independent financial dealer side with EDJones, LPL, Ameriprise, and PFS, and the areas where we just have a broader, deeper area of defined benefit, defined contribution, defined contribution in particular, we think the firm is just going to be just that much stronger.

We'll be one of the largest asset managers within the Morgan Stanley Smith Barney platform, and the combined organization will serve the 18,000 advisor-led network with investment capabilities and the marketing resources that ensure Invesco investment solutions are given the highest degree of exposure within the Morgan Stanley Smith Barney system.

And then, if you look just on slide 12, you can get a sense of where the combined firm would be from a market relevance point of view in the U.S. market by bringing the two organizations together. And on a pro forma basis with a couple of the transactions that have happened more recently, looking just at long-term assets, you can see that the combination would be 10 in the United States, and again, if you add some of the other types of assets, whether it be VI, UITs, SMAs, and the like, it's about $246 billion.

So again, the point here, as we've said time and time again, the thing that's not -- size is not the driving force for the combination. It's really the notion of being better, stronger as an organization, and having the strength and the resources will allow us to do a better job for our clients as we put these firms together.

So, I'm going to stop here and turn over to Loren, and he will talk about the Q2 results and also the financial elements around this transaction.

Loren Starr - *Invesco Ltd. - CFO*

Great, thank you, Marty. So Invesco will acquire Morgan Stanley's retail asset management business, as we discussed, for $1.5 billion to be delivered at closing, and the purchase price will be satisfied by 44.1 million shares of newly-issued Invesco stock, which currently has a value of about $1 billion, as well as $500 million in excess cash that we currently have on our balance sheet.

The transaction, which has been approved by the Board of Directors of both companies, is expected to close by mid-2010 and is subject to customary regulatory approvals and to approvals by the boards of trustees and the shareholders of the Van Kampen and the [Empsen] funds.

On the bottom half of the slide on page 13, we show the operating results' summary for the business that we are acquiring, which, I should point out, has been very precisely carved out from the rest of Morgan Stanley's asset management business. Morgan Stanley's retail business shares many resources with its institutional business, and we are not taking on all this overhead, the systems, and the infrastructure as part of this transaction.

And so, the result to us is a higher net operating margin and EBITDA for the business that we're buying.

The runrate operating results, shown here, are based on September-ending AUM of $119 billion, and they don't include any further assumptions of market growth or post-closing synergies. Based on these numbers and today's stock price, the purchase price for the business is approximately 7.7 times EBITDA.

In addition to the very compelling strategic rationale for this acquisition, we expect this transaction to provide strong returns for our shareholders, and they'll fully exceed or meet our previously-stated financial criteria for the acquisition.

Excluding the impact of incremental intangible amortization and the one-time integration charges, our pro forma EPS accretion we estimate at approximately $0.13, or 11% in the first 12 months post closing, and note that this accretion number is based on the current 2010 consensus estimate for Invesco's EPS, which is about $1.22.

Furthermore, we expect to achieve a cash payback of slightly less than the seven years and an IRR in excess of 30%. Both of these calculations assume within them that we have [$150] million of one-time cash integration expenses related to this transaction.

And as highlighted in the financial notes on the page, we conservatively estimate net outflows of about $10 billion from the assets that we are acquiring. This estimate is based on typical outflows from similar transactions and we don't expect to increase to anyone outflows from Invesco as a result of this transaction.

And as far as synergies are concerned, I think we've made it clear that the major strategic reason for taking on Morgan Stanley's retail asset management business is that it strengthens our combined ability to better serve our clients, and the value of this deal is not predicated on extracting cost synergies.

In fact, many of these synergies were actually immediately achieved in the way that the business is being carved out from the rest of Morgan Stanley's asset management segment.

Nonetheless, there will be some cost savings associated with this transaction, and inherent synergies will result from moving to single platforms, locations, and product streamlining.

The projected savings from the combined cost basis of Invesco and Van Kampen is approximately $70 million, which is about 3% of our joined total operating expense base. And it's important to note that we are going to work hand in hand with the management team at Van Kampen to determine the best way to achieve these savings and to build value for our clients.

And the previously-mentioned integration charges, which are between $100 million and $125 million, are largely due to the cost of attaining fund shareholder approval, as well as integrating IT systems and operations.

And then, finally, there will be some amount of the purchase price that will be categorized as an intangible asset with a finite life, and the current estimate is that this will result in about $25 million to $35 million in incremental intangible amortization for approximately eight years.

So before I go to Q-and-A, as Marty said, we're going to cover our third-quarter results quickly. So if you go to slide 15, you'll see that during the third quarter, our long-term assets moved roughly in line with the markets to end at $416.9 billion.

We continue to see positive net flows in our long-term AUM, which in this quarter were offset by outflows in our institutional money market business. The net operating margin for the quarter was almost 30%, 29.9%. That's an increase of 4.8 points from the second quarter.

Our net income increased 39%, resulting in a diluted EPS of $0.24. And in preparation for this transaction, we maintained a strong cash balance with current levels at $924 million.

