INVESCO INC

Moderator: Marty Flanagan
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Coordinator: Welcome to Invesco's Second Quarter Results Conference Call.

All participants will be in a listen-only mode until the question-and-answer session.

At that time if you wish to ask a question, please press star 1.

Today's conference is being recorded. If you have any objections, you may disconnect at this time.

Now I would like to turn the call over to your speakers for today, Marty Flanagan, President and CEO of Invesco; Loren Starr, Chief Financial Officer; and Greg McGreevey, Senior Managing Director of Investments.

Mr. Flanagan, you may begin.

Marty Flanagan: Thank you very much and thank you everybody for joining us. And if you're so inclined, you can follow along the presentation that's on the Web site. I'll cover the business results today and talk a little bit about the combination. Loren will get into greater detail of the results and impact of the combination and as practice, we'll open up to Q&A.

So let me get started. I'm on Page 6 if you happen to be following in the presentation. And if you saw, we successfully closed the OppenheimerFunds transaction at the end of May with $1.2 trillion in assets under management. We're now the sixth largest retail manager in the United States, 13th largest manager in the world which puts us in a much stronger position to meet client needs. We're now just two months past close and we are more confident ever in our ability to achieve the deal economics and the tremendous potential of the combination.

I also want to point out we're incredibly pleased that the combination has created a much stronger organization with very talented people. Our conversations with clients reaffirm our view that the expanded set of capabilities we now offer, combined with best-in-class distribution format, meaning we strengthened our relevance in the market and of late increased organic growth.

I also want to point out there are very clear benefits to shareholders from the transaction. I want confirm once again we will get the $475 million in net synergies; 85% of that will be accomplished by the end of this year. The additional scale, resiliency and stability resulting from the combination will help us achieve a greater than 41% run-rate operating margin. And finally, pro forma year-end EBITDA on 2020 is expected to be 2-point - exceed $2.6 billion.

Turning to the highlights, investment performance remained strong during the quarter. Fifty-eight percent of actively managed assets were in the top half of peers over both the three- and five-year period. I'll get into greater detail in just a minute.

Long-term net outflows totaled $3.9 billion, building on the improved trend over the prior quarter, reflecting stronger flows from our ETF and institutional businesses.

During the quarter we began to see the power of the combination, recognizing the deal was only closed for one month. There is a 16% increase in net revenue quarter-over-quarter. The operating margin expanded 300 basis points to 35% and a 27% increase in operating income quarter-over-quarter to $363 million. We're now operating from a position of strength which has enabled us to invest in the growth of our business while also returning $389 million to shareholders through stock buybacks and dividends during the quarter. All of this means we're better positioned to deliver relevant outcomes for our clients, invest in future growth of the organization and provide solid returns for shareholders.

Turning to investment performance on Slide 8, as I mentioned, performance remained strong. Fifty-eight percent of our actively managed assets were - at 58% over five-year period, 33% of that was top quartile performance. The combination has enhanced the depth and breadth of our investment expertise across the business while further expanding the scale of our investment capabilities.

Invesco now ranks top ten in assets under management, 10 of the 15 largest asset categories in US retail channel which is the largest market in the world. Best examples are second rank in bank loans, high yield munis; third rank in emerging markets; fourth rank in global equities.

We see three areas where there's a alignment from market demand is strong, long-term track records of our capabilities that being global, international, emerging markets equity, fixed income and alternatives. All three of these asset classes have significant percentage of our assets in the top quartile for all time periods. So in short, we're very well positioned in the market and the capabilities we're seeing strong demand which will drive organic growth.

I'll now pass over to Loren to go through the results.

Loren Starr: Thanks very much, Marty. On Slide 9, you'll find an overview of our long-term flows. In aggregate, we experienced net outflows of $3.9 billion in Q2 which is an improvement of $1.5 billion compared to the prior quarter and $4.1 billion compared to prior year. As you can see on the slide, the area is driving this positive change. We're in passive Asia Pacific, EMEA ex-UK and institutional. ETF capabilities globally contributed more than $4-1/2 billion in net flows for the quarter. ETF flows in the Americas were diversified across our smart beta offerings, led by our S&P low volatility suite and BulletShares ETFs.

In EMEA ex-UK, we saw positive ETF flows across a number of our equity and fixed income ETF capabilities. Notably our ETF flow growth has propelled us to number two in terms of net new ETF assets in this region year-to-date.

In Asia Pacific, we generated $3 billion of net inflows. We saw growth in sales surged across many of our fixed income and balanced capabilities with particularly robust growth provided by our China Invesco Great Wall business. In China alone, we added nearly $2 billion of net flows into several of our active balanced and equity capabilities, reflecting the excellent investment performance and market positioning we have in this region.

Our institutional business continued to show signs of strength, delivering $2.1 billion in positive flows in Q2. Of note, the last time we posted positive net flows in our institutional business was in the first quarter of 2018. Much of this change is due to the improvement we're seeing in redemptions.

On the same slide, you can see the areas driving outflows in the quarter which included active, the Americas, UK and retail. The majority of active outflows were in the asset class of equities although these were offset to some extent by fixed income net inflows.

In the Americas, outflows in our US retail equity products were elevated against the prior quarter due to the partial period inclusion of the legacy Oppenheimer products which experienced approximately $2-1/2 billion in post close outflows during the quarter. The Americas were also negatively impacted by outflows across our bank loan capabilities with about $1.2 billion out as investors redeemed from this asset class on an industry-wide basis.

Industry dynamics also continue to challenge our retail flows in the UK as risk assets remained broadly out of favor with investors in these markets, fueled by the uncertainty from Brexit.

Looking forward to the last half of 2019 for Invesco, we expect the factors that are currently impacting our flows both positively and negatively to largely persist. With that said, while we certainly are seeing an elevated level of outflows in the legacy OppenheimerFunds products in the short term, we believe that we'll be - improve our level of sales growth in the Americas given the world-class distribution team and platform that we've created through this combination. It's still early days and the opportunity to drive flows through improved sales and marketing efforts have not yet been realized.

So before I leave this slide, I wanted to quickly provide an update on our expectations around AUM breakage as it relates - as it's related to the combination.

