INVESCO INC

Moderator: Marty Flanagan
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In addition, words such as believe, expect, anticipate, intend, plan, estimates, projects, forecasts, and future conditional verbs such as will, may, could, should, and would, as well as any other statement that necessarily depends on future events or 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 they should carefully consider the risks described in the most recent Form 10K, and subsequent forms 10Q 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 statements later turns out to be inaccurate.

Female 1: Welcome to Invesco's first quarter results conference call. All participants will be in a listen-only mode until the question and answer session. At that time, to ask a question, press star one. 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 today, Marty Flanagan, President and CEO of Invesco, and Loren Starr, Chief Financial Officer. Mr. Flanagan, you may begin.

Marty Flanagan: Thank you very much and thank you for joining us today, you know, on the call. Just point that out, that was Loren Starr, Invesco's CFO and we'll be going through the first quarter results and if you're so inclined, you can follow along with the presentation which is on our website.

As is our practice, I will do a review of the business for the first quarter, Loren will go into greater detail of the financials, but also today with us is Andrew Schlossberg, who leads our EMEA business and Dan Draper who leads our Powershares ETF business and they will help provide an overview of our efforts to further enhance our client offerings and then of course we'll get to Q&A.

So let me begin with the first quarter. If you happen to be following along, I'm on slide four of the deck. So let me highlight the first quarter results.

Long term investment performance remains strong, ending the quarter at 69 percent and 83 percent of that is ahead of peers on a three and five-year basis. Our strong investment performance and our focus on providing outcome oriented solutions declines contributed to strong long term in flows of 1.8 billion dollars and organic growth rate of one percent for the quarter.

The adjusted operating margin for the quarter was 37.7 percent and we returned 155 million dollars to shareholders during the quarter through dividends. And based on strong fundamentals in our business we increased our dividends 29 cents per share. This represents a 3.6 increase over the prior period.

Assets under management were 834 billion dollars at the end of the quarter, up from 812 billion dollars at the end of 2016. Adjusted operating income was 327 million dollars for the quarter versus nearly 336 million in the prior quarter.

Adjusted CPS for first quarter was 61 cents up from 59 cents in the prior quarter. We did not purchase any stock during the quarter, instead using the available cash for the trans-actuals discussed in just a few minutes. And before Loren gets into details on the financials, let me take a minute to review investment performance and flows.

I'm on page seven now. We continue to strengthen our investment platform by global expertise and support minimizing distractions for our investment professionals so they can focus on delivery, investment outcomes, declines.

Our strong investment performance during the quarter reflects these efforts with 69 percent of assets in the top half of peers and on a three-year basis, an 83 percent in the top half on a five-year basis. You'll see on page eight, passive flows are strong during the quarter while redemptions offset strong gross sales and active assets during the quarter.

Flows into passive capabilities were driven by strong demand for Powershares ETF with net inflows of more than 2.5 billion dollars globally for the quarter. Although long term flows were slightly negative on the active side, we saw strong demand for alternative capabilities including senior loan products with more than three billion dollars in net flows and GTR with nearly two billion dollars in net flows during the quarter.

Retail flows were solid during the quarter, reflecting continued strength and Powershares and GTR. Our pipeline of one but not funded institutional opportunities remains strong, but the timing of those is spread out over the next several months.

We saw solid demand for GTR and our senior loan products during the first quarter, a continuation of recent trends. So with that as a backdrop, let me turn it to Loren to review the financials.

Loren Starr: Thanks very much, Marty. Quarter over quarter our total AUM increased 21.9 billion or 2.7 percent. This is driven by market gains of 23.1 billion. We saw a positive foreign exchange translation of 4.1 billion.

Long term net inflows came in at 1.8, and then we also saw in flows from QTQ's of a billion. Now these factors were somewhat offset by outflows from the money market, institutional money market product of 8.1 billion. Our average AUM for the first quarter was 829.8 billion, that's up 2.6 percent versus the fourth quarter.

Our annualized long term organic growth rate in Q1 was one percent compared to negative 1 ½ percent that we saw in the fourth quarter. Our net revenue yield came in at 41.8 basis points and our net revenue yield excluding performance fees was at 40.9 basis points, which was in line with the guidance we provided on last quarter's earning call.

Two fewer days in the period reduced the yield by .8 basis points. We also saw a decrease in other revenues which accounted for the remaining .1 basis points. On slide 12, we provide for you the gap operating results for the quarter.

My comments today, however, will focus exclusively on the variances related to our non-gap adjusted measures which will be found on slide 13. Let's go to 13. You saw on 13 net revenues increase by 3.3 million or .3 percent quarter over quarter to 867.1 million, which included a modest negative FX rate impact of .3 million.

Within that revenue number, you'll see that adjusted investment management fees increased by 8 ½ million or .9 percent to 973.6 million. This reflects our higher average AUM during the first quarter compared to the fourth quarter of 2016.

Partially offset by the impact, as we've discussed in the past of fewer days in the first quarter. Adjusted service and distribution revenues decreased by 2.7 million or 1.3 percent, again reflecting higher average AUM offset by lower service revenue and fewer days in the quarter.

F.X. increased adjusted service and distributed revenues by .1 million. Our adjusted performance fees came in at 17.7 million Q1 and were earned from a variety of investment capabilities, including 12 million from bank loan products, 3.3 million from real estate and 1.2 million from our U.K. investment trusts.

Adjusted other revenues in the first quarter were 20.8 million, a decrease of 2.4 million from the prior quarter. This is generally due to 2.6 million less in transaction fees from real estate which was offset by 1.6 million dollars increase in unit investment trust revenues.

Largely driven by higher than anticipated UIT revenues, this line item came in above our stated guidance, if you remember, of 12 million to 15 million per quarter in 2017. Next, in Q1 our third-party distribution service and advisory expense, which we net against gross revenues, decreased by .1 million.

Moving on down the slide, you'll see that our adjusted operating expenses at 540 million, increased by 12.2 million or 2.3 percent. Relative to Q4, these amounts were generally in line with the guidance that we've provided on last quarter's call. For an exchange, reduced adjusted operating expenses by .6 million during the quarter. Adjusted employee compensation came in at 361.2 million, an increase of 23.3 million or 6.9 percent.

This was generated by normal seasonal increase in payroll taxes as well as retirement costs and one month impact of higher based salaries. Our adjusted marketing expenses in Q1 decreased by 10.4 million or 29.4 percent to 25 million reflecting seasonal reduction in client events and other marketing activities.

Our adjusted property office and technology expenses were 85.6 million in the quarter, an increase of .6 million or .7 percent over the fourth quarter due to a higher outsourced administration cost. And then our adjusted GMA expenses at 68.2 million decreased by 1.3 million or 1.9 percent.

The GMA decrease was driven by lower professional services expense. Continuing on down the slide, you'll see that our adjusted net operating income increased 18.5 million compared to the fourth quarter. This increase was primarily due to earnings from our real estate partnerships and lower market to market gains on our seed money investments.

The first quarter included a 7.8 million gain, utilized on our pounds, drilling U.S. dollar hedge, which was similar to what we saw, actually in Q4 as well. Moving to taxes, the firms effective tax rate on pre-tax adjusted net income in Q1 was 26.6 percent.