And so, lastly on this slide are the highlights. We declared a third-quarter dividend of $0.1025, which is consistent with our prior quarter's rate.

Moving to the next page, you'll see under assets under management, the industry trend of investors moving to higher-risk assets was actually evident in our flows in the quarter, and as a result, we saw a $2.6 billion decline in our institutional money market base, as well as a decline of about $1 billion in our stable-value assets.

Importantly, we saw continued strength in our retail business, particularly in the UK and the U.S.. As you know, we had our first close related to the PPIP, and although this occurred in Q3, I should point out that these assets will not be recognized as net inflows until they are actually invested.

We ended the quarter with $416.9 billion in assets under management. That's up 7.3% since the end of June, and our net revenue yields, driven by the growth in higher-fee asset categories, increased by 2.7 basis points in the third quarter.

Now let's go to the operating results. We see that total operating revenue increased $80.7 million, or 12.9%, quarter over quarter. There was about $13.3 million of that increase due to foreign exchange.

Our investment management fees were up 13.7%. The increase was driven by higher average AUM, a positive mix shift, and FX, and within our asset mix, equities as a percentage of total AUM increased from 36% in the third quarter -- I'm sorry, into the second quarter, to 39% as of the end of the third quarter.

Performance fees in the third quarter came in at $4.3 million. That's largely from the UK and from our real estate group. Service and distribution was up 11.4% due to higher average assets under management. Other revenues importantly increased 28.5%. This was a result of transaction commissions that were realized by our real estate group.

Moving on down the slide, you'll see that our total operating expenses at $554 million grew quarter over quarter by $39.5 million, or 7.7%. This increase is primarily due to the impact of higher market values on our distribution-related expenses, and also foreign exchange. The change in FX rates increased our operating expenses by $9.4 million in the third quarter, compared to the second quarter.

Employee-compensation expenses increased by $9.9 million, or 4.3%, versus the second quarter. The comp expenses for the quarter included a $5.9 million increase in our variable compensation.

Foreign exchange increased compensation by $3.6 million as compared to the prior quarter. The [reporting] distribution, service, and advisory increased by $17.2 million, or 10.3%. That was in line with higher investment management, and service and distribution fees. Marketing expenses increased $3.8 million, or 15.9%, due to higher marketing and support payments, which are in line with average assets under management.

The big mover in the quarter, really, was property, office, and technology, which increased $14.4 million, or 29.6%, versus the second quarter. As we mentioned in the last quarter's call, we took a charge related to vacating leased property in Denver. This had an impact, in conjunction with charges in certain other locations, amounted to $12 million in property and office charges in this quarter.

Our G&A line decreased by $5.8 million, or 12.4%. Again, as we pointed out in the last quarter, that last quarter's results included about $6 million in seasonally higher fund expenses and additional legal fees related to product launches.

Year to date, our operating expenses were $27 million better than our expense guidance for 2009 would indicate. In other words, our year-to-date actual expenses were $1.556 billion versus the three-quarter forecast, based on that guidance that we gave in Q4, of $1.583 billion.

So as you remember, we forecasted the $2.11 billion in expenses assuming flat markets from year-end 2008 and no change in FX. Despite the changes in the market and FX, we believe that we are generally tracking to our original guidance for the full year, and any variances that would materialize through the fourth quarter would be largely due to market-related distribution costs.

I should also point out that we could also incur some deal-related fees of perhaps up to $5 million in the fourth quarter, and we will, of course, provide more color on those fees on our fourth-quarter call.

So moving down to P&L, we end up at operating income, which increased $41 million, or 37.3%, to $152 million. Below the operating-income line, equity and earnings of unconsolidated affiliates increased to $7.9 million from $7.5 million, roughly flat.

Other gains in the quarter, somewhat unexceptional, came in at $2 million, as compared to $10 million in the prior quarter. You will remember that we talked about the $10 million in the second quarter was largely due to the debt tender offer and foreign exchange.

Our effective tax rate decreased to 29.3% versus 32.2% in the second quarter. That was due to the release of provisions for uncertain tax positions. We would expect our fourth-quarter effective tax rate to come in around 33%.

So finally, EPS at $0.24 for the quarter -- ended up, and I will now open up the call for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Kim, Sandler O'Neill & Partners.

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

First off, just in terms of the deal, I know you are not baking in any revenue synergies in your accretion estimate, but maybe where do you see kind of the biggest cross-selling opportunities, either from a manufacturing or a distribution standpoint?

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

I think one of the areas to look at, Michael, is just what we found extraordinary, what I was mentioning, was where we are strong with a distributor, Van Kampen is less strong, and vice versa, and so just the ability to sort of broaden the product availability in those channels is a very, very clear one for us.

And then, also, things like the DC channel, where we are better positioned, so that, again, just each of the different channels that we're in, we just think it should be an important one. And I think also, one of the elements, too, is a more refined point, but because of the relationship -- ownership of the relationship of Morgan Stanley and Van Kampen that the Van Kampen funds could not be sold into retirement products, and so that was one of the strategic reasons why Morgan Stanley was looking to separate that, and so there will be a natural, you would think, ability to have greater success with existing relationships within that channel.