Our original deal expectations included an estimate, as you'll remember, of 10 billion in outflows in the first year after the close. As we look to client breakage, the only item that we've specifically identified at this point related to the announced transaction is the transition of the state of New Mexico 529 plan. This transition will result in a 2 billion outflow in the fourth quarter. So with this known outflow and considering expectations around potential impacts from the announced investment team changes, we believe that our AUM breakage from the transaction will, in fact, be meaningfully less than the original estimate of 10 billion.

Next let's turn to Slide 10 which outlines our AUM. Our assets under management increased by $243 billion or 25-1/2% which primarily reflects the impact of the OFI combination and positive market returns, partially offset by total net outflows. As a reminder, the OFI combination added $224 billion to our AUM in May. We saw a quarter-over-quarter growth in AUM across both active and passive and across all channels and client domiciles other than for the UK. The Oppenheimer AUM increased the percentage of the firm's AUM that is active retail in Americas based while our institutional and passive AUM grew due to long-term net inflows and market appreciation during the quarter.

As Marty mentioned, our general net revenue yield, excluding performance fees, increased 1.4 basis points to 38.5 basis points versus 37.1 basis points in the prior quarter. In addition of OFI AUM for slightly more than one month added approximately 1.3 basis points to our net revenue yield and we also saw one additional day in the quarter which added 0.3 basis points. These factors were - offset by change in AUM mix.

Slide 11 provides our US GAAP operating results for the quarter. My comments today are going to focus on the variances related to our non-GAAP adjusted measures which will be found on Slide 12.

Moving to this slide, you'll see that net revenues increased by $145 million or they were 16% up quarter-over-quarter to $1.03 billion. This increase reflects primarily the impact of the Oppenheimer combination and the increased day count in the quarter. Adjusted operating expenses at $668 million increased by $65 million or 11% relative to the first quarter. This increase largely reflects once again the impact of the Oppenheimer combination on expenses for the period.

Next, moving to Slide 13, I'd like to comment on the progress that we've made on the integration and synergy capture recorded to date. As noted in the first quarter, we spent a significant amount of time between the announcement date and close date, defining the leadership and the organizational structure for the combined team. This has allowed us to quickly execute on a number of very important post-close activities required to increase our sales growth for the combined business. These activities include moving to a single brand, strengthening our newly combined sales organization through training and definition of go-forward client coverage and creating a client demand framework and go-to-market strategy for the combined firm.

As I mentioned earlier when I was discussing the Q2 flows, we have not yet to fully realize the benefit of this work and the impact on our sales in the US retail business.

In addition to activating the newly-integrated US retail sales platform, the pre-close integration work has also enabled us to make meaningful progress on cost synergy recognition. We remain on track to capture 475 million of net synergies through the first quarter of 2021. As a reminder, this 475 million amount of bottom line cost savings is net of investments we are making which will allow us to drive future growth and avoid future costs. This combination is allowing us to accelerate investments in areas that strengthen our distribution and investment capabilities and processes as well as allowing us to deploy new technologies and automation to significantly increase our operational efficiency while still delivering the 475 million in savings.

In terms of timing to achieve the net synergies, we originally expected to have 52% of total expense synergies captured at the end of the third quarter of this year. Given the significant amount of progress we've made prior to the deal close to establish, communicate and execute on our end-state organization systems and work placement by location, we were able to achieve this level of synergy captured by the end of the second quarter. With the quicker synergy capture, we remain well on track to recognize 85% of synergies by the end of 2019.

Next, let's move to Slide 14 which looks at our adjusted operating and net income. Operating income increased $79 million to $363 million, largely reflecting the increased operating earnings from the Oppenheimer transaction. Our operating margin improved to 35.2% versus 32% in the prior quarter, reflecting the positive margin benefits from the combination as well as the quicker synergy capture I discussed on the previous slide. Firm's effective tax rate came in at 21.8% which was consistent with our prior guidance. We continue to expect our tax rate to come in somewhere between 22% and 23% starting in the third quarter. Lastly, our net income improved by nearly 25% to $280 million, reflecting continued strong non-operating gains from our investments and adjusted EPS improved to 65 cents versus 56 cents in the first quarter.

Next, move to Slide 15. This presents a snapshot of Invesco's balance sheet and capital management. As I've mentioned, we continue to execute in a very disciplined way to achieve the targeted level of deal synergies and the improved financial position that the deal provides. In doing so, we expect to continue to return significant levels of capital to our shareholders. You saw in the current quarter - you saw this in the current quarter when we returned nearly $390 million to our shareholders through a combination of dividends and share repurchases. This represented a PAT of about 107% of our operating income for the period. You'll recall that we announced a $1.2 billion share repurchase program in the fourth quarter of 2018 and we've successfully executed $600 million against that plan to the end of the quarter as we see a significant opportunity to repurchase our shares given Invesco's stocks depressed valuation and trading discount to peers and given our confidence and the strength of the combined organization.

In addition, we executed a further $200 million forward repurchase agreement in July. That will bring us to $800 million stock buybacks. Once this is completed, we expect to have repurchased some 39 million shares since the fourth quarter which represents more than 8% of our share count outstanding as of the transaction close.

Although there was no preferred payment in the second quarter due to the timing of dividend declaration, we will pay the preferred dividend starting in the third quarter. Note that this third quarter payment will be elevated at $64.4 million as they will reflect the additional eight-day post close period from May. Starting in the fourth quarter, the amount will level out as 59 million per quarter.

Turning to the balance sheet. So you'll see that we have a $7-billion increase in assets during the quarter, largely reflecting the indefinite lived intangible and goodwill assets recognized as part of this transaction. Our equity balance increased by 4 billion, reflecting the preferred issuance to MassMutual at close and our cash and cash equivalents balance increased by nearly 200 million. With the increased earning power and cash flow of the combined firm, we expect to reach our targeted $1 billion of cash excess - in excess of regulatory capital requirements by the second half of 2020.

We repaid approximately $400 million of debt in the quarter, largely paying down our credit facility and leaving a near zero balance which obviously has a positive impact on our leverage ratios. We expect to be able to maintain our current level of debt going forward.

As Marty noted earlier, we anticipate that the combined organization will have a pro forma annual EBITDA post synergies of more than $2.6 billion by the end of 2020 which represents a significant increase when compared to the pre-combination Invesco. All this increased level - with this increased level of EBITDA, our leverage ratio would be approximately 0.8 times gross debt to EBITDA based on the US GAAP classification of the newly-issued $4 billion of non-cumulative perpetual preferred as equity.

