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In addition, words such as believes, expects, anticipates, intends, plans, estimates, projects, forecasts and future or conditional verbs, such as will, may, could, should and would, as well as any other statement that necessarily depends on future events are intended to identify forward-looking statements. Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. There can be no assurance that actual results will not differ materially from our expectations.

We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in our most recent Form 10-K and subsequent Forms 10-Q filed with the SEC. 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.

Operator: Welcome to Invesco's Fourth Quarter Results Conference Call. All participants will be on a listen-only mode until the question-and-answer session. [Operator Instructions] Today's conference is being recorded. If you have any objections, you may disconnect at this time.

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

Martin L. Flanagan
President, Chief Executive Officer & Director

Thank you very much, and thank you, everybody for joining us. Today, we'll – going to review the business results for the fourth quarter, we'll include some highlights for the full year, then Loren will go into greater detail on the financials and then we'll open it up to Q&A as been our practice, so. And if you're so inclined, the presentation is posted on the web.

So, let me be begin by hitting the highlights of the operating results for the quarter and if you are following I'm on page slide right now – slide three. Long-term investment performance remained very strong for the quarter, 81% of actively managed assets were ahead of peers over a five-year period. Strong investment performance combined with the comprehensive range of strategies and solutions we offer helped clients achieve their desired outcomes and contributed net long-term inflows of $2.5 billion during the quarter.

Adjusted operating income was up 7.5% compared to fourth quarter of the prior year and a continued focus on a disciplined approach to our business drove improvement in our operating margin to 41.2% from 40.5% in the same quarter a year ago.
Assets under management were $792 billion during the fourth quarter up from $789 billion in the prior quarter. Operating income was $373 million versus $382 million in the prior quarter and earnings per share were $0.63 versus $0.64 in the prior quarter. The quarterly dividend remained at $0.25 per share, and we returned $158 million to shareholders during the quarter.

Now let me take a minute to look back over the achievements over the past year which will provide some insights into our longer-term plans also.

First and foremost, we remain very focused on delivering strong long term investment performance to our clients which continued to drive growth in the business. 77% and 81% of the assets were ahead of peers on a three and five year period respectively at the end of 2014. By delivering strong investment performance and focusing on client needs, we achieved further growth across our global business.

Our U.S. business achieved net flows of $3.6 billion excluding the QQQs in 2014. IBRA flows are stabilizing with continued strong performance garnering attention among clients and advisors. We continue to gain strong shelf space support for our broad product range. We currently rank number three among peers in the industry for the number of mutual fund placements on broker dealer recommended lists.

Our Canadian business continues to strengthen its retail presence capturing greater share of the full service broker channel. Institutionally, Invesco’s direct real estate capabilities fueling institutional asset growth in defined benefit segment.

Our Asia Pacific business continued to grow and we saw strong inflows into our Japanese, greater China, Asia and European equities as well as real estate strategies.

Our EMEA business continued to grow and become more diversified with significant flows into fixed income, non-UK equities, real estate and multi-asset capabilities.

In particular, we should note the UK retail business achieved record gross sales across a range of capabilities and UK equity redemptions normalized in the fourth quarter, demonstrating the strength and resilience of our business.

We continue to invest in capabilities where we see strong client demand or future opportunities, such as ETFs, multi-asset strategies, fixed income and alternatives. By extending the teams that we have or hiring talent where need be, also upgrading the technology platforms and launching new products and providing additional resources where necessary.

The ability to leverage the capabilities developed by our investment teams to meet client demands across the globe is a significant differentiator for our firm, and we’ll continue to bring the best of Invesco to different parts of our business where it makes sense for our clients.

By delivering strong investment performance, Invesco Global Targeted Return achieved strong inflows in its initial year of offering, with assets under management passing $3 billion at the end of 2014. GTR’s strong performance positions us well heading into 2015, and we think this will continue to be a strong growth story. Additionally, I would highlight the other range of alternatives that we introduced a year ago have very strong one year performance.
Based on our continued efforts to take a disciplined approach to running the business, the firm was upgraded to A/Stable and A2/Stable by both S&P and Moody’s. We continue to make progress strengthening our operating margin to 41.4%, while returning nearly $700 million of capital to shareholders during the year.

Before Loren goes into detail on the company's financials, let me take a moment to review the investment performance during the quarter. Turning to slide eight, our commitment to investment excellence and our work to build and maintain strong investment culture helped us maintain the long-term investment performance across the enterprise during the quarter. Looking at the firm as a whole, 77% of assets were in the top half on a three-year basis and 81% were in the top half on a five-year basis.

Turning to flows on page nine, you'll see that passive flows outpaced active during the volatile quarter and again demonstrated the benefits of broadly diversified range of investment strategies. This is also coming off a very strong active organic growth rate we saw in the third quarter.

We also saw renewed strength in the institutional flows during the quarter. The figures on slide 10 reflect the broad diversity of flows we saw across the global business during the quarter, which included strength in real estate, fixed income, GTR, quantitative equities amongst others. The institutional pipeline of won but not funded mandate continues to look strong.

We feel good about the quarter results and the full year. We're pleased with the progress we've made in delivering strong investment performance in meeting client needs with a range of strategies and solutions throughout 2014. We believe our achievements and the continuing efforts to deliver great outcomes for clients positions us well as we head into 2015.

Now I’d like to turn it over to Loren to review the financials.

Loren M. Starr
Chief Financial Officer & Senior Managing Director

Thanks, Marty. Quarter-over-quarter, our total AUM increased $2.8 billion or 0.4%. This was driven by market gains of $10.5 billion and long-term net inflows of $2.5 billion, these gains were partially offset, however, by negative foreign exchange of $7 billion and outflows of the QQQs of $3.2 billion.

Our average AUM for the quarter was $789.8 billion. That was down 1.5% versus the third quarter. Since our retail related average AUM is calculated on daily basis, the volatility in the equity markets during the quarter resulted in a lower average AUM while the period end AUM was actually higher.

Our net revenue yield came in at 45.9 basis points, which was up 0.3 basis points versus Q3. Let me decompose this a bit. The negative impact from FX on product mix as well as the market impact on equities during the quarter reduced our investment management fee yield by 1.1 basis points and this was offset, however, by higher performance fees and lower third party distribution, service and advisory expense, which added 1.4 basis points.

Next, I'm going to turn to the operating results. Our net revenue yield decreased $7.9 million or 0.9% quarter-over-quarter to $905.8 million. That included a negative FX rate impact of $19.8 million. Within the net revenue number you'll see that investment management fees declined by $38.1 million or 3.6% to $1.03 billion. This was a result of the lower level of average AUM in the quarter and the 1.1 basis point drop in management fee yield that I discussed on the last slide. FX decreased investment management fees by $25.3 million.
Service and distribution revenues declined by $4.4 million or 2%, also in line, largely, with lower average AUM. FX decreased service and distribution revenues by $0.3 million. Performance fees came in at $19 million. That was an increase of $8.7 million from Q3. Real estate accounted for roughly half of the quarter's performance fees, while the other half was driven by a variety of other investment capabilities including bank loans, quant equity and global asset allocation. Foreign exchange decreased performance fees by $0.4 million.

Other revenues in the third quarter came in at $34.1 million. That was a decrease of $0.4 million. FX decreased other revenues by $0.6 million.

Third-party distribution, service and advisory expense, which we net against gross revenues, decreased by $26.3 million or 6.2%. This decrease was largely the result of lower average AUM and foreign exchange. FX decreased these expenses by $6.8 million.