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

Okay, and then, now that you've kind of filled some of the gaps you had on maybe the value and the muni bond sides, are there any other areas that you feel like you need to have, looking across your retail platform, or do you feel like you've pretty much got all of the bases covered at this point?

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

I think what I would highlight just on those two areas, the capabilities we have we think are very, very strong, and so what's being brought are very complementary in nature, and -- which we think is a real positive, as we highlight.

But we really just don't see any obvious gaps in our capabilities. But again, there is always room for improvement. We're always going to continue to be focused on improving what we do.

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

Okay, and then maybe a question for Loren. Just in terms of margin and (multiple speakers), as you said earlier it seems like cost savings are maybe running a bit ahead of schedule after kind of adjusting for markets and FX. Can you just maybe talk a little bit about the areas where you may be kind of operating more efficiently than you might have originally thought?

Loren Starr - *Invesco Ltd. - CFO*

You know, I think it's a continued theme on what we've been talking about before, Michael. This obviously very challenging year, we accelerated a lot of our streamlining around operations going to some of our global operating centers more rapidly than we had originally anticipated. Those are themes that are continuing on this year and into 2010.

We've been very pleased at the progress in terms of our ability to move that forward. So, it really is a very consistent theme, but more of the same and moving faster than we had originally thought.

Operator

Ken Worthington, JPMorgan.

Tim Shea - *JPMorgan - Analyst*

This is Tim Shea; Ken just got called away from his desk for a second. The first question that we've got is on the fee rates that were presented in the financials on the transaction, it looked like 40 bps is below what Invesco's fee rate is today. Could you just speak as to why that fee rate is lower and if there is any possibility to increase that?

Loren Starr - *Invesco Ltd. - CFO*

Yes, I think, Tim, we see that there are 40 basis points I think was the average for Van Kampen and Morgan Stanley's basis. I think, obviously, the history is more on their side in terms of how --

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

Yes, I would not look for that to go up, and what it is is that they have some very, very old mutual funds with some long track records, and those were the fee rates way back when, and the ability, just in this day and age, you are just not going to increase fee rates. But all their other -- the newer funds are very competitively priced, etc., etc., etc.. So that's how you get to that effective fee rate.

Tim Shea - *JPMorgan - Analyst*

Okay, and then, with Morgan Stanley now going to an owner in your firm, are they going to be locked up? And is there going to be any sort of an ongoing distribution agreement with Morgan Stanley?

Loren Starr - *Invesco Ltd. - CFO*

In terms of lockup, Tim, no. There are really no elements in terms of Morgan Stanley being locked up. There are certain limits in terms of how much they could sell per day -- volume limits.

But again, from their perspective, you can certainly understand that it's been a very challenging market environment, and they'd want to have the ability to have liquidity if they needed it on any asset that they have. So we don't blame them for not having lockups.

I think the -- so the reality is is we don't view that as a negative. They have clearly expressed the desire to be a strategic owner in Invesco. They see the value in having a long-term relationship with us in that capacity, and we don't expect anything other than that. What was your second question?

Tim Shea - *JPMorgan - Analyst*

The second part of that was is there going to be any type of an ongoing distribution agreement with Morgan Stanley.

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

Let me pick up on that. Just to reiterate some of Loren's comments. The whole point of Morgan Stanley was looking for strategic relationship, not selling, and I think that's the element, the equity stake in the business, and -- which we think is great.

And we will have a distribution arrangement with them like we do with all the other very important partners.

I think to compare and contrast, we are going to be one of the largest money managers within their platform. We are going to work very, very hard to continue to be very relevant there and to grow, and they also have an incentive to make sure that we can serve their clients and be successful within that channel, so it's going to be a very important one.

Operator

Roger Freeman, Barclays Capital.

Roger Freeman - *Barclays Capital - Analyst*

First on the -- get the profitability of this business, the thing that just jumped off the page at me was the 32% adjusted operating margin on this business, because we're pretty sure it was losing money the way Morgan Stanley is accounting for it, but I guess I'm curious as you show this runrate number. Can you just help us think about what was pulled out? In other words, there is still operating expenses of $324 million. Can we safely assume that's mostly in compensation because all of the non-comp is stuff that's going to be contributed now by your existing infrastructure?

Loren Starr - *Invesco Ltd. - CFO*

Obviously, it's a little more complicated than that. Because there are a lot of shared resources between the retail business and the institutional business, you know, so carving the retail business out was an exercise, and we clearly did not need a lot of the corporate overhead and sort of fixed elements of systems that would not be coming over.

So, no, the three -- the 324 number is not just compensation. There is certainly rent and other elements that are a part of that number. And so -- but it is a more streamlined number than you might get if you were looking at a stand-alone business.