The first quarter tax rate included a .4 percent rate decrease related to our excess tax benefits on share based compensation, related to vesting of our annual share awards, which then brings us to our adjusted UPS at 51 cents, and our adjusted net operating margin of 37.7 percent.

So before turning things over to Marty, I just wanted to mention a few additional items. The first is related to our pound hedge, given the recent run-up in pound, we took the opportunity to extend our pound hedges through the end of 2018.

As a reminder, these hedges are in the form of put-option contracts designed to hedge approximately 75 percent of our pound based quarterly operating income out of U.K. overall at the same strike level of 1.25 percent, I'm sorry 1.25 dollars.

Additionally, I'd like to provide an update on our business optimization work that began in late 2015. Given the size of the opportunities including potentially the outsourcing of back-office functions, we expect the optimization work to continue past the original targeted completion date and to incur, we will incur additional cost of approximately 38 million through mid-2018.

However, in terms of reporting and consistent with our past practice, you know, approach with dealing with material one-off expenses, that 38 million related to the incremental optimization charges will be adjusted out of our non-gap presentation and are all detailed and tracked of course in each quarter in our U.S. gap reconciliation within the earnings release.

At the end of the first quarter, we have recognized approximately 28 million in run rate savings, state optimization, with additional work being performed as we speak. We expect to exceed our high end of the initial targeted savings range, which we described as 30 to 45 million.

We expect to come in with a run rate savings of approximately 50 million once these efforts are fully implemented. And we believe that additional optimization work will help make Invesco an even stronger company for their increasing effectiveness in efficiently of our operating platform. But importantly, will allow us to continue to fund our most crucial strategic initiatives.

Next, I'd like to just quickly turn to MiFID two. So on the regulatory front, one of the questions that frequently comes up, is Invesco's plan of approach on the implementation of MiFID two, slated for early 2018. As you may know, we are very strong believer, that research is a key contributor to our investment process and results.

Our preferred approach, with respect to MiFID two, will be to use commission sharing accounts or CSA's to fund the research payment accounts contemplated by MiFID two, to the extent permissible under the final rules. Note there are still a number of legal and regulatory inconsistencies which regulators must address, together with potential competitive developments, which create uncertainties to, regarding the degree which our preferred approach may be fully implemented.

Meanwhile, it's possible that we will be required, but possibly choose to purchase certain research on a hard dollar basis. We are monitoring developments in this area closely, and ultimately, we expect to be able to clarify our approach and any financial impact to our business as we get closer to the implementation date, and as the current regulatory uncertainties are resolved.

Buybacks, so the last item I want to provide an update on was running our (cap fall) allocation policy and specifically buybacks. We do not purchase any share in Q1 given the seasonal cash needs in the first quarter, along with the upcoming need to seed new products.

And obviously, giving the recently announced acquisition of Source, we elected not to repurchase shares in the quarter. I would like to point out, though, this should not be viewed as a change of our capital priorities, and we will continue to maintain opportunistic, remain opportunistic around our timing and the extent of repurchasing shares.

This also has no impact on any of their capital priorities or reinvestment dividend growth, or the strength of our balance sheet. And with that litany of things, I'm going to turn it over to Marty.

Marty Flanagan: So we want to get back to the announcement that we made today about, you know, the combination with Source. And, as we've discussed before, you know, we are intensely focused on helping clients achieve their investment objectives. And it's really to our comprehensive range of acts passive alternate investment capabilities that's been constructed over many years to help institutional and retail clients achieve their investment objectives.

We believe our ability to provide meaningful solutions to client through a broader of capabilities and vehicles in inherent to the strength of the firm and sets us apart from the marketplace. And with that as a backdrop, I'm going to hand the call over to Andrew who will speak to the EMEA business and Dan who will highlight the strengths of our (factor) investing, Andrew.

Andrew Schlossberg: All right, thank you Marty. This is Andrew Schlossberg and I lead our business here in EMEA and I'll pick up on page 16 of the materials that were distributed. As many of you know, we have a strong and highly regarded position across the markets here in EMEA.

We've built that platform through our investment reputation here over many, many years, maintain a strong and consistent investment culture built by the depth and tenure of our investment teams here, clear philosophies and consistent processes. And all of this has enabled us to deliver top tier returns for our clients with 88 percent of our client AUM in the region performing in the top half of peers over the past five years.

As a result, we've developed the first all-weather product range that is well positioned to meet client needs across asset classes and markets, and our brand, as such, is highly rated in the region. And our market penetration has expanded over time.

We're currently number two in the U.K. retail market and we're growing in continental Europe where we've been, where we're ranked in the top ten within 1/8 of the markets on the continent. We continue to see a growth despite, in the region, despite the volatility of Brexit and other macro-headwinds.

Notably, our net flows in the region here in EMEA have actually, we're actually up 2.1 billion in positive net flows since last June 23, 2016 in the U.K. when the Brexit referendum was announced. So growing at a decent clip.

Furthermore, the diversity and the strength in our business has allowed us to achieve March ending AUM this year, as measured in British pounds, that's at a highwater mark for us in the EMEA region as a whole, and in each of our respected client channels across institutional U.K. retail and our cross-border retail businesses, respectively.

I call your attention to page 6, or 17, pardon me, in the presentation deck. And according to our long-term strategy is really being focused on markets and channels where we believe we can be highly relevant while maintaining a close proximity to our clients and innovating with a broad range of capabilities that will meet their demands. And over the past five years, we've been able to maintain our quality while growing, as I just referenced, to highwater marks, and diversifying our business as you can see on this chart here.

Notably, you can see on the left-hand side of the chart that we have maintained leadership in the U.K. which has been a dominant position for us, while also expanding our AUM in EMEA except the U.K. from 45 percent five years ago to 60 percent of our regional client AUM today. Furthermore, as you'll see in the middle part of the chart, we are more evenly balance between fixed income and equities and we have rapidly grown our multi-asset and alternative capabilities in which now represent nearly a third of our assets under management for clients in the region.

Finally, you'll see on the righthand chart that from a client channel perspective, we've increased our relevance in the institutional markets and we've broadened our retail strength beyond just the U.K. to an even more robust pan-European retail profile over the last five years. And I'll say while we're pleased with the strong foundation that we've built, we believe that there is exceptional growth potential in the region for asset managers that are focused on being truly active and factor strategies.

Asset managers are providing exceptional in market client service and maintain scalable platform to manage through dynamic markets, no doubt, in this part of the world. So with that, let me hand it over to Dan Draper who will expand a bit more on our factor and ETF profile in particular.

Dan Draper: Thank you, Andrew. I'm Dan Draper and I head up the Powershares ETF business. Based on more than 40 years of experience, Invesco's a market leader in factor investing. And then as you'll see on slide 18, we have more than 175 billion dollars in assets under management in terms of factors.

We're the fourth largest ETF provider globally, and have significant market positions and our quantitative strategy and unit trust businesses. Our expertise, product breadth, and global profile provide a number or key competitive advantages.

First, we're diverse, time tested, and can have across our investment strategies. Number two, is we have experienced product specialists and tremendous field wholesaler depth. And three, strong global profile with key strengths in key markets.

If you move over to slide 19, really wanted to use this chart to compare, kind of, growth, and give you some idea of the EMEA ETF growth market compared to the U.S. And as you'll see, the EMEA ETF market is one of the fastest growing areas in asset management today. And as you'll see again on this slide, basically the growth trajectory in EMEA ETF, as you see on the left chart, and then we overlay that with historical growth in the U.S. on the chart on the right on slide 19.

