FINAL TRANSCRIPT

Thomson StreetEvents℠

IVZ - Q4 2009 Invesco Ltd. Earnings Conference Call

Event Date/Time: Jan. 28. 2010 / 2:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Martin Flanagan
Invesco Ltd. - President & CEO

Karen Dunn Kelley
Invesco Ltd. - Director - AIM Global & Cash Management

Loren Starr
Invesco Ltd. - CFO

CONFERENCE CALL PARTICIPANTS

William Katz
Buckingham Research - Analyst

Michael Kim
Sandler O'Neill - Analyst

Dan Shannon
Jefferies & Company - Analyst

Robert Lee
Keefe, Bruyette & Woods - Analyst

Michael Carrier
Deutsche Bank - Analyst

Craig Siegenthaler
CSFB - Analyst

Ken Worthington
JPMorgan - 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, expenses, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, AUM, acquisitions, debt and our ability to obtain additional financing or make payments, regulatory developments, demand for and pricing of our products, and other aspects of our business or general economic conditions. In addition, words such as believe, expects, anticipates, intends, plans, estimates, projects, forecasts, 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, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees, and they involve risks, uncertainties, and assumptions. There can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements, and urge you to carefully consider the risks described in our most recent Form 10-K and subsequent Forms 10-Q filed with the Securities and Exchange Commission. You may obtain these reports from the SEC's website, at www.sec.gov We expressly disclaim any obligation to update the information and any public disclosure if any forward-looking statement later turns out to be inaccurate. Welcome to Invesco's fourth quarter results conference call. (Operator Instructions). Now I like to turn the call over to the speaker for today, Mr. Martin L. Flanagan, President and CEO of Invesco; Mr. Loren Starr, Chief Financial Officer; and Ms. Karen Dunn Kelley, Head of Invesco Fixed Income. Mr. Flanagan, you may begin.

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

Thank you very much, and thank you, everybody, for joining us for the 2009 fourth quarter briefing. I want to point out we'll be speaking to the presentation that is available on the website, if you're so inclined to follow through it. And as we have done in the past, I'll spend a few minutes to give a summary of the business results. We will give an update on where we are with the Morgan Stanley/Van Kampden combination, and specifically, Karen is going to talk about some of the fixed income opportunities that we see there, and Loren will get into -- or review the financials, and then we'll open up to questions as we have in the past. So just for an overview for the fourth quarter, what you'll note is our consistent good long-term performance is benefiting the organization. We saw net inflows again during the quarter -- and again, you'll see areas of some exceptional performance during the quarter -- but all in all, consistent long term performance. And although our markets have improved considerably during the fourth quarter, we continue to take a very disciplined approach to our business. It has been helpful in maintaining these net inflows I just spoke about, strong operating margins and increasing result in the operating income. And as we have been speaking of more recently, that we're going to continue to look for areas to reinvest in the business as we become more optimistic looking forward. That will result in us identifying those areas that we think will make a difference, and with that, operating expenses will follow that once we make those decisions. I would like to point out, too, since we announced the combination with Morgan Stanley/Van Kampen Asset Management in October, we've made very, very good progress in achieving our goal of closing by mid-2010. The integration work is very, very much on track. The gating factor is really just getting the shareholder votes during that process, but we'll speak more specifically about that in a few minutes.

If you take a look at the financial highlights -- and again, I'll just hit on a few points -- Loren will get into more details -- it was real solid quarter. We ended the quarter with $423 billion in assets under management. Operating income improved 6% to $161 million during the quarter. Now what you are beginning to see, though, is that we will highlight the impact of the expenses that we will be incurring as we work through the combination with the Morgan Stanley and Van Kampen. And on that basis, you can see that the operating margin was 31.4% during the quarter versus 29% in the prior quarter and 19% a year ago, and you can follow through on earnings per share the same way, $0.27 this quarter, and $0.25 the prior quarter, and $0.08 a year ago in that quarter. So a good result for the quarter. If you take a look at the flows, again, I would highlight if you look quarter by quarter throughout 2009, we had positive flows, long-term flows in each of the quarters during that year, which we think, recognizing the environment and our asset mix, was really quite an accomplishment.

For the full year, we had $9 billion in net long-term inflows, and if you compare that to the $21 billion in outflows a year ago, literally a $30 billion yea- over-year improvement when you compare the full year flows. The other element that I would point to is that we continue to see increasing gross sales, which we think is a good indicator of future flows. With regard to money funds, we saw $7.7 billion in outflows during the quarter, not inconsistent with what we're seeing with the low yield environment. That said, we continue to do very well, and on a relative basis have done very well on a flow picture there. Taking a look at investment performance -- and you can sea over one, three, five years -- again, the performance is quite strong, and particularly on a three-year and five-year basis. 69% of the assets are exceeding top half of the peers on a three-year basis, and 73 on a five-year basis.

I would like to point out again the very detailed performance charts are attached in the appendix, if you're so inclined to to follow area by area. We have put forward some relative investment highlights across the organization, Invesco AIM and Invesco Asia Pacific, Invesco Perpetual and across the institutional business. What you'll note again, area by area, it continues to be quite strong -- stronger over the three-year and five-year basis. Where there tends to be some lag would be on the one-year basis, and that's largely a result of the type of money that we manage and being more conservatively positioned. That said, I think we've done a very good job for our investors -- or for our clients, and the investors are staying dedicated to their investment disciplines, which is exactly what we want. If you take a look at the summary of the fourth quarter results, I would just a add this and leave the rest of it to Loren, we continue to be very, very focused on our balance sheet, the continuing strength in the balance sheet. We have $762 billion in cash at the end of the quarter. And with regard to the dividend, the fourth quarter dividend was $0.1025 per share, and that was consistent with the dividends that we paid throughout 2009.

