Aimee Partin: Good morning, and thank you all for joining us. As a reminder, this conference call and the related presentation may include forward-looking statements, which reflect management's expectation about future events and overall operating plans and performance.

These forward-looking statements are made as of today and are not guarantees. They involve risks, uncertainties and assumptions, and there can be no assurance that actual results will not differ materially from our expectations.

For a discussion of these risks and uncertainties, please see the risks described in our most recent Form 10-K and subsequent filings with the SEC. Invesco makes no obligation to update any forward-looking statements. We may also discuss non-GAAP financial measures during today's call. Reconciliations of these non-GAAP financial measures may be found at the end of our earnings presentation.

Coordinator: Welcome to Invesco's Second Quarter Results Conference Call. All participants will be in listen-only mode until the question-and-answer session.
At that time, to ask a question, press star 1. To allow more participants to ask questions, only one question and follow up can be submitted per participant. 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; Allison Dukes, Deputy Chief Financial Officer; Greg McGreevey, Senior Managing Director, Investments.

Mr. Flanagan, you may begin.

Martin Flanagan: Thank you very much, and this is Marty Flanagan. Thanks for joining. Much appreciated. What we'll do today is I'll make a few introductory comments and Allison and Loren will go through the financial results, and then we'll all be available for Q&A. And if your -- presentation on the website if you want to follow.

Before we begin, I would like to recognize that after 15 years, this is Loren's final earnings call. He's been an incredible partner and CFO for all those years, and incredibly well-regarded, internally helped us through all of our growth and some challenging times during various crisis, including this one. But I will say, value to his trusted counsel on a good basis, we'll get to benefit from that as he becomes a Vice Chairman until March of next year.

And at that announcement, we did announce that Allison will become the CFO on August 1. Allison has been with us through since mid-March and has served as Deputy CFO, working with Loren and his team, and I will say the transition has gone extremely well --. Allison's prior experience as the CEO – her operational experience and prior financial experience is going to be
invaluable --. Well, let's get started, and I'm on slide three if you are following along.

So prior to the onset of the pandemic, we were on the path to execute our long-term strategy, which was in our ability to meet client needs, while returning Invesco to organic growth. And over the past decade, we've had the disciplined act on our highly efficient industry views ahead of key macro trends, and we think that's positioned us very well. With the onset of the pandemic, we reacted dramatically, as many firms did, focusing and focused on ensuring the financial strength of the firm.

During the quarter, we remain committed to helping the way these clients and communities navigate the challenges that presented themselves as the virus spread. In fact, we've transformed how our employees work with one another, how we interact each and every day.

The vast majority of our employees continue to work from home, and be fully embedded in remote working, which is helping all of us to work more effective and efficiently together. Through technology-enhanced outreach and constant communication, we've made supporting our teams, while they work remote be a top priority. We have also reshaped our client delivery model to a fully digital engagement platform, which allows us to meet our clients' on multiple technology platforms wherever they are in the world.

We're able to work effectively and safely while serving our clients at the highest levels. These efforts combined with a strong investment performance and high demand capabilities led to improved low fundamentals during the quarter. Long-term flows in EMEA turned positive in the quarter and we continue to see net inflows in Asia Pacific. Our institutional pipeline is at a record level.
Our Solutions capability enabled over 50% of the pipeline, created wins in customized mandates during the quarter, and we continue to get very strong impact from our clients. Retail flows improved during the quarter but were net outflows. Long-term flows into fixed income capabilities were strong by channel and Loren will give color and insight to flows in just a minute.

During this uncertain environment, we are continuing to reallocate resources to further grow while turning our focus of building operating scale in the organization. Our total operating expenses were in line with guidance that we provided last quarter, despite the market rebound demonstrating. In addition, we strengthened our balance sheet in order, paying down revolver, improving our leverage profile and increasing our liquidity.

Allison will cover details of our expenses and capital management in a moment. Invesco has built a global, diversified business with depth, breadth and resiliency to delivery positive outcomes to clients through various market cycles. We have the foresight and discipline to invest in several macro trends that are shaping the future of our industry.

As a result, we are now well positioned in areas of high demand with the majority of our investment capabilities aligned with key future growth areas, a significant and growing Solutions effort and leadership positions in alternatives, ETFs, fixed income factors, emerging market capability as well as fast-growing China market.

Our efforts place us in a very strong position to manage through crisis while continuing to be---. The resilience of our employees, the strength of our client relationships and the breadth of our capabilities continue to achieve more solid operating results. We remain focused on helping our clients navigate the
challenging market environment by running a disciplined business and working toward a return to organic growth.

Let me close my introductory comments by noting that Invesco is committed to addressing the long-standing racial inequalities that became the focus of protests worldwide during the quarter. In support of Black Lives movement, we further strengthened our commitment to addressing social injustice by deepening our understanding on this topic, driving progress in our communities, and further expanding our diversity and inclusion efforts across the globe.

As an example, we support the Metro Atlanta Chamber of Commerce efforts to pass the hate crime legislation in Atlanta, in Georgia, excuse me, which was recently signed by the governor, and took other steps to address systematic racism in our communities.

