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PRESENTATION

Operator

This presentation and comments made in the associated conference call today may include forward-looking statements. Forward-looking statements include information concerning future results of our operations, 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 may involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectation. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in out most recent Form 10-K and subsequent Forms 10-Q filed with the Securities and Exchange Commission. You may obtain these reports from the SEC's website at www.SEC.gov. We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

Welcome to Invesco's first quarter results conference call. All participants will be on listen-only mode until the question-and-answer session. (Operator Instructions) Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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

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

Great, thanks very much. This is Marty Flanagan and I'm here with Loren and we'll be speaking to the presentation that's available on the website if you're so inclined to follow. We'll review the business, give an update on the Morgan Stanley Van Kampen combination. Loren will go into the financial results and then we'll open up to Q&A. So just to start with, if you take a quick overview look at the quarter, it was a strong quarter, continued strength in investment results, further improvement in net flows. It was the strongest quarter of net flows we've had since the fourth quarter of the year 2000, so, quite a period.

Strong operating results offset by foreign exchange and also an industry trend away from money market funds and the high level update on Van Kampen, we expect -- Van Kampen Morgan Stanley, we expect to close on June 1, and we'll get into some details of revised synergies which are meaningfully better than our initial thoughts. So with that, if you take a look -- I'd like to do a real quick summary of the results. We ended March 31 with $419 billion in assets under management. That was down from $423 billion in the prior quarter. What that resulted in, obviously, was a slight decrease in operating income first quarter versus fourth quarter, down 2.6%. The -- during the quarter, we were very disciplined on the expense side of the business with the decrease in revenue. What we were able to do was to have a margin of 33.6% versus 33.2% and then in the fourth quarter of last year. Also during the first quarter, the dividend will be $0.11 per share, which is a 7.3% increase versus the fourth quarter of last year.

So if we take a look at the flows on the next page, you can see gross flows were $21 billion and you can see that, just the increase in gross flows is really what's leading the improvement in net flows. Long-term net flows are $3.7 billion, this represents the fifth consecutive quarter of positive flows from Invesco and as I mentioned, it's the best quarter of net flows since the fourth quarter of the year 2000. What we are seeing across the industry in the money fund business is the low yield and people seeking yield and greater returns, continue to have outflows in money funds still tends to be right now into fixed income products. That said, our money fund team continues to just do a very, very good job, high quality team. Taking a look at flows by the different channels, what you'll see largely from this quarter, it was gross sales in the institutional channel that was a real contributor to positive overall flows for Invesco.

During the quarter, IVR, which is the mortgage capital closed end fund that has been on the market for over a year now, they had a capital raise, in January, raising $171 million and this year a press release just went out this morning, they just raised another $185 million call it just as of last night, just got priced last night. Also on Tuesday, we announced the final close of the mortgage recovery fund. This is the fund that's part of the US treasury's PPIP program. We closed the fund with $1.46 billion of equity commitments and it's performing very, very well. So that's all good news for us. The retail business continues to perform well. As I said, it's the fifth quarter of positive flows. We saw strong net flows, the UK, Europe and the United States and also the private wealth management had its 12th quarter of net inflows, also.

Taking a look at high level performance, what you'll see, again, is on a three-year basis, very strong with 73% of the assets under management being impaired, five year 78%. The one year number was weaker than three and five years, largely what's happened in that March to March period when there was that rally, we have been conservatively positioned in our portfolios and as you would imagine, in a rally like that, we would tend to underperform. That said, the teams are doing very, very well, being very focused on their investment disciplines and as always, the very detailed charts of performance area by area are in the appendix to this presentation.

On the next page, just a couple of areas where I highlight the performance. Invesco AIM continues to have strong performance. Morningstar ratings are near the highest levels since the year 2000. Lipper in Canada awarded Invesco Trimark the group equity award over the last three-year period, which is good and you're also seeing in the short-term performance improve strongly there. 65% of Invesco Asia Pacific assets remain above their long-term benchmarks. Invesco professional, again, has very strong long-term performance, 94% of the assets beating peers over a five-year period and continued strength and performance and quantitative strategies, global equity and within the fixed income area, cash, high yield and muni bonds in particular.

So with that, I'd like to move into an update of the Morgan Stanley Van Kampen combination and those that are following it is page 11 that I am on right now. Just the initial announcement, we talked a combination is very well for a long-term strategic direction and it meets all our acquisition criteria for combinations. We view the combination as a real opportunity to enhance already our very, very strong investment management teams, expanding the depth and breadth of our investment strategies and the vehicles that we can offer clients, really give us a very, very broad capability to meet our clients' needs and then finally, there's just a tremendous opportunity for us to deepen our relationship with clients and just have a much stronger distribution capability.

So a quick update on the combination. So June 1 is coming quickly. Our focus is very much on -- to be effective, from that date forward, from -- and as we've learned more about the business, you'll see we've revised our synergies, based on that and they are meaningfully stronger than what we thought originally, but we are on track for a June 1 close. Let me give you some highlights of that to give you a sense of that.

You'll see that the investment teams are obviously fully resourced, our focus has been to make sure that they are not diverted at all, so they can continue to focus on managing their portfolios. The combined sales teams will provide very broad, deep coverage to all the channels in the United States here, following our top clients. Also, they're currently undergoing very intensive cross training across the product lineups. The overall structure of the business is in place, as I communicated, we have very extensive plans to make sure our colleagues at Morgan Stanley and Van Kampen, when they transition over on June 1, they're up and running and effective. Also on track is the operation IT efforts, the global operating platform will be in place at close and the transfer agency for the US mutual fund business will also be converted at close. So again, you can tell our absolute focus has been on making sure by the time we closed on June 1 that we begin to offer benefits to our clients and shareholders and the people of the organization. So I'd say, good news on that front.