So now let me spend a few minutes and give an update on the acquisition combination with Morgan Stanley/Van Kampen. If you are following along on slide 11, and from my point of view and the organization's point of view, we feel very, very strongly that the benefits to our clients and shareholders and the organization just get stronger and stronger the more time we spend with the Morgan Stanley/Van Kampen organization. As we said at the time of the announcement, it is very, very strongly aligned with our strategy and our acquisition guidelines. The rationale is really quite compelling. We have stronger, deeper investment management teams. There's a focus on investment excellence within that organization, too. The depth, breadth, and complementary nature of our investment strategies and vehicles is strengthened throughout the whole process, and also another area that we continue to just feel better about all the time is the complementary nature of the client relationships and the overall strength of our distribution capability that will be coming out of it will really make quite a -- the combination of the three will really make quite a difference for us. And if you take a look at it from a shareholder point of view, we still are focused on IRRs of 30%, so really quite strong, and we'll spend some time on that again.

If you take a look at the Morgan Stanley/Van Kampen investment performance at 12/31, you can see on a one, three, five-year basis, again, very, very strong set of performance that they are delivering, too. And again, when you look at it in combination with what we are doing -- again, very, very strong. And when we look at the underlying complementary nature of the different vehicles that we'll be offering clients, we just think it's a very, very compelling situation for our clients. If you take a look at the diversification of the combined firm, again, you can see on page 13, at 12/31, the combined firm would have $542 billion in assets under management. But I would highlight again, if you look at the diversification by asset class, by channel, by domicile, very, very well the risk by organization, which will serve not just the clients well, but also the shareholders well as we go forward as an organization. Now let me spend a minute just as we've been spending significant time bringing the organizations together, we just think there's a tremendous amount of opportunity that's coming out of these -- the joint efforts of the two organizations.

We see tremendous opportunities from the combined organization and deepening coverage in some real key growth areas here in the United States, whether it be RIA, DC, the independent advisory channel, and also the combination is going to give us just a real, very, very strong coverage model, and our ability to do a much better job collectively for our top ten clients is a very real opportunity for us. And as you would imagine, we are very focused on developing joint strategies to become that much more important to all of our clients. Since the announcement, we have had extensive outreach with key clients and got to share with them our view of the organization -- of the combined organization going forward, and we have had just very, very strong feedback from those meetings, and so, again, I'm just very excited about the prospects. And also very importantly, we have been very engaged and have an extensive engagement with our future colleagues. It's a very talented group of people. We are very aligned culturally, and as we have been spending time identifying the future opportunities for the firm, we think they are very real and meaningful.

With regard to the operating platforms, the efforts are well underway. It's going very, very well. We are doing, as you would imagine, focused on delivering a single platform as we've been working on here over the last number of years. That is very, very much on track, and I feel very good about the outcome. With regard to the closing again, as I said, the operational integration is going very, very well. What we view as the gating factor is simply getting the client consent through the shareholder vote, and with that we feel we are on track to close by mid-2010. And the other element that I would just highlight again, there are no changes to the cost synergies that we identified at $70 million, and all of the other guidance continues to be very much on track.

So in summary, when you look at it collectively, we think there are real benefits to our client, to our shareholders, to our employees by putting this organization together, and we just think we have a much stronger, deeper organization coming out of this, and we are just very much anticipating working a close, but at this stage, everything is very, very well on track. And what we wanted to do was to start to spend time with you all and give you some greater insights into what some of the those opportunities might be. Most of you know Karen Dunn Kelley, and we thought it would be helpful for her to talk about some of the opportunities that she's seen in the fixed income area as we put the organizations together. So Karen, can I turn it over to you?

Karen Dunn Kelley - *Invesco Ltd. - Director - AIM Global & Cash Management*

Yes, thank you, Marty, and good morning. As Marty has said, the combination of these two groups is incredibly complementary and it really just enhances what we do and what we look like as a business. What I would like to do over the next couple of pages is sort of just the from the fixed income perspective give you a concept of who are we currently, what are we go it will look like post merger, where are we going and what are some of those opportunities we see for our customers. So if you're looking at slide 17, you can see that this is what we are as a fixed income platform today. We are number one. We are very, very large. We are major in most -- in all of these classes. We are global -- we are a global business, and you can see that we have offices and people -- fixed experts across the globe.

We also have, the way we describe our business, four major asset classes, and in each of those asset classes we are very deep, we are very diversified, and we have a long history and a long standing in those businesses. So with that in mind, the next slide really says, "What are those investment capabilities and investment strategies, how do we view ourselves?" So if you look on the left hand side of the slide, there is the S curve, and so you can see from that S curve we manage assets in every aspect of the fixed income market. And you can see on the bottom you've got the more than conservative asset classes such as money market, stable value; and then as you go through it from the municipal slide, the core, core-plus high yield side, you get to the more opportunistic where we do things like -- were, as you know, named one of the P.P.I.P. managers in 2009. We also priced the Invesco Mortgage Capital, which is a REIT, so we not only go from the very conservative to the very opportunistic, but we've got capabilities and strengths in all of these areas. And what we then do is we capture those opportunities for our customers in any delivery vehicle they want. So can see, we're not only from the -- separate account side -- the mutual fund, collective trust, private placements, ETFs -- we are across the platform in how we deliver those mechanisms to our customers.

So with that in mind, and taking that as the basic format of the way we view our fixed income business, the following slide says, "Okay, what is this exciting opportunity with Van Kampen?" Well, as you can see, and we really parcel it out in the asset classes we talked about -- it is an absolutely complementary joining of the two businesses. As you can see from each of the four major asset classes, cash will end at about $83 billion, stable value $30 billion. Bringing the broad fixed income together, it will bring about $50 billion in assets. And on the alternative side, particularly on the bank loan side, we will have about $20 billion in assets and our bank loan platform will be one of the largest in the country. One of the areas that we think is incredibly opportunistic for us, and on both sides, is the municipal merger grouping. So on the following page, I just wanted to spend a few minutes just to sort of highlight that to you.