You can really see a very common pattern. There may be an approximate seven-year lag in that chart on the right but you can really see the growth that's been experienced. So overall, ETF's in EMEA have grown at a 23 percent (companional) growth rate since 2005, and as MorningStar states here is projected to reach a trillion dollars, you know, by the end of the decade. I think with that, I'll turn it back to you Marty.

Marty Flanagan: Thanks Dan, thanks Andrew. So now let's talk about Source within the context that Andrew and Dan went through and we'll open it up to the Q&A. So you saw the announcement this morning. You know, we did sign a definitive agreement with buyer Source and we (unintelligible) specialists, so focused and we're very excited about the opportunity which we believe will, you know, meaningfully enhance our billage needs, client needs across the globe and specifically in EMEA.

Source brings Invesco additional expertise across the entire ETF chain, strong talent in London and on the continent. With specifically different (affects), (unintelligible) 18 trillion dollars managed, assets under management plus seven billion dollars in externally managed funds.

The combination of source and Invesco significantly benefits clients by further expanding the depth and breadth of our factor-based strategies and ETF's. Adding to the comprehensive range of investment, of active, passive, alternative capabilities Invesco offers in EMEA and across the globe.

Enhancing Invesco's expertise and ability to meet needs of institutional and retail clients in EMEA with the addition of dedicated, on the ground ETF specialists spanning (vales), marketing, capital markets, product management and development.

Strengthening Invesco's position in EMEA while achieving additional scale and relevance in a growing ETF market globally that Dan just addressed. And as you can imagine, our focus over the past several weeks is really just been getting to signing a definitive agreement.

Our focus today, and over the next few days will be engaging with clients on both firms, speaking with all of you, reaching out to regulators, index providers, and others to bring them up to speed of our plans. We'll then turn our attention to the integration of the two firms, building on Invesco's significant expertise in bringing companies together for the benefit of clients, employees, and shareholders.

And as I mentioned, we're all very excited about this opportunity. We think it's going to meaningfully enhance our ability to help clients across the globe and meet their investment objectives. And with that as a backdrop, why don't we open it to questions. And that would be, again, so it's myself, Loren, Andrew, and Dan will all be available. Operator? Can you open up? Thank you.

Female 1: At this time, if you would like to ask another question, please press star one. You will be unlocked prior to asking your question. Please pick up your handset when asking your question. To withdraw your request, please press star two. One moment for the first question. Our first question comes from Michael Kelly of Bank of America, your line is now open.

Michael Kelly: Thank guys. Your meet me, Marty, just first on this Source transaction. A lot of things you said make sense in terms of the products and distribution. Just wanted to get a sense, when you think about Invesco's positioning, you know, in factor, or in smart beta, it seems like you're already, you know, one of the leaders to, you know, why maybe couldn't you do, you know, what your – the thing with the opportunity is with Source, you know, without it.

Meaning is it, you know, the products are really differentiated, is it more the distribution, you know, within Europe, they have a better, you know, penetration into that, where you can increase, you know, your kind of foothold. You know, in that, you know, geography, just wanted to get a sense. Because it seems like you already have pretty good traction there.

Marty Flanagan: Yes, so I agree with the point. You know, I think one of the strengths, you know, is becoming more evident is with, you know, a 40-year track record in factor based investing and Powershares now over, you know, 11 years has been a meaningful contributor to us.

As Dan pointed out, and Andrew, I mean, ETF is actually in on the continent is quite different and we've been making efforts over the last number of years. More recently turning our attention there, it's just a very different market and what Source does, is it rapidly advances our presence there from where we were with scale, lots of talent.

It would take us multiple years to get close to what Source offers, you know, on (server) day one. And we think it has every element of, you know, the great success that Powershares brought to us, you know, over a decade ago.

line items that sometimes you provide a little bit of, you know, guidance on, anything on, you know, the expenses?

I guess, comp, we get the normal seasonality, and the maybe GNA. And then the other, just given maybe that the dynamics in the UIT market in terms of the outlook versus, you know, what you guys were thinking last quarter. Just any change there?

Loren Starr: So I think you were going to say you saw a little bit in the first quarter, just normal flexing due to, you know, incentive compensation growing, operating income grows, you also saw, or you will see, probably as we move into the second quarter, impacts around foreign exchange, right?

So those are the things that I say are going to happen just naturally and mechanically. In terms of the guidance right now, I think, you know, we're sort of generally saying that what we've put in place in last quarter calls stays right now. You know, maybe we'll be in a position to provide a more thorough and robust update mid-year, particularly after the Source transaction, you know, is closer in terms of happening.

So, but, I mean we're pretty much, you know, on our path to continue along the strategy that we've described in the past and so there is no big change or need to adjust guidance at this point. I think around UIT business, where the only thing we got a little surprised on, the upside was better revenues around UIT than we originally anticipated.

I would like to believe, although I don't at this point, that's a continuing trend right now. I think we're, you know, happy to see that. Maybe we'll continue, it's still too early to say definitively that the UIT business is going to sort of pull out yet.

The DOL rules are still sort of very much in flux and now people are reacting to them are so in flux. But I would say, that's probably the greater level of uncertainty around the revenue line item than we had in the past, with some potential upside.

Michael Kelly: Okay, thanks a lot.

Loren Starr: Yes.

Female 1: Thank you. Our next question is coming from Ken Worthington of J.P. Morgan. Your line is now open.

Ken Worthington: Hi, good morning. One of your competitors has been more vocal about scape aids and (seat) cutting in active management. So maybe how does Invesco see it's positioning in terms of fees? And do you think Invesco's organic growth could be enhanced with some targeted fee reductions? And maybe is that something under consideration?

Marty Flanagan: Yes, okay, thank you Ken. So I, you know, I'd say the headline to that is active management is not easy, right? And I'd make the comment that those that are strong active managers generating the returns that they're meant to will continue to do well.

I still see great opportunity for active management but let me get more specifically, I think from some of the few cuts that you've seen, you know, the media in particular.

Maybe the analyst community, very quick to extract (weight) that price cuts is the answer to firm by firm, the price cuts announce, you know, by these firms, has really been more circumstantial in nature.

Relative to investment performance alike and then some just not being, you know, properly priced within the marketplace. And we believe the question is and always has been, our clients receiving value for money? And so, we look at it, we have a spectrum from, you know, capsulated indexes all the way to alternatives.

that a client can ultimately generate excess returns, manage downside risk, is with active. And so, we really think it's combination of, you know, active, passive, alternatives, is the right answer. I don't think fee cuts (is low).

You know, clients, and I think some, and I think where you're going Ken, you know, some are viewing the future state of the industry where, you know, asset owners won't care about value for money. I just think that's false and, you know, if, you know, the best way to, you know, generate the returns for your clients is a combination of active, passive, and alternatives.

And I think within the context value for money matters. If you're doing a good job, you're going to get paid for it. You know, it's not to ignore the industry pressures and I think what I really focused on, Ken, is, you know, the enemy of active is not passive.

You know, the enemy of active is bad active managers. And, you know, flushing out that is probably very good thing. And if you looked at our results, you know, over extended period of times, we've done a very good job generating, you know, value for money.