Given the impact on our AUM mix and management fee yields resulting from the continued strengthening of the dollar, we thought it would be useful at this point to provide you with some guidance on our net revenue yield for 2015. Based on current FX rates and AUM levels, we expect our full year 2015 net revenue yield, excluding performance fees, to be approximately 44.2 basis points, or 0.6 basis points lower than last year.

Moving on down the slide, you'll see that our adjusted operating expenses came in at $532.7 million and that grew by $0.9 million or 0.2% relative to the third quarter. Our foreign exchange decreased operating expenses by $9.8 million during the quarter. Employee compensation at $347 million decreased by $2.5 million or 0.7%, the impact of head count growth and higher incentive compensation related to performance fees were more than offset by foreign exchange. FX decreased compensation by $6.3 million.

Looking ahead to 2015, seasonal payroll taxes and a one month impact from base salary increases will lift Q1 compensation by approximately $10 million. Compensation will then decline by approximately $5 million in Q2 and remain largely flat through the rest of the year. Note that all this guidance assumes flat assets from year end.

Marketing expenses increased by $5.6 million or 20.4% to $33 million. This was driven by advertising expenses, particularly in EMEA. FX decreased these expenses by $0.9 million. We would expect that marketing expenses would average approximately $30 million per quarter in 2015.

Property, office and technology expense came in at $75.6 million in the third quarter, which was down $1.7 million. FX decreased these expenses by $1.3 million. We'd expect property, office and technology expense to be approximately $80 million per quarter in 2015, the result of continued technology investment to support our fixed income and alternatives business as well as due to increased property related costs.

G&A expenses in the quarter came in at $77.1 million. That was down $0.5 million or 0.6%. FX decreased G&A by $1.3 million. Looking forward, we'd expect G&A to average approximately $75 million per quarter.

Continuing on down the page, you'll see that non-operating income decreased $6.3 million compared to the third quarter. The decrease was primarily caused by lower equity in earnings from unconsolidated affiliates. As you'll recall, this line item is a function of the co-investments we have made in our private equity and real estate partnerships and these investment valuations are booked on a quarter lag. Given the quarterly lag and the somewhat negative markets we saw in Q4, we may see this line item decline from the Q4 levels in Q1 of 2015.

The firm's effective tax rate on pre-tax adjusted net income in Q4 was 26.1%. Looking forward, in terms of guidance, we'd expect the effective tax rate to remain between 25.5% and 26.5%, which brings us to our adjusted EPS in the quarter of $0.63 and our adjusted net operating margin of 41.2%.
So before finishing on this slide, I’d like to do a couple things. One, I’d like to take a moment to let you know that this month we took some tactical steps to protect our P&L against further negative FX impacts in 2015. As you all know, a strengthening U.S. dollar has a negative impact on our fee rate and revenues. Invesco's most significant foreign exchange exposure is to the pound sterling. In fact, based on our calculations, a 10% decline in the pound from the current rate would result in an approximately $0.05 to $0.06 decline in annual EPS and an erosion of about 10 basis points to 20 basis points of operating margin.

So, given this exposure, we entered into a series of out of the money put option contracts, which will protect about 75% of our sterling pre-tax income and this is at a strike of 1.493 and this will be in effect through the course of 2015. The premium cost of these options, of course there is some money involved here, will reduce our full year 2015 EPS by approximately $0.005. Under U.S. GAAP accounting rules, these options will be marked to market below the line in other gains and losses. And we believe this hedge will help reduce the bottom line financial impact of any further significant strengthening of the dollar.

And finally, before I turn things off to Marty, I know there's always a question about how things are going on flows and I would say that we're off to a good start in net flows in January. We've seen about $2 billion, about half of that is in the passive category and the other half is in active. We continue to see Europe grow quite strongly. There's about an 18% organic growth rate, just based on January; again, it's one month, so take that with a grain of salt. But we're continuing to see strong growth there. And our traditional PowerShares products are growing about 15%, which again seems like a pretty good rate. Overall, again, just based on January, what we've seen, about 3.5% overall organic growth rate on long-term AUM. So again, we are not quite done with the month. We may actually see some more month end institutional flows coming in. Marty mentioned we have a very strong pipeline, so we could actually see that number improve from here.

And so with that, now I'm going to turn it over to Marty.

Martin L. Flanagan
President, Chief Executive Officer & Director

So, we'll open up to questions.
QUESTION AND ANSWER SECTION


Michael S. Kim
Sandler O'Neill & Partners LP

Hey, guys. Good morning. First, just curious to get your take on some of the trends you're seeing across the institutional landscape in terms of potentially de-risking or moving into passive from an asset allocation standpoint either here in the U.S. or outside of the U.S. And just related to that are you still sort of seeing decision making processes delayed just given sort of the environment?

Martin L. Flanagan
President, Chief Executive Officer & Director

A good question. So let me – I’ve been traveling quite a bit, so I can – just coming back from Asia and quite frankly, the appetite still seems strong, the asset classes that institutionally people are looking at, for us it continues to be our alternatives, which, GTR, IBRA, risk parity, real estate, bank loans but quite frankly, also Asian equities, European equities, Japanese equities. So really continue to be very broad. Also quantitative strategies are another area that is gaining quite a bit of interest and on the Continent the same is happening.

I can’t speak to the timing specifically but what we have seen traditionally is that when there is uncertainty people do slowdown in the funding but we don’t have that indication right now. But back to the point I made earlier and Loren, I mean the institutional pipeline really is quite robust. So we don’t – we’ve not had indications that it’s people going on hold yet and sort of de-risking.

Michael S. Kim
Sandler O’Neill & Partners LP

Okay. That’s helpful and then may be for Loren, if you could just sort of give us an update on where you stand as it relates to excess cash beyond regulatory requirements, seed capital needs and maybe earmarking some funds to potentially buying the residual stake in Religare, just trying to frame the share repurchase opportunity above sort of offsetting annual grants?

Loren M. Starr
Chief Financial Officer & Senior Managing Director

Sure, Michael. So, at the end of the quarter, we had about $1.5 billion in cash versus about $1.35 billion last quarter. In our European subgroup which is what we need to keep in terms of regulatory requirements, about $940 million of that is in that group. So, we still need to hold a significant amount of cash in our European subgroup as you are well aware. I would say that phenomenon is here to stay and it’s probably not going away any time soon. In fact, generally, we think just based on the regulatory environment it’s probably only going to get worse from here as opposed to better. So that’s just a general sort of overarching comment. With that said though, you should expect us to continue to follow the policies that we’ve been following. We want to build up some excess cash, about $1 billion over that subgroup level and it is something that is again self-imposed discipline that we’re seeking to achieve.
In terms of the seeding and the need for capital, those are elements that are still very much in sight for 2015 given the number of opportunities that we have in the space of alternative products and alternative fixed income which tend to use a fair amount of capital, real estate as well. We see an ongoing trend of some of our cash being dedicated to facilitate those flows and those products.

In terms of the Religare opportunity to complete our ownership, that is an option that we have. We've certainly made no decision to do that at this point but if we were ever to do it, it would be something probably the order of magnitude of $150 million total cash needed. We would need to put $50 million just to have that ownership stake, it's required by India if you have more than 50% stake you have to put in $50 million. So anyway, that's something that we can evaluate in the future.

Michael S. Kim
Sandler O'Neil & Partners LP

Okay, that's helpful and then just final question on sort of just a follow-up on hedging sort of the pound exposure. Any change in thinking as it relates to the euro, I know that's not necessarily as big of a position for you, but any thoughts there?