So let's spend a minute on some of the momentum within Morgan Stanley Van Kampen. As you can see if you follow the asset roll forward, at the time of the combination, they -- Morgan Stanley Van Kampen had about $119 billion under management. At the end of March, it was $123 billion in assets under management. You'll also note that in Q4 last year, there was approximately $2.8 billion in outflows. In the first quarter of this year, it's about 0.7, $700 million in outflows, so improving higher assets and an improving flow trend.

What also, though, is extremely impressive and obviously important, if you look at the relative investment performance over one, three and five years, at September 30, '09, it was very strong at 69%, 72% and 73%, one, three, five years. Now, if you look at what the investment teams have done one year, literally, 88% of the portfolios are beating peers, three years 79%, five years, 77%. So really very, very strong as we get close to the combination. The other thing that we wanted to do was be responsive to what does the organization look like, how does it match up against industry trends? So if the analyst community is thinking about how successful could we be, and so what we want to do is highlight a couple of areas and one of the market shifts that we anticipate happening is that there's going to be increased demand for US equities and international equities and all of us are keenly aware if you look at the last 12 months, there's literally only been 17% of the flows going into equities in the US mutual fund market. So how do we look after close?

Literally 63% of our retail assets will be in equities. There is also, if you look at the relative performance, it is very, very strong for US and international equities. 80% of the international global assets are rated 4 and 5 star by Morningstar, 97% of domestic core assets are 4 and 5 star rated, 66% of the equity AUM are 4 and 5 star rated. So if you believe there's going to be a movement towards equities, we are positioned very, very well. Also what's in the -- there's probably going to be increased demand for munis and you also know that the other combined firms muni position is going to be very strong, too. We all know the growing opportunity in the retirement market, the firm becomes very well positioned against that with $56 billion in DCS, that's strong distribution coverage, strong range of not just investment capabilities, but packaging into that marketplace.

The other area is growing demand for ETS and structured products. We are the fourth largest ETF provider with $50 billion in ETFs. What comes into this transaction, also, is Van Kampen has a UIT business that are the second largest in the industry and it is very specific structured product capability that is attractive to a group of advisers and that is going to, again, be an additional factor for us as we move forward. And then finally, increasing focus within the distribution landscape, again, I think all of us are keenly aware that the top five broker/dealer organization top five planners are just becoming stronger and stronger. We end up being a leading partner with these very important distribution channels and again our -- the investment breadth of our coverage is really quite strong in these channels. So that's the backdrop of some trends that we see happening and how we match up against it.

So if you move on to page 16, what we do want to do is give you an update on the accretion and dilution synergies that we've talked about. So we -- originally when we came forward, we thought it would be $0.13 a share in the first year, from what we had known at the time of the signing of the transaction. What we'd like to do is first talk about the areas that we can control. So when you look at expense synergies, our estimate now is $80 million to $85 million and the first year of that is up from what was $70 million and it still is largely in the areas that we talked about, product streamlining, properties and moving to the single operating platform. When we move to a steady state, what that translates into in year two is $90 million to $95 million a year in expense savings. The other area that we'd update is really what is the flow attrition from this combination. Originally we thought it would be about $10 billion out. We now think it will be about $5 billion out.

And now, moving into the area underlying -- these are a set of assumptions, these are areas that we can't control, it relates to the market and the flows. So our base assumption is that markets, go to a normal state and with that, we think blended return between equity and fixed income is 6%, that's one of the key assumptions. The other key assumption is that respective flows for the Van Kampen business, whether net outflows now, in the second year, we think the punch ratio that we used is 3.4%. What that translates into is what was $0.13 a share is at the end of the first year after the closing, $0.17 a share, after the second year, $0.19 a share. So a meaningful increase from what we have previously discussed.

If you flip the page just to give you an update on where we are on timing, we're just about done with phase one. It's well on track as I outlined. We -- all indications we're going to close on June 1. What we will then do is very quickly, as an organization, get very focused on consideration of product changes, mergers and the like. Once management makes a set of recommendations, then it must be evaluated and approved by the Fund Board and that's a very, very diligent process that is gone through. After the fund boards approve that, it goes to shareholders and we think that process will take nine to 12 months and after that period, we will be in what we would say is a steady state moving forward as we operate. So collectively, we feel that Invesco and Morgan Stanley, Van Kampen, the combination, it's a much stronger organization, clients are going to just be that much better off, employees are going to be better off, shareholders are going to be better off. We think it's just going to be a great combination. We're very excited about it and literally across all the areas that you consider, we think we are in a better position. So I'm going to stop there and turn it over to Loren.

Loren Starr - *Invesco Ltd. - CFO*

Thanks very much, Marty. During the quarter, you'll see that we saw continued momentum as Marty mentioned in our long-term net flows, also market gains, but offset by net outflows in our money market funds and notably some unfavorable foreign exchange resulting in $3.5 billion of decline in our AUM. We ended the quarter with $419.6 billion in AUM, that's down 0.8% since the end of December and the average AUM also declined marginally by 0.6% to $417.6 billion.

Primarily, as a result of the quarter over quarter declines in our performance fees and transaction fees, which we'll talk about a little bit later, you'll see that our net revenue yield in Q1 declined by 1.7 basis points and also we had a small impact due to day count in the first quarter versus the fourth quarter. So now let's turn to the operating results.