Ken Worthington: Thank you. You know, with Source you're clearly focused on a, you know, kind of focused and a as we think about the industry, maybe can you share your view on large scale M&A? We've seen a few examples of large scale deals. They appear to be ripping out a lot of costs.

I guess, does large scale consolidation make sense? And would you expect to see more of it over the next, I don't know, call it 12 to 24 months? And if we do see more, do you, I'm sorry, and if we don't see more deals, what might be the leading issues holding back that sort of large scale M&A?

Marty Flanagan: Yes, look I, Ken, you and I and many on the phone have talked about this. You know, since I've been in the industry, there's been declarations of massive consolidation. I do think, though, this time there are a set of factors in place that weren't in place before where scale does matter.

Largely driven by, you know, the cost coming out of the regulatory environment and, you know, the low rate environment and cyber and the like. And, you have to be, as a firm, you have to be able to invest in the future and I think if a number of smaller size firms are finding that hard, they can, they're really just investing and keeping up with, sort of, the regulatory environment in cyber and alike.

And you just lose your competitive positioning, so getting to your question, intellectually would suggest that, you know, large scale combinations make sense. The reason why we've not seen, you know, lots of consolidation industry is because it's very difficult.

You know, we are fiduciary so taking care of clients comes first and clients have choices and done poorly, it becomes a melting ice cube. And, you know, so I think consolidation or, you know, solely to, you know, for cost saves is not the answer to success.

If two firms get together and they're poorly performing, not doing a good job for their clients, they can cost, doesn't do anything. In fact, I think it probably could accelerate, you know, client departure. So all in all, I guess my point is, intellectually it makes sense. They're very difficult to do.

I think they'll be fewer and farther in between just because people are wise enough to know how difficult it is. And I come to one more point, Ken, and then I'll stop, (Ben) in the management team here for, you know, decades has been involved in various combinations of some upscale and you have to have the expertise of, you know, properly pulling the firms together.

And I think, you know, the other thing to pay attention to, if you, if the firms don't have a history of success, it's another warning sign as far as I'm concerned.

Ken Worthington: Great, thank you very much for all the color.

Marty Flanagan: Okay.

Female 1: Thank you. Next question is coming from (Patrick Babbit) of Autonomous. Your line is now open.

(Patrick Babbit): Hey good morning, thanks for taking my call. On Source, I have a couple questions on Source actually. Is there a lot of redundancy here, or you feel like you really need the whole platform in Europe? In other words, could we expect some expense synergies?

And the second question is around the Pemco brand that funds, to what extent do you have assurances those are locked up, because I imagine they look at you as more of a competitor? And do you think there's a risk that they want out of that, I guess, agreement post deal?

Marty Flanagan: Yes, so let me make an overall comment then I'll turn it to Andrew and Dan. You know, we look at this as a tremendous opportunity. You know, it fills a gap of expertise on comment for us. Dan pointed to, you know, the prospects of growth in the ETF market in EMEA.

We believe that very, very strongly. We think the combination of the two firms together can rapidly expand, you know, from where we are today. I look at it a little bit analogous to Powershares 11 years ago that, you know, you put the platforms together and you can be very, very successful.

So, it's very much a, we look at it as a, you know, growth opportunity and I think it has all the makings of, you know, a Powershares combination, you know, within EMEA. But with that as a backdrop, Andrew you want to pick up on it and…

Andrew Schlossberg: Sure, yes. Sure, Marty. And just building on what Marty was saying, it's clearly, we're looking at this as a growth opportunity, not as a cost savings opportunity for us. And Marty mentioned some of the growth drivers behind this. Clearly the markets growing at a good rate and we think it's in the early stages of growth as Dan pointed out.

We think there's opportunity to expand the distribution of Source's strategy, you know, through some of the markets that I described positions that we have complementing what Source has. You know, we see opportunity with distributors as they want to do more business with firms that can bring a whole range of capabilities and, frankly, packaging vehicles as well.

Which this helps us with and then, you know, the combination creates an even more scaled platform that ETF space. And there are some efficiencies, but more importantly, that whole eco-system of how an ETF comes to market and how you scale, especially in a part of the market that we're in where innovation matters.

All those aspects are key and Source brings depth and talent there that will help us build what we started here in Europe and complement certainly what we've done around the world. You know, I think that, you know, as we look at, well Dan do you have anything you want to add to that?

Dan Draper: No, I just think exactly what you described. What I would say is a crucial difference between Europe and the U.S., again comparable growth rates, but the fact is that the institutional market demand really dominates in Europe versus, you know, the financial advisor and intermediated retail demand in the U.S. has really grown.

So I think that's really where, if you will, the buy versus build. Or especially, the inorganic approach to Europe, really something you have to consider much more so, so you're able to show up in the markets Andrew mentioned at scale.

And have large enough products in front of institutional clients who can really buy into that. So I think it's just a crucial difference.

Andrew Schlossberg: And I think we're relating to the question about partnerships that Source has and, you know, big foundation of the ETF industry has been a series of partnerships. You know, Powershares, as we built it over time also has a number of partnerships that it works with across all parts of the ecosystem I described.

And so, you know, we're just getting to know all sorts of partnerships a bit better and spending time with them and the team and, you know, we're going to look to develop and expand on many different levels. But it's kind of early days in this conversation.

(Patrick Babbit): Okay, thank you.

Female 1: Thank you. The next question is coming from Glenn Schorr of Evercore, you line is now open.

Glenn Schorr: Hi, thanks very much. Looking for a little more color on the institutional side. I think this is one of the lower growth sales and flows quarters in a while. Curious if you've seen trends like in sourcing and going passive like we've seen in some other places. But also, you mentioned the one not yet funded pipeline is pretty good. I didn't know if you could throw numbers at that but I'd appreciate it. Thank you.

Loren Starr: Hey Glenn, it's Loren. Yes, the, I think it's just sometimes we've seen lumpiness and timing. Some of the elements within the quarter that I'd say kind of stood out on the downside and there was about a billion-dollar withdrawal with the Sovereign Wealth related situation in the Middle East.

So I don't think people understand that dynamic, but that was kind of a one-off thing that inequities. We also saw about a 700 million Japanese passive real estate, very low fee outflow in the quarter. And then there was about 1.2 billion of Quant outflow that cut across Asia back and continental Europe, all inequities, all inactive.

So that's kind of a little bit of highlights on what just happened and that quarter down. In terms of the pipeline though, it actually is very robust, the revenue yield is definitely a level we haven't seen in a long time. I mean, really, really high. Highest we've seen in the last five quarters for sure.

And so the revenue run rate is right in line with what we saw last quarter and so I think, again, just in terms of the timeliness, I'd say the second quarter is probably, you know, going to be much more robust than you saw in the first quarter just because of the way the timing worked.

Glenn Schorr: Okay.

Marty Flanagan: I just want to add, so, you know, continues to be an area where just growing confidence in contribution to the business in time, for all the reasons we've talked about. For the leadership that's in place, the capabilities that we have, so I just look at it as being, you know, really just a continue relatively, rapidly growing part of our business.

And, you know, as we all know, we all wish things were neat and, you know, quarter by quarter but it just doesn't happen that way with institutions as you know. So the picture for the whole year looks very, very strong and we expect it just to strengthen and we'll just get stronger next year, too.