Loren M. Starr
Chief Financial Officer & Senior Managing Director

Yeah, so the euro exposure is about half of what it is for the pound, the impacts are about half of what it is for the pound. It's something we've looked at, we don't want to get overly complicated and get into a massive hedging strategy at this point. We think that the prudent thing was to put the pound in place and we'll evaluate that. We think that that will really do the bulk of what we wanted to do in terms of protecting us from a further strengthening dollar.

Michael S. Kim
Sandler O'Neil & Partners LP

Great. Thanks for taking my questions.

Operator: Thank you. The next question is from Ken Worthington, JPMorgan. Your line is open.

Kenneth B. Worthington
JPMorgan Securities LLC

Hi, a couple of follow ups on the hedge. First, when did the hedge start, was it January 1, earlier, or more recently given the currencies have gotten creamed a lot in January so far?

Loren M. Starr
Chief Financial Officer & Senior Managing Director

Yeah, it was the middle of January, roughly. I don't know the exact date that we put in place but think of it mid-Jan.

Kenneth B. Worthington
JPMorgan Securities LLC

Okay. So, given the pound's still declining, and euro decline et cetera, it would imply still an incremental hit to 1Q. Now, if the equity markets got creamed, I would expect Invesco to tighten the belt with reduced cost. FX seems different. How do you as managers think about the business, employees and shareholders in a situation where FX
is having a pretty decent impact on earnings? Does it change investment, does it change the bonus pool. Like how should we expect that to kind of flow through as we think to four quarters even with the hedge?

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**Martin L. Flanagan**  
President, Chief Executive Officer & Director

Yeah. Ken, that's a great question. And so our view is just look at the fundamental strength of the business right and you were sort of heading that way in that FX is something we can't control, right and to the degree other than trying to be thoughtful and reasonable with hedges, but as I talked about and Loren talked about, if you just look at the fundamental, go back to the UK, go back to EMEA, go back to the Continent, the business is strong and growing robustly. And I think it would be an absolute mistake for us to, because of forex, stop making the investments when we're making such strong progress in different parts of the world that way.

So at the end of the day we have to do right by clients and do a good job but be good stewards. And I think we've shown a track record of being good stewards. So is it – we'll see where this goes but we're – I think as you've picked up from myself and Loren, we're on it and we're driving it hard.

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**Kenneth B. Worthington**  
JPMorgan Securities LLC

Okay. Great, thank you. And then changing gears, just on performance fees, there's a little seasonality with some of the trusts in 1Q and then we saw these pickup, got a lot of different businesses that charge performance fees. As we think about the rest of the year and maybe even to early next year, what is the view there on performance fees? I would seem like the quant business has kind of come back, the – Wilbur Ross seems to be poised to harvest. How are you thinking about it and ultimately if you're getting this cash flow – I kind of consider it found money – what do you do with it?

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**Loren M. Starr**  
Chief Financial Officer & Senior Managing Director

So, in terms of performance fees as we've talked about in the past, it is hard for us to forecast with any great accuracy because of the very strict accounting standards in terms of realizations and when we can reflect those things in our P&L. I mean, in terms of overall levels because performance is strong in our products relative to what we saw last year, maybe we're sort of in that range again this year but again, there is a lot of potential change that can come off that base line based on what happens. And I do think in terms of the most line of sight, real estate seems to have probably the best opportunity to generate performance fees in some magnitude this year. They obviously contributed this last quarter and we would hope to see more of that coming through in 2015.

In terms of the Wilbur Ross, again that is one where it's very much tied to kind of end of life of the funds. It's mathematical impossibility of any claw back is kind of the standard with which the accounting holds us to to recognize on that one. And I can say quite honestly, I mean the volatility around the carry in those funds can be quite significant. So, again, that's something that we're going to keep our eyes on. But we wouldn't be looking directly for any sort of realizations from Wilbur Ross in 2015 at this point in time. But again, some of the other parts of the business that we talked about, our generating of bank loans and quant, generating some good, consistent performance fees. So I think they'll be there.

And in terms of what we do with that, I mean a lot of that does drop to the bottom line, right? And so it helps margin, it helps the business. But one of the things we've often said is that we don't want to sort of make a business on performance fees and sort of lock-in long-term expenses against sort of things that are going to be tied to potentially revenue that won't recur. So we're very cautious about capturing that revenue when we think about our plans and think about our opportunities and investments we tend to not count that in.
In terms of where the cash goes, it'll be part of the operating cash along with the rest of the operating cash that we generate. So we're going to continue to use it. But we don't earmark it specifically for one activity or another. It's sort of fungible in our operating cash.

Martin L. Flanagan  
President, Chief Executive Officer & Director

I would just add, Ken, to Loren's first point that we do run the business sort of thinking ex-performance fees. I think it can get you in trouble otherwise because of the volatility of them. And then, secondly, to clarify the second point that Loren made, that what do we do with the money. It is part of our normal thinking and we would continue to—as you call it, if it's found money, although I think we worked pretty hard for it—it would accelerate some of the plans that Loren talked about of a rising dividend increase or stock buy backs and while at the same time building that cash buildup that we talk about, so.

Kenneth B. Worthington  
JPMorgan Securities LLC

Great. Thank you very much.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Okay, Ken.

Operator: Next question is from Bill Katz from Citi. Your line is open.

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)

Okay, thanks. Good morning and thank you for taking my questions. Marty, in your prepared remarks you mentioned you've had good success in terms of placement opportunities on distribution channels in the U.S. From some experience either from Invesco or other places you've been, how long does it take before you start to see a ramp in related gross sales against that?

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah, that's a great question and I wish I had a very specific answer. I think the main point, you go back a few years ago, where that wasn't the case for us and that was part of the effort of building out a more robust retail capability. That is now in place, range of capabilities, the performance but frankly placement is critical. And so, it's a prerequisite to success and I think it puts us in a position as the retail environment, as it gains steam it is going to put us in a very different position and you would hope and expect that our retail results would be that much stronger than what we've seen historically. So, I don't have a specific date, but again, I think the main point it's a—absolutely prerequisite for success.

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)

Okay. Second question I have is you mentioned that you're seeing a pick-up of quant and we've heard some mixed dialogue on that so far from those reporting fourth quarter to date. Is that a geographic centric answer—outlook
or what you’re seeing? Or is it a market share opportunity. I’m sort of curious what’s driving the differentiated opportunity for you?

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah, interesting. So, where relative strength, I would say, Continental Europe is really quite strong. We’re starting to see some traction in the UK – and these are institutions. And again, I was just in Japan, China and Australia and it was topical every area there and we’re actually seeing some real interest in the capabilities. It also I think, is relating the use of institutions using more factor investing or whatever you might want to call it, and we have just such a strong capability there, whether it be through quantitative team and within the PowerShares, what was referred to more smart beta, but one and the same. And so it is I’d say a growing interest around the world and that’s what we’re seeing so far.

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)

And my last question – thanks for taking all the questions – I think your January update is probably a little better than people were anticipating. Can you break that down a little bit of where you’re seeing some of the incremental recovery of volumes?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

So, Bill, happy to. So, again, I think it’s in the passive area it’s going to be probably over weighted in the PowerShares, traditional products, and we’re seeing that – I don’t have the January numbers – but I think it’s sort of some of the smart beta type of products that are doing well.

In terms of UITs are doing well, those are the sort of passive products that get packaged through the broker dealers. We’re also seeing, as I mentioned, good, strong flows in our cross-border products, and it’s the same kind of theme that we’re seeing in terms of Euro Corporate Bond, Pan European Structured Equity, GTR, Pan European High Income. Those products are doing quite well. I’d say institutional generally is showing up nicely, GTR is really a very bright spot. I think generally, I mean Marty mentioned that it’s now at $3 billion and growing. When we last spoke, I think we mentioned it was $1 billion. So, it’s really – it’s ramping up nicely and it’s in – prominently in our pipeline, our institutional pipeline, so, again, more to come on that story as we get into the next quarter, but it’s looking quite promising.