As I indicated previously in our March 12, 8-K filing, we have expanded our non-GAAP financial measures hopefully to improve the transparency of our core business given the required adoption of FAS 167 which we've talked about in the past and we had to adopt this in Q1, but also to reflect the impact of the pending Morgan Stanley Van Kampen combination and so the operating results that we're showing here reflect this new non-GAAP presentation. You'll see that net revenues declined $21.4 million, about 3.8% quarter over quarter. Unfavorable movements in the foreign exchange rates resulted in about $7 million of this decrease. Drilling down on to this aggregate number you'll see that investment management fees fell by 1.7% or about $10.8 million and that was again primarily due to the negative impact of foreign exchange, largely the depreciation of the British pound against the US dollar and also fewer revenue earning days in Q1 versus Q4, which is 90 versus 92.

Service and distribution revenues increased quarter over quarter by 1%. This was despite the declining average AUM. As we mentioned on our fourth quarter call, certain annual fund expense recovery limits were reached in Canada resulting in lower than expected revenues for the fourth quarter. Performance fees in Q4 came in at $1.4 million and that was a reduction of $5.4 million quarter over quarter and you'll also see that other revenues fell by $6.6 million to $11.3 million as a result of lower transaction commissions within our real estate and private equity businesses. You'll remember that we provided a slide in Q4 that highlighted the potential for lower performance fees and other revenues in Q1 and I will emphasize, however, that they remain very difficult to forecast still.

Third party distribution service advisory expenses declined marginally, 0.2% in line with lower investor management and service and distribution fees and moving on down the slide, moving to expenses, you'll see that adjusted operating expenses at $351 million declined quarter over quarter by $16.5 million or 4.4%. The primary driver of this reduction was lower compensation expense, however, that was combined with foreign exchange, FX reduced our adjusted operating expenses by $6 million out of the $16.5 million. Employee compensation expenses decreased by $11 million or 4.3% versus the fourth quarter. This $11 million decline is explained by two factors. First, there was about $8 million of unusual expenses in Q4. As you'll remember, which included a pension charge and some payroll taxes related to the vesting of certain large stock grants and the second piece was -- or is $3.5 million of compensation reduction due primarily to FX. The seasonally higher levels of payroll taxes that occurred Q1 were fully offset by lower variable compensation in the quarter, which would include both bonus and sales commissions.

Marketing expenses decreased by $2.5 million or 8.1%, largely due to a reduction in client events, but also due to the impact of FX. Property, office and technology decreased $1.5 million or $1.4 million, also due to foreign exchange. G&A expenses came in at $44.8 million in the quarter, that was down 2.1 versus the prior quarter and as, again, you'll note the fourth quarter included seasonally higher fund expenses due to year-end mailings in UK and continental Europe as well as some professional expenses related to new fund launches. Despite the net revenue decline of $21.4 million, we were able to mitigate this with, very I'd say good disciplined expense management and so our adjusted operating income declined by only $4.5 million or -- sorry, $4.9 million to about $183 million.

One other point is that you'll note that in our non-GAAP presentation, equity and earnings of unconsolidated affiliates no longer reflects our China JV. We now include those revenues and expenses from our JV in China to our adjusted operating results and you can see a reconciliation of this in the appendix of the press release. Below the line in Q1, we did incur a $5 million noncash charge and so this -- approximately half of this was due to negative FX on some of our interCompany loans, which was a noncash impact and the rest was due to a writedown of a portion of our seed capital portfolio, that was other than temporary impairment, again a noncash impact. The effective tax rate declined to 28.7 -- 28.7 versus 26.2% in the fourth quarter, largely due to the mix of our assets and revenues and then -- so adjusted EPS came in at $0.27 for the quarter and the adjusted net operating margin was -- came in at 33.6%, slightly above the fourth quarter.

Moving to the next page, just before I turn things over to Marty, I just want to note that we are making some changes going forward to our monthly AUM release. Beginning with our April release, so we'll now provide ending AUM with after-class detail that's consistent with our earnings presentations and furthermore, in our effort to align with industry standards and also present our businesses in a more consistent and complete manner, we will start including assets for the PowerShares, two 2Qs and the Deutsche Bank or the DB PowerShares ETF. Currently these assets are not included in our AUM or flows and given the limited definition of AUM that we previously used. In addition to our normal disclosures going forward, we'll be providing a supplemental schedule and I'll break out ETF and constantly managed AUM which will now be counted as part of our total AUM and from the appendix in today's presentation on page 37, you'll see that new format for AUM disclosure going forward as well as the historical representation of the data going back five quarters and we will provide quarter to quarter average AUM when relevant and a qualitative statement on any material activity during the month going forward. So with that, let me turn it back to Marty and then we can get to Q&A.

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

Great. From our point of view, we feel that we are really positioning, Invesco for some real good long-term growth and success led by continued strong investment results from our investment teams, continuing improvement in net flows as we had highlighted and as Loren just discussed, strong underlying operating performance really offset in the quarter by some head winds, foreign exchange in particular and again, very, very importantly the Van Kampen Morgan Stanley combination on track to be closed on June 1 and we really think that we're going to be up and running quite quickly with all the efforts that everybody has put into it. We'll stop there and Loren and I will answer any questions that anybody might have.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) One moment for the first question, please. Our first question does come from Dan Fannon of Jefferies. Your line is open.

Dan Fannon - *Jefferies & Co. - Analyst*

Good morning. Thanks for taking my questions.

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

Hi, Dan.

Dan Fannon - *Jefferies & Co. - Analyst*

Marty, I mean, it seems as if we're getting closer to the closing of the Van Kampen deal, things are certainly moving in the right direction. Can you give us some background as to what's behind some of the changes particularly with regards to the outflow assumption or the attrition assumption?