And first of all, when you talk about the two businesses, if you look at the Van Kampen side of the house, they did not have a lot of cash business. Invesco AIM has a cash business. On the Invesco side, we have no state-specific business. That's not a business that we've really been in. Van Kampen has state-specific businesses. So when you combine these two units and you think about the S curve I showed a couple of pages ago, on the municipal side, we have a total full S curve from maturities of overnight out to long-term -- from sectors, from investment grade municipals, all the way out to high-yield, high-income municipals. We do both now, state-specific as well national tax-free products, and the vehicles in which we can provide them to the customers span from open end to closed end, separately managed accounts, ETFs, UITs, et cetera. So we really will have a full complement, and we really will become an industry leader in the municipal space.

And if you take that to a further step, obviously the assists merging in will be about $22 billion in assets, but that puts us as the 5th largest non-proprietary municipal manager in the country, and so it really puts us in a place to deliver all the products we have. With that said, and with the full capabilities of fixed income, we really believe that 2010 and going on, there's great opportunities for fixed income, and we look at them in a couple of different ways. From the overall fixed income platform, we believe that the demographic changes are absolutely favorable to increase allocation to fixed income. That will just naturally happen as the demographic trend continues to be positive for fixed income. The other thing that we've seen, though, in the fixed income environment, particularly coming out of the market problems and crisis over the last couple of years, is that fixed income provides a risk profile for investors, whether they want a low-risk profile and want to be down at the bottom of that S curve, or they want to take more risks and be opportunistic, and there is a lot of opportunistic places to be on the fixed income curve as you go out the curve.

So again, from a risk profile, fixed income is a place that can handle all sides of that and a combination for the client need. In particular, on the tax-free side, we are very, very encouraged by what we're seeing, number one, with the anticipated increased tax rates. We believe that that will drive investors to look towards the municipal bonds and to that type of an asset class. The other thing -- again, complementing the risk profile we talked about -- is the fact that if you look on the tax-free and the municipal asset class, over the last ten years, they have provided very strong taxable equivalent returns with the ability to take lower volatility than certain of their counterparty asset classes. So it is a place where you can really go in and get tax equivalent returns and low volatility. So with that in mind and all of these things coming together, we really believe that this is a tremendous opportunity and a place where the fixed income asset class and that of municipals is going to be enhanced and grow in the next years to come.

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

Great. Thank you, Karen. And as you can see, one of the things we wanted to do, you knew of our fixed income capability being very, very strong, but really highlighting another benefit of the combination with Morgan Stanley/Van Kampen, and then specifically probably one of the less obvious areas of really the leadership position that we'll be taking in the municipal bond area. So with that, I'm going to turn it over to Loren for financials, and then we will get into Q&A after that.

Loren Starr - *Invesco Ltd. - CFO*

Great. Thanks, Marty. During the quarter, as Marty pointed out, we saw positive long-term flows; also market gains, favorable foreign exchange, which was offset somewhat by net outflows in our money market funds, resulting in 6.2 billion increase in AUM. Thus, we ended the quarter with 423.1 billion in assets under management -- that's up 1.5% since the end of September -- and our average AUM for the quarter increased 13.4 billion to 420.3 billion. Also we're pleased to see the modest improve independent our net revenue yield in Q4, driven by the growth in the higher fee asset categories. So at 53 basis points, our net revenue yields -- excluding performance fees -- is now roughly in line with where we were in Q3 of 2008. So clearly moving in the right direction.

Let's move to operating results. You'll see on the next page, total operating revenue increased 42 million. That's a 6% increase quarter over quarter. Investment management fees were up 7.3%, a 41.5 million increase. That was a result of a positive mix shift and, again, higher overall average AUM. Within our mix, importantly, equities as a percentage of total AUM increased from 39.2% in the third quarter, now to 41% in the fourth quarter. Service and distribution revenues, which typically move in line with our average AUM, actually decreased quarter over quarter by .4%, and this it was a result of certain annual fund expense recovery limits being reached in Canada. The impact was a full year reduction of 5.4 million in TA and administrative revenues, all of which were reflected in Q4. So that's an important note.

Performance fees going down, came out at 6.8 million. The magnitude of our performance fees in Q4 was lower than what we have typically seen in prior quarters at this time, but I'll be going into more detail on this later in the presentation. Other revenues declined by 8.2% to 17.8 million, a result of lower transaction commissions within our real estate and private equity business. This trend, as you've seen, began with the dislocation of the credit markets in the fourth quarter of last year, and we continue to feel the impact on this particular revenue line item. Again, I'll be talking about this more fully later in the presentation.

Moving on down the slide, you will see that total operating expenses at 587 million grew quarter over quarter be 33.1 million, an increase crease of 6%. The majority of this increase is due to third party distribution, which tends to move in line with AUM, but also the post-signing costs related to the acquisition of Morgan Stanley's retail asset management business, and there were also some other notable increases in certain expense categories in Q4, which I'll discuss. Employee compensation expenses increased by 8.2 million, that's 3.4% versus Q3. This included 4.1 million of a charge related to the annual revaluations of certain of our legacy non-U.S. defined benefit plan, as well as 4.3 million due to payroll taxes related to the vesting of several large share based awards in the quarter. Our third party distribution service and advisory expense increased 11.9 million. That's 6.5% up. That's in line with investment management and service and distribution fees.

Marketing expenses grew in the quarter over quarter by 2.7 million, 9.7% -- again, mainly due to marketing support payments which move in line with AUM, but also due to a slightly stepped up increase in advertising. Property office and technology decreased by 8.2 million -- that was a 13% decline. However, you'll remember in the third quarter, we incurred a $12 million charge related to vacating leased property in Denver. Adjusting for this charge, the fourth quarter costs were actually up about 3.5 million, primarily due to the outsourcing of facilities management in North America and the significant growth in our operating platform in Hyderabad, India. General and administrative expenses came in at $39.8 in the quarter. That's up 9.7 million versus Q3, and this difference was driven by seasonally higher fund expenses in Q4, when investor statements go out in UK and Europe. In addition, we had professional expenses up related to a variety of new fund launches, including a new series of ETF products in Canada. Travel costs, which have been constrained through most of 2009, also grew as business activities returned to more normal run rate levels.