With that, I'll turn it over to Loren and Allison to go through results and then we'll get into Q&A.

Loren Starr: Yes. Great. Thank you very much, Marty. Slide five summarizes our investment performance. We had 57% and 69% of actively managed funds in the top half of peers on a five-year and a 10-year basis, reflecting strength in fixed income and global, emerging markets, and Asian equities. These are all areas where we expect to see strong demand from clients globally.

Moving to slide six. We ended the quarter with $1.145 trillion AUM. AUM increased to $118 billion in the quarter from increased market values. Turning to slide seven. Long-term net outflows in the second quarter were $14.2 billion, that was largely reflecting the market dynamics in U.S. retail. Flows in this market improved from levels experienced in Q1.
Net long-term outflows and active AUM were $13.4 billion, and net long-term outflows in passive AUM were $0.8 billion. Our ETFs experienced net outflows of $0.4 billion, that was largely driven by net outflows in the S&P 500 low volatility ETF, the Invesco FTSE RAFI US 1000 ETF, which was offset by net inflows in our EMEA physical gold exchange-traded fund and the Invesco National AMT-Free Muni Bond ETF. These ETF flows are against an industry backdrop of very narrow flows, about 90% or $119 billion of total ETF flows of $131 billion went into fixed income and alternative/commodity strategies.

In fact, the top 10 funds in the industry drove more than half of the industry flows. Our QQQ fund, in fact, was among the top 10, it saw net inflows of $6.1 billion in Q2. But I'll note that we do not include our QQQ net inflows in our net long-term flows, but as non-management fee-earning flows.

We saw improvement in our retail net outflows with $14.6 billion in outflow, down from $30.3 billion in Q1. On the institutional side, our net flows were slightly positive at a net $0.4 billion in the quarter, but that was down from net inflows of $11.2 billion in Q1, and I'll provide a little more color on these flows in the next few slides.

Looking at flows by geography, you'll see that sales outside the Americas and EMEA and Asia were positive. EMEA ex-U.K. returned to positive flows in the quarter of $1.8 billion from net outflows of $1.2 billion in Q1 and that was driven by strong flows into our gold exchange-traded fund.

We also had net inflows in Asia Pacific of positive $2 billion, and that's up from $0.2 billion in Q1, driven by institutional investment-grade fixed income mandates in Japan and net inflows into our balanced funds in our China joint
venture. We don't have net flows by asset class on this slide; however, I want to point out that we saw strength in the fixed income across all channels and markets in the second quarter with net long-term inflows of $6 billion.

So now let's move to slide eight. The timing of institutional funds can be lumpy, and we did see some slowdown as it was in the quarter. But as you can see, our institutional pipeline remains full. In fact, grew to a record level during the second quarter to $33.4 billion from $31.9 billion. Our pipeline is robust across both asset classes and geographies.

And significantly, our solutions effort enabled more than half of the pipeline, underscoring the success of the consultative approach to the sales process that we're using.

Moving to slide nine. Let me add a few comments about our active U.S. retail. Long-term flows for the industry were slightly negative, negative $2 billion, but they were highly bifurcated between fixed income, which was positive $145 billion, and equity, which was $115 billion. Industry inflows into fixed income were led by taxable funds, which is about 90% of the total inflow for the industry. You can see on the active U.S. retail slide, that our ending June AUM grew 11% from the end of March.

And importantly, our fee rates were strong and remain consistent period to period. Our average monthly gross sales remained at a healthy pace for Q2, similar to the growth trajectory of the pre-COVID December, January and February levels, and that's also up 7% from the effectively combined firms Oppenheimer Invesco results in Q2 2019.

Net flows improved 30% in Q2 versus Q1 across all asset classes, but they were challenged by our large exposure to equity funds.
Invesco represent about 65% of our active U.S. retail AUM, and we also had limited exposure to taxable fixed income, that's only about 8% of our active U.S. retail AUM. And so again, given what happened in the industry, you can sort of see the context of what happened to our flows.

Fixed income in the Americas, however, along with the industry, shifted back into positive net long-term inflows for the quarter, and that was led by our muni products suite. Our heavy AUM exposure in the five largest industry outflowing sectors in Q2, which were U.S. large-cap value, U.S. large-cap core, bank loans, international equity and global allocation that accounted for 70% of our active U.S. retail net long-term outflows.

So now that we're done with flows, let me turn it over to Allison, who will comment on revenues, expense management efforts in the period as well as our capital management activities. Allison?

Allison Dukes: Thank you, Loren, and good morning. Turning to slide 10. You'll note that our revenues decreased $112 million from Q1, driven by lower average AUM in Q2. Average AUM in Q2 was $1.12 trillion, 5% lower than $1.18 trillion in Q1. Net revenue yield ex-performance fees were 36.8 basis points, down 1.9 basis points from Q1 and largely in line with guidance we provided for the quarter.

