

FINAL TRANSCRIPT

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IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

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Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

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Operator

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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 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 10K and subsequent forms 10Q filed with the Securities and Exchange Commission. You may obtain these reports from the SEC's web site 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 second quarter results conference call. (Operator Instructions) Today's conference is being recorded. If

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

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

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

Thank you very much and thank you, everybody, for joining us today. And we'll be speaking to the presentation that's available on our website if you are so inclined to follow. And also, as you know, we scheduled an Investor Day presentation later this afternoon where we will go into much greater detail regarding the impact of our recent acquisition. For this call, we'll provide a review of the business results, brief update on the combination with Morgan Stanley's retail business and then we'll go into -- Loren will go into financial details and then as always we'll go into Q&A.

So for those that are so inclined to follow, I'm on Slide Three right now. In spite of continued volatility in the markets, Invesco's commitment to investment excellence continued to yield strong long-term investment performance for our clients. Investment performance across the enterprise remain very strong in the second quarter with some areas of just exceptional performance. Our strong investment performance supported a continued trend of positive long-term net flows for the firm, and as you know on June 1, we completed the combination -- acquisition of Morgan Stanley's retail asset management business, which included Van Kampen Investments. This marked a key milestone for our long-term success as a company.

In one month after the close, we're seeing strong momentum in the combined business. And as we announced last quarter, based on more detailed analysis and understanding of the business, the synergies will be meaningfully stronger than our initial expectations. We'll provide an update on the benefits we're seeing from the acquisition later in this discussion this morning.

So, moving on to the second quarter results, asset center management ended the quarter at \$557 billion under management. This reflects the combined organization. Adjusted operating income for the second quarter was \$188.7 million, that was a 3.1% increase as compared to the first quarter. And long-term net flows for the quarter were \$13.9 billion, continuing a positive trend we've demonstrated over the past several quarters. And during the quarter, there will be a second quarter dividend of \$0.11 cents per share. This is consistent with the first quarter dividend and represents a 7.3% increase over the dividend from the fourth quarter of 2009. And again, as I mentioned, Loren's going to go into much greater detail of the financial results in just a minute.

If you take a look at the quarterly flows, starting on Slide Five, what you'll note is strength in the second quarter growth sales, particularly in the passive channel, which led to continuing momentum of our long-term flows. And as I mentioned earlier, our long-term net flows for the quarter were \$13.9 billion. This represents the sixth consecutive quarter of positive flows for Invesco. And on Slide Six, you'll note the growth -- strong growth sales across the institutional channel contributed to the positive flows for Invesco overall during the quarter.

We also saw positive flows in our private wealth management business, which has experienced consistent asset growth in each quarter over the past three years. And if you take a look at investment performance, it's one of the key reasons for the enhanced stability of our flows. You know, again, as always driven by consistent good long-term performance. If you look at the firm as a whole, 75% of the assets under management were ahead of peers on a three-year basis at the end of this quarter. This is a significant improvement from 69% of assets ahead of peers on a three-year basis at the end of last year.

We also saw a strong improvement in performance over the one-year period, now 68% of the assets in the top half of the peer group versus 44% during the first quarter. And as always, you'll find the detailed charts in the appendix. But let me take a moment to highlight some of the investment performance across the firm.

As I mentioned earlier, we saw strong performance across the enterprise with pockets of exceptional performance. If you start with Invesco perpetual, they continue to have outstanding performance with 91% and 95% of their assets under management

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

in the top half of peers over three and five years. With the addition of Van Kampen, the US value franchise results are stellar performance with 92% of the assets in the top half of the peer group over a three- and five-year period.

Our global fixed income capability continues to achieve strong, upstanding performance with 95% of the assets in the top half of peers on a one-year basis and 80% of the assets in the top half over years three and five. And our Morning Star ratings continue to be near the highest levels since October of the year 2000. So all in all, a strong performance across the enterprise. We'll go into much greater detail regarding the positive impact of the acquisition on our business at the Investor Day meeting later today, as I mentioned.

But for now, let's spend a few minutes on a brief update of that business. We're pleased to report that businesses were fully integrated with minimal transition issues. More importantly, the work done in the months leading up to the close ensured that we are ready to deliver for clients on day one. That was our goal, and that's actually happened.

This was also supported by an intensive pre-close training effort for our US sales force so they could engage with clients immediately after the close to help them understand, you know, the added value of the combined organization. And our increased relevance as a top ten investment manager in this channel is enhancing Invesco's profile in the marketplace in helping gain greater access to top platforms which, obviously in time, will drive new business. So the work to refine the enhancement product lineup is on schedule.

And as I mentioned, we'll go into much greater detail this afternoon, but some of the points I'd like to highlight. Our focus now is, you know, very much on delivering the tremendous value of the combined organizations to our clients, the combined investment teams were fully resourced at close to make sure they remain focused on delivering the strong investment performance that they have. And we've organized the combined sales team to provide broad deep coverage in key growth channels and of course, to our top clients. And we transitioned clients to the acquired business global operating platform with minimal disruption and our transfer agency operations began supporting fund shareholders on the first day after close.

So, our goal over the past several months has been to ensure we are well-positioned to begin delivering the tremendous value of the combined organization to our clients and shareholders and continue the momentum that we had prior to the transaction. So, you know, obviously tremendous work has been done, but most importantly, this is what will drive momentum of the combined business going forward.