Roger Freeman - *Barclays Capital - Analyst*

Okay, but then, two things there. One is is there going to be any shared-services agreements with Morgan Stanley for any overhead?

Loren Starr - *Invesco Ltd. - CFO*

I think there may be an element of transition services that is going to exist as we move platforms over. But beyond that, no. Ultimately, it's going to be completely part of our business. There will be no element that we're expecting Morgan Stanley to service for us.

Roger Freeman - *Barclays Capital - Analyst*

And then, I guess, in this analysis, do you factor in any incremental costs from services that you will be providing to this platform?

Loren Starr - *Invesco Ltd. - CFO*

I think we are going to be able to leverage our existing platforms and our own fixed overhead and resources, which is part of the benefits of this transaction. We don't really need to add, incrementally, anything else. We have the facilities. We have space for the folks coming over and we're going to leverage our existing transfer agency and systems to help them.

Roger Freeman - *Barclays Capital - Analyst*

Okay. I mean, it surprises me you wouldn't have any additional variable costs. You had that much extra capacity? There is no people being hired to manage this?

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

Well, there is 675 people coming over.

Roger Freeman - *Barclays Capital - Analyst*

Right, but those are the folks that run the business now.

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

We feel very confident that this is going to be a very (multiple speakers) effective transaction.

Roger Freeman - *Barclays Capital - Analyst*

So I guess, just on that point, the $70 million, then -- because I'm just -- the margins here start to look really high, right? If you take the $70 million of additional cost savings and you add that to $152 million of operating income, you come up with 44%, and again, you have to look at that across the broader AUM base, but I'm just trying to think about it. Is that right?

And also, just thinking about the footprint in Houston there. What sort of does come out? What is the -- I mean, you showed the product overlap on slide nine, but you're comparing retail to full Invesco. What's the product overlap just on the retail component?

Loren Starr - *Invesco Ltd. - CFO*

I guess on your first point, in terms of the margins, I think your numbers are largely correct in the sense that one of the beauties of this transaction is that we are bringing -- we have a lot of the fixed overhead and expenses and systems in place, and so, the incremental margin is better than a (multiple speakers), so that is a correct element in your thinking about this business.

In terms of the overlap, there is very little overlap that exists between the two businesses and, Marty, I don't know if you want to (multiple speakers)

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

From the capabilities, there is very little overlap. From the number of products, there is duplicate of products, whether it be asset allocation type products or more funds than you would need in a category, and so, there will be some of those types of fund route rationalizations post-closing.

Roger Freeman - *Barclays Capital - Analyst*

Just lastly, will you be able to sort of give guidance on that fairly early, because I know there's -- the employees in both organizations are very concerned about job loss and that could be a distraction since you're not closing for six months -- nine months.

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

Actually, let me correct you. This is not about consolidation in cost savings. It's going to be fantastic opportunity for employees of both organizations.

They are very, very complementary in nature. We see very little overlap along those ways. So, please don't come to uninformed conclusions, and secondly, it's going to take some time to do it. We have a combined team of Van Kampen and Invesco people that will be going through this business to make those decisions. So I appreciate your thoughts, but it's going to be a fantastic opportunity for many, many people in the firm.

Operator

William Katz, Buckingham Research Group.

William Katz - *Buckingham Research Group - Analyst*

Congratulations on getting the deal done. I was wondering if I could ask a question of Loren to start. You mentioned you're going to get a 30% internal rate of return on the employed capital. Could you -- beyond the initial synergies that you laid out for us, can you give me a little guidance on sort of what your longer-term thinking is on the growth of the business?

Loren Starr - *Invesco Ltd. - CFO*

Again, I think we would expect that we would be in sort of organic flow mode, positive flow modes as we get into 2011, for sure. So, we've made some conservative assumptions about the business and the flows moving in the right direction, which they already are, quite honestly. So we feel good about that.

Obviously, there's some element of assumption of market that we are assuming for ourselves and for the business. That's part of that IRR, and so that's roughly 7%, 8%, so those elements are factored into our IRR.

Beyond that, it's again a fairly scalable -- just like we see in our own business, as assets grow, the margins grow and the cash flow just flies out, and it's a fairly straightforward exercise for getting to that 30%.

William Katz - *Buckingham Research Group - Analyst*

That's helpful. And that transitions me to my second question. Marty, I'm sort of curious. I know it's obviously very early to be thinking about this, but nonetheless you've effectively de-leveraged your own balance sheet by this transaction, and I would presume that the combined company is going to kick out a fair amount of free cash flow.

How are you thinking about that? You sort of mentioned you do not have a lot of product gaps at this point. How do we think about that? Could we start to anticipate a repurchase activity improving -- reaccelerating, or other ways of using the capital?

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

I should've known you were going to ask that question already, so you probably are a step ahead of us at the moment. But again, we would come back to what we've done all along. Once we have absolute comfort in the environment that we are operating in, we'll get back to the normal practices of reinvesting in the business, and then, if there are not other gaps, other acquisitions, which, as you highlight, we don't see many, we would make sure that we are returning capital to shareholders.