Net revenue yield was impacted by the change in mix of our AUM, following the flight-to-liquidity experienced in March, going slightly by the increase in markets in the period. Given the mix shift we're seeing in our AUM, including the impact of larger, lower fee institutional mandates, we expect a continued modest decline in our net revenue yield ex-performance fees in Q3.
Our total adjusted operating expenses were $675 million in Q2. We guided in April that we expected operating expenses to be around $675 million based on market and FX levels as of March 31. Through prudent expense management, we were able to maintain the total operating expense level despite the market's rebound.

Like many firms, we're taking a hard look at our expense base in light of the ongoing global pandemic and its impact on both markets and clients. Much of our operating expense improvement has been realized through pandemic-related restrictions on travel and other business operations.

Additionally, we're being thoughtful about hiring and have tightened discretionary spending. While these measures have and will continue to benefit our operating expense base, they are temporary improvements and we would expect those expense categories to return to a more normalized level when travel and in-person engagements resume.

Marketing expense was unusually low this quarter, and we would expect that to modestly increase in 3Q. Beyond these temporary reductions, we believe we have an opportunity to create more permanent improvements in our expense base aligned with our strategic plan.

We have the benefit of scale with nearly $1.2 trillion in assets under management, which allows us to allocate resources and simplify our operating complexity through coordinated execution across our global firm, all tied to our long-term client-centric strategy.

As Marty noted, we've managed through the process of rotating to work-from-home status for nearly all of our employees, and we've ramped up our ability to virtually engage with our clients. We're now focused on strategically
positioning the firm to deliver positive outcomes for clients and compete effectively in an industry that is being reshaped, like so many others, to a post pandemic new reality.

Our strategic evaluation has several components, including enhancing client outcomes, improving organic growth, reducing complexity of cross-functional activities and streamlining our operating environment. We'll provide more detail around expected improvement to our expense base in the coming quarters as we complete the strategic evaluation.

Moving to slide 11. You'll see that nonoperating expenses negatively impacted earnings for the quarter. Adjusted EPS was $0.35 compared to $0.34 in Q1 with adjusted nonoperating expenses, reducing EPS by $0.07.

This included $53.2 million of net losses in equity and earnings, driven by noncash market valuation adjustments, primarily in our CLO holdings, which are reflected in our results on a one-month lag. The unrealized CLO losses do not provide tax benefits due to the jurisdiction of our holdings, contributing to an elevated tax rate for the quarter of 24.4%.

For the remaining quarters of 2020, we estimate our tax rate to be between 24% and 25%, while the actual effective tax rate may differ due to nonrecurring or discrete items. Turning to slide 12. We reduced our revolver balance by $182 million in the quarter, consistent with our commitment to improve our leverage profile. In addition to using excess cash to reduce leverage, we seek to improve liquidity and financial flexibility.

To that end, our balance sheet cash position improved to $987 million in Q2 from $941 million at the end of Q1. Our goal remains to build cash to $1 billion in excess of our regulatory capital requirements. And at June 30, we
were holding approximately $280 million in excess of regulatory requirements. As we've indicated, we're building financial flexibility in these uncertain times, and we believe we're making solid progress in our efforts. We're committed to a sustainable dividend and to returning capital to our shareholders.

In summary, we remain prudent and cautious in our approach to expense and capital management while reallocating our resources to position us for growth. Our focus on driving greater efficiency and effectiveness into our platform, combined with the work we have done over the past 15 years to build a global business with a comprehensive range of capabilities, puts Invesco in a very strong position to meet client needs, run a disciplined business and grow our franchise over the long term.

With that, I'll turn it back to Marty for some closing remarks.

Martin Flanagan: Thank you, operator, very much excuse me, Allison and Loren. Can we turn to questions, please?

Coordinator: At this time, if you would like to ask a question an audio question, please press star 1. You will be announced prior to asking a question, please pick up handset when asking a question, to withdraw your request please press star 2. One moment for the first question.

Our first question comes from Glenn Schorr, Evercore. Sir, your line is open.

Glenn Schorr: Thanks very much. Wanted to ask a follow-up on your comments on the retail industry and that part of the business. You obviously mentioned the positive flows for the industry in fixed income, negative in equity. And that's
been going on despite pretty good equity markets overall. Obviously, this year came too with some ups and downs.

So you have really strong gross sales, but redemptions are also high. So can we talk about what's within your control? How are you adapting maybe your retail servicing and platform portfolio construction? You put that all in a package of what we can do because the reason I ask, obviously, is retail and equity outflows is offsetting altogether good stuff that's going on at Invesco. Thanks.

Martin Flanagan: Yes, Glenn, great comments. You're right. I will say the flows this last quarter were quite huge. And there was fund stocking we're looking to when you have huge exposure to categories that are not so way to do product. We continue to build the capabilities that are going to see persistent growth over time.

But I think your answer is something very different. Engagement model with wealth management platform just continues to evolve dramatically. And it's been very, very important for institutes to develop sort of much Solutions capability. So don't think of it just as institutional. Think of it as engagement with important FAs that exist within platforms. And that is, frankly, the first place we started.