I would like to focus on the next steps remaining to get the service steady state operation. You know, we are very focused on sharpening our offering to the clients. Work continues on phase two, as we are referring to it as, and that's really refining our product lineup. We anticipate this product -- process which includes seeking approvals from the fund boards and shareholders will take nine to 12 months after the close, but we are very much, you know, on track to accomplish that.

So we're very excited about the combination of the businesses. We see this as a great opportunity to even further enhance our ability to meet our clients' needs. And as always, we're primarily focused on delivering consistent good long-term investment performance of our clients and the complimentary nature of the shared commitment to invest in excellence is very apparent already within the organization. So, we feel good about the investment teams going forward.

The acquisition will expand the depth and breadth of our investment strategies providing Invesco with an even greater, more comprehensive range investment capabilities we can offer our clients. And we feel the combined business enhances our ability to deliver meaningful solutions to our clients and better position the firm for long-term success. So with that has a back drop, I'm going to turn it over to Loren who will talk in more depth about the results and we'll answer -- go to questions.



Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Loren Starr - *Invesco Ltd. - CFO*

Thanks, Marty. So going to the next Slide, Page 15. You'll see that during the quarter our net flows provided \$13 billion in assets under management and the Morgan family Van Kampen acquisition added \$114.6 billion on June 1. These increases in assets under management were partially offset by negative markets in foreign exchange impacts. The net increase in AUM was \$100 billion, however, quarter-over-quarter. I should point out that the net long-term inflow of \$13.9 billion was largely driven by a \$15.8 billion lower fee international equity passive mandate, which was sourced by the Morgan Stanley Japanese team that came over on June 1.

So, we ended the quarter with \$557.7 billion in assets under management. That's up 21.8% since the end of March and average AUM for the quarter increased 6.9% to \$480.5 billion. You'll also see at the bottom of the page our net revenue yield in Q2 increased by 0.6 basis points. This was primarily a result of strong UIT revenues during the month of June and also an increase in performance base.

Now, let's turn to the next page for the operating results. You'll see that net revenues increased \$44.6 million, or 8.2% quarter-over-quarter. The acquired business added \$48 million to net revenues for the quarter, but that was offset by \$5.5 million from unfavorable foreign exchange rates. Drilling a little bit further down on this, you'll see that investment management fees increased by 5.7%, \$35.4 million, that was driven by \$36.3 million, which was contributed by the acquired business. Service and distribution revenues increased quarter-over-quarter by \$26.9 million, about 24%, and again this is really due to the acquisition, which contributed \$25.2 million for the quarter.

Performance fees came in a little bit higher than the first quarter at \$3.5 million, and that was due to fees earned by our real estate group. Other revenues increased by \$5.1 million to \$16.4 million, and as I mentioned, the acquisition contributed \$5.5 million related to new UIT issuance in the month of June. That was a very good month for UITs.

Third party distribution, service and advisory expense increased by \$24.9 million. The acquisition contributed \$19 million to the increase. The remainder of that is largely explained by new product launches and somewhat higher average assets under management in Europe.

Moving on down the slide, you'll see that adjusted operating expenses at \$400.3 million increased quarter-over-quarter by \$38.9 million, or 10.8%, the acquisition added \$29.4 million for the quarter, while foreign exchange reduced operating expenses by \$3.9 million when compared to the first quarter. Employee compensation increased by \$26 million or 11.1% versus the first quarter. The acquisition added \$16.2 million, as 580 new staff joined the company on June 1. Additionally, the second quarter reflected a full three month's worth of expense for share based and deferred cash compensation that was granted at the end of February of this year. This resulted in a \$6 million increase quarter-over-quarter. Furthermore, we recognized about \$5 million in severance costs in Q2, and that was related to the reorganization and continued upgrading of our US institutional sales force.

Marketing expense increased \$7.1 million, 25%, that was largely due to the acquired business which contributed about \$6 million of this. Property office and technology increased by 2.3%, again largely driven by the new business, the acquired business added \$3 million.

G&A expenses came in at \$48.3 million in the quarter, up \$3.5 million and the acquired business added \$4.3 million. Just going down the page a little bit further, you'll see equity and earnings of unconsolidated affiliates increased by \$3.8 million from the first quarter to \$4.3 million. This was a result of some gains that were taken in some of our private equity partnership equity interests.

The effective tax rates on pre-tax adjusted cash net income for the quarter was 29.3%, versus 28.7% in the prior quarter. I should note that for the second half of 2010, we expect that our effective tax rate on an adjusted basis or comparable basis, that's what I've been talking about, will be about 28%, although it will be somewhat lower in Q3 and somewhat higher in Q4 due to the impact of FIN 48.



Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

So, finishing on this page, we saw that adjusted cash EPS came in \$0.27 and the operating margin was 32%. So, let's do -- go to the next page and talk a little bit about some more deal metrics.

We've updated the deal accretion guidance to \$0.22 per share in year one and \$0.24 per share in year two. This is due to the net benefit related to difference in tax amortization of Goodwill and Definite Life tangibles versus accounting amortization. The benefits equates about \$4 million per year or about \$0.01 per share. We are confirming that we have about a \$5 billion expectation of outflow in year one related to the businesses coming together. And we also believe that the net cost synergy in year one is still around \$80 million to \$85 million and \$90 million to \$95 million in year two.