Loren Starr - *Invesco Ltd. - CFO*

And the only thing I would just add is we still are planning on having the debt that's coming due at the end of the year be retired. That's the $294 million, and so that is still very much part of the plan.

William Katz - *Buckingham Research Group - Analyst*

I was thinking more beyond 2009 (multiple speakers)

Loren Starr - *Invesco Ltd. - CFO*

Yes. I know, exactly. I just wanted to make that point.

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

Yes.

William Katz - *Buckingham Research Group - Analyst*

And then, just sort of lastly, and I certainly understand this is more of a topline, strategic-driven transaction. Can you give us a sense of sort of where some of these $70 million cost savings are coming from, and then the timing that you would expect to realize those?

Loren Starr - *Invesco Ltd. - CFO*

Bill, I think we are expecting to see that materialize, the $7 million, in the first 12 months after the closing of the transaction. As we discussed, it's sort of moving to single operating platforms, focusing on single locations, product streamlining is an important part of the cost saves. But, again, I think in the context of our total expenses, it's -- again, this is not about the cost savings.

William Katz - *Buckingham Research Group - Analyst*

Right, I understand that. Thank you very much, guys.

Operator

Dan Fannon, Jeffries & Company.

Dan Fannon - *Jefferies & Company - Analyst*

Just want to clarify some of the slides here. The runrate EBITDA that you talk about for 2009 and some of the synergies you took out to get to that calculation, that does not include any of the $70 million that you are also anticipating?

Loren Starr - *Invesco Ltd. - CFO*

That's correct, Dan.

Dan Fannon - *Jefferies & Company - Analyst*

And then, in terms of the Van Kampen business, they've had, as you point out in the slides, very good performance, but the flow story has not been so good. Can you give us a little bit of color around the dynamics there and how you think that's going to improve over time?

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

I think the reality is it's not inconsistent with the asset classes that they manage and the flows that you've seen. And as people put more money in risk assets and where the relative strength and performance, you are actually sensing an improvement in their net flows as we speak.

But I think also one of the things that, alluding to further, they have great distribution relationships, but one that has been somewhat crimped in the current ownership structure is the Morgan Stanley Smith Barney one where, again, those close, again you'll just get this broader ability to be successful in the Morgan Stanley Smith Barney system.

But again, it's an impressive group of people. They -- as we say, generating good investment performance and great relationships, and so we expect a good flow of success to follow that.

Operator

Mike Carrier, Deutsche Bank.

Mike Carrier - *Deutsche Bank - Analyst*

First, one more question, just on the margins, and not necessarily just related to the transaction, but if you're looking over the next, say, 12 to 18 months, given the opportunities on the distribution side in terms of driving more sales, but then also just with the synergies that you see, relative to 18 months ago or even two years ago, given the scale that you had back then and the margins that you were able to achieve, where do you think the new Invesco, if you could get the operating margins to -- and again, not talking in the next six to 12 months, but just longer term?

Loren Starr - *Invesco Ltd. - CFO*

Mike, I think as we've said in the past, there isn't any sort of preconceived notion of margin hit some number and then it stops.

There is significant operating leverage in our business, which is definitely a function of most global asset managers. I think our operating leverage is maybe even more significant than some others, given that we have so many different capabilities in different parts of the world.

So, we've seen, obviously just in one quarter, margins increase almost 5 points. We would expect certainly to be able to go back to the levels we've seen in 2007, and quite honestly, even at lower asset levels our margins should be even at a higher level, given the amount of efficiencies and streamlining that we've done.

So, again, I don't want to put out a number there, other than we certainly think that there is nothing structural that would stop us from certainly attaining kind of the margins that we saw in 2007, which were high 30%, close to 40%, and beyond.

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

And what I'd reiterate is that, again, we've always -- be competitive on the margin side. But at the same time, we'd surely want to be investing for the future, and an important part of that, of course, is rewarding employees for good contributions to the success, and the other element, too, that you will get from, post this transition, is the ability on, as you point out, on the distribution side of the business to, again, make sure that we are spending and investing at the right levels, commensurate with the market presence that we hope to attain.

Mike Carrier - *Deutsche Bank - Analyst*

Then just one other on sort of the core business of the quarter. When you look at the flows on the long-term side, it looks like there's a lot of strength on the retail part of the business and an institutional kind of in line with the industry. You just haven't seen a huge pick-up. We're starting to see some of the details in terms of where flows are trending, and I just wanted to get you guys' indication from talking to clients.

Like on the retail side, obviously, there is a big push towards fixed income, still. But on the institutional side, are you seeing that or are you seeing, given the rebound, you and the markets, are institutional clients more inclined to increase their allocations to riskier assets, just given the returns that they need longer term?

Loren Starr - *Invesco Ltd. - CFO*

It's the right question, but I think it's pretty complicated. I think it's -- what we've been seeing on the institutional side, you can make the broad statements of interested and fixed income, in particular, are trying to participate in some of the more opportunistic fixed-income elements.