So that is an area that's that gains really starting to make difference, as I was talking about a few minutes ago. I think the other thing that has been a very important thing evolving is building models for the platforms and having the ability to Solutions in our self-indexing capability to build models for the platforms, and that is also something that's very, very different.
And we had visited a very important model in one of the important platforms. But to build the models, you literally have to have the component parts, right? So you literally need all major asset classes that you would imagine to be available within them all. And what we see happening in the future, more and more it's going to be Solutions engagement, building models, whether it be either through buys and not necessarily a discrete model profile.

So those are capabilities that successful because they're really the most competitive and the largest asset pool in the world. And I think also, the other element is more and more the wealth management channels are looking to firms such themselves to help them be successful with the client base. And that has really done a very good job through Invesco consulting.

So any one of those any combination of those is really going to be the difference maker. And again, I think, it's also important, not just active, but having capacity capabilities and factors and alternatives to give some totality of the offering. So hopefully, that's helpful in the engagement point that you're raising.

Glenn Schorr: Absolutely. Allison, if I could just ask one quick but if you're doing one, I'll move on to the back. It's cool.

Allison Dukes: No, please go ahead.

Glenn Schorr: Okay. Just a quick follow-up then, sorry. You mentioned the CLO mark. Could you give us a little more detail in terms of the composition and the size of CLO holdings and where you fit in that stack?

Allison Dukes: Sure. So I think probably most important to recognize about the CLO mark this quarter is that we noted it's on a one-month lag. So that mark-to-market,
it reflects the valuation at the end of May, would obviously decline substantially from where the valuation would have been at the end of February and what was reflected in our first quarter results. I think over the course of that time frame, the valuations fell probably 51% thereabout.

And we would expect our third quarter mark would be reflected as of August 31. We know through June, CLO valuations have continued to improve. So I would expect some modest improvement from there, hard to predict, and we wouldn't want to predict, but we do think we took the majority of that pain and our losses there.

In terms of our equity and earnings and what comprises that, it's obviously our co-investments in CLOs, but also in private market funds, and it's about 75% of that mark came from CLOs and about 25% came from our private equity funds.

Loren Starr: And Glenn, I would just say, our co-investments, it's all equity. So we have the lowest level in the stack. So it does move around quite a bit based on these kind of valuation mark-to-markets. But again, it's all unrealized, noncash flow. And I think we have roughly, in terms of aggregate numbers, about $60 million of investment in the CLO equity as of end of May.

Glenn Schorr: Thank you for all that got. I appreciate it.

Coordinator: Thank you. And our next question is from Brian Bedell with Deutsche Bank. Your line is open.

Brian Bedell: Great, thanks, good morning folks. Allison, maybe if I could just go on to the expenses, the $675 million, obviously good given the market had rebounded quite a bit since the earnings call. I just want to check if that's if even with
this rebound, that seems to be sustaining more into 3Q, is that still if you're viewing as a good comp rate in on a quarterly basis in the back half?

And then just you mentioned about the expense strategic revaluation. Just obviously, there's much more to come on that, but could that include both on product rationalization and other areas to try to improve the organic growth by eliminating products that aren't growing?

Allison Dukes: So let me start thank you, let me start with third quarter expense guidance. I would say, again, some of what we've as I noted, some of what we've enjoyed thus far would be considered temporary in nature. I don't expect anything changes there in the third quarter as it relates to travel or in-person engagements. We are operating in a very consistent environment in the third quarter and like all of us don't really know when that ends.

We would expect marketing expense, the advertising component of that might pick up modestly in third quarter. Those expenses can be lumpy quarter-to-quarter. We're certainly not going dark. We're actively out there in the market with our clients virtually. And so I would expect that might be a little bit higher than what we saw this particular quarter. But net-net, our expenses will probably be somewhat in line quarter to quarter.

And as we think about broader expense reviews, not at this point, what I feel like we're in a position to make any decisions around any sort of strategic decisions that would impact revenue. But rather, what we would be thinking about is looking at what I would consider all the typical areas you would expect us to review.

And that would include organizational efficiency and effectiveness, real estate optimization, tech and office efficiency and third-party spends. So we'll be
thinking about all those different expense categories and making sure that we're creating a really disciplined expense state to weather any revenue environment as we continue to progress.

Brian Bedell: Okay. Great. And then maybe just the trajectory of flows moving into July in terms of I guess, how is the sales the combined salesforce doing? Is there more traction? Obviously, it is still a tough environment. And then on that institutional pipeline, that continues to be strong, maybe if there's any commentary on timing of when you think some of that will fund? Just to get a sense of the trajectory of overall flows moving into 3Q?

Loren Starr: So Brian, yes, I'd say we are gaining more traction on the U.S. retail side. So it's definitely sort of an improving but still challenged environment. I think you have access, so you can see the flows on the ETFs that has definitely improved. I mean, it was steadily improving every single month within Q2 and through sort of mid- to late July, we've got $2.3 billion of positive long-term ETF flows.