And then we go to a new line item, transaction and integration. Going forward, we'll be using this line item to separately identify the expenses related to the acquisition of Morgan Stanley's retail asset management business. And during the fourth quarter, $9.8 million of this cost was recorded compared to 1 million in the prior quarter, and this is all part of the transaction and integration charge guidance that we previously announced in Q3. So moving down the P&L, you'll see that operating income increased 8.9 million or 5.9% to under 61 million. Below the operating income line, equity and earnings of our unconsolidated affiliates increased slightly to 9 million from 8 million in the third quarter. The effective tax rate in the quarter was 30.3%, up slightly versus 29.3% in the third quarter. And so coming to the punchline, EPS came in at $0.25 for the quarter after adjusting for the acquisition cost of $0.27 cents. And then for to those of you who would have some interest, some of the notable items in the quarter, the pension charge -- the Canadian service revenue impact and the payroll expense all amounted to about $0.022; and again, we would be glad to go through that in more detail if you want.

So going to the next slide, I just -- as I promised that we were going to talk a little more about performance fees and other revenues, I just want to make a point -- underscoring the point -- that we don't use performance fees pervasively within the firm. We have about 30 billion of our assets under management that can earn performance fees, and that's only about 7% of our total AUM. The top half of this chart shows performance fees by quarter, and I think demonstrates that there's a fairly significant lack of predictability in this line item. Performance fees from our UK trusts in yellow have occurred historically in Q1 and Q4; however in this quarter, there were no performance fees from the UK due to the one-year track record lagging benchmarks. However, this quarter the majority of the performance fees actually came from Other, which which is in gray, and this was specifically from Atlantic Trust as a result of strong performance from and energy MLP fund that they manage.

And moving to the bottom half of the slide, you've see that other revenues consist primarily of front end load fees in yellow, most of it generated in the UK, but also transaction commissions in blue, earned by our real estate and private equity businesses. The Other fees in gray include reimbursed fund expenses, FIN-46 consolidation revenue, among other items. So similar to performance fees, Other revenues in 2009 remained at a lower level relative to prior years, and the decline in Other revenues is largely the result of fewer real estate and private equity transactions, which I would say is consistent with the market environment that we find ourselves in today. The final slide, before we turn it over to questions, is a preview of some of the reporting changes that we plan to adopt in the first quarter of 2010. We are expecting to adopt a new accounting standard, FAS-167, related to the consolidation of certain of our investment products on January 1. Part of the standard, as you may know, as been deferred by the FAS-B. Nevertheless, we will be required to consolidate certain of our managed CLOs.

And at December 31st of this year, Invesco managed about 11.2 billion of CLO structures, and we would expect some portion of these structures to be consolidated in the first quarter, possibly in the range of 4 to 6 billion. We are still working through those numbers. The good news, if there is any, is that the bottom line impact of this consolidation on Invesco's net income and EPS will be minimal. However, there will be an impact on operating income due to the elimination of management fees for the consolidated products, which will then be offset by below the line increases in interest income and expense. In addition, the balance sheet will be grossed up for all the collateral assets held by the entity that get consolidated and by the debt issued by these entities, and this is despite the fact that no recourse exists, either or implied, against the (inaudible) Invesco.

And in addition, the cash flow statement under GAAP will be grossed up to reflect the cash flows of these entities. So in order to provide what we would expect you want us to provide, which is transparency, we will start next quarter to allow you to see those financial statements without the impact of the FAS-167 consolidation, so hopefully that will be helpful. In addition, given our plan to complete the acquisition of Van Kampen prior to June 2010 and given the expected P&L impact of what we discussed, the non-cash intangible amortization post-close, we intend -- beginning in Q1 -- to disclose our earnings on a cash EPS basis, and we think this additional disclosure will provide greater transparency into the cash flow generation of our business, and also allow for more appropriate comparisons with our competitors, many of them who use cash EPS as well. So -- excuse me -- with that, I'm going to hand it back to Marty.

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

Thank you, Loren, and we'll just open it up to Q&A, whether it be for myself, Loren or Karen.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). One moment for the first question, please. Our first question comes from William Katz of Buckingham Research. Sir, your line is open.

William Katz - *Buckingham Research - Analyst*

Okay, thank you very much. Good morning, or good afternoon, everyone. So Marty, on the transaction with Morgan Stanley, I'm sort of curious if you could maybe give an update on how the consultants are sort of viewing the transaction. Obviously, you provided a nice update from the fixed income side, but more generally, how is that being received so far? And any sort of comments there would be helpful.

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

Yes. We've been very, very engaged with all of our key constituents, whether distributors, consultants where it's relevant, and I have been in a number of those businesses myself, and they have just been very, very positively received. And why is that? It's just from all that we've talked about. It starts by just on the surface, the combination of the two organizations makes a lot of sense. Everybody can see the complementary nature of the organizations. And when we walk up through the process that what we're going through of what we're trying to achieve for our clients and also organizationally, they feel very, very comfortable about it. So right now, I would say I feel about as comfortable with this of any combination that I've ever been involved in in my career.

William Katz - *Buckingham Research - Analyst*

Okay, and just a quick follow-up, maybe for you or Karen. Sort of curious, she spent a lot of time talking about the fixed income basis. When you look on an absolute basis or even a relative basis, I appreciate the fact that your flows have increased nicely year to year, but sort of looking relative to some of your peers, you've lagged at little bit. I mean, is 2010 -- really should be the lynch pin here or the inflection point for this part of the business?

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

For fixed income?