But I think each of the clients that we talk to, and the consultants, they are all in different spaces. I think there's a recognition that to generate the returns that they need for the losses from the market, they need to move up the risk spectrum, but it's really reallocating those portfolios, a number of which were -- ended up disproportionately in alternatives, just because of the downward pressure on the equity side.

So it is more complicated than a simple one, but I would say we anticipated the second half of the year where you'd start to see some movement. Institutionally, it's probably even been a little slower than we thought. So it's not an absolute clear, consistent picture across all the plans.

Operator

Keith Walsh, Citigroup.

Keith Walsh - *Citigroup - Analyst*

First one for Marty. I assume you've been looking at a lot of stuff over the last six months or so, and based on deal values likely lower in price than what you bought today, what led you here specifically? And then I've got a follow-up.

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

I think the reality is we've been living in a very, very challenging time, in the world of financial services in particular, and we found ourselves in a position where we could improve our competitive position. We did pay attention to what was on the market and we just thought this to be the absolute most compelling opportunity for us.

When you look at the complementary nature of the investment management capabilities, the complementary nature of the distribution capabilities, to say nothing of the expansion of some of the vehicles, the global elements that were nice additions to this were very, very interesting. The relationship with Morgan Stanley is a very important one, so when you just go up and down the opportunities, we just thought it was a fantastic one for us.

Keith Walsh - *Citigroup - Analyst*

And then, the second question, just thinking about the incremental improvement in performance, I thought that was interesting. Is there any specific product line, though, where that performance is significantly better at Van Kampen that you believe could be helpful in distribution? Thanks.

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

Again, I think if you look at the most macro performance pie charts that we gave you, it's incredible how the complementary nature of the products, and also both being -- performing quite nicely. So, nothing specific.

I'd say more around product gap would be the areas -- deeper into muni bonds, deeper into value, complementary nature in CLOs, so, again, it's more complementary to the existing business that we have.

Operator

Robert Lee, Keefe, Bruyette & Woods.

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

I've got a couple of questions. I guess the first one probably for Loren. You talked a bit about the intangible amortization. But is there going to be any type of tax benefits that you think, at this point, related to the transaction?

Loren Starr - *Invesco Ltd. - CFO*

I think there are some elements that are a part of our thinking, which is typical of these type of things. So largely the cash component of the deals is something that, from a tax perspective, can be amortized over a 15-year life, and so that -- there are definitely tax benefits.

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

That's helpful. And I guess also, since we are -- since I am questioning you at this point, Loren, any update on -- aside from the deal, FAS 167? You know, you're still looking like it's going to have -- make the P&L look, and the balance sheet look, a lot uglier, or any light in the horizon that maybe it won't be as bad?

Loren Starr - *Invesco Ltd. - CFO*

I don't think there is anything that we are hanging our hat on to see if a miracle in terms of 167 being revoked or carved out for asset managers.

I know that actually many analysts have had conversations with the SEC and the FASB on this topic, and hopefully that will register. That's probably our last hope in terms of reaching them.

But, to the extent that this is going forward and we are certainly planning on it happening, which is 167, we're going to have to consolidate a lot of -- several of our investment products on our balance sheet, and eliminate the revenue on our income statement.

We will be as transparent as we possibly can, so you can continue to see the core business. So that's our, obviously, pledge to you, that we're going to make it as transparent as we can. And we'll give you some updates as we get into the fourth quarter, how that's going to look.

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

Great. A couple of quick questions around the deal. Just kind of some simple ones. It doesn't mention it in the press release, but I'm assuming it's not like Morgan Stanley gets a board seat or anything. They just kind of become a passive 9% holder.

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

That's right.

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

And it may be a little early in the process, but I'm just curious on how you are thinking about branding the business. Do you think you'll just go with the Invesco Aim? Are you going to have kind of two retail brands? It would seem to make -- I assume it makes sense to try to keep one retail brand.

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

Yes, it is early. We've had broad conversations, but we will go through the exercise of what makes sense from a market point of view. We'll get market feedback, we'll do all the typical things that you do, and it will take us -- it does take a long time to close, so we'll just work through that process, but no early feedback yet, other than we will clearly take a look and make sure it makes sense.

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

Maybe just one last question. I appreciate the patience. On compensation expense, certainly you guys seem to do a yeoman's job of kind of controlling that as you've kind of made the platform more efficient.

But looking ahead to next year, and I know it's still a ways away, but assuming you can hang onto markets that stay relatively benign, you can hang onto a lot of the recent gains, I mean certainly the revenue outlook next year is much improved compared to this year, I would assume compensation expectations are going to start kind of going up.

Should we be thinking, as we look ahead, that, excluding the deal, you are going to have some incrementally greater upward pressure maybe as it relates to comp from PMs and distribution personnel, or -- ?

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

It's a great question. I think you are thinking about it exactly correctly. Compensation is going to go -- if the performance continues and the business continues to perform, compensation is going to go up. And we want to make sure that we are rewarding performance, and I guess what you're asking, so it's going to be -- what's the incremental change?