So we're seeing definitely some more traction. I think Allison kind of mentioned that. We think the overall flow picture is going to be improved generally relative to where we are in the first half, which is not saying much because of tough first half, but sort of signs of green shoots coming through. And certainly, as I mentioned, both EMEA and Asia Pac, everything outside the U.S. is definitely nicely positive at this point and continues to look to be so.

Brian Bedell: And the timing on the institutional side with the Solutions?
Loren Starr: Pipeline pardon and so on the pipeline, we feel pretty good about the timing of the pipeline sort of funding generally within the next two or three quarters, I mean, that's generally what's happened.

I mean there has been some slowdown in some of the, for example, more traditional real estate funding as that market is sort of obviously had to sort of readjust and we value on certain properties. But some of the other pipeline elements, which is sort of broad-based across the different capabilities, fixed income IQS and so forth, those are look like they're going to be funding within this year, for sure.

Brian Bedell: Thank you.

Coordinator: Thank you. And our next question is from Patrick Davitt with Autonomous. Your line is open.

Patrick Davitt: Hey, good morning. Thanks. One more quick follow-up on the expense guide. As we think about heading into the 3Q against the market improvement, why would we not see more pressure on the compensation side given the market recovery? And to what extent there is some variable compensation tied to that? Or is there not really any of that relationship anymore?

Allison Dukes: No. I think important to note in our expense guidance, both as it related to the guidance for second quarter and going forward, that was assuming market and FX levels at quarter end. So certainly, if there that could fluctuate, and there would be variability in several expense line items, compensation being the biggest driver should we have some sort of market improvement. So we would expect those to work in tandem. But absent any change, all things being equal, that's really what our expense guidance is based on.
Patrick Davitt: Okay. Great. That's helpful. And then more broadly, I guess there was some chatter over the last month or so about a new QQQ tracker in a more traditional ETF wrapper that you could actually make money on. So could you speak to how you plan to market that alongside the existing QQQ Trust to talk about the opportunity there. If I imagine, the current QQQ users care more about its liquidity, and it would be tough to get them to move to something else.

Loren Starr: If I can or do you want to go?

Martin Flanagan: Go ahead, Loren.

Loren Starr: Yes. So again, just in terms of the QQQ announcement, I mean, I guess, to step back and we Invesco has already had a very long-term relationship with the NASDAQ by AUM. NASDAQ is the largest index partnership for Invesco's ETF business. In the U.S., we have 24 ETFs managed against NASDAQ indices, accounting for over $120 billion in aggregate assets.

In fact, NASDAQ also plays a critical role as a calculation agent for our BulletShares index. But we're in terms of this particular announcement, we are not actually at liberty to discuss new offerings, specifically because we're in this quiet period.

But what I would say is that this announcement and the addition of new funds to the "Invesco QQQ suite" really does show how we're strengthening our relationship between both Invesco and NASDAQ. So more to come on that one, Patrick. It's very exciting. But we can't really get into much detail because of just the timing of the registration.
Patrick Davitt: Thank you.

Coordinator: Thank you. Our next question is from Dan Fannon with Jefferies. Your line is open.

Martin Flanagan: Dan, you may be on mute.

Coordinator: Dan Fannon Your line is open with Jefferies.

Dan Fannon: Can you hear me now?

Martin Flanagan: Yes, we can hear you, Dan.

Dan Fannon: So thanks for that. The question is on expenses in the U&D margin in the second quarter. What drove the outsized decrease in the expense side of that relationship versus revenues?

Allison Dukes: So what drove the improvement in second quarter versus first quarter relative to revenues? I mean, largely compensation expense concurrent with market as the average flows were a little bit better, but still relatively low, certainly relative to what we expected. And then a large part of that expense improvement was did come from G&A.

And the suspension of travel and in-person engagement that is a significant driver of the expense reduction. And again, would be considered somewhat temporary in nature, although we're certainly not in a position to forecast what normal looks like anymore.

Loren Starr: And again, you'd mentioned marketing. So marketing was down significantly from $35 million in Q1 to $16.6 million in Q2, and so that was a big driver.
Allison Dukes: Yes. And that would be both advertising expenses and some of the travel-related marketing expense. And some of that advertising, we would expect to be modestly higher going forward.

Dan Fannon: Okay. I apologize. My question was on the distribution expense. The relationship between the revenues and the expense. Did net distribution margin improve quarter-over-quarter?

Allison Dukes: Sorry, we didn't hear distribution at all. Distribution fees were abnormally low in the quarter given really the TA waivers, low activity, lower marketing support, which would just be related to a lot of the lower COVID-related activity, too. And we would expect some of those activity and fees to be a little bit higher in the third quarter, but it was unusually low in the third quarter.

Loren Starr: In the second quarter.

Allison Dukes: I'm sorry, in the second quarter.

Loren Starr: As Allison mentioned, I mean, the pipeline is going to record to levels, but it is largely sort of being enabled by kind of Solutions efforts as well as some index kind of capabilities, IQS. And those tend to be at a fairly low rate. So what we're seeing probably both on the institutional side as well as the retail side in terms of interest around lower fee products, ETFs is that I mean, this is a continuing trend that we've seen for years now.