I should point out, however, that these cost synergies are net numbers. We have some planned new investments included within these numbers about \$15 million annually, which is an amount largely tied to additional marketing expenses. And finally on the page, we provide some further detail on our US GAAP intangible amortization for those who want to model it.

Moving to the final slide, I just wanted to provide a reconciliation to you regarding our original set of run rate financials for the acquired business with the actual results that we've received for one month of earnings disclosed in the press release. You may remember on September 30 of last year, we provided some high level information to you that reflected our modeling for the revenues and expenses of the business that was being carved out and acquired. At that time, the business had \$119 billion in AUM, a run rate adjusted operating margin of 32% and a net revenue yield of 40 basis points. That's the first column of numbers on the page.

If you fast forward nine months later, you'll see that the one month of June actuals annualized shows \$114.6 billion of AUM, with an adjusted operating margin of 39% and a net revenue yield of 50.3 basis points. So I wanted to make sure we reconcile these two views for you.

In the September 30, 2009 run rate P&L, we netted certain operating expenses, specifically related to revenue sharing and fund accounting against their associated revenues. However, our accounting standards dictate that these expenses and revenues be grossed up for Invesco's income statement. And so, that added \$80 million to revenues and \$80 million to expenses, of course with no impact to net income. This does, however, have an impact of increasing our net revenue yield of the acquired business by 6.7 basis points.

Next, introducing the net cost synergies amount of \$80 million to \$85 million against the September 30, 2009 P&L. You'll see a view of the business that operates at an adjusted net operating margin of 42% to 43% and a net revenue yield of 46.7 basis points. Comparing this to the annualized one-month results I believe confirms that we're on track to achieve our expected financial results. June seems to be yielding a somewhat higher net revenue yield, about 3.5 basis points, or \$20 million more per year.

That's a result, we believe, of the very successful month for the UIT business, which generated as I mentioned about \$5.5 million in other revenues. But, also a somewhat higher B share revenue stream than we had originally modeled. The annualized June operating expenses are about \$30 million greater than what the September 30 P&L after synergies would forecast. And this difference, however, is in line with our expectations.

To state the obvious, there's some noise around one month of data, so annualizing is tricky. But also some of the synergies have not been fully realized in the first month of operation. So, overall, I hope this shows you that we're on track. I should point out, however that going forward, we're going to be operating this business as one unit and as a result, we won't be able to provide meaningful or reliable P&L data on Invesco and the Van Kampen Morgan Stanley business separated from each other. So, I'm done and Marty, I'll turn it over to you before Q&A.



Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

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

Great, thank you Loren. And, in closing, as you can sense, we remain very focused on providing, you know, strong long-term investment performance for our clients, which has been a contributing factor to the continued positive flows within our business. And now, our attention very much is on delivering the value of the combined business to our clients. And, as Loren noted, we are experiencing strong momentum across the firm. So, with that, we'll open up to Q&A.

Operator

Thank you. (Operator Instructions)

QUESTIONS AND ANSWERS

Operator

Our first question does come from Ken Worthington of JPMC. Sir, your line is open.

Ken Worthington - *JPMC - Analyst*

Hi, good morning.

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

Hey, Ken.

Ken Worthington - *JPMC - Analyst*

Your guidance, \$88 million to \$85 million of cost synergies, how much of the synergies were actually achieved day one of the deal? Given the margin bump it seems like you've been pretty successful already in generating those synergies.

Loren Starr - *Invesco Ltd. - CFO*

Hey, Ken. I think we are pretty well there. We didn't obviously -- we weren't able to extract everything. But because we had, you know, moved the business over and effectively had all of the synergies -- most of the synergies baked in from day one, I'd say we have, you know, probably 70% or a little bit higher of the synergies captured day one.

Ken Worthington - *JPMC - Analyst*

Great. Thank you. Two, you're generating an awful lot of cash flow now that the deal's closed. You changed the terms of the deal to include more cash, but your stock price is still low and the valuation is cheap. I assume the priority is still to pay down debt, but would you consider purchasing the stock near-term based on the valuation and diverting some cash flow there?

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Loren Starr - *Invesco Ltd. - CFO*

Again, I guess, you know, we're always open to looking at the opportunity to deploy our capital to obviously add shareholder value. I think as we expressed in the past, there is value in our minds to pay down the debt and build up some cash on the balance sheet just given the uncertainties in markets.

I think everyone's sort of seen what volatile markets can do and having some cash on the balance sheet above what we've got right now is certainly a target of ours. If the stock price, you know, were to stay down for some period of time, we certainly would have that as one of the things we'd be looking at. But our capital priorities are still what they've always been, they haven't changed. So, we also do look at other opportunities to deploy our capital, which would include, you know, growing our own business and also acquisitions.

Ken Worthington - *JPMC - Analyst*

All right. And then lastly, the alternative business saw redemptions during the quarter. Can you give us a little more flavor about the redemptions?

Loren Starr - *Invesco Ltd. - CFO*

I'm sorry, the redemptions in which area, Ken?

Ken Worthington - *JPMC - Analyst*

The alternatives.

Loren Starr - *Invesco Ltd. - CFO*

Oh, yes. There is really one or two things that drove that. You'll see some of it in the passive category. So, there's some commodity products that are ETF that would show up there. There was about, I think, \$2 billion of outflow or \$1.5 billion of currency. It was really one of the products of the currency product, that showing up there.

I think there was also roughly \$1 billion of very low fee, real estate -- European real estate mandate that was -- redeemed in the quarter that really would have very little impact on revenues. It was mostly based on transactional revenues in terms of where the profits were made. And I think that also, you know, would account for the bulk of that.