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

Yes, let me take a crack at it and I'll let Loren. Really what it is is the more -- on the attrition assumption in particular, the more that we understand the business, the more that we've gotten around talking to clients and distributors, we just have a greater confidence in our ability to do that. Do understand it is still an estimate from our point of view and I think you're really on the topic. What will likely happen during this as always, I think we've put ourselves in a position to be up and running and as effective as you can at least from my historical experience, has probably been the best that I've been associated with. That said, what's going to happen -- as you get to close and then in the next couple of quarters afterwards on this sales distribution cycle, it will probably slow down a little bit because, you know, what happens is it's, you know, realignment of the territories for the wholesalers, the big distribution, you know, partners are making sure that they go through and do all their diligence again and making sure that we've not done anything that they're not happy with and the like and then it literally starts to pick up probably the second quarter, the third quarter as we start moving forward. But we're just gaining greater confidence and insight into the combination is the key factor.

Dan Fannon - *Jefferies & Co. - Analyst*

Great. And then on the expense side, has anything changed with regards to, I think your comment originally was no investment professionals were going to be impacted. This is more with regards to kind of the back office and whatnot. Can you just give us an update there with regards to the increase in expense synergies and potentially any new areas that you've found that potentially are additive?

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

Yes, the -- what I did say was the broad categories that we talked about originally have not changed and it is holistically around sort of product lineups and the like, property and the operating platform. So it's really more of the same and, again, it's greater knowledge as we get into it and greater opportunities. So not anything more than that.

Dan Fannon - *Jefferies & Co. - Analyst*

Great. And then lastly, I think you mentioned something about a second year assumption for flows at Van Kampen. I believe I missed that.

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

Our second year assumption is that the punch ratio goes to about 3.4%. So again we're in outflows right now. Again, you just book that relative performance and you go to a normal market, we think a 3.4% punch ratio is very -- very doable.

Dan Fannon - *Jefferies & Co. - Analyst*

Great. Thank you very much.

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

Yes.

Operator

Bill Katz of Citigroup, your line is open.

Bill Katz - *Citigroup - Analyst*

Good afternoon, everyone. Could you talk a little bit about in light of some of your revised guidance the timing of the cost saves in year one? Previously I think it has been more back end loaded. I'm curious about sort of hitting the ground running on day one, does that change the pace of the saves?

Loren Starr - *Invesco Ltd. - CFO*

Bill, it's Loren. I think the idea of thinking a little bit more back-end loaded is right. Obviously it progressively becomes -- kind of gets factored in, but if you assume that 65% of the savings are in the last six months and they're at the 35% in the first three months, it's probably -- or first half of the 12 months after close, is probably the right way to think about it.

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Bill Katz - *Citigroup - Analyst*

Okay. And then just as a follow-up on that, for year two, the incremental $10 million or so, would that also be front-end loaded, just given the timing or more ratable as well?

Loren Starr - *Invesco Ltd. - CFO*

I think that one is more ratable because it's really just the annualization of the benefits in the first 12 months.

Bill Katz - *Citigroup - Analyst*

Okay. And Marty, sort of quick question for you. I certainly appreciate the very strong long-term performance, but if you look at some of your sequential changes, talk a little bit about March, March to March time frame, do you feel that the short-term performance is a hindrance in any way in terms of the business and how should we be thinking about trying to balance the short-term versus the long-term performance and thinking about implications for flows?

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

Yes, look, it's the right question to ask. I think we and obviously the investment teams are very cognizant of it. What they've done is stayed very disciplined, stayed very much on their investment philosophy, fees and process and when you had that rally and some people would refer to it as junk rally off the bottom, we just didn't participate in it. So not to get too micro, but it's really responsive to your question. If you look at our relative performance in January and February, it was really quite strong and it was really just this rally that kicked in in March and and first part of April that really has quite an impact on those short-term numbers. That said, you have to -- you look at the strong teams, the strong long-term performance. If we're in a period where you're going to get another 20% up market, I suspect the relative performance would -- would suffer some. I -- but it's just hard to respond to that in a very specific way, other than what I would say is the long-term numbers are strong, the teams are very consistent with how they've been managing the money and I think the -- holistically, I think decisions are made on really the three-year number is probably the key driver.

Bill Katz - *Citigroup - Analyst*

Okay. Just one last one and thanks for taking all my questions. You mentioned sort of well positioned for the shift to equities based on your disclosure it seems reasonable. Are you seeing in your conversations with your wholesalers or institutional sales people, are they seeing any kind of temporal shift in demand for greater equity appetite at this point?

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

Yes, I would say you're not seeing it in the flows yet, it's not markedly changed. There is much greater awareness of the topic on our -- you just pick it up everywhere. Fixed income over valued at the moment, it is a more prudent way to move back into equities, yes or no. You have not seen the dramatic movement, but I'd say very different than maybe a year ago, six months ago, people seemed much more inclined to start to pay attention, but you've not seen that dramatic shift yet.

Bill Katz - *Citigroup - Analyst*

Okay. Thank you very much.

Operator

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

Michael Kim - *Sandler O'Neill - Analyst*

Hi, guys, good morning.

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

Good morning.

Michael Kim - *Sandler O'Neill - Analyst*

First, thanks for all the incremental disclosures, it's very helpful. Just in terms of the expense synergies, does the new guidance include any potential savings related to fund mergers or is that something that you're still kind of working through at this point?

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

I think it -- you can assume that it includes it in the second year. That's really the annualization of the benefit of the product streamlining that's going to take place.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then in terms of flows in the institutional channel, can you just give us a bit more color in terms of what really drove the step up in gross and net sales during the quarter?

Loren Starr - *Invesco Ltd. - CFO*

I think we had -- some of the things that Marty had mentioned, the PPIP, we had some funding that took place in the quarter, I think there might have been somewhere around $300 million of assets that were invested within there, the PPIP. I think we had some strong interest in some of the stable value products as well and I think real know, some of the alternative capabilities as well were factoring into the numbers.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. And then just more broadly in terms of kind of your thinking about incremental margins, I think historically they've been in kind of the 60, 65% range. Does that change following the deal? It seems like maybe you're bringing on board a higher margin business, but at a lower blended fee rate, so do those two things effectively offset each other?