And so there isn't any sort of "stabilization." And what we did show, obviously, on one of the slides was, I mean, the actual fee rates on the
products themselves are pretty stable. But just in terms of where the client demand is coming, it's largely around sort of these lower fee things.

Now the margin on these capabilities are still very good. They're larger. They're bigger wins. And so you do have very fine margin dynamics, but it will sort of drive the free rate as sort of modestly lower sort of quarter-to-quarter, and it's hard for us to forecast. And we don't provide real guidance because it is really just a matter of time how these mandates fund and where the client demand comes from.

I mean, if we were to see, for example, international emerging market capability coming back with strength, that would obviously have a very positive impact on fee rate right now that as we talked about, that's been sort of an outflow for the industry and we see that as well, and that tend to be a higher fee part of the mix.

Martin Flanagan: Yes. So I think just to reiterate Loren's point. It is also consistent with where the demand is, right? So you just saw outsized demand in fixed income. And again, lower fee dynamic than some of the international resets. It will be reflective of a fine demand in.

Dan Fannon: Okay, thank you.

Coordinator: Thank you. Our next question is from Ken Worthington with JPMorgan.

Ken Worthington: Hi, good morning. Maybe first, Invesco is a big manager of direct real estate and REITs. Maybe first, remind us how big your real estate investment business is? What kind of exposure you have to retail, hospitality and other COVID-exposed investments? And in your slides, you had 24% of your won
but not funded mandates were in alternatives, how much of these are focused on real estate?

Loren Starr: So let's see. In terms of real estate, total AUM is about $80 billion of AUM is in real estate. I think about 2/3 of that is going to be direct real estate and the rest is securities. In terms of the pipeline, it is a good component of it, but it's not the majority. It is still a sort of multibillion element within that $34 billion.

But what we're seeing in terms of the pipeline, it's being dominated more by the Solutions, which is really not necessarily real estate IQS type related mandate. So there's still a strong interest, but it's not one that is driving our pipeline. It is part of the growth, but it's not the majority of that growth.

The business as a whole is doing very well. There's been a lot of client outreach and sort of working through this new environment. There isn't an overexposure to sort of those hospitality elements per se. And globally, there are a couple of funds and a couple of sort of mandates that probably do have some degree of more exposure than others. But we are not sort of positioned on the outside of sort of our exposure to those types of mandates, which is a good thing. And so it has not had major impacts on our business at all.

I would say the bigger topic is really just working through the tenants and the others, the clients to make sure that we continue to see income streams coming off of those properties, which we are we're still seeing strong income generation on those properties. So, so far, so good. We feel pretty comfortable that the business is continuing to grow. And as I mentioned, it is a component of our pipeline, but not the dominant one.
Ken Worthington: Okay. Great. And then other revenue is down. I think you guys called out lower front-end fees. What is that? Is there any offset in distribution? Or is it 100% margin? And what is the outlook going forward for that fee component?

Loren Starr: Yes. So the lower front-end fees, it's a small bit. I mean, it's been like $4 million difference quarter-to-quarter. So it's not a large amount. Those are elements that still get paid and are offset, though, on the other on the distribution pass-through. So it's not a major sort of margin topic. The transaction commissions and transaction real estate transaction fees were a component of the other revenue as well.

As I talked about, things kind of slowed down, sort of the market was taken a pause in understanding valuations. So we did see sort of a bit of a dip in Q2 in other revenue. We would hope to see that line item begin to sort of at least stay at this level if not improved somewhat modestly into the next quarter.

Ken Worthington: Thank you very much.

Coordinator: Thank you. Our next question is from Mike Carrier with Bank of America.

Mike Carrier: Good morning. Actually in the question on I just on capital and cash flow. I think you mentioned where your cash level was, and I think you wanted to get that above like $1 billion or so. If you can just kind of run through how you think about like quarterly cash flow? What's kind of tied up or taken? And then just priorities for that cash flow? You mentioned paying down the revolver, but also kind of expanding that cash level. So just trying to get a sense over the next few years where those priorities are just given what's free each quarter that comes out?
Allison Dukes: Sure. So yes, as noted, this quarter, we are at about $280 million in excess of our regulatory and liquidity requirements. We do have a target of trying to get to about $1 billion of cash in excess of those requirements, and we did make good progress this quarter as we continue to pay down the revolver and build those cash.

As we think about inside the quarter, any particular cash or capital requirements. Nothing that wouldn't be, I would say, quite obvious in terms of both our common and our preferred dividends. But otherwise, inside of the quarter, it's fairly straightforward from here. And our priorities are to continue to support our future growth, to strengthen our balance sheet and also to return excess cash to shareholders.

And so as we think about that, we do seek to: one, continue to make progress toward this $1 billion excess cash target; two, continue to reinvest in the business in the form of seed capital; and three, remain committed to a sustainable dividend, returning capital to our shareholders.