So, I think that’s kind of the highlights in terms of where we’re seeing. IBRA I’d say also just generally is sort of stabilizing to some of the things that have been sort of somewhat negatives on the flow picture are beginning to stabilize. The performance in IBRA is really quite strong now and so I think it is positioned to do much better. There was sort of one small large institutional outflow in the quarter on IBRA. If you subtracted that one impact you’d see this trend very clearly in terms of what IBRA is doing. So, we’re encouraged by that.

And then on the flip-side, the bank loan ETF, which I think some people have talked about, that also seems to be generally stabilizing. I mean, it’s still an outflow but certainly the outflows are nothing that we can’t manage and it’s been managed quite effectively. I think there’s only about $5.5 billion in that product just so people [ph] know (34:35).

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)
Okay. Thanks for taking all the questions, guys.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Sure.

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Yeah.

Operator: Thank you. The next question is from Michael Carrier, Bank of America. Your line is open.

Michael R. Carrier  
Bank of America Merrill Lynch

Thanks, guys. Hey, Loren, just on the distribution, revenues and expenses. It just seems like there was maybe, I don't know if it was an offset or something, it just seems like the expenses declined a bit more, so I didn't know if there was anything unusual this quarter or if it was just some just one-off activity?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Yeah, I think it's more one-off activity. Michael, again, there's always a little bit of noise and adjustments around some of these distribution things as things get trued up through the course of the year. So, in terms of our net revenue yield guidance; that probably will be the best way for you to be normalizing that going forward.

Michael R. Carrier  
Bank of America Merrill Lynch

Got it. Okay. And then you guys just gave some color on the January flows. And if I look at the fourth quarter, the whole industry, it was a crazy quarter just in terms of the volatility and the impact that it had on flows. And if I look at the categories, so it looks like equity, balanced and then Asia were the areas where we saw weakness in the net flows for you guys. I just want to – when I look in the outlook, it seems like things are pretty favorable. But anything that you saw during the quarter that was not environmental? It looks like the performance, three year, five year is still good across the board, one year dipped a bit. But anything else that you would say there is more cautiousness from investors on certain products versus the longer-term trend, which had been good, and it seems like January is off to a good start?

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah. I would say, you describe it as environmental, I think is the right way to capture it. And getting back to your other point, if you look at the depth and breadth of the performance across the globe, it's really strong. And so there's something to meet investors' needs in almost any way that they are looking at how to build their portfolios.

And you're right, in the fourth quarter, there's literally – I think it was a $4 billion change quarter-over-quarter just in equities alone because of how people reacted to the volatility. So, that was probably the biggest impact overall to us. But, again, if you look into 2015 as Loren and I have been talking, it looks like it should be a strong year. I can't speak to what the markets are going to do but if it's a sideways to slightly up market I would imagine a very, very good flow picture for us.
Loren M. Starr  
*Chief Financial Officer & Senior Managing Director*

Yeah. I mean, one of the things that – if we do continue to get served up very volatile markets where people are may be less prone to be putting money directly into active equities. I mean some of our liquid alternative products, even though they’re early days, have really strong performance. I mean they are top decile one-year numbers, which again, bodes well for the positioning of these products and, again, how they get taken on by the distributors. There there is a lag. It takes a while to get through. But we’re probably as well positioned as anybody to be first in line as these things come in. So, again, we could probably do quite well under whatever environment comes our way.

Michael R. Carrier  
*Bank of America Merrill Lynch*

Okay. Thanks a lot.

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Yeah.

**Operator:** The next question comes from Patrick Davitt from Autonomous. Your line is open.

Patrick Davitt  
*Autonomous Research US LP*

Hey. Good morning, guys. I have a couple questions on non-transparent active ETFs. I guess, more broadly, how do you guys view that product relative to your current product suite in terms of viability and as a competitor of PowerShares? And more specifically, now that Precidian has re-filed its proposal, could you update us on the degree to which you think the changes they’ve made can be approved and what the timeline is for that approval or rejection?

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Yeah, again, very topical when it came out, what’s now a couple quarters ago. Honestly, I think the core ETF and things that are in place are – the things that have been driving the industry could over time have some traction possibly, but it's nothing that we’re overreacting to at the moment. So we think there's actually the combination of the existing mutual funds and ETFs, we think they’re both great structures and it really gets you to where you need to be. Not so sure what the whole benefit of a nontransparent ETF is vis-à-vis a mutual fund. So again, as a competitive product, again, I can’t describe the future but it’s nothing that we see as a dominant disruptive technology as people would describe it as.

Loren M. Starr  
*Chief Financial Officer & Senior Managing Director*

Yeah. And I don’t think there’s the same first mover advantage of being out there first with the first nontransparent active ETF because it’s all very specific to whatever investment team is managing it as opposed to capturing a particular space with an index, so it is one of these things that we probably are going to remain vigilant but not necessarily being a first mover.
Martin L. Flanagan  
President, Chief Executive Officer & Director

And let me put it in context. We say that from experience, so we launched – I’m going to lose track of time – may be five years ago, active ETFs and if there's $4 million in the three funds I'd be shocked, so it just hasn't really taken hold. May be it's different here but that's been our experience.

Patrick Davitt  
Autonomous Research US LP

Okay and that's great color, and any update on the Precidian product which I think you guys are a part of?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Yeah, I've not heard – I mean, only what I have personally read on this thing, so again, don't have any much insight as to how they’re doing.

Patrick Davitt  
Autonomous Research US LP

Okay. All right, thanks a lot.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah. Sure. Thank you for the question.

Operator: The next question is from Craig Siegenthaler from Credit Suisse. Your line is open.

Craig W. Siegenthaler  
Credit Suisse Securities (USA) LLC (Broker)

Hey, thanks. Good morning everyone.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Good morning.

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Good morning.

Craig W. Siegenthaler  
Credit Suisse Securities (USA) LLC (Broker)

First, what specific themes is Perpetual seeing in the UK given strong sales activity in 4Q?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

I’m sorry, Craig, we couldn't quite hear your question.
Craig W. Siegenthaler  
*Credit Suisse Securities (USA) LLC (Broker)*

Hey, Loren, can you hear me now?

Loren M. Starr  
*Chief Financial Officer & Senior Managing Director*

Better.

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Yeah.

Craig W. Siegenthaler  
*Credit Suisse Securities (USA) LLC (Broker)*

All right. What specific themes is Perpetual seeing in the UK given the strong sales results this quarter?

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Themes or asset classes, well it's really...

Craig W. Siegenthaler  
*Credit Suisse Securities (USA) LLC (Broker)*

Product themes, distribution trends?

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Yeah, got it. Okay so the firm couldn't, it just couldn't be stronger. So, if you go asset class by asset class, whether it be Asian equities, European equities, fixed income, global equities, the performance is very, very strong. I think everything is in net inflows, but for the UK equity income capability, it's actually back to net outflows similar to where they were before the change with Neil [Neil Woodford] and Mark Barnett has done an incredible job, and his team, generating the performance, so, really strong. And that was the point I was making that I don't think anybody would have expected that 2014 would have been a record gross sales year for Invesco Perpetual. And that is really a result of the strength and depth of the teams. And a lot of those capabilities, those teams, they make up the bulk of the product range that has been so strong in the cross border area. So, again, very, very strong positioning in EMEA for us.