Loren Starr - *Invesco Ltd. - CFO*

I mean I think that's probably the right way to think about it, Michael, that we're pulling those businesses together and are going to be operating kind of in the same -- same way we've operated Invesco traditionally. You're right about the blended rate, but I think because we're sort of being able to leverage our operating platform, we should ultimately be able to provide similar incremental margins. It may be difficult to achieve sort of day one, but ultimately, I think that's certainly where we would get to.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Thanks for taking my questions.

Operator

Mike Carrier of Deutsche Bank, your line is open.

Mike Carrier - *Deutsche Bank - Analyst*

Thanks, guys. First question, I think it relates to flows, but really on the distribution side. It seems like with the Morgan Stanley Van Kampen , transaction, your strength in the US retail market is significantly expanded. When we look at the different distribution platforms, I think when you guys give the organic growth rate or what you think they can do based on performance, that would be roughly in line with the industry, but I think when you look at it from a distribution standpoint, like as of now, like today where you stand, are you on the platforms across the US, especially the big players and are you on some of the key distribution lists in terms of partners on those platforms? Just because when you look at the flows on those platforms, it tends to be the top ten firms are generating like 90% of the flows.

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

Right. So the -- the combined firm, basically, going back to, some of the -- where Van Kampen Morgan Stanley have been strong, we have been weak. It is really just almost incredible, you know, the tradeoff in the different areas. By the time that we're done, we will be one of the -- and that's the point that we were trying to make on slide 15, which was talking about the distribution. We're going to be a leading partner, really, in most every one of the top distributors in the United States.

Mike Carrier - *Deutsche Bank - Analyst*

Okay. That makes sense. And then, Loren, just two things on the expenses. Obviously the FX impact depressed the expense base sequentially, but it still seems like across really every bucket there was some decrease. So I just want to make sure there was no noise there and then when you start looking at 2011, I know it's a ways away and a lot can change between now and then, but when you look at just the cash flow generation, once you pass the deal and you use the cash, just what are the priorities, when you look at buybacks, dividends, any increased transactions or deals that you think you guys could still bulk up or add to holes?

Loren Starr - *Invesco Ltd. - CFO*

Well, on expenses, other than the impact on FX, in the first quarter, it was pretty straightforward. There wasn't any noise, so to speak. Obviously you had the seasonal payroll taxes, but as I mentioned, that was offset by lower variable compensation. So I mean if there was anything that was worth noting, those were the two things that were happening in the quarter. The other expenses, I think, were pretty much in line with where we thought they would be.

In terms of cash flows out in 2011, our priorities have not changed in terms of using our cash for funding, capital needs for the business is the first call, the next would be acquisitions if they make sense strategically and if they also have the financial merit that we require and then we'd be into a somewhat increasing dividend and pay -- and then stock buy backs. The only other thing I would note on top of that, we overlay still a strong desire and a continued focus on maintaining a strong financial position on our balance sheet, that there's value to the organization to have a certain amount of cash sitting on the balance sheet which would make us less vulnerable if there were disruptions in the market as we saw obviously in 2009 and 2008. So our goal is to certainly run with enough cash, excess cash that that would allow us to have that flexibility and you can say, you know, somewhere around $500 million in excess cash above what's needed in the European subgroup and so that would be kind of a -- just a stake to put in the ground right now. But, I think to the extent that we're generating a lot of cash flow which we should post this deal and we've got those metrics in place in terms of the cash, we'd probably back into certainly either -- whether it's an acquisition or stock buybacks, one of the two would be the next most logical place where the cash would be used.

Mike Carrier - *Deutsche Bank - Analyst*

Okay. And then just -- I know that these two items tend to be very lumpy and it's very difficult to gauge, but both performance fees, transaction fees or the other revenues -- when you look historically, particularly at transaction fees, they're both very low in terms of like a historical run rate. Just in performance fees, obviously we can try to figure out the performance cross price, have those fees, but on the other revenues, on those transaction fees, like what type of environment would you expect to get back to even just like a normal level?

Loren Starr - *Invesco Ltd. - CFO*

Again, it's a good question and obviously you probably would want to have commercial real estate in a somewhat different spot than it is right now. I mean I think there are still obviously issues that are being addressed in that market. I think we're hopeful that we're going to begin to see some healing there, sort of the first leg was the residential and now the commercial, so hopefully within -- I mean again, I'm not an economist, so I couldn't really tell you. Maybe within a year. I mean who knows. I mean right now when we plan, certainly we continue to plan ourselves, assuming sort of no performance fees and no levels of -- minimal levels of transaction fees and that way we're not fooling ourselves.

Mike Carrier - *Deutsche Bank - Analyst*

Okay. Thanks a lot, guys.

Operator

Craig Siegenthaler of Credit Suisse, your line is open.

Craig Siegenthaler - *Credit Suisse - Analyst*

Thanks. Good morning everyone. Two questions here. Marty, can you provide us with an update on how PowerShares is positioned now both in the European market, in Asia and also in the US, the DC channel. Maybe provide us a little bit more of your near-term outlook here and also is there any current product within the Invesco family or Van Kampen that you think you can leverage the ETF platform for?

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

Yes, so -- just on the US side we said we're fourth larger ETF provider. The other big ones, the ones that have been around for so long. We are positioned very differently. We -- the strategy of PowerShares was not to try to go compete with the very position I have businesses that have been in place and our growth has been really complementary to that. We continue to get great interest in -- and I suspect momentum will increase in that business for us in the United States. We launched PowerShares ETFs into Canada in January and some very, very strong initial success, so we're in the Canadian marketplace right now. Europe, it's been there probably about two years right now on the continent and, again, we think that, you know, we should make some reasonable traction there. We've not, you know, done much in Asia. It is an area that we've looked at as probably others have, too, but that's really the landscape for us right now. I'm sorry, what was the other part of the question?