Ken Worthington - *JPMC - Analyst*

Great. Thank you.

Operator

Our next question does come from Michael Kim of Sandler O'Neill. Your line is open.

Michael Kim - *Sandler O'Neill - Analyst*

Hey, guys. Good morning.



Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Loren Starr - *Invesco Ltd. - CFO*

Hi, Michael.

Michael Kim - *Sandler O'Neill - Analyst*

First, now that the deal is done, I think in the past you've talked about maybe seeing a couple of quarters where's retail flows kind of take a pause as maybe the distributors go through their due diligence and your wholesalers are reorganized. But, just given your commentary earlier, do you think you've maybe gotten a bit of a head start on that and so you might get through that process a bit quicker than expected?

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

I don't think so is the answer. Now that said, we are very, very geared up and, you know, spending time with the key platforms and distributors and decision-makers to walk them through the transaction. And I mean as you know, it's a very serious process, and we're proceeding very well. We're getting very, very good feedback.

But it is going to take its natural course which is, you know, going to be a good quarter or two. But we're on path to do what we said we did. The feedback has been positive.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Then second, can you just give us a little color on the flows and the institutional channel and then what you're seeing just more recently in terms of activity level just given kind of the step up in market volatility?

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

Maybe I'll make a comment or two and then Loren. We are definitely seeing, you know, increased interest in the institutional channel. It's tending to be very much -- real estate is, you know, becoming very, very popular again. That's a big part of the pipeline. You're seeing stable value also becoming very interested right now. But then other areas, such as bank loans, are becoming global equity portfolios. So, it's becoming quite broad across the firm in the pipeline and I think is reflective of, just as you said, plant sponsors are starting to get more engaged in their decision making. Loren?

Loren Starr - *Invesco Ltd. - CFO*

I think obviously the pipeline is much better than it was a year ago. I think it's probably significantly better. It is still improving quarter-over-quarter. I think we're seeing strengths 15% plus, kind of strength. But really focus on the products we've talked about in the past, which would be the alternative products, but also bar-belled with some of the things like stable value products. So again, I think we're reasonably optimistic for the rest of the year that this is still stabilizing, an improving situation and one that we'll benefit from.

Michael Kim - *Sandler O'Neill - Analyst*

Okay. Then finally, I know you reiterated your guidance on the merger-related attrition. But, I just wanted to confirm that I guess some of the runoff associated with the recent international equity team that I guess got lifted out. That was included in your original guidance, correct?

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Loren Starr - *Invesco Ltd. - CFO*

So it's a -- I think actually that particular business was not included in our original guidance. I'm just trying to think which one -- actually no, I think it is actually. You have a very specific question there, again. But I'll tell you what, we'll get back to you on that one because I don't want to give you the wrong information offhand.

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

Let me just make clear about your comment, though. What happened was there was a duplicative investment team.

We wanted to do was make sure that they had a home. So we worked with the team to create a home. So, very, very constructive and we were very -- the reason why we did that was, the team was a good team and we didn't want client disruption and we thought that was the exact right thing to do. So there was no liftout or nothing along those lines. I just want to make that point very, very clear.

Michael Kim - *Sandler O'Neill - Analyst*

Fair enough. Thanks for taking my questions.

Operator

Roger Freeman of Barclays Capital, your line is open.

Roger Freeman - *Barclays Capital - Analyst*

Hi, good morning. I guess with respect to the \$10 billion in sort of dissynergy flows you've been talking about, how much of that have you actually gotten notices for yet already?

Loren Starr - *Invesco Ltd. - CFO*

We originally had the \$10 billion number, just to update you, then we changed the guidance to \$5 billion for the first year after the acquisition. And there's nothing that's been notified. It's really more of a forward-looking view given the fund mergers that we have an expectation will take place as we clean up our product lineup.

So that -- there isn't a specific account or anything that we can point to as far as that. So, again it has the potential to be better than what the \$5 billion is out there. But right now, you know, given the markets -- given the markets, we're still sticking by the \$5 billion.

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

And when it tends to happen would be after the mergers are announced. So, think between announcement and ultimately the merger date. So that would be, you know, fourth quarter this year, first quarter next year would be, if history is a guide, sort of when that tends to happen generally. But again, it will happen as it happens.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Roger Freeman - *Barclays Capital - Analyst*

Okay, got it. And just in the discussions you're having on an ongoing basis with the distributors and them kind of taking a quarter or two to evaluate the deal. What are sort of the specifics you're looking for? I would guess retention of key investment professionals returns? You've signed your key folks up for retention packages and deliver, basically, sounds like 70% of sort of synergies. Looks pretty stable. What are they -- I guess what are the key points they're holding back on?

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

No, they've been -- so what are the communications with the distributors? It's an overview of the combined organization, the depth and breadth of the investment capabilities, the depth and breadth of the investment management teams, performance, all of the factors that are normal along with communication of our abilities within their goals, within their channels and the broader, deeper, you know, sales and support team is very, very important to them. So it's gone very, very well. So it is, again, the distributors, they're very talented. They're very thoughtful and they have a rigorous process that they would take any firm through.

So, it's going extremely well. Again, they're the client and they're driving the bus so they'll determine that time frame. But, it's gone very, very well.