I don't have the answer to that, other than to say we're going to make sure that we reward people for their success. So again, I don't know how to be more specific than that.

Operator

Cynthia Mayer, BAS-ML.

Cynthia Mayer - *BAS-ML - Analyst*

Just some follow-up questions, I guess. It looks like you are forecasting $10 billion in outflows related to the integration. I'm just wondering where that's coming from? Is that based on overlapping client assets or some other calculation?

Loren Starr - *Invesco Ltd. - CFO*

Cynthia, we are not really forecasting. I'd say it's an estimate that's in there, since we don't have any clear view as to what might happen, but we know that typically these transactions have some degree of asset disruption. And so, we put in a conservative number of $10 billion, which, again, isn't really based on any clear knowledge of certain assets that are going to leave. So it's there as an estimate more than anything else.

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

Yes, I mean our goal (multiple speakers) not to have happen. But again, we're just (multiple speakers)

Loren Starr - *Invesco Ltd. - CFO*

To be fair, we think that it's a reasonable dyssynergy to put in the model.

Cynthia Mayer - *BAS-ML - Analyst*

And can you give some color on what kinds of assets are inside the alternatives AUM that you include there, and what the fee structure is? I'm just wondering, not only for alternatives but for the other assets, will you be getting any opportunity for performance fees on any of these assets?

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

There are bank loans, REITs are the predominant ones in alternatives, and I -- do you have a sense of the fee structures (multiple speakers)?

Loren Starr - *Invesco Ltd. - CFO*

I don't have a detailed view into performance fees. So, sorry, that's information to come. I don't think there is a lot in the way of performance fees generally. That's my understanding within the assets.

Cynthia Mayer - *BAS-ML - Analyst*

Okay, great. Then, just circling back to the tax rate, is there any kind of upward pressure on the tax rate, given the U.S. retail focus of Van Kampen?

Loren Starr - *Invesco Ltd. - CFO*

I think whatever we -- the way our tax rate works, it's a blend of the tax rates in the different businesses, different locations that we operate, so to the extent that we're bringing in a larger piece in the U.S., it will certainly have its impact on the tax rate after close.

So again, we'll provide more transparency as we've done in terms of the impact on the tax rate, but I think you are right to flag that point.

Cynthia Mayer - *BAS-ML - Analyst*

Just lastly, I guess, any color on expectations for performance fees for 4Q?

Loren Starr - *Invesco Ltd. - CFO*

Again, it's impossible for us to forecast with great certainty. We've typically seen that trend. We don't expect any change in the sense that we think there's probably going to be the majority of the fees hitting in the fourth quarter and the first quarter. So we still have some expectation. But I couldn't give you a number at this point.

Operator

Jeff Hopson, Stifel Nicolaus.

Jeff Hopson - *Stifel Nicolaus - Analyst*

In regard to the flow situation at Van Kampen, so just to be clear, in the going forward, where would you expect more of the improvement, I guess? Within Morgan Stanley or outside?

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

The vast majority of the assets are the Van Kampen traditional assets, and that's where we would anticipate, obviously, the continued improvement in flows, which they are seeing right now.

Jeff Hopson - *Stifel Nicolaus - Analyst*

They are seeing that?

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

Yes.

Operator

Douglas Sipkin, Pali Capital.

Douglas Sipkin - *Pali Capital - Analyst*

Good morning and congratulations. Just two follow-ups here. First, and you may have provided this, so I apologize. Can you let at least me know how well penetrated is Aim within sort of the Morgan Stanley/Smith Barney retail joint venture? How much opportunity is there for you guys to leverage just Aim's stand-alone, forgetting about anything Van Kampen can bring?

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

That's -- again, as we were comparing and contrasting earlier, needless to say Van Kampen within Morgan Stanley Smith Barney is very, very strong. We are -- have not penetrated the traditional Morgan Stanley system so well. We did Citi, but the relative strength is much stronger at Van Kampen, and you put the two together and it's going to be just a great, great opportunity.

Douglas Sipkin - *Pali Capital - Analyst*

Great. Second question. There's been a lot of discussion about ETFs, the market share they are taking. Are you guys seeing the same level of market share or inquiries for power shares, which is a little bit more advanced ETF on maybe intelligence-based or active-based, or is that still probably lagging in terms of penetrating the traditional businesses?

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

I think the dominant asset class within is going to be passive, just for the way that it's been used, just in sheer size of numbers. But for us, power shares ETF continues to be a very important part of our business, and we still think it's early days to where it's going to get to. And, we are continuing to see -- it's been a very nice net flow story constantly.

Loren Starr - *Invesco Ltd. - CFO*

Progressively increasing from -- you know, first quarter, second quarter, third quarter progressively increasing each quarter, so the story continues to improve every quarter.

Douglas Sipkin - *Pali Capital - Analyst*

Great, and then just a question about reporting. Obviously, you guys are -- have a history of some transactions now -- Wilber Ross, PowerShares, Van Kampen, and the prior, as well. Have you guys given any consideration to sort of reporting cash earnings?