Conversely if the preferred were instead treated as 100% debt, the leverage ratio would be at a 2.3 times gross debt to EBITDA. This is a level that we certainly view as manageable and one that will certainly come down over time as our earnings grow.

So I'll conclude by saying that we're very confident in our ability to capture the $475 million net cost synergies and deliver the deal economics and other benefits we outlined which include not only the targeted $1.2 billion in stock buybacks but also a strong balance sheet with little or no added debt and some $1 billion of excess cash as we get to the second half of 2020.

And with that, I'll turn it back to Marty to wrap up.

Marty Flanagan: Thank you, Loren. Let me make a couple of comments before we get to Q&A. And as we've discussed on previous calls, you know, we continue to be very focused on improving our leadership position in core markets, which of course this combination has while at the same time investing in those parts of the business where we see, you know, rapid growth. This approach has helped us to deliver best-in-class set of capabilities which will drive sustainable broad-based growth as we look to the future. The combination with OppenheimerFunds has meaningfully accelerated the strategy, obviously expanding our leadership position in United States while also strengthened our business in areas where we're growing quite rapidly as Loren mentioned, China ETFs, digital platform solutions to name a few. So again we're just two months paths closed and we have all the confidence that the combination is meeting and exceeding our expectations.

And with that, let me open up to questions please.

Coordinator: Thank you. At this time if you would like to ask an audio question, please press star 1. You will be announced prior to asking your question. Please pick up your handset when asking your question.

To withdraw your request, press star 2.

One moment for the first question.

Our first question comes from Ken Worthington with JPMorgan.

You may go ahead.

Ken Worthington: Hi, good morning and thank you for taking my questions. I think first prior to the deal, I believe Oppenheimer was sort of running neutral to positive net sales. Since the deal was announced, Oppenheimer has seen a pickup in the outflows. I think you said it was, you know, 2 billion or maybe 2-1/2 billion since the deal was closed. I think originally you were modeling 1% to 2% organic growth for Oppenheimer. What are your sort of thinking now for the go-forward there? And then how quickly do you think you get the benefits from a sales perspective? I think you've suggested that the integration of the Oppenheimer and Invesco sales forces was particularly disruptive. You know, we've got three months of Oppenheimer in 3Q rather than 1Q. So how quickly and maybe what does the cadence look like for an improvement in sales as the sales force is now integrated and hopefully more stable to offset some of these dissynergies?

Marty Flanagan: Yes. Let me hit some of the high points and I'll let Loren. So this is the most talented sales force I've ever seen. And it is literally made up of half Invesco, half Oppenheimer. That was just the outcome of the exercise that the leadership went through. It is in place - it was in place in close. All that work was done before. That said, you know, it's a, you know, a new range of capabilities in the focus area. So I would quite, you know, say, you know, through the end of the year until, you know, things settle down is when I think everybody have their sea legs. But that said, each and every day is a better day and had a greater degree of confidence there.

The other thing that we've talked about is just not the US wealth management platform but, you know, Oppenheimer has a number of capabilities that will be well received in the institutional market and also in the retail market outside the United States. So literally some of the retail capabilities will be available on October and we're already working on getting to market with a number of the institutional teams around the world. So again the big difference is we're up and running and executing where most transactions I see this thing starts to happen after close. And from every transaction that I've been involved that I can say this is the best that we've ever done. So I think we're in a very good spot.

Loren?

Loren Starr: Yes. And, Ken, I mean, we had a estimate of 1% to 2% organic growth scheduled to begin in 2020. So at this point we're, you know, still hopeful that we can achieve those types of levels of growth. Again there is an opportunity to take these capabilities into our institutional channel into our offshore business. There's a lot of activity going on as we speak to actually make that happen, a lot of interest in those channels for these products. You know, we have some headwinds on certain key products in the Oppenheimer set of capabilities but there are other really high-performing capabilities as well that we think we're going to be able to leverage. And so I'd say in terms of our distribution efforts, that is really being spring-loaded in terms of being able to execute really in a position as we get to the second half of this year. I mean, again there's probably some headwinds in the near term still that we're going to see. As I mentioned, we don't think anything is going to change but ultimately we're going to start seeing the benefit of this really world-class organization coming together and being able to execute.

Ken Worthington: Okay thank you. And then on the institutional side of the business, you highlighted a move to inflows. But you also highlighted that the drive to net sales was driven by redemptions slowing. It does look like gross sales have slowed too. You've talked about in the past that the institutional pipeline was sort of hitting record levels. Should we see gross sales improve from here? If so, what asset classes and geographies? In terms of the decline in gross redemptions, is that sustainable or might that have just been a one-off this quarter?

Loren Starr: So great question. So I think the reduction in sales was really just the market environment that we've been in. Things slowed down in terms of funding, you know. So there's some pause that happens. So the one but not funded pipeline is still as large as it's been. In fact, it is up 10% versus prior quarter is up 31% versus prior year. So the pipeline of one not funded is robust, very strong, growing. So we feel confident those assets are going to come through. It's really just a matter of timing on the solar redemption side. Again it's hard to say what is, you know, permanent and what is not. In terms of what we know, in terms of expected outflows, nothing has increased relative to prior levels. So we think that that looks reasonably stable but there's always going to be, you know, potential for idiosyncratic outflows that come from certain key clients. So again, what we can manage is the sales probably more than the redemption side and we are very, you know, feeling very positive about that outlook into the next couple of quarters.

Marty Flanagan: And let me add because you're raising very good points. I have absolute confidence that the operating results are going to be as you would predict, as we've talked about through '19 and through '20. That said, two fundamental strengths of our organization are seeing headwinds. Brexit is a headwind and for us it is incredibly risk-off in UK in particular. And the trade wars actually do impact our business in Asia Pac. That said, we're still going to get the results that we're talking about. So if you see any benefit in that, we would expect, you know, real strong increase in inflows.

Loren Starr: Yes and I didn't answer your last question, sorry, Ken. So about more than 60% of the pipeline is in alternatives, about 23% is in equities, there's some 10% in fixed income, just to give you a sense of where it's coming from.

Ken Worthington: Great, thank you very much.

Loren Starr: Sure.

Marty Flanagan: Thanks, Ken.

Coordinator: Thank you. The next question comes from Dan Fannon with Jefferies.