And then right now, as we've noted before, share repurchases aren't a priority at this moment as we continue to focus on de-levering and improving our balance sheet. But they certainly are an option and one that we will keep front and center over time.

Our revolver balance is down to about $336 million. We did make about $180 million of progress there. We do seek to continue to manage that down over time. We don't have any other debt requirements coming up until our '22. So we've got some time before our next maturity.

And we will be looking to just modestly improve our leverage over time and seek to keep ourselves within the targets that we set ourselves along with the
rating agencies and financial flexibility we're trying to create for the uncertainty of the environment we're in. It's a balance. I would say, it's taken in totality. We're trying to balance all these objectives.

Coordinator: Thank you. Our next question is from Bill Katz with Citigroup. Your line is open.

Bill Katz: Okay, thank you very much for taking the questions. And Loren, best of luck. Quick question on Direct Index. Can you talk a little bit about how you sort of see the pros and cons of the business through the prism of your existing passive business? And any opportunity or threat to the active business to the extent that, that takes off?

Martin Flanagan: Yes, I'll make a couple of comments, and Greg can chime in too. What we've said for a good number of years, the reality is clients are using a combination of passive factor build portfolios. And so we have those capabilities. We're growing in all of those areas.

And if you look over the years, they've grown quite dramatically. You need to align that also with what our clients are doing and what our platform is doing. They're using fewer and fewer money managers. And if you cannot offer the totality of the asset classes that they want, you're really going to be disadvantaged.

And I’d say that becomes more relevant during this pandemic period where there is no question in my mind, clients are turning to their existing relationships and looking to do more with them. So I think this environment has accelerated that. And again, we can do more for clients, be more relevant for clients and we just it's been a very important part of our strategy, and I think it's been the right one.
Gregory McGreevey: The only thing I'd add to that, Bill, is, I think, Marty is spot on if this
allows us to come in as clients have really changed their risk budget. They're
using a lot of indexing and then other things that they're trying to get their
returns, but we can come in and have that conversation about indexing with
them.

And it requires us to holistically understand their portfolio, so we can come in
and be more relevant by providing an index solution. So I don't think, in the
premise of your question, that this is anything but complimentary to both the
client relevance.

And then ultimately, we think we can do, given our broad capabilities, other
things that we might be able to add on to the client to have a more holistic
relationship. And that's starting to actually bear fruit in some of the
relationships that we've got some index wins already. It just changes the
conversation on a go-forward basis.

Bill Katz: Okay. And just a follow-up, it's a little tactical in nature, so I apologize for
that. But just on the institutional money market business, I appreciate it's
probably a low fee start point. Is there any incremental pressure on the
underlying fee waiver? Or if there is a fee waiver, could you maybe quantify
what that pressure might be as we look into the third quarter?

Loren Starr: Yes, Bill. I think right now, actually, very little is being waived. So we have,
as you know, sort of traditionally all been really focused on the institutional
money market business. And so we do have a very small retail component.
And so, to us, the idea of sort of fee waivers probably could be, worst-case,
sort of $10 million to $20 million. We've not seen any of that sort of come
through. So we continue to watch that space.
But that would be kind of the math kind of pain that we would see. I don't think there's anything imminent in Q3 that we're sort of need to sort of put you on alert on, but it is sort of if you sort of stress test this even further, that's kind of the pain that we would suggest you...

Gregory McGreevey: Yes. Maybe just to put a little finer point on that, Bill. At the end of the second quarter, we're waiving advisory fees on only two of our institutional funds. It's really a de minimis amount. And we've also waived additional fees to support certain fund share classes. So any fee waivers have really been more on the retail side. And I think Loren gave you kind of the aggregate numbers, which, as we sit today at the end of the second quarter, it's a fraction or roughly half of the number that he mentioned on a go-forward basis.

Bill Katz: Can I squeeze just one quick question on that. I'm just sort of curious, as rates are tumbling globally and more money is moving into fixed income, is there pressure on just sort of active fixed income fee rates for either Invesco or the industry at large, just given what's happening with sort of the net yield component?

Loren Starr: Yes. So I mean, on an institutional basis, always, I think it's all competitively bid, and so there's always a threshold where it doesn't make sense. And so, we generally walk away from things that don't make sense. What we are seeing though is more interest in using index products and sort of the which is, again, just a theme that we continue to see, which tends to be lower fee. And maybe not as much around active.

So we are in a good position to be able to talk to clients about both and be able to serve them in a way that, again, could create a solution that might actually make the best of both for that client. So I'd say that does continue to sort of be
part of the fabric of our discussions with clients, just generally fees, whether it's fixed income, equities, alternatives, it's all there.

Bill Katz: Great, thank you very much for taking the questions this morning.

Loren Starr: Thanks Bill.

Coordinator: Thank you. Our next question is from Brennan Hawken with UBS.

Brennan Hawken: Hey, good morning. Thanks for taking the questions. Just wanted to try to see if it was possible. I know that it's really, really hard to predict this stuff. But I believe, Allison, you had said that you expect some continued fee rate pressure. You called it modest. So how should we contextualize modest? Does that mean that it might not be as significant as it was in the second quarter, but we should look to the general trend in recent years? Is there a good way to think about quantifying that?