I know a couple of your competitors do it, and we're just, I guess as analysts, always trying to put stuff on apples to apples, and it's a little bit tougher, given that only a couple of guys provide it and most of the industry does not.

Loren Starr - *Invesco Ltd. - CFO*

I think it's something that we may consider. I'm not sure if we are ready to go into that road -- going down that route. But obviously with the amortization of intangibles, it becomes more of a consideration. So we haven't made a decision yet, and clearly we're going to have a whole slew of disclosure issues with 167 as well.

So, I think going into 2010, we'll have a fresh look at how to best present the business to be transparent to our investor community.

Operator

Craig Siegenthaler, Credit Suisse.

Craig Siegenthaler - *Credit Suisse - Analyst*

First, I am just wondering, when we look at the Morgan Stanley platform, I'm wondering what the current market share is for Invesco Aim's products, and then I'm wondering if you think there is any hurdles that could prevent a high-performing fund like Charter and some of your other funds from taking market share on that platform?

And then maybe about also talk about how Van Kampen could get into some of the defined-benefit channels and union relationships that's kind of the core of Invesco's institutional framework.

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

There are, again -- just with Morgan Stanley, there are really no barriers. Their goal is -- we are like-minded and if we have good performing products, we're going to do all the ability to make the case within the channel.

So that's one of the absolute benefits with Morgan Stanley, and there are other distributors that are very similar stories that are important, whether it be LPL or Jones or Merrill Lynch and keep going. So that's -- again, we think it's an important part of this combination.

And then, same thing, just on the DC capability, we have a good group of people, a very good team in the DC channel, and again, just responding to clients' needs of investment capabilities, which there are more of them now, it will not be a hard addition to introduce into the combined organization.

Craig Siegenthaler - *Credit Suisse - Analyst*

And then, just real quick on the synergy estimate. It looks like relative to total fixed expense, it's a pretty small number. Maybe 4% to 5% of the total when you exclude distribution expenses.

I'm wondering, when you look at that synergy forecast of $70 million, is -- where do most of those costs come from? Is it mostly non-comp and, like, office property, tech, items like that? Or what's the mix [sharply], comp versus non-comp?

Loren Starr - *Invesco Ltd. - CFO*

Yes, we obviously haven't gotten into that level of detail on the synergies and, this is going to be something where we are going to work hand-in-hand with the Van Kampen management in terms of identifying these opportunities.

We certainly think there are going to be opportunities -- instead of two buildings in Houston. Does that make sense? But these are things we have to talk about with Van Kampen. We're not going to presume at this point how it's going to happen.

So I think it would cut across a range of different expense categories. There isn't one particular area that we'd see the savings coming from.

Operator

James Shanahan, Wells Fargo Securities.

James Shanahan - *Wells Fargo Securities - Analyst*

I have a follow-up question related to questions asked by a previous caller. For the assets that were acquired, the entire $119 billion, what have been the recent flow trends, say, going back the last three or four quarters?

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

I don't have the specific numbers for the whole category, but what I can say is just recently looking at the Van Kampen mutual fund segment, they have increasingly been on an improving flow trend.

Loren Starr - *Invesco Ltd. - CFO*

And I think the performance has been getting progressively stronger and stronger, too.

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

Very much.

Loren Starr - *Invesco Ltd. - CFO*

So, again, it's sort of the perfect sort of improvement trend that you'd expect where performance is driving flows.

James Shanahan - *Wells Fargo Securities - Analyst*

Do you anticipate that any of the acquired funds will be discontinued post-acquisition?

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

That is one of the elements that we're going to look at, just the whole combined product line-up and where there's overlap or duplication or too many products in a single area, we are going to put on our client hat and make the determination of what makes sense from a client point of view. So we would anticipate some rationalization in the product line-up.

Operator

I will now turn the call back to Mr. Flanagan for closing comments.

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

Thank you very much. I do want to thank everybody for their time and, as you can tell, we are very excited about this acquisition.

We really see it as a real opportunity to enhance our ability to meet our client needs, and as always, our primary focus is on delivering consistent, good, long-term performance, and I think you can pick up just from our feelings our belief that this combination brings together really complementary investment management team with the shared goal of investment excellence, which is just the first and most important thing that we could be focused on.

And also, it's clear that it expands the depth and breadth of our investment strategies, really offering a very, very broad, comprehensive array of investment mandates and vehicles to clients.

And then finally, we just see it as a real opportunity to significantly strengthen our presence in the U.S. market and the complementary nature of our relative strengths within the distribution channels. We think we're going to just do a much better job meeting distributors' needs with the lineup of the combined firm.

And we just look, if you take all of this together, the acquisition is a real powerful combination that's going to enhance our ability to provide meaningful solutions to our clients and better position Invesco for the long term. So, with that, we thank you for your time and questions and we will be in touch with everybody soon. Thank you.

Operator

This does conclude today's conference. Thank you for attending. You may disconnect at this time.