You may go ahead.

Daniel Fannon: Thanks good morning. I guess my first question is on just the synergies, the 475. Obviously you've expressed a lot of confidence and have some good, you know, kind of runway to start here. So, Loren, you mentioned also just kind of reinvestment back into the business. And so just curious, you know, as we think a bit out if there's upside to the 475 or if you're going to continue to kind of reinvest in growth in other areas as you achieve these synergies if there's additional things that are found.

Loren Starr: So, Dan, we certainly have seen this as an - you know, this transaction as an opportunity to upgrade significantly as we've talked about, you know, putting the firm together, becoming a stronger firm. It's been part of the objective. This has not just been about cost saves. It's actually about creating a stronger organization. And so we absolutely view this as a fundamental part of the transaction.

The 475 should be viewed as a net number, net of investments in terms of what we're going to deliver. We were absolutely confident we're going be able to deliver that. I think the good news is that we've enabled and we expect to be able to continue to invest alongside delivering the savings into critical areas that will strengthen our distribution, our investment capabilities, you know, and invest in new technologies automation to augment our operational efficiency, really bringing our firm to sort of the state of the art and basically avoiding, you know, sort of the need to invest in the future. So, you know, really allowing us to accelerate all this activity right now.

Today we've been able to invest a small amount. So let's say roughly $30 million. There is an opportunity I think to be able to invest more as we go through but in terms of kind of the modeling and your thinking, I would bank on the net 475 as what to expect.

Daniel Fannon: Okay. And then just a follow-up, Marty, on your comment about Brexit, obviously that's - you said risk off but also performance in that area has not been good for you guys and, you know, some of the your - I guess your former employees going through some hard times over there then - and I just want to talk just generally about the franchise you see there, the strategies you have in place, how performance is kind of having through this type of environment and are there anything you guys are looking to do to proactively get in front or institute change or just kind of waiting for the macro to shift?

Marty Flanagan: Yes. It's a good point and I would say it's more broad. I mean, as you know, what has been a fundamental strength of the organization where we had nine years of net inflow up until, you know, through '17. Much of that was on the back of, you know, value biased equity capabilities and, as you know, we're in an extreme period where it's out of favor almost the most extreme period that we've seen that's on record. That said, the investors are still very, very talented, have great faith in them and they are going to do, you know, quite fine. So the business issue that you're talking about is as the flows and as I keep pointing out, we're posting these results with these extreme headwinds. But now we're not just waiting for things to change. I would pay attention to the Intelliflo announcement that came out in June and it is a digital platform that start with our model portfolio, starting in the fourth quarter of this year. It uses a broad array of our capabilities, both active and passive, and we look at it as a game changer in the UK.

Loren Starr: Yes. I'd also point out because it's moved quickly there's lot of currency going on here as well but, you know, pre-Brexit our UK as a percentage of AUM was about 12% of total. And as we show, you know, it is about 6%. So again in terms of kind of the total exposure to Invesco just by the nature of the currency and some of the market and flow dynamics, it is not as large an exposure to the firm as you might have otherwise seen, you know, just a short period of time ago.

Daniel Fannon: Great thank you.

Coordinator: Thank you. The next question comes from Craig Siegenthaler with Credit Suisse.

You may go ahead.

Craig Siegenthaler: Thanks. Good morning, Marty, Loren. I just wanted to start with the 10 billion of merger dissynergies where redemption notices have actually been trending better than you initially guided to. First off, when do you expect institutions to notify you in terms of pre or post closing and are you really kind of past that point? So that's a good sign. But then also Oppenheimer has seen very large outflow since you announced the deal. So I'm just wondering, do you not include retail or intermediary-related redemptions in your dissynergy number?

Loren Starr: So in terms of institutional notification, that's not really a factor because we really had very limited institutional relationships of any size at Oppenheimer's 529 was the largest for sure. So that's done. We have not seen any sort of notifications large scale institutionally or retail-wise that indicate, you know, we should expect outflows due to breakage due to this transaction. There are, as we mentioned, you know, some performance headwinds which we don't think fairly should be attributed to the deal. It's more just kind of the nature of the asset class or the performance in combination. A good example would be around kind of the international growth capability which I think industry-wide was in significant outflow. And so we certainly saw some of that hit our capability as well.

So basically I would say, you know, in terms of the transaction and the impact and the ten, that's not - as we said, it's going to be materially less. In terms of the current headwinds around outflows, again some of that may persist into Q3, Q4. We're hoping to offset some of that through improved sales efforts across not only protecting that current asset base but also promoting some of the other very strong investment capabilities through channels that had not previously been able to access those products or they weren't on the platform. So hopefully that's helpful in terms of sizing it.

I would say, you know, the market has been helpful too. So offsetting some of the outflow markets have offset that. So in terms of the overall AUM levels related to Oppenheimer, we're still exactly where we were kind of in Q1.

Craig Siegenthaler: Loren, do you have the Oppenheimer total flow number for 2Q '19 not, just post closing but for the full quarter?

Loren Starr: No I don't have that number handy. I'm sorry, Craig.

Craig Siegenthaler: Okay thank you.

Loren Starr: Yes.

Coordinator: Thank you. The next question comes from Glenn Schorr with Evercore.

You may go ahead.

Glenn Schorr: Hi. You guys touched on it on your comments on the UK business but maybe I could ask overall with now becoming number six I think you said and obviously done the deal to be more important in the retail channel, the retail channel distribution efforts are changing to the more portfolio construction approach. Could you talk about what you have functional now and also how much of the market has shifted there? In other words, I get that this is the future. Is it now - is it impacting flows now? So your positioning and then a statement on the overall retail channel.

Marty Flanagan: Yes, it's a good question. So we fully agree with the notion that clients really around the world are looking much more to sort of, you know, outcomes which basically means, as you say, you know, creating solutions, you know, portfolios of different sizes and make-ups. We are seeing that in the US retail channel too. I would not say it's - I'd say that is where it's heading. It tends to be right now the largest teams are very focused on it. And as we've talked over the years where that lays for us is really through our solutions capability which is very strong, very talented. It's been market - it's been in market for a couple of years and they do anything from building unique portfolios for organizations to, you know, analytics for various teams to help them, you know, determine how they might, you know, shift their mix. So we do think that's the future. There's no question about it.