Loren Starr: Qualified opportunities is an all-time high, which is again, you can't bank those but those are the ones where our team comes out and says, you know, these are the prospects that seem quite viable and seizable, so…

Glen Schorr: Excellent. That maybe the follow-up is thankfully the exact opposite question. On the retail side you had 20 percent-ish gross sales growth over last year. And last year's weird quarter, but still it's a good number, it's near a high there as well.

You mentioned GTR but I'm curious, A – what else drove this trend and B – can it sustain itself? April seems like a good environment so far.

Lore Starr: Yes, great question Glenn. So I, yes, we saw a variety of things kicking in. Obviously, Powershares just generally continues to do very well, so that's been a very strong contributor across a variety of asset classes. Variable rates preferred, we saw bank loans as well.

We saw a lot of strength in senior longs just generally. I think bank loan capability was in high demand as you can imagine in the quarter, but we continue to see strong interest in some of the products that are yield oriented like diversified dividends and GTR as well, continue to flow very strongly. I think GTR in total is about 21 billion in size now.

Again, both attractive in retail and institutional and continue to find strength. Uni was another area where we saw high yield unity flow nicely. So those are some moments within the retail picture and one that I think has been good. I'd say on the flip side just to explain, we did see some outflow in (Inchinco), that was the global, sorry the U.S. read.

It was about a billion dollars, that's out of Japan. Actually, it was like 1.1 billion out. I think that's a temporary thing, but that also sort of took a little bit away from the retail story. UIT's, even though they're stronger without 800 million again. So it has been an outflow and continues to, you know, be a little bit of a negative on the retail picture.

The other thing I would like to just mention since everyone expects and if I don't say it, it's a problem, we are in positive flow through April. We have, through the latest, April numbers, it's modest. Again, it's certainly around 200 million in that range.

A lot of, which is driven a lot by Powershares. Powershares has been extremely strong through April. I think it's about 1.1 billion in aggregate and that continues to flow. But also, importantly, our cross-border business is doing very well in Europe, about a billion dollars.

So some very strong elements within, you know, within the second quarter shaping up.

Glenn Schorr: Okay, thanks very much Loren.

Lore Starr: Yes.

Female 1: Thank you. (Dan Simon) of Jeffries, your line is now open.

(Dan Simon): Thanks, good morning. Loren, you mentioned a handful of reasons for the uses of capital with regards to the seed and obviously the acquisition. You know, can we think about, I guess, how should we characterize the buyback? Kind of, you've been pretty consistent the last several, you know, several quarters.

Thinking about it going forward, is this something we should be modeling? Or until the deal closes we should kind of see a bit more of a pause?

Loren Starr: Well I think the reality is probably a little bit of a pause until the close of this thing we have. I think we've talked about some of the substantial seeds, you know, 200 million-ish, net increase need. And then obviously, this transaction which, internally, I know the question will come up as potentially less than the number that's been discussed in the media in terms of what the price is, but there is obviously a real cash need to fund that.

So there's no need for us to draw down and (unintelligible) other than using existing capital in our European business. That's already there.

So, I think that the general message will be, it is business as usual around our capital policy and our implementation of the capital policy other than, sort of, probably this first half of the year. And then we'll, sort of obviously, regroup and drive some more.

The other thing I will say is we will continue to be opportunistic, but that doesn't mean we're not doing any buybacks this quarter or forget about it. If we see opportunity, we will absolutely be opportunistic as we always have been because we're not sort of living quarter to quarter on self-imposed sort of restrictions on, in our cash.

(Dan Simon): Great, and then I guess a follow-up on Source, can you talk about the trajectory of growth in terms of flows? And then from an economic perspective, the different in C-rates between obviously their managed AUM versus the externally managed AUM and how we might think about that from any kind of perspective?

Marty Flanagan: Loren why don't you get the C-rates, and then Andrew and Dan will you pick up on the growth opportunities?

Loren Starr: Yes, so for the C-rate, there's obviously a big difference between the Source managed assets and the externally managed assets. So of the 18 billion which is Source managed, that's roughly 30, 31 basis points in line roughly kind of with Powershares is.

Again, this is, you know, a very good fee. On the seven billion externally managed, it's about six basis points that comes to Source. So that averages about 24 basis points and that will get across the 25 billion. And the in terms of the growth prospects, maybe Andrew or Dan can talk to that.

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Andrew Schlossberg: Yes, I touched on them categorically before, but maybe just a few more specifics. The Source run rate growth has been good, it's been growing rapidly. You know, we have a relatively small ETF business here in Powershares that also experience, sort of, it's record growth last year in terms of net sales. So both have momentum.

Our focus here, as I mentioned before, is to get the build on the momentum. The Source product line is, you know, 70 plus products I think and it's pretty well diverse across those number of asset classes. So, you know, part of the thing that appealed to us, was that it had some diversity across all sorts of unique assets, smart beta, some active strategies.

So we see it able to kind of weather through a variety of market conditions like Powershares, you know, has over the last several years. A few things maybe where we see some opportunity immediately. In particular, the European markets, as I said, were, we have top position at Invesco.

relationships with fund to funds and private banks who are increasingly larger users of ETF's and Source has done well there too. We view those as opportunities to accelerate together in the future.

U.K. from an active and fundamental perspective and we see factor strategies picking up in use of growth there. So we think there's opportunity there as well as the financial institutions in the U.K.

So, I don't know, Dan, if you have anything else you want to add.

Dan Draper: I'll just add anecdotally, I mean, you look year to date, and Source is contributed with, you know, strong in flows, net inflows. And they launch particularly a commodity product at the beginning of the year that's proven to be, you know, very popular. So we continue to see, just ongoing growth in the Source business.

(Dan Simon): I guess just a follow-up, is there any numbers on the LTM or year to date systems on what the total flows are for Source?

Dan Draper: I think we'll have to just see what we can disclose at this stage and then get back to you.

(Dan Simon): Okay, thank you.

Female 1: Thank you. (Bill Cass) of Citi, your line is now open.

(Bill Cass): Okay thank you very much for taking questions, I guess just staying on Source for a moment, mentioned in your press release this was the minimus to, not material, to earnings. I'm just trying to counter that with franchise that seems to be growing and possibly for some synergies internally. So how should we think about the going forward financial impact and then I have a follow-up questions.

Marty Flanagan: Yes, let me make a comment and then turn it to Loren. (Bill), I, you know, we give Source a lot of credit for what they've accomplished in eight years. I mean, they definitely have created something very, very competitive in the marketplace. They did it, you know, very rapidly and so they were definitely in investment mode.

We could not replicate it, anything like this in that period of time, for a short period of time. So we strongly believe that we are going to see, you know, contributions to the overall operating results in the, you know, not too distant future. You know, with a combination of Source and Invesco. Loren, you want to?

Loren Starr: Yes, I think it's, we will probably be in the position to provide some guidance with your, specifically around some of the elements, revenues, and costs. I think it is obviously, you know, we need to develop the plan around the growth. But it is more of a revenue growth opportunity than a synergy discussion for sure.

There's not an anticipation of, you know, massive synergies being extracted because we really think this is going to provide us with a platform to grow. So, again, I think that's why there's no immediate excretion expectations and it's really just how quickly can we grow the business which is obviously our expectation is to grow it rapidly.