William Katz - *Buckingham Research - Analyst*

Right.

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

Yes. I -- so Bill, my -- I'll make my point, and then Karen can talk about it. I -- at one level, we all wish we could close this combination sooner than later. It's going to be a mid-year event. We're doing as much as we can as jointly as possible, but there are limits -- legal limits of what we can do. So the power of the combined firm is really not going to kick in until the second half of the year, and so I think where you're really going to start to see an impact is 2011. Now, we would like it to be faster, too. But what I can tell you is the way that we structured the transaction, the way that we went into it, and the other elements we talked about, I feel we are going to be achieving progress as quickly as anything that I've been involved in. So am I answering your question, or am I answering the question that you asked?

William Katz - *Buckingham Research - Analyst*

To some degree. Sort of curious, would you -- that being said, I mean, the fixed income business should be able to grow apart from the Morgan Stanley transaction. So I'm just really curious, are you seeing a step up in the institutional channel for fixed income, given the focus you've sort of put on this call?

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

I'm sorry. Yes, Karen, will you answer that?

Karen Dunn Kelley - *Invesco Ltd. - Director - AIM Global & Cash Management*

Yes. Let me make a couple of comments to you. In fact, what we did during -- okay, we've had this -- the market crisis started in '07, went through '08, and what we really did in 2009 is said we need to position ourselves for the future. So what we did is we did a couple of things. We went out on extensive road shows across the US, Asia, and the UK to talk to the consultants about how are we looking at our business, what are we doing in our business, how are growing it, where are we going? We did a full blown training on all of the retail sectors at the Invesco AIM to say (inaudible) the time, and the place is now, as I mentioned in the earlier comments.

We also -- then through that, obviously we became a PPIP manager, and now it's one of the PPIP managers; and again, we brought the -- launched the Invesco Mortgage Capital REIT that was launched. So what we did during 2009 is really say, "In every aspect of our business, let's bolster it, let's solidify it and let's say be prepared for the future." And so what has happened from that is we have gotten more consulting conversations going on. We have gotten higher levels of RFPs. We have gotten more discussions going on, which is exactly what leads to more sales. So one of the things that I have been saying and I will continue to say is that 2009 was a year that we positioned ourselves for the future, and that, plus -- all the things I've said, plus this very, very exciting Van Kampen merger, I believe very strongly that 2010 is the future. We are really poised to do great things in fixed income this year.

William Katz - *Buckingham Research - Analyst*

Okay. That's helpful, thank you.

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

And Bill, let me add to it. So here is my point of view. I don't think that -- if you want to call it the additional clients -- in fixed income are reflective of our capability, and it's just a longer runway than any than any of us would be happy with. But I feel quite confident that as the market place recognizes just the absolute strength we have in fixed income and some of these things Karen highlighted, those are very material recognition-type wins for us, and I feel very good about the future.

William Katz - *Buckingham Research - Analyst*

Okay. That's helpful, thank you.

Operator

Michael Kim of Sandler O'Neill, your line is open.

Michael Kim - *Sandler O'Neill - Analyst*

Hey, guys, good morning.

Loren Starr - *Invesco Ltd. - CFO*

Hi, Michael.

Michael Kim - *Sandler O'Neill - Analyst*

First, just in terms of the deal, any change in how you're thinking about the AUM attrition estimate that you laid out last quarter, just particularly given some of the growth opportunities on the fixed income side that you just highlighted?

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

No, I think -- look, it's still such a -- the market place is still -- yes, more stable than a year ago March, but not the stability that we want, and we're just -- I think we think the wisest thing right now is just to stay at the -- the guidance that we had originally given. And as we get closer to it, we'll feel more confident, and if there needs to be revisions, we will make those for everybody.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then in terms of activity in the institutional channel, you talked a little bit about the fixed income side, but are you starting to see more interest in maybe some of your equity strategies more recently?

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

Yes, the areas that continue. to get focus for us are real estate -- direct, but also listed real estate REITs continues to be a very, very popular area we're getting, and the international and global area are other areas that are starting to come up, and some of the quantitative mandates also.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then maybe just finally a question for Loren. I know the margin was probably depressed to some extent this quarter, just due to some of the non-recurring items and seasonality, but any color on how we should be thinking about the margins going forward for the standalone business, and then just following the close of the transaction?

Loren Starr - *Invesco Ltd. - CFO*

I think, again, we don't have any specific margin targets that we can give you. I think the -- the goal of certainly getting the margin above 30% exists. Obviously, I think that's certainly achievable, given where the markets are today. Operating leverage will certainly work in our favor to see margins expand more rapidly if the market improves. And obviously, if it declines from here, it has the reverse element. So nothing has really changed. The only thing that we've said, which again I think is probably reasonable just to repeat the guidance, is sort of, we're definitely more -- sort of thinking about more in a traditional sense of historically, our incremental margin has been the 60 to 65% range, and I think you're thinking of 2010 versus 2009, those are the kind of numbers you should be thinking about generally -- again, if it's a business as usual type of environment with markets being reasonably stable.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. That's helpful. Thanks.

Operator

Robert Lee of KBW, your line is open.

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

Thank you. Good morning, everyone.

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

How are you doing?

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

Great. Quick question. Loren, I just wanted to clarify a couple of things. That pension expense, is that kind of a one-time item, or does that kind of flow through kind of a true-up, or does that kind of flow through on a go-forward basis?

Loren Starr - *Invesco Ltd. - CFO*

No, I mean, we're certainly hoping it's a one-time item. It's really a -- there's an annual evaluation that's done. Obviously, there are certain inputs in terms of discount rates and actuarial assumptions, and this time it created this charge, which is largely non-cash. So again, we would hope that would be an improving situation. It's really been driven by the state of the markets more than anything else, and we're not alone in that, but I would characterize it more as a unique as opposed to a recurring thing.