Craig W. Siegenthaler  
*Credit Suisse Securities (USA) LLC (Broker)*

Marty, from the outside here it looks like may be four drivers are driving the strong sales results. You had a bunch of product launches over the last year and two years that was probably helpful. I don't know if you reinvested back into distribution, but I thought that might be a lever too. There seems to be more open architecture going on in the UK and maybe RDR is benefiting some of your products, like passive, but any of those things do you view as drivers as benefiting your business in the UK?
Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah, again, it's a continuation of what we continue to do, right? I mean we do the obvious; we try to understand what clients need and we ensure that we have the capabilities in place to do it. Probably, the most recent areas of relative greater investment have been in fixed income with multi-credit and the like. And again, we look at that as a longer-term capability, the performance across fixed income is very, very strong right now. That was an area that we had to broaden, which we have done. And we also believe that extending our alternative capabilities into the retail market was an important thing and that's why the effort at the end of 2013, and as Loren pointed out, the performance has been very, very strong and a second set of launches in 2014.

And we looked at that, as we told you, we think of it as a three-year time horizon. [ph] With us (44:12) you really need a three-year track record. Every once in a while there are capabilities that do well sooner than that and historically we saw that with IBRA. We're actually seeing it specifically with GTR right now. And again, I think it's — we're probably going to be in more volatile markets for a period of time. Investors are looking for a broader range of ways to diversify their capabilities and that was the whole point of taking the alternatives into the retail market also. And as Loren said, it's only one year but the one-year performance is just very, very strong, so it probably bodes well for trends that we believe are going to be here for a good long time.

Craig W. Siegenthaler  
Credit Suisse Securities (USA) LLC (Broker)

Great. Thank you for taking my questions, Marty.

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

And the only thing I would just say is the continued focus on — I mean, RDR is sort of an underpinning for sort of broader changes within the whole UK environment, the fact that we've gone out with a single transparent fee has been a very positive thing. I think we talked about that before, it affected some of — where our revenues showed up. But we are certainly at the forefront in terms of doing things that we think are going to be quite friendly for shareholders, for the IFAs who want to sell our products and we think we're very well positioned with the brand and the advertising that we put in place have been really, really helpful for our recognition and it's something that we expect to continue to do in 2015.

Martin L. Flanagan  
President, Chief Executive Officer & Director

The thing I don't want to have lost in this conversation though is we're talking about sort of advancements if you want to call it that but let's not lose track of the fundamental core capabilities, the long-only capabilities in this organization are very, very strong and not just that, I firmly believe that the active management is a very important thing. It's been topical to the contrary, but that said, we're into the markets where they are doing well and you can see demand for them more permanently and I think it's going to be a time for active managers over the next three years.

Craig W. Siegenthaler  
Credit Suisse Securities (USA) LLC (Broker)

Great. Thanks, guys.

Operator: Thank you. The next question comes from Dan Fannon from Jefferies. Your line is open.
Daniel T. Fannon

Thanks and good morning. My question is on the IBRA franchise and it's kind of been through a little bit of fits and starts. Obviously came out of the gates very hot with good performance and very solid flows and then we went through the underperformance and now performance is good again. I guess, just wondering how it's being sold or what changes have been made in terms of the messaging, in terms of how that product can perform and do you think you can get back to the momentum it had two years ago?

Martin L. Flanagan

Good question and so I answer it this way, so I’d start by the reality and the right way is that clients have a range, every client has a different set of investment objectives and risk tolerances and they build their portfolios with ranges of capabilities, as you know that's what you do, but IBRA was always meant to be an anchor in a portfolio, greater – a diversifier and a risk mitigator and we always believed and have said that when you had a very strong equity market the likelihood is that it would relatively underperform and at the same time you saw the flows happen.

So we saw that exactly but I would also come back to, if you look at the performance one-year, three-year, since inception, it’s very, very strong. So since inception, top 11 percentile, 7 percentile over five years, the three year is 40 percentile, one year, 16 percentile. So it's just a really strong performer and it is an anchor in a portfolio and I again, I think we have to separate flows from portfolio construction and we think it’s really well placed especially if we're going to be in a volatile market environment.

Daniel T. Fannon

Great and then just a follow up on the January trends that have been so strong. Is this a combination of both lower redemptions and higher gross sales or more just a gross sales pickup?

Loren M. Starr

I believe it’s a combination of both. I think the redemption rate is much lower and sales have come back in January.

Daniel T. Fannon

Great. Thank you.

Martin L. Flanagan

Thanks, Dan.

Operator: Thank you. The next question is from Eric Berg, RBC. Your line is open.

Eric N. Berg

RBC Capital Markets LLC
Thanks very much and good morning. It feels like that the – there are not only important product preferences being expressed by investors. Alternatives, real estate, fixed income, but it feels too like there is an important difference that needs to be articulated, I am hoping you can do it for me, to sharpen my understanding of investors thinking about investing abroad, investors thinking abroad versus that in the United States. It just seems like they are approaching investing and what they want and what they are doing is completely different in Europe and Asia than in the United States, my question is, is that right and if so, how would you sum it up?

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah no, look, I think you are right and I think that's not a new trend. I think if you look at equity preferences and fixed income preferences around the world, just using those two categories. They have historically been different. They have been different for I'd say structural pension reasons is one level and frankly also people's risk tolerance. But you also are seeing some changes where if you just go to Japan, Abenomics has – it is making a real change where in the pension plans dominated by fixed income, Japanese bonds and some Japanese equities. There is absolutely movement into non-Japanese equities, non-Japanese fixed income and so that is a very big change. But you are also seeing the preference towards equities outside of the States has probably been higher and with active managers in particular and it served them well. So, that's what we're seeing and it's a good observation.

Eric N. Berg  
RBC Capital Markets LLC

One separate question, I noticed again in the back of your press release in the final table or right around the final table, where you are displaying both your performance relative to benchmark and performance relative to peers, that there are a few circumstances, I don't suspect this is distinctive for Invesco and I suspect this has been the case for a while. Where there are quite a few instances in which performance is below benchmark but quite strong relative to peers. My question, do you think that, I think that that made – that the public's tolerance to that sort of performance strong relative to peers, weak relative to benchmark, is their tolerance is going to become less and it has become less and less and will become even less and less. Do you agree or disagree and what do you think the implications of that would be?

Martin L. Flanagan  
President, Chief Executive Officer & Director

So tolerance of underperformance vis-à-vis benchmark?

Eric N. Berg  
RBC Capital Markets LLC

Versus – yeah, imagine a manager who is doing very well relative to peers, in the top quartile or top half, or let's say top quartile, but is underperforming his benchmark consistently?

Martin L. Flanagan  
President, Chief Executive Officer & Director

So, good question and what I would say is very hard to draw a conclusion from that and so here is what I mean by that. Again, I don't care if it's an institution or an individual, they are going to have a set of things that we know, set of investment objective, time horizons, risk tolerance and that the benchmark doesn't necessarily represent what they're trying to accomplish with the different investment capabilities, and I think that's really the very, very important key there. And I think you'd have to look institution by institution and mandate by mandate to come to that conclusion. But so, I can't give you a broad answer to that specific question.
Eric N. Berg  
*RBC Capital Markets LLC*

Okay. Thank you.

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Thank you.

**Operator:** The next question comes from Betsy Graseck, Morgan Stanley. Your line is open.

Elizabeth Lynn Graseck  
*Morgan Stanley & Co. LLC*

Hi, thanks. Good morning.

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Good morning.