Marty Flanagan: Let me just say, I don't know how, you know Loren did make a comment, I just want to come back to it. So, you k now, we did pay substantially less than what's being, you know, vented about in the media and I think that's important. And we're not disclosing the details for competitive reasons which you don't know. That said, you will see the financial impact of, you know, balance sheet cash flows in the not too distant future after we close. So…

Loren Starr: Yes, it will become very apparent.

Marty Flanagan: Yes.

(Bill Cass): Okay great. And here's the follow-up, just staying with the ETF's just generally. We're seeing a lot of pricing pressure, not a lot, but to your point, some pricing pressure on the active mutual fund business. We're seeing it in certain parts of alternatives, and we've seen it obviously in the market cap level of ETF's.

Could you talk a little bit about how you sort of see it playing out in the smart beta segment? It seems like you and many of your peers are already incrementally focused on that space. Just sort of wondering if there would be any reason to think that pricing would come down as competition picks up?

Marty Flanagan: Yes, let me make a comment and then I'll turn it over to Dan. I do, (Bill), I think that's a really good comment and I would just encourage everybody to, you really have to look, you know, each instance specifically within the context of, you know, the firm and the action.

I think the sweeping comments aren't necessarily helpful and, again, I just think any firm that is generating value for money along that spectrum from capsulated to alternatives, and they're competitively priced, they're going to continue to do fine.

If you are outside of that band, you're going to be in trouble. I don't think that has always been the case. It might be more cheap these days, but it's not going to change. But Dan, you want to pick up on that?

Dan Draper: Sure, Marty. Yes, I think just to differentiate from kind of the market cap or bold beta space. You know, if you look where, you know, smart beta and the factor products, you have really found a strong place with, you know, fee based advisors.

You know, who are really focused on client outcomes and solutions. So I think that's what's interesting. So if you take that, kind of, in solution, which again a lot of regulators around the world are kind of pushing that kind of fiduciary standard, then if you think about portfolio completion, it's really, as Marty said, from the beginning, it's the kind of the products that add value and the outcome.

So I think that along with, you know, the Invesco solutions business focusing on giving, you know, better asset allocation advice. That's where positioning smart beta products like low volatility, where products that, you know, generate higher income or perhaps better quality. This is really where I think the smart beta tilts if you will, really start to have impact, and, you know, never say never, but I think that's where once you look at the value add of those products compared to, frankly, kind of just a core market cap weighted approach.

That's really where you're getting either some combination of better returns or lower risk. And again, I think this as the world moves to, again, this more kind of fee based advisory type world, that's where the placement and use of those smart beta products, you know, really come into play.

And what I'd also just add, at Powershares specifically, you know, we've been doing, you know, versions of smart beta factor investing before those terms were around. You know, for over 13 years.

And so I think when you're bringing these kind of nuance strategies, rather than relying on back testing, you know, you need to have the track record, the size, liquidity that the investors are looking for when they're putting a solution together. And, you know, just as a reminder, over 70 percent of our U.S.

Marty Flanagan: Let me, Dan's making a really good point and I think it's something to pay attention to. I, you know, Dan's fond of saying, you know, barriers to (unintelligible) are very low, the barriers to (unintelligible) are very high. And, you know, factually, there are very few firms that have decades of experience in factor based investing, have the long track records.

And, you know, people look at fees, but the liquidity of the products matter an awful lot and so the incumbents are in a much stronger position to continue to be successful going forward. And again, I think that's a very important dynamic that maybe doesn't get enough attention in this space.

(Bill Cass): Okay, that's helpful. Thank you so much.

Female 1: Thank you. Brennan Hawken of UBS, your line is now open.

Brennan Hawken: Thanks for taking the question. So just wanted to follow up on the question that Dan asked on the seven billion piece is sub-advised for Source. So, you, are there plans to adjust the arrangements with those external managers?

Does Invesco have the capabilities to allow for those to be shifted to in-house management? Is that part of your plans when you move forward here?

Marty Flanagan: Andrew, you want to pick that up?

Andrew Schlossberg: Yes, and I think maybe in the release we bifurcated the numbers just to give clarity. It's about 18 billion U.S. in managed AUM by the Source team and seven billion in this, in the platform that are being referred to that are largely managed by Pemco. And there's probably two things to keep in mind.

One is the relationship between Source and Pemco without getting involved with the details, but the revenue stream is generated by Source in that relationships is relatively small. And Source plays a very, you know, distinct role around the products and Pemco and other. And so, as I said, the relationship in the discussion, you know, we need to get into it more and it's really, our whole decision on the product line and the partnerships is going to be guided, you know, by clients and by investors.

And, you know, our focus is going to be on them in the first instance and, you know, we'll work through the issues from there. But I did want to point out that it is a relatively small revenue source.

Brennan Hawken: Okay, appreciate that. Then on MiFID Loren, you, I completely get there's a great deal of uncertainty, regulatory and competitive. But is it possible, maybe, just to frame the issue and appreciate that you guys want to use the RPA's as a solution, minimally disruptive, that makes a lot of sense.

But if that turns out to be either competitively or from a regulatory perspective, not a viable outcome, what's the worst-case scenario impact for hard checks getting cut in payment for resource? The research, rather, to Invesco?

Loren Starr: Yes, I don't think that's a number we're, at this point, ready to lay out. Because we don't think that's actually realistic in terms of happening and it is something that's, because it is just so dynamic, you know, there's something that, you know, we would not expect to be, that worst case is not even an outcome that we're focused on.

I do think there are a variety of outcomes within, you know, where we think is a likely outcome and I'd say from, you know, completely, not material to something that's a little more material, you know, but we're not talking about, you know, hundreds of millions of dollars.

We're talking about tens of millions of dollars. And so, right now, based on where we're seeing this landing, it's hopefully going to be in that latter part and it is something where it is perfectly manageable within our current, so business as usual operating plan and budget.

So that's kind of the message that we'd like to leave you with as opposed to a number that is, you know, we think is probably not realistic.

Brennan Hawken: Sure, great deal of uncertainty. Thanks for the additional color.

Female 1: Thank you. Alex Rothstein of Goldman Sachs, your line is now open.

Alex Rothstein: Thanks, hey, good morning everybody. Question to Loren just around the fee rate dynamic. I guess at a high level, obviously, the active bucket as a whole so a little bit of a challenge this quarter again, but I guess taking a step back it really does feel like some of the higher fee products are growing significantly faster than maybe perhaps some of the stuff that's outflowing, even within the active equity bucket.

So can you help us dissect that a little bit more? Kind of how the evolution of the mix shift within the active bucket could look like? Taking into account A-what you see from, you know, GTR and the loan product, but also the comments made around institutional pipeline.

Loren Starr: Yes, I think it's really a function of the value for money. We're able to create a lot of value for our clients and that generally allows us to charge a somewhat higher fee, right? So in terms of the solutions and the alternatives capabilities, those are the fastest growing parts of our business. But they, geographically too, I'm very pleased to see cross border product being able to pick up.

Europe just generally feels much healthier and that's a very important part of our business and one that tends to have a higher fee. You know, where we don't really focus on a lot of commoditized capabilities, ones that are, you know, in price war, or we're having to cut fees and so we're not really having to deal with that dynamic within our mix.