Craig Siegenthaler - *Credit Suisse - Analyst*

The other part was with your existing product in the consolidation of Van Kampen, do you see any kind of, you know, new ways to put product on the ETF platform that you haven't been doing before?

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

Yes. I can't think of anything specifically that way, but what I would say is that interestingly, the UIT expertise there obviously very different products, but much -- you can look to the ETF business probably in -- probably with the UIT business so there's some real strong expertise and we have been having some real deep conversations about how can we do just exactly the question that you've asked and I don't have a specific answer to it right now other than I'm sure good opportunities will come from it.

Craig Siegenthaler - *Credit Suisse - Analyst*

And just to clarify, is that the unit investment trust business within Van Kampen that you see opportunities of being able to leverage on the Invesco side or is it vice versa?

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

On the -- on the Invesco side of the business.

Craig Siegenthaler - *Credit Suisse - Analyst*

Okay. Perfect. And just my follow-up question here. We saw a real nice improvement in strong flows coming in on the fixed income side. It seems to be lagging a little bit some of your peers here. I'm just wondering, what's really driving that, maybe a specific geography or product and with your expectations for equity product to improve, do you expect that momentum to slow a little bit?

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

You're asking the right question. I think that's one of the things that are misunderstood about our fixed income business and how we are participating. The fundament fact is if you look where we are strong, the liquidity business is big and strong and also it's -- bank loans, CDOs, high yield, those are the strengths, where we have good teams and the middle of that spectrum and good performance. Largely, as I talked earlier just about if you look at the results from IBR and net participation, PPIP, very, very strong teams, but when you look where all the flows are going, whether it be global fixed income in the retail market or some of the core fixed income mandates, that has just not been territory that has been an area we have penetrated on the retail business historically. So that's really what that gap is and I think that's probably most misunderstood in the market. Institutionally the global fixed income product is getting some real traction and we have some good core numbers, but again, it's different than what's happened on the retail side of the business. So the point -- so to answer your question, what I really think is going to continue the fixed income business is going to be stronger than what we talked about a couple of calls ago was there's a strong muni capability that we have, we have more of an -- sort of the national muni presence, Van Kampen has a long history of muni bonds, largely state specific, they also have a good high yield product too which complements ours. So we're going to be very, very strong in the muni market, so I think if we think we're going into a rising fast environment, we're going to be positioned very well there, so I think we'll see some good strong growth in the muni part of the market for us, fixed income, regardless of a movement to equities, but to me, what we are trying to highlight on, you know, page 15, the key trends, if you believe that flows into US and international equities at 17% of industry flows is too low, we are going to be a strong beneficiary of a -- of a movement away from equities into fixed income and I don't think we'll be cannibalized that much on the fixed income side just because of the way that we are positioned in fixed income.

Craig Siegenthaler - *Credit Suisse - Analyst*

And, Marty, were you looking for any ways to upgrade the global fixed income and also your investment grade business given that's kind of one area that you're going to be maybe under weight after the deal closes?

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

No, what I was trying to communicate is I feel very good about the team and their performance. It's been in the institutional market, it's really, literally trying to get traction in the retail market and it's really been over the last three years with Karen Dunn Kelley running the fixed income business that it's been a single platform and it's really working through some legacy performance on the retail side of the business is why and sort of prior teams that, you know, we've just not had that traction.

Craig Siegenthaler - *Credit Suisse - Analyst*

Got it. Thanks a lot for taking my questions.

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

Absolutely.

Operator

Roger Freeman of Barclays Capital. Your line is open.

Roger Freeman - *Barclays Capital - Analyst*

Hi, good morning. Just coming back to the -- sort of the distribution footprint post acquisition, do you have or can you say how many distribution agreements you may have, sort of when you hit the ground running that -- where you're going to be selling both Van Kampen and AIM whereas prior to the acquisition, you only had one or the other on the platform?

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

Yes, I don't have the specific numbers, but let me try to -- to answer it. I mean, practically what's going to happen is, as I said, it will be -- the fact will be it will probably slow down for a quarter because all of the partners will be doing what they should do and do due diligence to make sure that, they're understanding exactly what we look like after the transaction. And that's -- and then going forward, from that point, it will just continue to pick up. I don't have the specific numbers of the agreements that we have, but what I can tell you is that, as I said earlier, we will be a -- you know, a top partner at, you know, the largest distribution -- distributors in the country.

Roger Freeman - *Barclays Capital - Analyst*

Okay. But is it fair to say -- I thought maybe from last quarter, maybe I misunderstood, that you thought you were going to be able to sort of pick up, -- be able to basically put both products through some channels where you didn't have both.

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

No, you're exactly right. That is what's happening. What we are doing literally right now, the various distribution sales people right now are literally going through training.

Roger Freeman - *Barclays Capital - Analyst*

Got it.

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

It's--.

Roger Freeman - *Barclays Capital - Analyst*

Okay.

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

Over this past -- it's been going on for two weeks and it's going on for another two weeks. So our goal is to be as effective as we can as quickly as we can, you know, serving our clients.

Roger Freeman - *Barclays Capital - Analyst*

And just on that due diligence comment you made, I mean, it's fair to say that these distributors had -- like, they're not starting due diligence when you close the merger, right? I'm assuming you've had plenty of discussions with them already, right?

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

Absolutely. But let's understand, they're pulling the trigger.

Roger Freeman - *Barclays Capital - Analyst*

Yes.