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

Okay. Great, and in thinking about margins and expenses, could you talk a little bit -- and you guys have done kind of a -- I guess I'll describe it as kind of a yeoman's job of kind of keeping a lid on expenses and comp costs in particular, which maybe that upsets some people. But how should we think about going forward? You've had this big rebound in assets, as has the whole industry. Going through a merger, performance has been good. Are you starting to feel like, hey, things are better, but there's a lot of change going on, that you kind of have some -- I guess I'll call it higher -- greater pressure on comp costs in the coming year than maybe you've been experiencing?

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

Yes, you're right on they have mark, and that's what I was trying to highlight at the beginning of it, and you could sense a little bit of that just in Loren's comments as he was going through some of the details in the expenses. We feel we have positioned ourselves to actually make a difference in the marketplace, and we are -- there are more and more opportunities in front of us, and we are responding to them. And what comes with that is you have to spend money, and we feel confident that we should be doing that, because we think we will make a difference, and that's some of the pressure we were alluding to previously. But we think those are good things, not bad things.

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

Okay. And I'm just curious, is there anything at Trimark in Canada? Looked like there was an unusually large outflow in the quarter. I think it was almost like half your outflows for the year. Was there a particularly large account or two that left, or anything unusual there?

Loren Starr - *Invesco Ltd. - CFO*

Not that I'm aware of. I think there may be some seasonality in how redemptions work just generally there and in the U.S. as well, and so there may have been more of an outflow, just because of the seasonality. But we aren't seeing any sort of -- we would wouldn't view that as a continuing trend.

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

Okay. And maybe talk a little bit about Power Shares. In terms of -- I mean, obviously, we all know what's been going on with ETFs broadly speaking in the industry, but can you kind of update us how Power Shares has been doing, and kind of its contribution for the year and the quarter to net flows, and how you were kind of -- do you -- given the competition in that space is increasing, if nothing else, how you kind of feel about your ability to grow at least in line or faster than the ETF business overall?

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

Yes. I'll make a couple of comments. Loren, do you want to talk about flows, and then I'll talk about the positioning with it, if that makes sense?

Loren Starr - *Invesco Ltd. - CFO*

Yes, if you want to do the comments first, I'll have the flows in a second.

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

Sure. We are very, very -- again, we think it is a real strength of the organization. When we bought Power Shares, recognizing that really the passive end of the ETF market was pretty well captured with some of the incumbents, but from our point of view, Power Shares is a strategic advantage, will continue to be one, and we just see future opportunities for us in that marketplace. And we're seeing it more -- the area that has probably been the slowest has really been the adoption of ETS in the advice channel. That was one of our premises going in. That continues to be a real focus of ours, and we think that as they are becoming more and more commonplace in the advice channel, we're going to do very, very well with it. So again, we think it's a real strength of ours, and we're very optimistic about the future for us.

Loren Starr - *Invesco Ltd. - CFO*

And we had another quarter of positive flows related to Power Shares. There was about half a billion. It was down somewhat from Q3, which was .9 billion; but again, it's been positive flows ever since we purchased and kind of had them become part of the firm. And one of the things I think that is quite exciting is they reached $1 billion in Europe. That was kind of a mark that we've been waiting for for a while, so that was a nice milestone, and then obviously the use of ETFs in Canada is another example of just how we can use these products very effectively in different markets where traditionally we haven't really played a role, and we think that there's a lot more that can be done to continue to grow that business. But it's currently about 15 billion in assets under management. That doesn't include the Q2Qs or the Deutsche Bank product. If you add all that in, it's about 45 billion in term of the total assets that are affiliated with Power Shares. And so our presence. actually in the market is larger than some of the numbers that we present -- provide -- and certainly that's something that we're going to try to give you better transparency going forward.

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

And just adding to that -- so to be clear -- so if you look at the Power Share's franchise, it's $46 billion, it's 6% market share, it's [BGI], [SafeStreet], Vanguard and ourselves. So we're fourth in there, so we feel -- and recognizing that we're not playing in a number of those areas, we feel we have a real strong franchise there and we intend to continue to make an impact.

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

Great. Thanks for taking my questions.

Operator

Dan Shannon of Jefferies, your line is open.

Dan Shannon - *Jefferies & Company - Analyst*

Good morning. Loren, another couple of questions on the expenses. I just want to clarify here with regards to the G&A line, as well as the property and office, are those run rates that we should be thinking about going forward? Because they did come in higher than what I was looking for.

Loren Starr - *Invesco Ltd. - CFO*

Yes, well, on property and office, I think the answer is probably yes, that that's a reasonable sort of run rate going forward, and some of that is offsetting salaries above. So as we continue to use our operating platform in Hyderabad, you're seeing those expenses on that line item, and then it's offsetting kind of other elements and other expenses in other parts of the P&L. So net net, it's saving money, and we do think it's the right approach for us to continue to grow that, so I would say that's the kind of one point. On G&A, there is some some seasonality there. Typically, in the fourth quarter and the second quarter, there's a spike up of about 1.5 million every time mailings go out in Europe and the UK, so you'll see some spike up there. Also in terms of product launches, that can be a little bit hard to predict as to when those things happen, so I don't want to say that it's non-recurring, because we do have new products and have plans to launch new products, but some of the pickup is really of business activity picking up (Audio Lost) travel, which has been constrained as a general matter is (Audio Lost). So that's all part it. So general guidance is there may some return going down to a lower level, but I wouldn't take it down to the Q3 level, because I think that would be overly -- that would not be an incorrect run rate.

Dan Shannon - *Jefferies & Company - Analyst*

Okay. And then just on the service and distribution side, just to clarify that 5.4 million, that was one-time in nature in terms of just the kind of year-end. As we think about the first quarter, that should artificially be increased by that and then some, depending on what we assume for AUM growth.

Loren Starr - *Invesco Ltd. - CFO*

That's correct. That is the right way to think about it.