Roger Freeman - *Barclays Capital - Analyst*

Okay, great and just lastly, Loren, the increase in equity income, I think you said it was related to private equity?

Loren Starr - *Invesco Ltd. - CFO*

Yes.

Roger Freeman - *Barclays Capital - Analyst*

Returns -- was that just markups on Wilbur Ross, your investments in his funds?

Loren Starr - *Invesco Ltd. - CFO*

Yes, exactly.

Roger Freeman - *Barclays Capital - Analyst*

Quotas realized or is that just markup?

Loren Starr - *Invesco Ltd. - CFO*

I think those are actually realized gains.

Roger Freeman - *Barclays Capital - Analyst*

Got it. Okay. Thanks.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

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

Thank you very much.

Operator

Michael Carrier of Deutsche Bank, your line is open.

Michael Carrier - *Deutsche Bank - Analyst*

All right, thanks guys. Quick question when I look at the retail part of the business and mostly with Van Kampen now. You guys did a good job on the expense side trying to -- and the revenue side trying to break out, you know, the legacy business versus, you know, the new Morgan Stanley Van Kampen. When you look on the flow side, in particular as it relates to the retail business, you've obviously seen a pickup on the redemption side and sales in the industry just have been pretty sluggish. I guess it's going to be hard to do this. But just in the quarter, can you kind of strip out what's related to -- what you see as more noise versus core and then probably more importantly, when you do look over the next quarter, two quarters, three quarters, when do you expect either some of the noise to start muting out and being able to take advantage of, you know, you had the products, your performance is solid, and then you're able to take advantage of the distribution opportunity?

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

Let me make a couple broad comments. It's hard to answer specifically, but let me just, typically what happens. By June 30, there was very little impact of -- if you want to call it the strength of the combined firm, just not practically going to happen. And as we were just talking previously, you go through a diligence process and the like. It will literally take in my mind two, three quarters by the time you communicate the depth and breadth of the firm all the way down through the advisor channel. That's just how long it takes. It's tens of thousands of advisors that you need to get in front of and discuss, you know, why they're better off. You know, the depth and breadth of the firm.

So, the noise as you talk about it, the fund flow stuff, we're trying to put a date out there. So, as soon as the fund mergers are done, which we expect to be nine to 12 months after the close, that will be the noisiest period taken out of the system. And the reason why we say nine to 12 months, there is a shareholder vote. We can't control that. So, we are very much on track with everything we control. And, so it's just an ongoing process.

But, what you're seeing right now again is very hard to separate market sentiment from, you know, parsing sort of a normal course. If you talk to advisors, literally from that May period, it wasn't such a redemption topic that drove outflows, it was just sales just dropped like a rock. You know, people just froze. So, that is really what you are seeing now. It's really the normal process of people coming back through difficult markets determining when are they going to get back engaged and take some, you know, exposure to the equity market. So, you have two very strong factors happening at the market.

Michael Carrier - *Deutsche Bank - Analyst*

Okay. That's helpful. And then, Loren, just on the expenses, you know, if we just take the one-month for Van Kampen and we can quarterly-ize that or whatever you want to say, but if you look at that \$400 million and do that, there are a few items like on the severance and comp that you mentioned. I just want to make sure going forward any other items that you felt like stood out in the quarter that wouldn't be, you know, core or is this a pretty good run rate, that severance number?

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Loren Starr - *Invesco Ltd. - CFO*

I think it's a pretty good run rate. Obviously, as you said, multiply the one month by three. So there's seasonality obviously that occurs in the first quarter and those types of things that we always talk about. There's nothing exceptional that we haven't called out that I think I need to bring to your attention.

Michael Carrier - *Deutsche Bank - Analyst*

Okay, all right. Thanks a lot.

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

Thank you.

Operator

Our next question does come from Craig Seigenthaler of Credit Suisse. Your line is open.

Craig Seigenthaler - *Credit Suisse - Analyst*

Thanks. Good morning, everyone.

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

Hey, Craig.

Craig Seigenthaler - *Credit Suisse - Analyst*

Just on the \$5 billion forecasted net flow to synergy again, can you talk at all about the expected geography for the plan redemptions and also timing? So really, which channels can be impacted, which products? And maybe should we think about this being more front-end loaded over the next 12 months rather than back-end loaded?

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

Yes, Craig. It's, again, very hard to do it at that level where, right now we're in the typical process of, you know, fund by fund analysis. Again, we have to go through the fund boards to get their support and approval and over the shareholders. So, but the work that is done is based on some real experience that we have. So, we're just not pulling something out of the air. The channel that it comes from is largely the retail channel, it is mutual funds and the vast majority of it are typical advisor-sold, channel products.

So, that's where you're going to see it. As I was mentioning, if history is a guide again, after you announced the mergers, which would be probably, you know into maybe the fourth quarter from that period almost till closing is when you see redemptions. That's why I was saying largely I think you'll see them fourth quarter, first quarter next year would be the timing of it.

Craig Seigenthaler - *Credit Suisse - Analyst*

Okay.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

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

And I don't have -- I wish I could tell you how much, when, and what day, but I just don't know.

Craig Seigenthaler - *Credit Suisse - Analyst*

Okay. Thanks. Then -- just on the performance fees, you know, the UK perpetual business' performances really ticked up the last few months here. And also you have what looks like some realized gains in the Wilbur Ross business. Can you talk about if there's any ability to really improve this performance fee level meaningfully in the back half of the year, with those drivers. But also, you know, Invesco used to have over \$50 million of performance fees a year. When can we get back towards that level, too?