Loren M. Starr  
*Chief Financial Officer & Senior Managing Director*

Good morning.

Elizabeth Lynn Graseck  
*Morgan Stanley & Co. LLC*

I just wanted to follow-up on something mentioned earlier regarding the active ETFs that five years ago you put them in place, there is may be only $4 million in AUM. Could you just give us a sense as to why you think that is, is it a function of the distribution and what seemingly seems like there is a difference in connectivity between distribution of active ETFs and other products and that needs to be fixed? Or do you think it's a function of pricing or it was just ahead of its day?

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

May be all of those and I wish we had a specific answer. I mean we've asked ourselves that. And I think probably what it does come back to is how people are using ETFs and mutual funds and I think, people have generally – this is a broad statement – if you look what's in mutual funds, they tend to be longer term time horizon type capabilities that people use. Now that's not to say ETFs aren't, but I think they tend to be used in overall portfolios to sort of modify exposures or get access to an asset class that they might not be able to in a mutual fund, so I think it's really how they're doing portfolio construction, how they're using them. That would be my take on it.

Elizabeth Lynn Graseck  
*Morgan Stanley & Co. LLC*

Okay and then just separately, you've obviously had great success of taking the ETF PowerShares product and applying it to different portfolios that might not appear liquid, but you are providing liquidity, i.e., the bank loan product, can you talk about what the plans and opportunities are to expand that into other fixed income markets?
Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Yeah. I'm really not prepared to describe what we are going to do next. I prefer not to and that said, what we – again the answer is we continue to try and understand what investors are looking for and then we determine the best way to deliver it, whether it’s a separate account, a mutual fund or an ETF. So sorry, I just don't want to get more...

Elizabeth Lynn Graseck  
*Morgan Stanley & Co. LLC*

Sure. No I get that. So then, I guess just lastly the lower for longer interest rate structure that we've got. It does seem like it would provide an opportunity to expand the product set because part of the challenge is the liquidity in the underlying product set versus what you're offering to the client in the ETF and does, is that a fair assumption that a lower interest rate environment enables you the opportunity to provide potentially more liquidity than you would otherwise be able to do? And then separately maybe you could talk to how you're thinking about liquidity for these products in general, given in December we had some commentary from Congress on liquidity and how active managers provide liquidity to their investors?

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Yeah. A lot there, so let me just get to the liquidity question. So, I think it's like this is a new idea that liquidity management is something new to the money management industry. It is absolutely fundamental to how all portfolio managers that manage portfolios, probably since inception. And I think that is something that's not fully understood by maybe some of the regulators. And I think, money managers do a tremendous job of liquidity management; it's just core to their job. So, and they all do it in different ways, right. So whether it's keeping levels of cash, having backup lines of credit if they [ph] take taxes away (56:18). So there are just many different ways to do it. So, I don't know that it's such a new idea and topical as others are bringing it up. That said, we continue to do what we've done for decades and just make sure that all the different portfolios have, the portfolio managers are managing them, soundly and appropriately. So, that's my perspective and that might be too simple of a view but that's how I look at it.

Elizabeth Lynn Graseck  
*Morgan Stanley & Co. LLC*

Okay, thanks.

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Thank you.

*Operator:* The next question is from Luke Montgomery, Bernstein Research. Your line is open.

Luke Montgomery  
*Sanford C. Bernstein & Co. LLC*

Good morning, thanks. So, on the currency translations, I realize it's a crude comparison but we've seen more of a natural currency hedge I think between fees and expenses at some of the other firms, like the trust banks. And based on the last two quarters it looks like you guys have a one for two offset from expenses. So, perhaps it's an obvious answer but is it the higher margin of the model or some other issue related where you keep staff versus
where you generate the revenue, I know it will be changing with the hedge obviously. But understanding underlying operating structure and how that translates through the P&L would be helpful?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Yeah, so we tend to – because we have fairly large portfolios from the UK relative to the number of portfolio managers, there tends to be good scale there and good scale, better fees, higher fees than other parts, particularly in the U.S. Similar topic with Europe in terms of the fees. The margins in that region tend to be at the higher level relative to some of the other regions. So I’d say it is a margin topic the way you described it that is causing that ratio.

Luke Montgomery  
Sanford C. Bernstein & Co. LLC

Okay, thanks. And then, I know it doesn’t necessarily apply to your performance, but as you noted, there has been a lot of noise in the press on the poor showing of active management versus benchmarks in 2014. I think the measure of that most often cited leaves a lot of to be desired, but to Eric’s point there is a commercial issue here, so I wondered if you could just get a little more detailed about what in the investment environment you think is so challenging for active managers and why you feel that outlook for 2015 and beyond is better as you said?

Martin L. Flanagan  
President, Chief Executive Officer & Director

So, it’s a great question and something that – something we’ve taken a look at and I think what we’re reading in the popular press is by our calculations not exactly correct and if you look at performance over the last five market cycles, peak-to-peak, trough-to-trough and you look at managers with active share of 60%, so that probably excludes – this is just mutual funds – that probably just excludes about 15% of the population. All managers have outperformed during that period, 63%, and there’s lots of detail here, but I won’t go into it. My point is – and that’s before you start to pick good managers and so what it’s really saying is you really need to look at money managers through the cycle and what to expect during the different cycles and not some calendar quarter arbitrary date. That’s not now the world works, and so I think people could be making bad decisions based on a simple calendar-to-calendar element.

But if you were ever going to see active underperform, it would be from 2009 on when you consider you have [ph] a chunk rallying (59:44) off the bottom and three rounds of QE, so there has never been an environment like this and I think people could be making bad decisions by drawing the conclusions that they have.

Luke Montgomery  
Sanford C. Bernstein & Co. LLC

Great very helpful, thank you.

Martin L. Flanagan  
President, Chief Executive Officer & Director

All right.

Operator: Thank you. The next question is from Robert Lee, KBW. Your line is open.
Robert Andrew Lee  
*Keefe, Bruyette & Woods, Inc.*

Great. Thanks and good morning, guys.

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Good morning.

Loren M. Starr  
*Chief Financial Officer & Senior Managing Director*

Good morning.

Robert Andrew Lee  
*Keefe, Bruyette & Woods, Inc.*

Appreciate your patience. And I apologize if this may have been asked earlier in the call but I just wanted to follow-up, I know you guys have been, as you invest in products like GTR and whatnot, have been building up your seed capital overtime as new product launches have accelerated the last couple of years. How should we – do you think you’re kind of getting to the point, you’re kind of near the end of that and even more kind of this recycling and harvesting, do you see much more need to build the seed capital book further and that’s the question I guess.

Loren M. Starr  
*Chief Financial Officer & Senior Managing Director*

Yeah, I mean, I think that we’re still a little bit in the bubble of development, particularly as we roll some of these capabilities out to different regions. It may be sort of the same type of capability but sort of seen in different regions. So I’d say that’s sort of a continuation in 2015. I would expect probably as we get into 2016 that would begin to slow down. But it is still early days, I mean, there are some things that we did in the liquid alternatives world that were launched specifically in the U.S. that were not fully rolled out everywhere too. So, again, I don’t want to sort of get too ahead of what could be the case.

Real estate, just as a theme though is – as we continue to grow, it’s a very, very successful franchise that we’ve got here and we think we could do more in there. I mean they obviously – well established in the U.S. becoming more and more established outside the U.S. That will continue to probably demand some amount of capital that is going to be consistent.