Dan Shannon - *Jefferies & Company - Analyst*

Okay. And then Marty, maybe just in terms of on the heels of the commentary on money market reform from yesterday, do you guys anticipate any change in terms of how you are operating your business, or how you think about that opportunity going forward?

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

Since we have Karen on the phone, Karen, why don't you respond to that?

Karen Dunn Kelley - *Invesco Ltd. - Director - AIM Global & Cash Management*

Great, thank you. Marty, again, just from a big picture, on the money market reform -- new and amended rules that came out yesterday -- the full release and the full details are not expected until the earliest of tomorrow. So again, what we're speaking from is the macro information that was brought forth yesterday. And so when we look through that information, really there are four major categories that the reforms are going to take place, and they are; portfolio liquidity, portfolio maturity, portfolio credit quality, and then other shareholder protections that they put in place. So as we have looked through them at the macro level, number one, generally we are -- we think they are very consistent with the expectations, as we have worked and the industry has worked closely on this issue. Number two, they are going to be managing money market products much more aligned and much more closely to the way we've been managing them for over 20 years. And then finally, I would just conclude by directly answering your question that, no, we do not believe there's going to be any material changes from what we have seen.

Dan Shannon - *Jefferies & Company - Analyst*

Great. Thank you.

Operator

Mike Carrier of Deutsche Bank, your line is open.

Michael Carrier - *Deutsche Bank - Analyst*

Thanks, guys. Hey, Loren, one more question, I think, just on some of the expenses and noise in the quarter. You mentioned the $0.27, which excludes kind of the transaction charges, and then you're saying if you normalize some of those other noisy items in the the quarter, it could be roughly $0.022. Just trying to figure out what were those items? Because there were a few items that were noisy -- I just wanted to make sure that included them all.

Loren Starr - *Invesco Ltd. - CFO*

No, good ask. So the pension charge was 4.1 million. That's about $0.006. The Canadian service revenue, which is a top of the line thing, it was 5.4 million, $0.009. And payroll expense is 4.3 million, and that's about $0.007. And the impact of those things three things -- $0.022 also on margin -- is about .9%. So if you added all that back and wanted to do that, the margin -- just the margin -- would be 32.3%, and the EPS would be $0.29. So again, it depends on just what you want to take as one time. And the reason I qualify, the Canadian service (inaudible) is definitely pension charge, I would say, is more one off. Payroll expense, when stock (inaudible), it depends on the stock price at the time of divesting, so that could be one of these things that happens in the future quarter, but this one was a little exception in the sense of kind of how large it was.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. And then just the items that you mentioned in the G&A, no adjustment there, so if some of those come down, that would add a little bit?

Loren Starr - *Invesco Ltd. - CFO*

Well, yes, so I think 1.5 million certainly is seasonality on the mailings. I think that would come down. In terms of product launches, if we were to launch no new products in Q1, it would come down. I'm not saying that's what's going to happen, so there's an element of cost related to that. Travel I think is one of these things that's probably up a few million dollars quarter over quarter, and my guess is that we're going to continue at that level. So again, it's somewhere in between.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. And then just looking -- not quarter to quarter, but more 2010, 2011 -- when you think back to, like, 2007, pre-crisis, where Invesco -- based on our margins, you were kind of in the mid-30% range. But from an efficiency standpoint, the firm wasn't near as efficient as it is today. When you think about the margins of hitting in the 40% range, like what would you say -- like what has to happen from a -- like average markets, but from a flow perspective? I mean, like what kind of an organic growth rate -- or is it the mix shift -- either that you need to see based on the current operating structure needed to kind of get to those?

Loren Starr - *Invesco Ltd. - CFO*

Right. Well, I think there are two parts, at least in my opinion. I mean, one is, obviously markets are going to be quite important, because they have the biggest impact on equities as part of our mix, and so I mentioned that we were at 41%. I think if you go back to 2007, that number it was in the high 40s. And so there's an element there that would drive our effective fee rate. At 53 basis points, where sort of an Q3 '08 levels, but if you go back to '07, the effective fee rate was at a much higher level -- high 50s, low 60s even.

So those -- getting to that can be done most effectively by the market, but obviously we can't count on that. I think the other part that is definitely going to have an impact would be the continued launch and the attractiveness of the products that we're offering on the alternative side, so Wilbur Ross is a perfect example of some of those funds have a very high fee. We certainly have talked about fund five at some point being something that could happen in 2010. So I do think -- you can do the math as well as I can, but a $4 billion asset that's coming in 150 basis points can definitely move the dial in the year, and the more that we can do of those types of things, the better, and certainly that is where we're seeing a lot of the interest from the consultants and clients in terms of our capability.

Michael Carrier - *Deutsche Bank - Analyst*

Okay, and then just one for Marty. When you think about the new Invesco with Van Kampen and Morgan Stanley, whether it's from a product perspective or distribution -- and again, not in the next couple of quarters, but over the next year or two -- where do you see the most opportunity in terms of bringing in new assets? Is it on the distribution side, or just products being sold through different distribution channels?

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

It's predominantly a U.S. event, right? The next largest part to it is Japan, within it. So it is a U.S. event, and if you stay on some of the topics we've been talking about, the complementary nature of the investment teams and vehicles coming in really makes us quite strong.

If you look at the depth and breadth of the products, it's probably going to be one of the -- arguably the deepest, the broadest set of products capabilities in the marketplace, and that's from -- whether it's be unit trust, ETFs and mutual funds. And then within that, again, the traditional advice channel, whether it be broker dealers and regionals, is going to be -- we will be very, very strong. But then the next opportunity for us -- we've been make some real good progress in the DC area. I think DC opportunity goes to a very different level than where we've been operating before. Also in the RIA area for both of the organizations, we will have the resources to really start to make a difference. So if you look across the spectrum by channel within the United States, with the investment capabilities we have and the ability to deliver them in really any vehicle that the clients want them in, it sets us up very, very strongly for some real strong success.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. Thanks, guys.