Loren Starr - *Invesco Ltd. - CFO*

Well again, the performance fees in the fourth quarter have been largely focused on the UK products, and so the answer will really have to do with what the one-year numbers look like for the UK at that point in time. Obviously the three and five numbers are quite strong. Again, it will be performance based.

Is there a chance we could see performance fees? Yes, there is. But again, I think the general guidance that we provided right now is -- it's probably that would be a bit of a bet that we're going to get there in time to realize that performance fee. Longer term, absolutely, we could see those things come back, but certainly, in sort of near term it's not in our planning right now that we're going to see large performance in the fourth quarter from the UK. Although, you know, I grant you their near-term performance has really come back very strongly. Beyond that, there aren't that many assets that have performance fees.

The emerging class of product that would have performance fees would be some of the Wilbur Ross products because they have carry associated with them and again in terms of the carry that we would get, it would be on the newer funds or the funds that were launched after October of 2006. That was a really fund for any future funds. And we're not quite at the point where we're, I think, seeing realizations on those particular products. The gains that we took weren't related to those products, they were related to other Wilbur products and so again, I just want to make sure you don't assume that we're starting to see a lot of carry coming through some of those products yet. It's too soon.

So, again we do think some of the performance fees you may have seen in the past also came from our quantitative group, and so there's a potential there that we could see those come back. But right now, given where the performance is, it's not part of our planning that we're going to see that come back this year. So again, hopefully that helps you again so it gives you a sense of where they can come from.

Craig Seigenthaler - *Credit Suisse - Analyst*

Okay, it does. Thanks a lot, Loren.

Loren Starr - *Invesco Ltd. - CFO*

Yes.

Operator

Bill Katz of Citigroup, your line is open.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Bill Katz - Citigroup - Analyst

Okay, thank you. I just want to come back to Slide 18, if we could for a moment. Loren, you mentioned before that there was some noise in some of the annualized numbers. Can you sort of highlight exactly what those are? And then am I correct in that, based on the answer to a prior question, you still have about 30% of the \$80 million to \$85 million of annualized saves to be realized? I'm still trying to reconcile the fact that your operating profits are \$9 million to \$14 million underwater relative to the September '09 run rate against your thoughts that you're running ahead of plan.

Loren Starr - Invesco Ltd. - CFO

Again in terms of the one-month numbers for Van Kampen, I guess the point that I was saying was more of a conceptual one about noise. I mean, I think we're not at the point where we can go, drill down on a month worth of expenses and say what's unusual based on travel patterns or other things. I'm just saying that I think, take these things with a grain of salt. This is just sort of informative as opposed to a detailed reconciliation.

In terms of kind of where the synergies are, again, the fact that we're saying that we've achieved sort of 70% of the run rate on the synergies day one, I think is probably good in terms of where we want it to be. We hope to get the rest through the course of the year and again, so I think that means in my mind that we're on track and obviously we just brought the business over. So we have a little time to move and get the rest of the synergies. So, I guess in terms of your last point, Bill, I'm not sure if you're saying that you think we're not on track or --

Bill Katz - Citigroup - Analyst

Just the way the slide reads, it's \$9 million to \$14 million variance relative to the initial run rate. I'm just trying to box that against the savings still to be had.

Loren Starr - Invesco Ltd. - CFO

Yes and again, it's just one month of data. So again, I view that as close enough in terms of where we expected it to be just to give the people a sense that we're on track.

Bill Katz - Citigroup - Analyst

The second question is just in terms of Wilbur Ross. There's been sort of some expectation that he might be close to raising his fifth recovery fund. Just wondering if you could update us on Wilbur Ross four perhaps, WLR4, and maybe the timing for a potential new race?

Loren Starr - Invesco Ltd. - CFO

In terms of the fund four, I think we are sort of not quite at the full 75% but we have a pipeline of investments that eventually I think will clearly get us over the 75%, which would allow for future fund raises. In terms of, you know, fund five, again, we're not at this point able to talk about, you know, this fund launch given that private placement rules, we really would not want to be commenting about size or anything of that nature.

Bill Katz - Citigroup - Analyst

Okay, thank you.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Operator

Cynthia Mayer of Bank of America Merrill Lynch, your line is open.

Cynthia Mayer - Bank of America Merrill Lynch - Analyst

Hi, good morning. I apologize if you covered this already. But if you look at Page Six, the institutional flows drop pretty precipitously if you back out the large passive mandate. And I'm just -- If I'm looking at that correctly, maybe I'm not. Is there anything going on, on the institutional side that, you know would lead to that in particular? And also, could you maybe give a little detail on the passive mandate itself, what type of assets those are and what the fee is?

Loren Starr - Invesco Ltd. - CFO

So, in terms of the decline in institutional mandates, I think we mentioned one at least, there was a very low fee real estate mandate that was about \$1 billion dollars that last -- that was virtually is no fee. And so, in any event, that was one part of it. Other parts, I think it's a variety of smaller mandates. There's really nothing I could point to explicitly. The real estate one was by far and away the biggest element.

In terms of -- sorry, the institutional mandate that came over, we don't talk about specific fee relationships on single mandates other than the guidance we said, it's sort of a low-fee mandate. But again it's one that, you know, we were pleased to obviously have received as part of this deal.