The other area where we have made a great investment is in all of our analytics around distribution and again it only got stronger with the combination with Oppenheimer. They had some very, you know, talented people there also. And again we think we're, you know, clearly one of the top players with those capabilities. I think what it also highlights to just this kind of, you know, conversation you have to have size of scale to compete and, you know, the notion that, you know, you don't have the depth and breadth of capabilities, we are active as of only for solutions and to have digital support and capabilities. I just think it's going to be very, very difficult for others to compete.

Glenn Schorr: That leads into maybe a quick question on the passive side. Obviously you've had good inflows there. Could you broaden out a little bit of what's working best in passive land and maybe even touch on arbitrary associated?

Marty Flanagan: Yes. So let me - so what you are saying the ETF business in Europe is now kicking off in a very strong way. We had currently 20% organic growth, you know, in the quarter. It's the second largest flow, you know, in the marketplace. So sources absolutely integrated the product line as the way it's supposed to be. We're executing on all cylinders. And back to the United States, again, we're also starting to see our ETF flows picked up again, you know, very important element of that is the BulletShares. We're not done with that. The buildout of the BulletShares capabilities yet but the ones that we have put in place are very strong and again play to just a question you were asking about earlier, you know, a huge opportunity in the marketplace for financial advisors in particular with the BulletShares capabilities.

Loren Starr: Yes. Glenn, just in terms of specifics, I mean, some of the largest flows we're seeing in terms of the S&P 500 low volatility ETF we also saw a significant inflow into a newly-launched fund in Europe which is our MSCI Saudi Arabia ETF. Physical gold is another one where we saw interest. BulletShares in the US has been - and continues to be a very, very fast-growing capability. Short duration ETFs as well seemed to have picked up a lot of share. So, you know, some combination of fixed income, commodities and mobile.

Glenn Schorr: Great thanks. Thanks for all that. I appreciate it.

Coordinator: Thank you. The next question comes from Michael Carrier with Bank of America Merrill Lynch.

You may go ahead.

Michael Carrier: Good morning. Thanks for taking the questions.

Marty Flanagan: Yes.

Michael Carrier: The first one, just given the flow mix in terms of, you know, more passive and then institutional, you know, versus active in retail and the impact of that can have on either the fee rate outlook versus, you know, what happened this quarter with the deal. So how do you think about the incremental margin, you know, for the business? If you see the flow trends continue like in that direction versus, you know, say over the next one to two years retail, you know, are active, you know, start to shift back.

Marty Flanagan: Let me make a comment before Loren does. And I think you're hitting on something that is largely misunderstood. So when you look at our business -- I can't speak to others -- the growth in our ETF business is a positive one -- a very positive one. You know, the profitability, the profit margins are in excess of our stated profit margins. So it's actually accretive to the business. And so the overall effect of fee rate if it drifts down it has nothing to do with fee pressure. It has all to do with shift - you know, the mix and shift which quite frankly is in areas where we have greater profitability.

Loren Starr: Yes and in terms of the way we're thinking about it, you know, the incremental margin that we're seeing as we grow is in that 50% to 65% range, one that we've historically talked about. So nothing has shifted really in terms of our ability to see margins grow as we grow, certainly delivering that net incremental number well above the firm's overall margin. As we've talked about even though passive continues to be a very fast-growing part of our business, the incremental margin on that business is actually extremely attractive and also well in excess of the firm's overall margin. So again, we want to differentiate the fact that we've been focused mostly on the, you know, sort of smart beta factor based ETFs which have, you know, generally higher prices than we've seen on the commoditized market cap-weighted ETFs. And again that gives those products really strong margin - incremental margin characteristics.

Michael Carrier: Okay thanks for that. And, you know, maybe just a quick follow-up for Loren. In terms of Oppenheimer, does that have any impact, you know, on the other revenue? You know, are there performance fee line, you know, when we think going forward?

Loren Starr: No it really would not. There are very few places where Oppenheimer is subject to performance fees. I would say that the only caveat is to the extent that we use those capabilities institutionally in places, you know, in the US or outside the US, you could see some of those products potentially, you know, having some performance fees linked to them but currently on their current asset base, no and other revenues as well no.

Michael Carrier: Okay thanks a lot.

Coordinator: Thank you. The next question comes from Bill Katz with Citi.

You may go ahead.

Bill Katz: Okay thank you very much for taking the questions this morning. Just seeing one of the slides that you're - so the EPS accretion is static from the last update and - but the market has moved the fair amount. How do you think about market impact to that assumption? I'm just trying to understand sort of sensitivity to the macro.

Loren Starr: Yes. So, Bill, as I kind of hinted at one of the other questions, we obviously lost some assets through outflow but we actually gained those - that assets back through market. So in terms of general accretion, we're kind of exactly where we were before. It just happened to be, you know, we're right at that same level of AUM.

Bill Katz: Okay. Okay. Busy morning. I apologize if I missed that. And then when you look out into 2021 when you're on the other side of sort of the normalized savings, does your incremental margin change or maybe other way to ask the question is, what kind of growth rate would you anticipate on expenses assuming a relatively benign market backdrop?

Loren Starr: Yes good question. So again I think we would expect to see some 3% inflation on expenses generally as you get out into those outer years. I think again one of the good news - elements of that we are accelerating the fair amount of investment through this transaction. So our need to sort of substantially sort of redo technology and other things that, you know, other firms might have to deal with it through the course of the next several years we're kind of getting a lot of that done through this transaction.

Bill Katz: Okay thank you very much.

Loren Starr: Thank you.

Coordinator: Thank you. The next question comes from Patrick Davitt with Autonomous Research.

You may go ahead.

Patrick Davitt: Good morning thank you. My first one is on the, I guess, the expected uptick and fee rates from Oppenheimer. I know it's tough to do exactly but my rough math suggests the full quarter uptick was something in the range of 3 basis points and I think you guided to 4-1/2. Am I in the right ballpark there and is there a reason to change the expectation for that 4-1/2-basis point uptick on a full run rate basis? Yes.

Loren Starr: So we still have in the model an assumption of roughly 2 basis points being lost due to fee breakages, if remember, Patrick?

Patrick Davitt: Okay.