So I think, I mean, for those reasons and then we build it from the bottom up in terms of the sales forecast, the products that are really interesting to institutions and to retail are either in the alternative capability, bank loans, some real estate, GTR, these are things that are unique and differentiated, not everyone has those capabilities, and we are very good at managing those products.

And then on the retail side, again, I think there's a lot of interest in bank loan and other products that provide uncorrelated returns like GTR, plus if we are able to provide some of our ETFs factor-based, I mean, these are again not commoditized ETFs, these are the ones that have tend to have higher fees and as I've discussed kind of have more than 30-basis point type of fee, those are very good margin dynamics as well.

The other point I would just like to mention on fee rate, which is important for people to realize because they look at our numbers and they kind of sense that there's a lot of pressure on fee rate, you know, there's been about a 2-basis point drop over the last two years, excluding performance fees. You know, I'd say 70% of that is just due to foreign exchange. And as we discussed, the 10% improvement in FX particularly say around the pound gives us about a 0.8 basis point lift and we're seeing the pound beginning to improve.

So I'm not saying that the pound is going to - on their way up but we are seeing some very favorable things within sort of foreign exchange is actually going to be net helpful for our fee rate going forward. And so it's mix and it's hopefully nothing negative on FX and more positive on FX, those things should help us at least achieve the guidance that we talked about, where we're reviewing the fee rate, pick up through the last half of the year, if not do better.

Man: Got it. Thanks for the color. And then the second question just around comments you made around potentially some upside to the kind of the $30 million to $40 million number in costs or cost savings from the program you outlined earlier. I guess one of the things you highlighted was potential outsourcing. I was wondering if you could provide more color on kind of the middle back-office, what specifically around this part of business you're looking to outsource and is that kind of included in the $50 million of potential total savings or that would be on top of that?

Man: Yes. I think, I mean, it goes back to 2015 when we started this thing where we benchmark a lot of our internal capabilities and we wanted to see, you know, where we're operating kind of the best of the best in terms of the metrics. We challenge ourselves across any - I mean, there are a lot of different areas of the firm that got involved in this process and still are involved.

And in certain cases, we saw an opportunity to do better by centralizing to a single location, going to single processes using technology more effectively. And so that - part of that optimization work we did in certain cases say there are others who can do it better. And so, for example, we outsourced the private equity back-office because we didn't think that we were going to be able to do - you know, build the scale and be able to do it as cheaply and as effectively.

So, I mean, that's the nature of the work that's being done. I think in terms of other large parts of the organization, looking at that, those definitely in scope and I think that is absolutely part of the 50 million that we're talking about. I don't want to get into too much specifics right now because we're still in the midst of it.

And then unfortunately, it's taken a little bit longer as all these large projects do to fully understand but no question when we get to a point of announcement, you'll know about it as we sort of get to certainty. So hopefully, I know it does not exactly answer your question but that's definitely part of it.

Man: And maybe it's in the context of, you know, we just look at, you know, process improvement generating efficiencies and effectiveness as a core, you know, core activity of the firm, always has been, always will be, and, you know, there's no end date to things like that. And again, I think good progress to date but we'll just continue to embrace, you know, the best talents and technologies, you know, available.

Man: Okay. Thanks for the answers.

Coordinator: Thank you. Brian Bedell of Deutsche Bank, your line is now open.

Brian Bedell: Great. Thanks very much. Just one back to Source again. Obviously, it's a, you know, a play on the capabilities in Europe but can you talk about whether there is actually a global dimension to this? Is there enough differentiation in the source product or do you plan to keep the brand name separate and then, you know, potentially market that globally throughout your franchise?

Man: Yes. (Andrew), (Dan), why don't you guys take that?

(Andrew): Yes, maybe I'll start, (Dan), then you can pick up from your end.

You know, as I mentioned, the product line from Source is robust and diverse, complements lots of aspects of what we do globally with PowerShares. I think it creates a set of building block products that we can take directly to our clients as we normally would.

Also as the growth of solutions both internally here at Invesco and multi-asset strategies in general across the industry grow, ETFs factor strategies and in particular, the source of ETFs that Source and PowerShares have, we think are going to be growing parts of those solutions. And so we see opportunity to leverage these building blocks that way.

(Dan), you might want to pick up on other growth opportunities on the ETF side and maybe the brand, too.

(Dan): Sure. Yes, I think in terms of just global synergies, you think that starting at a product range level we see a lot of potential, you know, the combining on both sides whether it's in EMEA or actually back in the US. I think clearly, you know, the US market is a little bit ahead in terms of smart beta and specifically factor investing. So clearly for us to be able to globalize a lot of our success and low volatility, you know, quality, all those different factor and even factor combinations, you know, high dividend, low vol, what have you, as we've down to continue to take that and then you really look at the upscale distribution of Source, that's pretty exciting.

And then if you actually look at Source, some very unique products on their side, for example, a leadership position in commodities within Europe, particularly in precious metals. And again, that's something where, you know, we have a very big commodity platform in the US but we don't have precious metals. So the product line synergies really work, we think, on both sides, you know, over the Atlantic.

I think in terms of brand, you know, obviously, we just signed the agreement a number of hours ago. I think clearly we want to be able to, you know, kind of transition, you know, through that and really consider what makes the most sense. But I think absolutely, you know, thinking from an Invesco perspective, we tend to really want to get the maximum efficiency and scalability from the global platform, most notably portfolio management, you know, products, capital markets, operations, all those areas we think are big differentiators and ultimately, if executed well, can really improve, you know, operating leverage for Invesco.

Brian Bedell: That's great color. Thank you. Maybe and then just one question on DOL, (Marty), maybe if you can talk, and if (Loren) also talk about, you know, what you're seeing, you know, given the shift or the delay of the DOL rule to June, you know, if you're seeing incremental different behaviors on advisers and, you know, more people are sort of rushing to meet that deadline in the second quarter.

And then also, (Loren), you mentioned on the flow side in the second quarter so far, I think you got 2 billion of inflows, I don't think you mentioned GTR in that, assuming they're inflowing, what is then conversely out flowing to get you back to that 200 million?

Man: Yes, with regard to DOL, I don't know if I can - those were great insights but, you know, I think you're pretty consistently - the 60-day delay was, you know, not very helpful, right? I think people are anticipating that ultimately there will be a delay and, you know, the incoming Chairman of the SEC made a comment, you know, recently that the best outcome would be a comprehensive fiduciary rule for the industry.

We are very supportive of that idea but we're a long way from that. So, you know, ourselves and, you know, our distribution partners are continuing to be prepared for the fiduciary rule to go to in effect, you know, some version of what it is right now. And again, I think people are hopeful that there's something different but it's just an awkward time for that.

Probably more importantly though, you know, I think the most important dynamic to come back to is there is a movement that will not stop and that is the movement to, you know, advisory and distribution partners view that as the future. They view that as the best way to provide services to their clients and every money manager will, you know, participate in, you know, in that movement. So we're managing our business accordingly. And I think that's probably the main headline that you should probably focus on. So behaviors will not change.

Man: Yes. And I would say around GTR, particularly I think, as we mentioned, the GTR product has reached a year track record at the end of last year which puts it into the position of being able to, you know, be used in US platforms. There have been a lot of dialogue, a lot of engagements on the product. I think there's still unfortunately really the derivative rule that would, you know, be required to understand, you know, is the product going to be able to be used in its current form. It's still not definitively understood yet and so that's been a little bit of a headwind moving forward but there's a lot of, you know, enthusiasm and excitement about being able to bring the product into the US channel as soon as that becomes more and more clear. So definitely, they are waiting but again there's general delay around regulatory certainties. It's not going to help.