Robert Andrew Lee  
*Keefe, Bruyette & Woods, Inc.*

Okay and maybe, on a related topic, I know you guys, clearly, very hopeful about the GTR and its potential on a global basis to gather flows. And Loren, you did just mention real estate. But are there any other, maybe, couple of products that you could point to that you think, fairly new, but you feel that given seed in different jurisdictions, whether U.S., UK, Europe, Asia, that there’s – do you feel like they have the potential to build what I’ll call maybe a global scale franchise off of it?
I would say absolutely, the unconstrained bonds, we think that we've developed some really, really fantastic products with our team. And again, just because of the newness of it, they really haven't been able to get established. So I think there's probably quite a variety of fixed income capabilities that are yet to come and will position us in a very large market. So that's something that's in the future, probably a couple years away still, but something that I think will provide a lot of opportunity for flow and growth.

Robert Andrew Lee
Keefe, Bruyette & Woods, Inc.

Great. And then just one last question, this is really on PowerShares, and I'm just curious, to what extent, as you think of product development for PowerShares, do you or can you leverage the quant skills that you have on the separate account side of the business and the more traditional side of the business. I mean can you take strategies that you do there and leverage them into PowerShares where - or they help you develop what may be good, smart beta strategies for PowerShares? Just trying to get a sense of how they, if at all, work together and leverage each other?

Martin L. Flanagan
President, Chief Executive Officer & Director

Yes, so that is exactly what has been emerging for us over the last 18 months in particular, where, as factor investing or smart beta, whatever you want to call it, institutions are looking at it and some institutions want to use the ETFs and they do, but by the way, there's others that want separate accounts, and utilizing our quantitative team to do that is something that has been emerging and there's a really strong complement. So it's really, we look at it, we can become vehicle independent in that and do what you really want to do and just understand what are the capabilities the clients want and deliver them. So it's really the combination of those two that are really putting us in a very strong position.

Robert Andrew Lee
Keefe, Bruyette & Woods, Inc.

Great. That was it. Thanks for taking my questions.

Martin L. Flanagan
President, Chief Executive Officer & Director

Thank you.

Loren M. Starr
Chief Financial Officer & Senior Managing Director

Thanks, Rob.

Operator: The next question is from Chris Harris, Wells Fargo. Your line is open.

Chris M. Harris
Wells Fargo Securities LLC

Thanks. Hey, guys. A quick follow up on the UK, was there any negative impact from Woodford this quarter. I know in prior quarters there'd still been a little bit of leakage from retail and I just didn't know if there was any modest outflows that hit the UK this quarter as a result of that?
Martin L. Flanagan  
*President, Chief Executive Officer & Director*

No. As I mentioned earlier, the net outflows in those, they're now back to the same levels that they were when Neil was managing the portfolios.

Loren M. Starr  
*Chief Financial Officer & Senior Managing Director*

Yeah and just, [ph] on that one (1:05:14), there is a natural redemption rate against a large portfolio and so pre any changes there was always an ongoing outflow in those large portfolios and it's gone back to those levels, which are really de minimis now.

Chris M. Harris  
*Wells Fargo Securities LLC*

Okay. The other question I had was on PowerShares, specifically the QQQs, I know you guys really don't have any economics there but certainly how the QQQs do does have some impact on the brand of PowerShares. So just wondering if you guys could maybe comment a little bit on why flows in QQQs were so weak in 2014?

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Yeah, I don’t know if it – so the QQQs do what they’re supposed to do, because it’s actually a passive portfolio, just a typical passive portfolio. And but if you're responding to the flows, again, a lot of that is used by institutions wanting access and what you can really see is, almost follow investor sentiment, is the way I would be looking at that. When you have strong flows to the QQQs you can sense where people's confidence levels are in the U.S. market, in a segment of the U.S. market, and when you see those outflows, that's what you're getting. So, if you look at Q4 in particular, that's exactly, probably, a great indicator of investor sentiment and how they were feeling about the risk they were taking in the market.

Chris M. Harris  
*Wells Fargo Securities LLC*

Okay. So there's no product switching or anything like that? It's more like a sentiment issue among investors?

Martin L. Flanagan  
*President, Chief Executive Officer & Director*

Very much, Chris, yeah. I mean that's....

Chris M. Harris  
*Wells Fargo Securities LLC*

Okay.
Got it. Okay, great. Thank you.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah.

Operator: Next question is from Brian Bedell from Deutsche Bank. Your line is open.

Brian B. Bedell  
Deutsche Bank Securities, Inc.

Hi. Good morning. Most of my questions have been asked and answered, but just maybe one further, Marty, on the active and passive side of the story, how has the positioning within your sales force, within the retail channels of active versus passive, changed over the last year? And as you're thinking and moving into 2015, obviously being bullish on active performance, how are you positioning that versus the PowerShares franchise and if you could talk about the retail distribution landscape in that regard in both Europe and the U.S.?

Martin L. Flanagan  
President, Chief Executive Officer & Director

So good question, I'm glad you asked. So again, the way that we look at it is very basic. We absolutely try to understand what clients are trying to accomplish and we'll use a range of capabilities to meet those needs. And so that would include, whether it be our passive or our active capabilities, and so we're one firm, if you want to say it from an economic point of view, we're indifferent. The good news is, because it's so broad and so deep, our capabilities we can focus on the clients, and that's how we look at it. So we just listen and then lead with whatever capability meets those needs of a client. And to use an analogy that a colleague of mine says: if you're a hammer everything is a nail. And so the point is, since we have such a broad range of capabilities we actually can absolutely focus on what – clients' needs. And so we don't look at them as competing with one another. We look at them as complementary to one another in helping clients get done what they need to.

Brian B. Bedell  
Deutsche Bank Securities, Inc.

And maybe just a follow-up to that: maybe, again, in the last few quarters, where are you seeing that demand change on the active and passive side, looking, again, both at Europe and the U.S. in the financial advisory channels, are you seeing any significant difference in the demand for the PowerShares versus the active products [indiscernible]?

Martin L. Flanagan  
President, Chief Executive Officer & Director

No. No, we're not. If anything I think PowerShares continues to be strong and, as we were talking a question or two ago, the factor investments is really taking hold, I'd say, probably maybe more so outside of the United States within institutions. And as you've heard Loren and I talk, quite frankly, there is a range of institutional investors in particular, if you want to use them as an early bellwether, that are also very much investing in long-only equity capabilities along with fixed income and alternatives. So it's really quite broad environment at the moment. What the whole year looks like I can't speak to but that's just what we're seeing right now.

Brian B. Bedell  
Deutsche Bank Securities, Inc.
Yeah, perfect. Thanks very much.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah.

Operator: Next question is from Douglas Sipkin from Susquehanna. Your line is open.

Doug C. Sipkin  
Susquehanna Financial Group LLLP

Yeah. Thank you and good morning, guys.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Good morning.

Doug C. Sipkin  
Susquehanna Financial Group LLLP

Just two questions, first one is just follow-up on some of the mechanics of the currency, the hedge. So in terms of the impact on revenues and expenses, that still will be vulnerable or benefit from exchange movements, but below the line, excuse me, in the other comprehensive account, the gains and losses from the hedge will show up. So is it still possible that currency weakness or strength can weigh on the revenues and expenses and the operating income number?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Yeah, Doug; unfortunately, yes. The hedge is going to be reflected below the line. Other gains and losses, they'll be mark to market, so it's non-operating. I mean it'll protect our cash; it'll protect the bottom line EPS; but the operating will definitely be subject to whatever changes we might see around the yield and, certainly, expenses will move in line with revenues in the UK and Europe largely. So it will certainly have that natural hedge. It's really the operating income that is still going to be exposed. And so, again, as we talked about in terms of the margin impact, a 10% decline is going to have 0.2 basis points, 0.3 basis points degradation in margin if you saw a 10% decline. So, in any event, it's still on operating – still operating results will be exposed to FX.