Cynthia Mayer - Bank of America Merrill Lynch - Analyst

And so just on that mandate, was that gotten as sort of an ordinary RFP process or is it really more sort of acquired assets?

Loren Starr - Invesco Ltd. - CFO

It was not -- sorry, Cynthia, it was not acquired in the sense that we certainly had no intention of buying it. It came over really based on the strength of the relationship of the Japanese team with the client. It was previously served by Morgan Stanley and so it came over to us, you know, based on that. I wouldn't call it necessarily an RFP, but there was certainly a diligence process up to that point.

Cynthia Mayer - Bank of America Merrill Lynch - Analyst

Got it. Okay. And maybe if you could just give us your outlook on the money market business and how you see fee waivers from here and flows.

Martin Flanagan - Invesco Ltd. - President, CEO

For us, Cynthia, we don't have fee waivers just because of, you know, the pricing of our product. So, that's been fortunate for us as an organization. Just from the asset class, generally, still strong believers and some very, very good strong vehicle serves a real purpose. I think just looking at the level of assets in the money fund business with the current rate structure would conclude something is very positive there. And I think there's, you know, the outlook for growth is going to largely be driven by change in the interest rate environment. I don't think any of us are counting on that at the moment.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

I think structurally, there is a round of changes that went through the industry. We all think they were very, very positive. You know, there is continued discussion of what is -- are all of the changes that need to be made, have they been made and that dialogue, you know, has continued to be open. But in total, we think it's a very good asset class, but you know, don't expect it to be growing until the interest rate environment changes.

Cynthia Mayer - Bank of America Merrill Lynch - Analyst

Great. Thanks a lot.

Operator

Our next question does come from Dan Fannon of Jefferies. Your line is open.

Dan Fannon - Jefferies - Analyst

Good morning. Loren, can you let us -- characterize what the kind of normalized cash flow generation for the company is if you include a full contribution for Van Kampen, just assuming if you were to have it included for the full quarter what you think might be a normalized level?

Loren Starr - Invesco Ltd. - CFO

I mean I guess quarter to quarter there's such a variety of things between tax payments and other things. It's sort of an annualized view when we look out at the full year behind us. We think that \$900 billion of free cash flow generation is the number that we, you know, we get when we do the modeling of it. That assumes kind of normal equity markets, and just a general continuation of positive investment performance and so forth.

Dan Fannon - Jefferies - Analyst

And then on a leverage basis or if you can think about your debt levels, what would you like to get back to? What do you feel most comfortable at with that kind of back drop?

Loren Starr - Invesco Ltd. - CFO

Well, our expectation is that we pay down the credit facility. Right now we have \$650 million that's borrowed against that, and that would be kind of one element in terms of debt reduction. Beyond that, we have no stated plans or further thinking about further reducing debt or adding debt for that matter. We feel comfortable with our situation right now.

We have expressed certainly some desire to raise more cash. We like to have somewhere around \$800 million to \$1 billion of cash on the balance sheet, just generally we think that that's prudent to have a reserve when needed and not being reliant on capital markets when we need cash.

Dan Fannon - Jefferies - Analyst

Okay. And then switching to the UIT products, can you help us understand a little bit about the fees associated with that and, you know, what your outlook is for growing that product so it seems, you know, you had a good month in June. Is that one off in nature or how are you thinking about that product going forward?

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Loren Starr - *Invesco Ltd. - CFO*

I think well again, \$5.5 million, which we associated with the UIT business in the month. It's, I think, a reasonably high number in the sense of historically it's probably a little bit higher than the norms. If you were to look going forward, you know, would it be more \$5 million or \$4.5 million, somewhere in that range probably if you were to ask UIT folks what is the normal sort of run rate for them. The way it works, it is a little complicated because of the different fees and revenues based on what type of UITs you're generating, whether they are fixed income or equity. And so, again it would probably take more time than you probably want and I have to go through exactly how it works, but the revenues are generated up front upon the sale, so they are not really based on ongoing management fees and the margins are very healthy with that business. It's very profitable business.

Dan Fannon - *Jefferies - Analyst*

Okay. Great. Thanks.

Operator

Our next question comes from Robert Lee of KBW. Your line is open.

Robert Lee - *KBW - Analyst*

Thanks. Good morning, guys. I'm not sure what questions you're going to have this afternoon. A couple questions. First one, just the severance and comp. You mentioned that was related to the continuing kind of reshaping of your distribution platform. I'm assuming you meant the institutional platform. And are we pretty much at the end of that? Do you think you have that where you need to be or can we expect a little more of that going forward?

Loren Starr - *Invesco Ltd. - CFO*

Robert, I think we're -- the bulk of it took place this quarter. I think there's still some more work that's anticipated, but I think the majority of the sort of costs associated with it, I think, has been realized this quarter. It's been an ongoing process again that won't happen just this quarter. I think it's been a process that's been going on for several quarters. And it's one that we feel really good about in terms of the benefits it will bring to the firm.

Robert Lee - *KBW - Analyst*

Okay. Maybe shifting gears a bit to the ETF business, I gather this quarter had some outflows. Could you talk more broadly about that business? It certainly seems like competitors are popping out of the wood work every day. As you look forward, where do you really see some of the opportunity for you to kind of differentiation yourself? Doing -- kind of doing more of kind of, I don't know, I guess I'll call it white label type products or -- I'm just kind of getting a sense of where you see yourself differentiating from the increasingly crowded field out there.