Brian Bedell: Right. And then just on the flipside and it will be the balance of the inputs you mentioned, I think, PowerShares and I forgot the other one that was…

Man: Oh, PowerShares in the cross-border where…

Brian Bedell: Cross-border, that's right. Is the US equity still out flowing then I guess?

Man: US equity is in positive flow, if you take the PowerShares, but yes, excluding PowerShares, slight negative outflow.

Brian Bedell: Okay, great. Thanks so much.

Man: Thank you.

Coordinator: Thank you. Chris Shutler of William Blair, your line is now open.

Chris Shutler: Hey, guys. Good morning. Just two real quick ones on Source. So I know Source was started by a handful of large banks. Warburg, I think, had owned about half the company. Can you give us a rough sense of is there much AUM concentration amongst those former bank owners?

Man: (Andrew) or (Dan), do you want to take that?

(Andrew): (Dan), go ahead.

(Dan): Yes. I was just going to say, well, if you think about the - as you mentioned, the five investment banks actually formed -- and you're right -- formed the company and then later Warburg Pincus bought a majority stake. I think if you look in practice, you know, the AUM that would have been held and remember these were the investment banking arms of these five investment banks that, you know, they would just normally hold maybe seeding and inventory for the trading and their market-making purposes. So aside from that, there wouldn't be strategic holdings coming from that. So just like not only those banks but other market-makers as well would normally hold some level of inventory for market-making purposes.

Chris Shutler: Okay. And then just looking quickly at the product list on your Web site, it looked like they have maybe, let's call it, 8 billion somewhere in that range of S&P 500 ETFs. I just want to confirm those assets are not included in their AUM?

Man: Those assets are included in their AUM.

Chris Shutler: Those are? Okay. And they're at like 5 basis points?

Man: That's correct. That would be their core range of their products.

Chris Shutler: Okay. Got it. Thank you.

Coordinator: Thank you. Robert Lee of KBW, your line is now open.

Robert Lee: Great. Thanks. Thanks for your patience. I have questions. I just have two quick ones. First, I mean, I guess going back to Source, knowing you don't - you can't talk about the financial arrangements with too much specifics but just curious, is it reasonable to assume this is somewhat structured like you did with PowerShares with a moderate upfront payment but, you know, earn-outs based on some aggressive asset growth targets?

Man: I think you can assume as an upfront payment with some contingent earn-out based on growth, I wouldn't characterize it exactly like PowerShares but, I mean, conceptually, yes.

Robert Lee: Okay, great. And then maybe on a different topic. You know, we all talked about the active to passive shift ad nauseam, you know, over the last couple of years and could you maybe compare and contrast, you know, what you're seeing outside the US as it relates to - particularly in the retail channels and maybe your thoughts on, excuse me, the trends there? Choking on my words.

Man: Yes. I'd say the debate is most acute in the United States and it probably is because of the relative size of the, you know, cap-weighted index providers in the United States. And, you know, but it is - you know, let me put it this way, what we are doing as a firm is, you know, we do actually believe that the right answers are a combination of active, passive and alternatives, and which overlay that (Loren) was talking about and we do think it's the way of the future and it will be varying degrees in different markets, probably again most acute in United States, you know, probably followed by the UK. The least along those ways would be, you know, Asia at the moment.

Robert Lee: Great. That's it. Thanks for taking my questions.

Coordinator: Thank you. Michael Cyprys of Morgan Stanley, your line is now open.

Michael Cyprys: Hi, good morning, everyone. Thanks for patience this morning on the questions.

Just coming back to the optimization work, just curious how we should think about those savings flowing to the bottom-line versus, I guess, keeping margins flat or maybe even expanding that versus how you're thinking about investing in the business.

Man: Yes, I think, again, we'll probably be in a position to give you a bit more color about how that might manifest itself. You know, we've generated about, as I mentioned, 30 - roughly 30 million of run rate savings so far. You haven't seen a lot of that drop to the bottom-line that's because it helped offset some of the acquisition cost associated with some - you know, Jemstep and with our Religare business.

So again, it is more likely than not that some of that is going to go to allow us to invest beyond our most critical investments while keeping expenses reasonably stable and flat. And so that's really the greatest opportunity for us is to free up funding as we always have done but in a much more significant way because the need to invest has probably never been greater in this market than we've ever seen before with so much opportunities, so much change. So again, we'll give you more color as we probably get to midyear around what to expect and then Marty…

Man: Yes, let me - again, we talked about it at various times on these calls. And let's get back to, you know, (Ken's) comment earlier on the call about, you know, the M&A environment. And, you know, this is probably the worst time for firms not to invest for the future. And, you know, the good news is, you know, we started investing, you know, more than a decade ago in alternatives and passive and, you know, in ETF business, et cetera, et cetera. And so we've been able to continue to invest while still being very responsible in delivering returns for shareholders.

And (Loren) raised a very good point. So the efficiency that we gained, it is allowing us to continue to develop the business strategically today. And I'll just add, you know, one comment on Jemstep. You know, we're, you know, sort of a year into it. The highlight, what I would say, is going to be much more impactful than we probably imagined at the time. It is, you know, creating opportunities that we didn't even imagine.

And again, it feels like it was all the opportunities for what PowerShares did, you know, for us, you know, 11 years ago when we bought it. And again, we'll be more clear later in the year on that. But you have to make those strategic investments and, you know, when you end up getting some of the outcomes which, you know, might accrue with something like Jemstep, I think, you know, that's what creates competitive advantages for firms and the ability to do better jobs for your clients.

Michael Cyprys: Great. Thanks very much.

Man: Yes.

Coordinator: Thank you. Chris Harris of Wells Fargo, your line is open.

Chris Harris: Thanks guys for all the patients. Just a quick one. I wanted to follow up on the active versus passive discussion ex-US. You guys really do have a great chart in here on Slide 19, you know, just showing the growth of ETF in EMEA. And, you know, if we do expect that trajectory to hold and have a similar path as it's had in the US, you know, what are the implications for your active business in the region, in EMEA? And I guess what I'm really wondering, is there a reason to think that this penetration in EMEA might not be as disruptive as it's been in the US?

Man: So what I would say for ourselves is, you know, we have an absolutely outstanding set of, you know, investors in EMEA. I'd say some of the best investors, you know, quite frankly in the world, and (Andrew) talked about the success and penetration and that only happens because of, you know, doing a good job for clients.

We look at this probably very similar to, again, what happened in the United States if these are complementary vehicles and products to active management and all it did for us was strengthen our core business. And so we see our active business only getting stronger on the back of this. And, you know, needless to say, we're very excited about, you know, the future and the opportunity.

Chris Harris: Okay. Thank you.

Coordinator: Thank you. And speakers, there are no more questions on queue.

Man: Okay. Well, thank you very much. Thank you, everybody, for your time and the questions. And, you know, as always, we appreciate, you know, your time and your efforts following the company. We'll speak to you very soon.

Coordinator: That concludes today's conference. Thank you for participating. You may now disconnect.

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