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

So they'll decide when they decide.

Roger Freeman - *Barclays Capital - Analyst*

Absolutely. Okay. And then just on the synergies, the operating synergies, if you take kind of the numbers that you gave last fall now you add as much as $95 million in cost synergies, you get up to a margin of 50% or more, you probably have to add at a minimum the AIM revenues and costs in to look at tha on a combined basis, but I guess the question is how would you look at the operating margin of those two businesses combined relative to your Company total? Because it looks like it could be considerably higher.

Loren Starr - *Invesco Ltd. - CFO*

Roger, I think, we obviously -- there was a similar question about incremental operating margin and, is it going to converge to what we've done in the past and I think the answer is yes, that's kind of the definite goal. Clearly having more assets under management allows one to improve one's margins and so I think it is clearly going to help our margin in terms of bringing on the business. So the firm will benefit significantly. I wouldn't say, you know, we're going to be at a 50% margin, but I do think we feel very confident at that we can get back to margins that were sort of in the high -- sort of the numbers that you've seen historically in 2007, with this acquisition and also with some equity markets behind us.

Roger Freeman - *Barclays Capital - Analyst*

Okay. And just lastly, quickly, the sequential decline in the AUM yield, is that mainly day count and then stronger institutional flows versus retail, is that fair?

Loren Starr - *Invesco Ltd. - CFO*

Day count is actually the secondary impact. I would say the first and most important impact has to do with performance fees and other revenues.

Roger Freeman - *Barclays Capital - Analyst*

I was looking at even prior to performance fees, if you just look at just the management fees?

Loren Starr - *Invesco Ltd. - CFO*

Right. That has to do with the mix of assets obviously, with the pound depreciating, some of the higher yielding fees in the UK become less impactful. So there's that aspect as well.

Roger Freeman - *Barclays Capital - Analyst*

Okay. Even though you're marking down the AUM, the fee offset is greater, basically, because of their higher yielding?

Loren Starr - *Invesco Ltd. - CFO*

It's just a smaller part of our overall pie.

Roger Freeman - *Barclays Capital - Analyst*

Got it. Okay. Great. Thanks.

THOMSON REUTERS

Operator

Ken Worthington of JPMorgan, your line is open.

Ken Worthington - *JPMorgan - Analyst*

Hello. First, performance fees, long-term track record is graded perpetual. I think you guys failed the benchmark test this quarter. Loren, any idea based on what's rolling off in the June quarter from last year? Do the odds look good that those performance fees bounce back this next quarter?

Loren Starr - *Invesco Ltd. - CFO*

Okay, there's really two places where we typically have realized performance fees in the year. The first quarter and the fourth quarter and that's just the way that these contracts have been set up and just to remind people, it's really a small part of the UK's business, it's some investment trusts that have these triggers. I ask that very same question all the time, Ken, are we going to get the performance fees or not and the reality, it's very hard to predict, as to whether we will or not. I think the idea is that it's within the realm of possibility that we could see it in the fourth quarter, but the fourth quarter is still, pretty far away relative to where we are today. So certainly in the second quarter on the UK side, we wouldn't traditionally see any performance fees. The other place where we've been able to generate performance fees on a quarterly basis, second quarter and third quarter had been in our quantitative group, quantitative equities. Right now I think where they are relative to the benchmark, that's probably not a realistic assumption for us to be looking for. So again, I would say it's hard for me to guide people on performance fees because it's a tough one to predict and -- but I'd say where we are right now in the first quarter is probably not a reasonable -- I mean is probably a reasonable point to think about going forward and we will anticipate continue to update you if we see any change.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great, thank you. Then on the tax rate, it kind of had a little pop this quarter. Are you accruing anything for, you know, the higher tax rate Ativan campen or is this really the rate for -- at Van Kampen or is this really the rate for the business ex Van Kampen for the year based on mix?

Loren Starr - *Invesco Ltd. - CFO*

There's some impact to the rate due to the integration charges but -- because it's obviously a US focused thing and there are some things that are -- we're going to get the tax benefit for and others not. But what we -- the difference is largely due to the mix. If you think about the UK, as I mentioned, becoming the smaller part of the overall mix, it has a 28% tax rate relative to some other parts of the US, it adds sort of a higher rate. It's really, I'd say, driven more by the mix of where we're earning our profits.

Ken Worthington - *JPMorgan - Analyst*

Okay. And then lastly on comp, ex all the kind of unusual items, FX, comp was more or less flat. You mentioned that you reduced the variable compensation this quarter and the other, I guess, component sales were up. How do we think about compensation, again, ex Van Kampen for the rest of the year? Because it actually beat our expectations and I'd love to hone in on the reasons why.

Loren Starr - *Invesco Ltd. - CFO*

Well, again, so excluding the impact of FX, there are really two elements in the first quarter. One was obviously we have seasonal payroll taxes, usually $8 million to $10 million, kind of you can look at history, that's kind of where it's been in the past. It was offset by lower variable comp, which again was sales commission and bonus. Sales commissions generally move in line with sales, but the reality is there's some sales commissions get paid out at a higher rate than others, and so it's a little hard to compare quarter over quarter. But I'd say a good portion of the variable comp was related to sales commissions relative to the fourth quarter.

Ken Worthington - *JPMorgan - Analyst*

Sales were up for the quarter, so that's--?

Loren Starr - *Invesco Ltd. - CFO*

Right. But I guess the point is because sales are up -- I'm saying sales commissions can generally move in line with gross sales, but not always because depending on what gets sold and when, there are different rates on what a salesperson might make, depending on what's being sold. An alternative product might pay out at a higher rate than a stable value product, for example. So just -- you can't just look at sales to know if sales commissions are going up and down.