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

Needless to say, we're still very positive on the ETF business. Stating the obvious, it's a growing business, it's finding its place in the market with advisors in addition to portfolio managers and the like. So, you know, our place has not changed, right? We are not trying to be so are the of me, too, passive ETF provider. That space has been taken The old power shares philosophy has been one of really creating and again, everything is an index. But again, you can create these indexes around investment

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

prophecies and the like. And so, it's really the value-added ETFs and we think that's going to continue to be a growing, you know, part of the business. We're very, you know, committed to it.

From a strategic point of view, though, many, many people are trying to get into the business, I think, differently than a mutual fund where you can have, you know, pick a number, 200 of the same mandate mutual fund. That really is not possible with ETFs. So the -- because you need a market maker and capital has to go by. So you really can have maybe a couple, three, you know, possibly four of light designed ETFs. I think there's limited shelf space. Ultimately, I think that's one of the other attractive things to that business.

But we're very pleased with, you know, where we are with the ETF business. We're getting more and more traction. We've had some early success in Canada. And we see other parts of the world where we will continue to make an impact.

Robert Lee - *KBW - Analyst*

You know there's been, I guess, some price competition more on the plain vanilla side of the business. Do you see that kind of creeping in the segments that you compete in?

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

For obvious reasons, I think it's just very typical to sort of ignore the structure, whether it's ETF or institutional separate account or the like. Where do you get the greatest fee pressure? It tends to be in the areas that tend to be, you know, the passive type mandate. So, the more value you offer, the higher fee you can justify. And that's been the case, you know, so far.

Robert Lee - *KBW - Analyst*

Okay. Thanks. One last question. I mean, probably haven't had too much of a chance to go through, but your initial thoughts on the 12b-1 fee proposals. Relatively benign for the fund industry? Do you think there's a big impact one way or the other? What's your, kind of, initial take?

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

I think, you know it's been ongoing dialogue with regulators for the last number of years. I think what was proposed is really no surprise to the industry, is very much along the lines of what the SEC was working on. There are some elements that are positive, I think in it where, you know, just naming conventions and also, you know, getting the directors out of a process that to approve something, which was a very difficult thing to do.

And I think if you look at where the bulk of the industry sales have gone, with the 25 basis point service fee, it's -- I don't think you're going to see a tremendous impact. There's some real operational challenges I think you're going to see coming out of the comment period. I just don't know that what's being suggested can be done on any short period of time. So, that's one topic. But it will be interesting to see what happens through the commentary. But I don't see a tremendous shock to the system with this. I think it's pretty consistent with what people have been

Robert Lee - *KBW - Analyst*

Great. Thank you very much.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Operator

Our next question does come from Marc Irizarry of Goldman Sachs. Your line is open.

Marc Irizarry - Goldman Sachs - Analyst

Great. Thanks. Just a question on the fee rate. It's maybe bouncing around a little bit. But it looks like the 50 basis point fee rate for Van Kampen's a bit higher. You know, as you clean up the product lineup for Van Kampen, what impact should we expect that to have on the fee rate? Maybe you can just comment broadly on just the revenue realization rate.

Loren Starr - Invesco Ltd. - CFO

Marc, I think it should be largely neutral. Obviously, it will depend ultimately on which funds we merge into, which other funds, and the matching up is still a process, that we need to go through a dialogue with the fund boards ultimately. And once we get those understood, I'd be able to answer more fully. Obviously, it's our expectation that it's going to be fairly benign in terms of how two fund ranges come together from a fee perspective and obviously, positively ultimately for flows and certainly other expense ratios.

Marc Irizarry - Goldman Sachs - Analyst

Okay. Then Marty, and then just a question for you on US versus non-US retail investor behavior. Could you comment a little on what you saw in the past quarter and, you know is there something worth noting overseas versus the US in terms of what you're seeing from retail investors?

Martin Flanagan - Invesco Ltd. - President, CEO

I think it's a pretty similar experience -- feedback we had in different parts of the world, too. People were, and maybe a little more on the United States, I think you had a combination of the states that call it a Greek debt crisis, in quotes, along with the flash crash. It really sort of struck investors in talking to different, you know, advisors. Their volume just dropped dramatically. And as I mentioned earlier, it wasn't so much a redemption thing, it was just stopping of sales or investments. And so, probably a little more difficult here but you did see a slowdown in other retail markets. Again, I still say investor confidence in an individual level is still wanting to think greater exposure but very, very fickle and nervous at the moment.

Marc Irizarry - Goldman Sachs - Analyst

Interesting. And then on the institutional side, are there consultants that you're on watch with now that you'd expect, now that the deal's closed, that you are going to -- that they'll be sort of revisiting those consultant ratings, if you will?

Martin Flanagan - Invesco Ltd. - President, CEO

It's a different process really and I think, you know, our -- we've been having the conversations with the consultants. They are just very focused. It is a topic with every one of them, but, you know, we're on a go-forward basis with the vast majority of them. So for us, it's really just building deeper, you know, success with the consultant channel.

Marc Irizarry - Goldman Sachs - Analyst

Okay. Great. Thanks.

Jul. 27. 2010 / 1:00PM, IVZ - Q2 2010 Invesco Ltd. Earnings Conference Call

Operator

At this time, we show no further questions.

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

Okay. Thank you very much. Thanks for everybody's time, and we'll probably see a number of you this afternoon and look forward to that. Thank you very much.

Operator

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

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