Doug C. Sipkin  
Susquehanna Financial Group LLLP

So just a little bit more on that, I mean will it hit the income statement though, the gain from the hedge, or what are [ph] you winning (1:11:36)?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Absolutely. It will hit the income statement and it will offset any operating income. So there will be an offset that will even out EPS impact.
Doug C. Sipkin  
Susquehanna Financial Group LLLP

Got you. And then I guess just digging a little deeper, I mean obviously it does create a little bit of noise in your numbers, but – and my math could be wrong – but like the actual EPS impact doesn’t seem too material, I mean I know you are more vulnerable with pound weakness, but there is some element of matching on the expenses, so I guess I am just wondering given, looking in the rear view mirror obviously the currencies have come down a lot. But at this point I mean, I’m just trying to think the methodology, I mean it is sort of like something you guys are thinking let’s just take currencies out of this, we don’t want to make any bets on anything, because I just – just from that standpoint I feel like maybe we’re past a lot of this currency movement and maybe it doesn’t make sense to do it at this time.

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Well, we certainly would hope that’s the case. We put the options really just as protection against any further strengthening of the dollar. So, we’re not trying to do anything relative to where we today. The floor is at 1.493 I think the pound is at 1.5 something right now. So again, if we see the pound start to strengthen from here my forecast around net revenue yield ex-performance fees would improve, which would certainly help margins and any estimates around earnings. So it’s really we felt important just to protect us against any significant further strengthening of the dollar, which again I don’t think there is anybody who really knows clearly what is going to happen in terms of that story. And so we just didn’t want it to be an ongoing concern for our investors or for others so we sort of just kind of took that topic off the table.

Doug C. Sipkin  
Susquehanna Financial Group LLLP

I got you. So effectively, you’re protecting on more downside but, if the pound did sort of change direction driven by whatever, you guys still are positioned for upside?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director


Doug C. Sipkin  
Susquehanna Financial Group LLLP

Okay, perfect. And then just in terms of investor sentiment. I know it’s been very early days with the European announcement. Any preliminary sense that the risk taking in some of the European areas is going to pick up or has picked up already from what the ECB did?

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah, there is probably two parts to that I think – no question I think that ECB move helped sentiment. I think the anchor right now is what’s happening in Greece and I think that’s going to keep some volatility in the market until some greater clarity is there. So, one’s a positive and you’ll probably – you just have to imagine that the Greece situation gets into something that’s a manageable outcome but lots of noise in the meantime until that happens.

Doug C. Sipkin  
Susquehanna Financial Group LLLP
Okay, great. Thanks for taking the questions.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah. Sure, thank you.

Operator: The next question is from Greggory Warren from Morningstar. Your line is open.

Greggory Warren  
Morningstar Research

Yeah. Thank you, guys for taking the question. Just a quick look at your balanced segment over the last year, organic growth was down about 4% on the year, it's traditionally been one of your better growth areas, I know, Atlantic Trust was a big part of that historically, but when you look at where industry growth was for that particular segment last year, just wondering what potentially impacted that last year that's different from any other period? Was it performance, was it distribution, lack of interest I'm not sure. Can you add some color there?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

Yeah so, Gregg, thanks for the question. It was really two primary things, one you are quite familiar with in terms of the IBRA. IBRA is booked into that category. So we've been seeing some strong outflows in the earlier part of 2014, progressively improving quarter-to-quarter. So again, we think from a trend perspective that is on a good plane. We also saw just episodically lower – or outflows in our European High Income lower, so that was a balanced product and so that was just kind of one-time thing. So we don't think that there is anything this quarter on the balanced side that's really worth saying that there is something fundamentally shifting. Other than we think there is a positive trend and we would expect to see balanced sort of go positive again.

Greggory Warren  
Morningstar Research

Okay, good, good. And then just a quick follow-up on what's going on in Canada, you got a couple of the independent providers up there struggling a bit with poor performance, poor flows, the market shifting some where banks are moving both into manufacturing and distribution of mutual funds. Just kind of curious, where you guys feel yourself positioned, how you potentially get better growth out of the active piece of business and sort of what the – kind of sort of PowerShares there?

Martin L. Flanagan  
President, Chief Executive Officer & Director

So, a couple things, so first of all, if you go back a number of years we struggled with performance, investment performance lagging into a period of time now we've had – it was probably three years of strong growth and that's been really important to get in place. So, again, the first principle in place, have a range of capabilities performing well so that's been a good sign and that's been really what moved Canada to almost as breakeven last year in the retail channel. It's also been broadening the retail channel and PowerShares are in Canada and that has been another thing that has following the playbook that was used in the United States. It is broadening the things that we can do for clients up there so I think that's going to help a lot in the retail channel.

The other opportunity for us is we think that we should be able to do just much better in the institutional business in Canada. So again, a very important part of our business, some real talented people there with some good
capabilities. And you are right, Canada compared to I'd say almost anywhere in the world, maybe Brazil would be about the same, but the dominance of the banks is quite extraordinary.

Greggory Warren  
Morningstar Research

Q Is there any sort of key to unlocking that, to getting on those platforms, is it a fee differential, is it a performance issue or is it just that they are more hungry for the business?

Martin L. Flanagan  
President, Chief Executive Officer & Director

A Well, I think you hit it, I mean it's, they like selling their products more than they like selling other people's products and I mean it's – when I got into the business decades ago, I thought that would change, and it's not changed a bit up there. So again, it's just, you really just have to continue to do a good job and just recognize the strength of the banks and also you have to expand your range of offerings beyond what they would be doing themselves and that's what we're doing.

Greggory Warren  
Morningstar Research

Q Okay great. Thanks for the color, guys.

Martin L. Flanagan  
President, Chief Executive Officer & Director

A Yeah.

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

A Thanks, Gregg.

Operator: Thank you. The next question is from Bill Katz from Citi. Your line is open.

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)

Q Yeah, just a follow-up but I did have to hop off for a second, so I apologize if you did cover this in some of the other Q&A, you mentioned quant coming back a little bit more, I asked earlier, can you give me a sense of where the mandates are coming from, is it replacement to active, long-only equity, fixed income, cash, where are the mandates being funded from if you have a sense?

Loren M. Starr  
Chief Financial Officer & Senior Managing Director

A So you are talking about institutional pipeline, Bill, sorry?

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)

Q Well, on the quant equity you mentioned that factor base and then scientific, so.
Martin L. Flanagan  
President, Chief Executive Officer & Director

Yeah. So it's, again, Continental Europe is probably the strongest, followed by the UK and again, Australia and emerging interest in Japan which is again, I think relatively new and follow on to sort of Abenomics and some interest in China.

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)

I understand that, but I'm sorry if my question wasn't clear enough. Where you think the mandates are coming from in terms of from other allocations, from equity, within asset class or fixed income, et cetera?

Martin L. Flanagan  
President, Chief Executive Officer & Director

You know what, Bill, I wish I knew. That's a good question, I don't have the answer to it, so sorry.

William Raymond Katz  
Citigroup Global Markets, Inc. (Broker)

Okay. Thank you. That's okay. Thank you.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Okay.

Operator: And so with that, I’m showing no further questions.

Martin L. Flanagan  
President, Chief Executive Officer & Director

Then again on behalf of Loren and myself, thank you for attending and thank you very much for the questions and we look forward to talking to you next quarter.

Operator: Thank you and this does conclude today's conference. All parties may disconnect.
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