Operator

Craig Siegenthaler of Credit Suisse, your line is open.

Craig Siegenthaler - *CSFB - Analyst*

Thanks, and good morning.

Loren Starr - *Invesco Ltd. - CFO*

Hey, good morning.

Craig Siegenthaler - *CSFB - Analyst*

I just have another one here on the Morgan Stanley acquisition. Now that you've had more time to analyze the business, can you help us identify areas where the ability to harness earnings is running a little better than expected? And really, specifically, how do you view the prospects of being able to see the $0.13 per share as the annualized run rate by 3Q 2011?

Loren Starr - *Invesco Ltd. - CFO*

Well, I think as we sort of talked in Q3, we're -- feel good about the 70 million. We think that those opportunities exist in terms of the combining platforms, technology, streamlined product lines and so forth. The opportunities beyond that are areas that I think will fall into consideration only as we look at these things broadly across Invesco, and only the process where we're looking to find ways to bring the firm -- the parts of the firm together more effectively. We don't have any insight at this point that the 70 grows to something different, and I don't think we're in a position right now to talk about that. I think if there's one area where we feel most excited -- at least from what we're seeing right now -- is the ability to have more distribution synergies than originally in our modeling. And again, it's hard to quantify those elements, but when you think about the potential of having platforms open up for both their products and our products that they traditionally have not experienced, we think that there's something that could be quite exciting there. And I think, again, not in a position to talk about it right now, but certainly as we get closer to that opportunity and feel more and more comfortable about sort of the certainty, we can, and we will, provide more input on that.

Craig Siegenthaler - *CSFB - Analyst*

And Loren, in terms of harnessing the distribution opportunity you were talking about, this is more on the flow side, so the ability to generate better organic growth from kind of the cross-sell opportunity and not a reduction of kind of fixed distribution expenses?

Loren Starr - *Invesco Ltd. - CFO*

That's correct.

Craig Siegenthaler - *CSFB - Analyst*

Okay. And if I can just ask one more question on performance fees. And slide 24 is really helpful, but can you provide us an update of relative fund performance for your [Quant] real estate and UK alternative funds? And just how are they positioned and even seasonally able to generate first quarter performance fees?

Loren Starr - *Invesco Ltd. - CFO*

Yes. Well, probably the most important one is on the UK, and the only thing I can say is their performance over the past three months has been spectacular, just because I think they have more than 90% of their assets meeting peers and benchmark as some of the financial stocks have sort of given up some of the gains that they got for the full year of 2009. So depending on your view of financials, think it will have a lot to do with how well the one-year numbers kind of shape up going into 2010 and specifically Q1. I think to assume that there's going to be enough to actually move the one-year numbers by Q1, that I couldn't really tell you specifically, other than the trend, I would say, is encouraging and so I wouldn't want to provide any sense of total pessimism that there's no more performance fees coming from the UK. That would probably be an incorrect way to interpret what we're showing you here.

I so think near term, it's still a question. I think in terms of the other products, real estate I think continues to be very strong. Direct real estate very strong. And and the Quant products, I think there obviously is some -- maybe a little bit more mix depending on which product you're looking at, but some very strong performance, and some less strong, but they have not jet generated -- got enough above benchmark to generate performance fees. And again it's not something I would necessarily guide you to expect in Q1.

Craig Siegenthaler - *CSFB - Analyst*

Loren, this 7 million in the fourth quarter, was that all -- it says kind of Asian Pacific, kind of your Atlantic trust? Was that real estate, or what was kind of in that bucket?

Loren Starr - *Invesco Ltd. - CFO*

No, that was Atlantic Trust.

Craig Siegenthaler - *CSFB - Analyst*

That was Atlantic Trust, okay.

Loren Starr - *Invesco Ltd. - CFO*

They had a very successful product, an MLP fund, that general arrested a big fee.

Craig Siegenthaler - *CSFB - Analyst*

Got it. All right. Thanks for taking my questions.

Loren Starr - *Invesco Ltd. - CFO*

My pleasure.

Operator

Our last question does come from Ken Worthington of JPMorgan. Your line is open.

Ken Worthington - *JPMorgan - Analyst*

Hi good morning. Just squeaked in there. On the long-term sales, you've come a long way -- 8.4 billion redemptions, you're at 2.6 billion of sales -- but for a firm of your size, it's still not wonderful. I know Morgan Stanley changes your world, but on a same-store sales basis, what still needs to be done in your legacy businesses to get those sales north of 2.5 billion to something more consistently in the 5 to 10 billion?

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

Great question, Ken, and I think we're on the path to be doing it, and I think it's a range of things, not a simple thing. And what would that include? One -- and it's been the things we've been focused on over the last number of years -- narrowing the product line of having it strong relative performance. But then a little bit of a topic that we talked about about previously, too, is sort of recognition of the strengths in the marketplace takes longer than any of us would like. And where much of the flows have been coming from right now have really been from the equity side of the business, and when you consider that the flows have been coming from equity, that's really quite astonishing considering the market that we've been in. So on one level that's interesting, good news. The bad news is we haven't seen these strong fixed income flows, and the reason is we've not been recognized broadly as a fixed income manager that, in fact, we are. So is we just need to continue to make that progress. And, to your point, at least on the retail side, I do think one of the real strengths that's coming out of the combination with Morgan Stanley/Van Kampen is the depth and breadth of our combined distribution capability broadly throughout the United States, and I think that should make a difference.

Ken Worthington - *JPMorgan - Analyst*

Great. Thank you very much.

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

I want to thank everybody very, very much for joining us today, and we'll continue to -- we'll talk to you next quarter, we'll continue to keep you updated on the Morgan Stanley/Van Kampen process. And, again, we think we are positioned quite well to continue to participate and grow and be successful in this marketplace. And, again, thank you very much for your time.

Operator

Today's conference has ended. Participants may disconnect at this time.