Loren Starr: And so, you know, we still don't know if that's going to be fully the case but at this point not able to say that it's not the case. And so I would still assume that there's - you know, that 45 million kind of loss going to happen at some point, particularly as we, at some point, you know, potentially rationalize products and so forth. So the way that I'd be thinking about it, you know, we were at 31 - oh sorry 39.1 in Q2. You know, we'd expect to see our basis points climb, you know, roughly 2 basis points into Q3 and maybe a little bit, you know, sort of higher into Q4. So that would be our thinking sort of 40, 41.2 to 41.5 in that range for the last half of this year.

Patrick Davitt: Okay, thank you. And then on China, obviously good to see the traction there and obviously in some higher fee products. Could you walk through in more detail a bit what's driving that uptick in inflows and if, you know, you see that run rate accelerating at a similar rate going forward? And then finally any nuances to the sharing of those economics given how they're distributed?

Marty Flanagan: Yes. I'll make a couple of comments. China is a fundamental strength of ours. It has been for a long time. But what you are seeing now is the growth is just incredible and it was always an opportunity but now it's literally happening. It's happening at both levels. The institutional level there we're, you know, managing money for, you know, the sovereign wealth funds, et cetera. But the joint venture is, you know, an amazing situation right now, Invesco Great Wall. The flows continue to grow and we expect that to continue.

And probably the thing that's by most unique is we're the only foreign money manager managing money for - and a financial - in a money fund pool and what's happened post that it's been adding on, you know, traditional, you know, long-only equity fixed income capabilities. So what they call the e-commerce platforms are very strong and for us is nothing to - or an opportunity distributor in China right now. So we see nothing but, you know, ongoing success in China.

Loren Starr: Yes I'd say, I mean, about half of our flows are coming from those digital distribution channels. The economics on those channels are somewhat similar to what they are for the banking channel. So there's no sort of free gift here but ultimately we're, you know, very well positioned to continue to drive those types of products through and that overall fee rate in China in particular as well in excess of the firm's overall fee rate. So that dynamic in terms of our ability to distribute our active products into China is one that will have a positive impact not only on margin and you can see what the margin is on our China Great Wall business because we provide great detail in our queue and, I mean, it's in excess of 50%. So you can see that it's going to have a positive incremental margin impact as we grow - if we're successful and we expect to be growing in China and our China business.

Patrick Davitt: Thanks.

Coordinator: Thank you. The next question comes from Kenneth Lee with RBC Capital Markets.

You may go ahead.

Kenneth Lee: Hi good morning. Thanks for taking my question. Just a follow-up on the AUM breakage, wondering what key factors drove the updated thoughts for being meaningfully less the $10 billion? Was it just the transition of the state of New Mexico or was there anything else?

Loren Starr: So I think we announced some changes around our portfolio teams with respect to Oppenheimer and Invesco as we brought the two firms together.

And again it was relatively minor in terms of kind of the overlap as we've hinted. But now that we've sort of fully got our arms around that, the impacted assets are really not large. And so when we think about fee breakage due to those changes, the $10 billion is well in excess of what is reasonable to think about. So it's really just understanding what ultimately we were able to do around those investment teams and ultimately there'll be a followup impact on some products in terms of mergers of products and product rationalization but the overall impact at AUM is not large.

Kenneth Lee: Okay, great. And then just one follow-up. In terms of the alternative AUM, wondering what key factors drove the outflows there. I think you mentioned in the past there were some elevated outflows in the GTR product. Just wondering whether you still saw that in this quarter. And if so, could you give us a sense of what fund flows were in alternatives, excluding GTR? Thanks.

Loren Starr: Yes. So it actually wasn't GTR. It was mostly the senior bank loan. So that was a massive outflow industry-wide where there's obviously large, you know, about 2.3 billion of outflow for our senior loan business across the ETFs and the actively traded accounts. GTR was 1.3 billion out. So there was something there but it was not the biggest piece. And ultimately I think, you know, GTR flow picture is not one that we're hugely concerned about. There's been some strong improvement year-to-date on the performance. I mean, even though it's underperforming on a three-year basis, it actually performed extremely well in some of the most volatile months, doing exactly what it was supposed to do in terms of protecting downside. So we feel reasonably good about, you know, protecting the GTR franchise and not seeing it sort of continue to, you know, be a source of significant outflow.

Kenneth Lee: Great. Thank you very much.

Loren Starr: Got it.

Coordinator: Thank you. The next question comes from Brennan Hawken with UBS.

You may go ahead.

Brennan Hawken: Hey good morning guys. Thanks for taking the question. Loren, I think you had said that 41.2 to 41.5 basis points is the updated expectation for the revenue yield. Does that replace the previous 41.5? And it's just like you guys have a little more granular detail on it now. And so that's why there's an update. And why would that rate move up from 3Q? Just overall that's a little confusing to me.

Loren Starr: So I think what I was looking at was net revenue yield. So excluding performance fees, it's probably more flat when you think about where the timing is. So you can think about, you know, somewhere between, you know, sort of 41, as I mentioned, 41.2, 41.5 just kind of the 41.5 pickup is just the performance fee impact which is again are normally sort of weird and lame approach to forecasting performance fees which is not very accurate.

Brennan Hawken: Oh okay. So the 41.2 to 41.5 is not fee revenue ex-performance fees but it's all-in fee revenue.

Loren Starr: It's the all-in fee revenue yes.

Brennan Hawken: Okay got it. So when we look at it like-for-like versus the previous because I think the 41-1/2 that you guys gave last time was for run rate fee revenue ex-performance fees. So is…

Loren Starr: Right. So again we've had some outflow. We've had some mixed dynamics that worked against us. So this is kind of where we're landing right now based on today.

Brennan Hawken: Okay. Okay I got it. That's helpful. And then just definitionally understanding some of the deal-related breakage in the $10 billion that you guys updated, is this just when a client indicates that the reason they are redeeming is due to the deal and therefore it's sort of a high bar to clear in order to get that notification because it certainly seems like from the outside and if you guys - if I'm misunderstanding this, I'd love to hear a clarification but it definitely feels like flows have deteriorated since the deal got announced. It doesn't - it feels like that I recognize 4Q was really tough and volatile and it's been a tough time but it also feels like especially versus where the run rate was previously on an asset flow basis, it's deteriorated. And so isn't some of that probably deal related and the clients just aren't telling you? Maybe you could help me understand that a bit.