Ken Worthington - *JPMorgan - Analyst*

Okay. But the conclusion here is the comp was down due to the variable comp -- comp was flat as variable comp reductions offset -- were offset by the payroll tax, but as we look forward, any help? Should we kind of think it bounces back as revenues -- as revenues increase, the comp goes up from here?

Loren Starr - *Invesco Ltd. - CFO*

There's two pieces, one, yes to that last point. So I mean as we earn more, obviously variable compensation comes back and so that will generally move in line as operating income grows and hopefully that's where it's going. I think the other bit, as we have done in the past, we do have some degree of merit increase and stocks that are granted, deferred compensation and on -- in February, end of February, so you'll see a little bit of sort of the full quarter impact into the future quarters relative to the first quarter. So there's some amount of pickup through that bit.

Ken Worthington - *JPMorgan - Analyst*

Okay. Great. Thank you.

Operator

Robert Lee of KBW, your line is open.

Robert Lee - *KBW - Analyst*

Great. Good morning, everyone.

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

Good morning, Rob.

Robert Lee - *KBW - Analyst*

First question at the risk of being, I guess, a little thick headed, the $0.19 accretion in year two, I'm assuming that's not an additional -- is that an additional $0.19 on top of the $0.17 in year one or is that just kind of the run rate in year two?

Loren Starr - *Invesco Ltd. - CFO*

Yes. It's just a run rate for year two as much as we'd love to give you combinations, it's really just 17 going to 19.

Robert Lee - *KBW - Analyst*

Okay. I just wanted to clarify that. And also just as a refresher, your accretion guidance, since -- clearly you're going to be focusing on adjusted cash earnings, is that guidance an adjusted cash earnings accretion?

Loren Starr - *Invesco Ltd. - CFO*

It is. So it doesn't reflect any intangible amortization or any of those elements. We pulled that out.

Robert Lee - *KBW - Analyst*

So it's -- okay. So you've added that -- or added them back in, how you want to define it.

Loren Starr - *Invesco Ltd. - CFO*

Yes. Basically we're not--.

Robert Lee - *KBW - Analyst*

Right.

Loren Starr - *Invesco Ltd. - CFO*

Yes, exactly.

Robert Lee - *KBW - Analyst*

Okay. The -- I've got a question, actually, kind of a strategic question on the money fund business, which, you guys weathered the storm for the past couple of years very well and I know it's a key part of your business, but when you look at your kind of institutional focus and you look at a lot of your competitors where their asset bases are four or five times as large, some maybe even more, are you at all concerned that as that business evolves that that business is at risk of becoming sub scale or in some way needs to be scaled up more?

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

No. Look, I think it's -- even with sort of the run off of -- currently, if you look at where it had been historically, you're still at historical levels, right. We were just a big beneficiary of big inflows during the crisis as being one of the managers that was doing a good job. So it's a very high quality team, I would say one of the industry leading teams if you just look at what they've done and it is part of the whole fixed income complex. So it's not sitting by itself. So that credit discipline and expertise literally goes across the spectrum and so, one, we think it's -- we do it very, very well. We think we have good scale now. I think at the end of the day, quality wins and I think we're going to be one of the winners in that business and, again, it is complementary to all of our fixed income capabilities and what we do, but if you look at it right now, I mean that -- that asset class is under pressure for all of the obvious reasons. People seeking higher yields, et cetera, et cetera, et cetera, but that said, I think we're going to be fine.

Robert Lee - *KBW - Analyst*

Okay. And one last quick question, just in looking at the Morgan Stanley business and any improvement in their flow trends, can you just give some color on where you see that? Is that really more kind of what you're seeing in the industry, pick up in their fixed income flows or, I mean, any color around kind of sales redemption rates, anything that's really driving that improvement?

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

We don't have great insight into that yet for -- until we get -- until close, but obviously I think it's a combination of the fixed income business and, really the -- the improved performance, but I'd say it's probably more fixed income based than it is equity based.

Robert Lee - *KBW - Analyst*

Okay. And one last question and I apologize if you probably mentioned this ten top of the call -- at the top of the call, but could you give us maybe a little bit of additional color on the institutional businesses? I know you talked about the fixed income seeing more traction institutionally, but as we look around the globe, you know, where you're seeing kind of the real -- you know, where you see the real opportunity, you know, not just fixed income, you know, where, in equities or alternatives do you think, you know, we should see the -- a continuation of the improving trends over the coming quarters?

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

Yes. So I think, a handful of things. One, again, I just think, what Mark Armour has done and the leadership, I think first start by range of investment disciplines and they're performing quite strongly. You match that up against really the, you know, improving, you know, talent of -- you know, on the sales servicing side, I think that's going to be a very important factor for us going forward. You know, it is also what is the appetite. So where we continue to see the appetite, it is, you know, stable value continues to be an appetite, real estate continues to be very, very attractive to people, bank loans, CLOs, CDOs, those types of things are very attractive to people. This is the things that we're seeing. On the equity side, actually global fixed income is another area that we're seeing quite a bit of interest. On the equity side, you know, the global equity capability is getting, you know, more interest. So it's pretty broad, but again, it's very reflective of, you know, what clients are looking for and it's different in different parts of the world where if you go to the UK and Europe, you know, part of the quantitative team is based there, so there's a global equity quantitative product that has been doing very, very well in the UK. So it literally is different region by region. But I would say the trend that we're on is -- as strong as it's been since I've been here.

Robert Lee - *KBW - Analyst*

Great. Thanks for taking my questions.

Operator

This concludes the question-and-answer session. I would now like to turn the call back over to Mr. Flanagan.

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

I'd just like to thank everybody for their time and the questions and we'll be in touch and we'll talk to you next quarter. Take care. Have a good day.

Operator

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