Allison Dukes: Yes. Thanks, Brennan. I would say it's your first guess, which is it should not be as significant as it was in the second quarter. And it is, as we talked about before, given mix shift, given client demand and where that client demand goes, it's very hard to predict, and we wouldn't want to fall in the trap of trying to over predict that. But we would not expect it to decline at the magnitude it did in second quarter, and we would expect it to be somewhat modestly lower.

Loren Starr: Yes. We were talking in terms of basis points, not whole basis point. So definitely modest.

Brennan Hawken: Got it. Okay. Then sort of a small item, but just saw in the headline and it was struck me as a little odd. I saw a headline just the other day that you guys
turned over the PM that had messed up the rebalancing in the product, the equal weighted product this quarter.

At first, sort of not surprised to see the headline and then I sat and thought, well, why does such a product need a PM? Actually, after all, isn't it just like a program that automatically goes through and reallocates on an automated basis. So again, sorry, if this is a little bit of a simplistic or stupid question, but how does the management of those products work?

Loren Starr: Do you want me to - okay. So I think just in terms of the title portfolio manager, I do think it's one that may mean different things in different contexts. So they are the named portfolio manager for these products, and every product needs to have a named portfolio manager.

But in terms of sort of active bets and other things, it is more operational than it is sort of active selection. So I wouldn't get wrapped up in the terminology of PM. I do think in terms of what particularly happened there, again, we number one, take care of our clients. That's our first job always.

And so that is what we did in terms of sort of correcting the impact on the fund and then ultimately, correcting the source of the error in terms of what happened, where we've moved operations to our existing center of excellence around that type of index rebalancing and other activity, which is done for the ETFs generally and they've had no issues whatsoever. And so all that has been moved over to that center.

So in terms of kind of what we've been telling our clients and then trying to make sure that people understand is that, that particular has been addressed, and we feel good that we've taken care of clients overall. So again, we're not happy that it happened, but we do feel that it has been addressed.
Brennan Hawken: Okay, fair enough. Thank you.

Coordinator: Thank you. Our next question is from Chris Harris with Wells Fargo.

Chris Harris: Great day everybody. So positive flows in the institutional channel. But I think redemptions are probably a bit higher than you guys would like to see. Can you talk a bit about what's driving the redemptions in that channel? And how should we be thinking about the prospects for redemptions versus what is a record backlog for sales?

Loren Starr: Yes. Good question. I mean when we look at sort of likely to terminate that, that number is sort of lower than we've seen in a long time, too. So we are not seeing sort of a spike up in sort of redemptions line. It sort of offsets this growing pipeline that we've seen. So there's always it's hard to predict. And we've said, please don't take guidance or ask for guidance on redemptions because clients will just tell us and they are very much aware of their own circumstances, whether it's a middle say, it's a Middle East client who needs money for because oil prices or whatever it might be. I mean those types of things happen, and they're completely outside of our control. It's generally not a performance topic.

It's often a client topic that drives that. And but you're right. I mean, we have seen some rebalancing and movement in the portfolios, as I imagine, given the change in environment was radically different post this COVID situation where some people are sort of taking sort of wait-and-see mode and maybe willing to put things into more liquid type of assets. Flip side too, in some cases, the most liquid assets are the ones that have been eliminated because they wanted to get it out.
And so where they could take assets, they did. And in many cases, we had liquid alternative products that were sold. So there's a whole set of stories probably around each client redemption. So it's hard to sort of characterize them. It's not going to be easy.

Chris Harris: Thank you. Got it.

Coordinator: Thank you. Our next question is from Alex Blostein with Goldman Sachs.

Alex Blostein: Great. Good morning. Thanks everybody. Just a quick follow-up on the capital management. I was curious if you could talk to sort of any additional free cash flow needs, sort of post dividends over the next 12 months, including the forward purchase liabilities, which I think it was around $300 million as of last quarter, but a quick reminder, that would be helpful.

And I guess just any unresolved issues related to the MLP calculation or anything like that. So really just trying to get a sense for any sort of abnormal demands on cash flows as we think about you guys working back toward rebuilding the cash position. Thanks.

Allison Dukes: So yes, the remaining obligation on the forward is about $242 million. It does fluctuate quarter-to-quarter just based on stock price, and that would be fully settled in April of next year. So we still got some time on that. As it relates to any other cash flow, on the MLP matter, that is a complicated matter, and it is one that involves layers of accounting over the years, and it's going to take some time to work through. We don't expect there to be any cash obligation on that until late in 2021 at this stage.

Alex Blostein: Great, thanks.
Coordinator: Thank you. There are no further questions at this time.

Martin Flanagan: Okay. Again, thank you, everybody, for joining us. Thanks for questions and the dialogue, and we'll talk with you soon. Have a good rest of the day.

Coordinator: And thank you. This does conclude today’s conference call. You may disconnect your lines. And thank you for your participation.

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