Loren Starr: Yes so we - I mean, this is impossible to really know but we look at our outflows relative to the industry outflows and we try to explain how much of the outflow is due to the industry. We also obviously look at our performance and we can explain some of the outflow due to performance. We can explain, you know, 80% to 90% of the outflows we're seeing in the Oppenheimer deal due to industry flows and due to performance. So we're not having to attribute nor is it fair to attribute it to the deal. Again if anyone tells us it's deal related, we'll put it into that 10 billion. But we do think that mostly what is happening is due to industry kind of outflows and the performance on certain key large products.

Brennan Hawken: Okay. Thanks for that.

Coordinator: Thank you. The next question comes from Alex Blostein with Goldman Sachs.

You may go ahead.

Brian Bailey: Good morning. This is actually Brian Bailey filling in for Alex. Marty, I wanted to come back to your comments around the divergence between margins and fee rates and how flows into ETFs are actually, you know, supportive of the incremental margin. Can you give us sort of similar color around the margin impact for back to the equity book and the active alternative book because I think what we're trying to do, you know, from our seats is marry the idea that if you have outflows from what we would - what we see as higher fee buckets, what impact that would have on the margin.

Loren Starr: Yes I can answer that, Brian. It is - it's actually very similar. I think there's, you know, always been this perception that lower fee rate products must mean lower margin. I mean, that's been sort of the knee jerk on most people when they're bemoaning the dropping fee rate. But the reality is the incremental margin if you, you know, are able to grow off an existing portfolio team, I mean, you're not having to add a lot of resources to be able to do that. So the economics are similarly excellent and higher than the firm's overall average. So as long as that we can sort of grow assets both in active and in passive, we're going to see the fee rate and the incremental margins in that 50% to 65% range. I mean, again it varies a little bit team-to-team, you know, region-to-region, but overall it's fair to say that it's very similar.

Brian Bailey: Got it okay. And then maybe just one more. We've talked a fair amount about the UK business but if you could come back to that for a second. You know, that feels like now all of a sudden there is potential for increased regulatory pressure there potentially around some of maybe the way funds are structured. Can you give us a little bit of color on, you know, what's been the potential impact on your fund flows for the quarter, particularly in UK and then, you know, if any of that was related to, you know, some of the issues that were associated with, you know, with Fed funds.

Marty Flanagan: Yes. No, look, I - we don't see that sort of conversation about the regulatory, you know, where it might end up is impacting our flows. I mean, it really has been, as we spoke previously, it's a risk-off environment and people in particular hate UK equities, you know, just, you know, the Brexit overhang and again what we see is the real opportunity for us in the UK. It's a very important market for us, will continue to be. There've been, you know, obviously important headwinds because of Brexit and as we've said, you know, we really saw come to light just really last year. It seems real in the marketplace and that's where the reactions are.

But again I think what we've done our competitive positioning with Intelliflo and the impact on our flows now it's going to probably kick-in much more, you know, Q1 next year but we'll start to see probably in, you know, Q4, you know, beginning of inflows through the various models on (unintelligible). Again it just puts us in a very different place competitively than, you know, the other organizations we compete with there.

Brian Bailey: Got it. Thank you very much.

Marty Flanagan: Yes.

Coordinator: Thank you. The next question comes from Brian Bedell with Deutsche Bank.

You may go ahead.

Brian Bedell: Great, thanks very much for taking my question. Maybe if I could just go back to the Oppenheimer flow situation really from the sales side in terms of just the trajectory of what you're doing there and if, you know, whether we can see that potentially reversing the outflows. And if you can talk a little bit about the distribution - actually the sales force, just the size of that sales force now versus before the deal and how much that's expanded and whether there's been any change in composition either across geography footprint or, you know, greater strength in any particular distribution channel and then the status of the work on launching the Oppenheimer products institutionally as well as listing in Europe?

Marty Flanagan: Let me start. As I mentioned a few minutes ago, we anticipate the retail products be available outside the United States in October. Institutionally, we're just going through, what we call, market readiness right now with a number of the Oppenheimer teams. So we'll be in markets, you know, very shortly. Here already there's been some, you know, some meetings out in Asia with the teams. So that's, you know, all under way. I'll make a comment and Loren can speak more specifically the size but the US retail distribution force, as I said, I - it's the most talented group of individuals that I've ever been associated with. They're very focused. They're in-market and focusing on different channels and what we had in the past. You know, within its, you know, high net worth being one of the areas and again we just think we're positioned, you know, very strongly in that market.

Loren Starr: Yes. I mean, I'd say - I mean, it's been a huge effort obviously the amount of training that had to happen has been significant. I mean, there've been tens of thousands of hours of busy person and, you know, sort of training to get everyone up to speed on the products and the regions and kind of how things work in the combined organization. There's been significant work on the brand and sort of positioning and the digital campaigns with respect to our products and having people understand the combined organization versus the two what it was previously as two separate ones. And we are beginning to really get real connection with placements and investment wins, particularly where consultants historically had missed the opportunities of previous firms because of the gaps we had in product capabilities. But combined we have now, you know, sort of the full set of capabilities.

So again I think it's still, as we said, early days. And so we really think we're going to see the ability to grow our sales number off of, you know, maybe what you see as a second quarter level just how successful we're going to be is, you know, we'll see it when we see it. But we do think it's material and we do think that there's far more upside off of the levels that we're currently seeing.

In terms of the other part that we're very excited about is the European opportunity. Those products I think are ready to go at the end of September, sometime in September. So that's something that you'll actually begin to see some activity in flows coming off of those products hopefully this year.

Brian Bedell: And how big did the sales force increase on the wholesale in fact?

Loren Starr: Just - I mean, it was a modest increase. I think there was some change in composition with more use of hybrid sort of crossing between regional and - I'm sorry, internal and external or where the hybrids are coming in. But I mean there wasn't a dramatic increase in the net side. It was really just the talent and the skillset of the people that we retained.

Brian Bedell: Right okay. And then maybe just lastly, Marty, on just your view on the (unintelligible) active non-transparent ETF. Maybe first of all just holistically what you think of the ability for that product? Do you significantly help active flows for the industry and then you're in position at Invesco, you know, whether you're ready to launch those products as early as, you know, by year-end or early next year?

Marty Flanagan: Yes. Look, I think the excitement around it is head of the reality of the impact and I think you're starting to pick that up. You know, I think it's a very interesting, you know, vehicle and again we will be willing to participate in our own way, you know, in that but we don't anticipate it being frankly a big change in the industry anytime soon.

Brian Bedell: Okay. Okay fair enough. Thank you.

Coordinator: Thank you. The next question comes from Michael Cyprys with Morgan Stanley.

You may go ahead.

Michael Cyprys: Hey good morning. Thanks for squeezing me in. Just wanted to circle back on some of your commentary around retail solutions, I guess maybe more broadly as you think about retail solutions, model portfolios, Jemstep, Intelliflo, if you could just update us today on how meaningful those are in terms of AUM flows and revenue at Invesco, what the pipeline looks like and can you talk about some of the actions that you're taking over the next 6 to 12 months for those initiatives to accelerate?

Marty Flanagan: Yes. So let me start with Jemstep. So, you know, still being channel focused, you know, we're now - as I've said in the past, it's literally an application that you install. It literally is, you know, integrated into the client's, you know, infrastructure. So it does take longer to do that. So that's starting to happen right now. We're anticipating probably, you know, into next year when we'll start to see, you know, something more material there.

Intelliflo is further ahead, 35% market share in the United Kingdom. Between Intelliflo and Jemstep, there are opportunities outside of the United States and the UK that we're looking at right now. So again I would say 2020 you're going to start to see, you know, flow impact from the combination of those two.

Loren Starr: Yes. I mean, so most of the revenues are coming from Intelliflo. It's showing up in our service and distribution fee revenue line. I mean, so those numbers are, you know, becoming larger as the business is growing, you know, 10-million-plus kind of levels. It is one that we have not really used this NPS capability at where you could actually see Invesco products find their way in these model portfolios. The total AUM for Intelliflo is about 450 billion in assets right now and it continues to grow just in the UK. So, you know, obviously the impact for us being successful with that activity would be material in terms of assets under management and revenues. So there is a reason to be, you know, excited about how this is going to roll out.

Michael Cyprys: Okay great. And just as a quick follow-up on the MassMutual relationship, what sort of conversation and dialog are you having with MassMutual regarding the cross-marketing and synergies from that relationship and in your view what would success look like, say, three years from now with respect to that relationship in the revenue synergies, how meaningful?

Marty Flanagan: Yes. Very strong relationships and the teams are - both teams are working very diligently and probably half a dozen different initiatives right now. They range from, you know, the obvious with their sales force of, you know, 8500 here in the United States and the opportunities there co-product development things in the general account we're having a conversation with and also looking at there's some related things we can do with their insurance capabilities and our money management capabilities. So we're well into it and, you know, how big could it be we'll just have to see. But they're a great partner and they're absolutely dedicated to success of between the two organizations and quite frankly very excited about it and you'll hear more specifics in a not too distant future.

Michael Cyprys: Great. Thanks so much.

Marty Flanagan: Yes.

Coordinator: Thank you. The next question comes from Robert Lee with KBW.

You may go ahead.

Robert Lee: Great. Thanks for taking my questions. I just want to talk a little bit about the leveraging of Oppenheimer. I know historically mutual fund track records management haven't really translated into the institutional business or the SMA business. So, I mean, how do you feel about the extent you're trying to leverage, you know, that platform through other channels. I mean, is it really - you know, that transferable to, you know, other strategies and other markets or, you know, where do you think, you know, the real leverage is kind of retail outside the US?

Marty Flanagan: No not just retail. I think, you know, what has our experience been and things that will transfer be successful. It really depends on the long-term track records but really not just that but the asset class itself. And as I was saying from the beginning of this, if you look at the capabilities that came over, they are in-demand capabilities. So they have a great global equity capability.

Global equity is not that attractive here in the United States. Outside of the United States it's very attractive at the institutional level. And, you know, that is one of the areas we're having conversations.

There is emerging markets equity, emerging markets debts to other areas where there's institutional demand and frankly there's not enough high-quality managers in those areas. And so if you look at the combined firm right now, we're very, very strong in emerging market equity. Obviously they're one of the most important, you know, franchises, you know, in the industry there. You look at things, you know, if you want to get sort of basic, you know, the bank loan capabilities, you know, with ours it is, you know, arguably, you know, we are at the top in the industry and those are things that are not just in the United States but outside of United States, too.

So you really have to look at, you know, we keep talking about the makeup of the asset classes that came over. They're really important asset classes that many institutions are interested in them also and not just the retail channel outside of the States. So again, for us, it's not - if it's going to happen, it's just when is it going to happen. And just from my past experience, we're further ahead than we've ever been in the combination. And, you know, at this time we're literally in market trying to make things happen where more often than not you don't start something like that until six months after a close in a combination of size. So I can't tell you what quarter we're going to start to see the flows but we've done everything possible to be in market, making an impact right now.

Robert Lee: Great. Thank you.

Marty Flanagan: Yes.

Coordinator: Thank you. And our last question comes from Chris Harris with Wells Fargo.

You may go ahead.

Chris Harris: Thanks guys. If we look at retail investor behavior here in the US, you know, as you know, the stock market is going up a lot but equity flows in the industry are pretty weak, as you know, a lot of flows going into bonds. In your judgment, why are investors behaving this way and really more importantly is your commentary about US sales picking up predicated on investors increasing their risk appetite from here?

Marty Flanagan: Let me hit the last. So no it's not predicated on, you know, investors changing their appetite. I mean, I can say that simply because of the depth and breadth of our capabilities. There are very few asset classes that we don't have strong capabilities and, you know, so regardless of market, you know, that's a - you know, you're asking the very important question of what's happening, you know, why are investors staying away from US equities in particular. Look, it's ten years after the market bottom. I still think investors have been - retail investors in particular, you know, focused on cap-weighted indexes. Quite frankly I think they have too much exposure to it and - retail investors that is and you saw what happened in Q4 last year and I think you just again have to look at the narrowness of the equity market and the difference in the, you know, value growth trade and that's really where the money is going right now and, you know, as we've said and I'm sure you have too, you know, we hope retail investors understand what they own. It will change and - but when will it change, probably after correction in my investment.

Coordinator: And that was the last question.

Marty Flanagan: Okay. Well thank you everybody for the questions and I look forward to talking to you next quarter. Have a good rest of the day.

Coordinator: Thank you. That does conclude today's conference. All participants may disconnect. Thank you for your participation.

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