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Invesco's (IVZ) CEO Marty Flanagan on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $0.7 beats by $0.13 | Revenue of $1.23B (27.08% Y/Y) beats by $4.6M

Earning Call Audio

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Invesco Ltd. (NYSE:IVZ) Q3 2019 Earnings Conference Call October 23, 2019 9:00 AM ET

Company Participants

Marty Flanagan – President and CEO

Loren Starr – Chief Financial Officer

Greg McGreevey – Senior Managing Director, Investments

Conference Call Participants

Ken Worthington – JPMorgan

Mike Carrier – Bank of America

Brian Bedell – Deutsche Bank

Ryan Bailey – Goldman Sachs

Brennan Hawken – UBS

Patrick Davitt – Autonomous Research

Bill Katz – Citi

Dan Fannon – Jefferies

Michael Cyprys – Morgan Stanley

Glenn Schorr – Evercore

Kenneth Lee – RBC Capital Markets

Unidentified Company Representative

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 guaranteed. 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.

Operator

Welcome to Invesco's Third Quarter Results Conference Call. All participants will be in a listen-only mode until the question-and-answer session. [Operator Instructions] Today's conference is being recorded. [Operator Instructions]

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

Marty Flanagan

Thank you very much, and thank you, everybody, for joining us. The Q3 presentation is available on the website for your reference. But to allow more time for Q&A, we're going to shorten our prepared remarks and really get the questions quite quickly. So I'll just give a brief overview of the results and Loren make a couple of comments, and again, we'll get the questions, so we'll have more time to have a discussion.

So now only four months post the close of the acquisition of Oppenheimer made tremendous progress, bringing the two organizations together, and you can see by this quarter it's generating meaningful results already. As we've discussed on previous calls, we do look at this as a multiyear growth story that people's relationships in the U.S. provides this capabilities to take around the world, while also creative skills for organization. That said, the first full quarter of the combined organization has delivered powerful results.

If you look at very strong earnings quarter-over-quarter generating $502 million operating income at 38% improvements as compared to last quarter. Operating margin expansion exceeding 500 basis points, taking our margin up to 40.9%. The combined firm added $200 million net revenues during the quarter, while adding only less than $60 million in expenses. And we're particularly pleased to announce that we're bringing on our expense synergies well ahead of schedule and exceeding our initial target of $475 million. We are now estimating savings of $501 million.

Importantly, we achieved these results and what was a very challenging macroenvironmental flows and also been the early days this combination between our two organizations. During the quarter, clients reacted to the market news by keep risking, which resulted in outflows in our Americas and UK retail businesses. Flows in our legacy or byproducts low during the quarter, which we had expected, but they are stabilizing. We will speak about that in a couple of minutes.

These outflows were offset by positive flows in China, EMEA, ex-U.K. business and ETFs. So the positive flows during the quarter really demonstrate the tremendous strength and potential to combination. Furthermore, the operating and financial strength of the combined firm enable us to return $440 million to common shareholders during the quarter through dividends and stock buybacks.

So finally, it is still very early days, but from our perspective, the initial results are very strong. Loren?

Loren Starr

Great. Thanks, Marty. So before we get to Q&A, I wanted to spend a few moments highlighting some key items for you on the topics of flows and expense synergies, resulting from the Oppenheimer transaction.

So if you look to Page 5 or Slide 5, we had $10.5 billion of net outflows in the Americas, majority of this is attributable to the retail business. On the next page, we drilled down on this a little more.

So on Slide 6, we show that 2019 history of monthly gross sales and net flows for the Invesco and Oppenheimer U.S. active, retail products combined, which includes periods of both pre and post-close. It has had another way, this illustrates the trend for the two firms together over the entire period, including the pre-acquisition period. I think there are few important takeaways from this chart.

First, gross sales post-close are increasing, we see a positive trend line. However, while gross sales are improving, they're not yet to the pre-deal level. So there is obviously more room for improvement.

Second, the chart clearly highlights that the deal has had an impact on our gross sales levels. Integration of two sales team are well underway, and in fact, going quite well, but they're not yet complete. And as the integration is completed, we would expect the gross sales levels to come back to at least the pre-acquisition levels.

And, third point, net outflows have been more elevated post-close. But this is largely a function of the abnormally low gross sales level I just mentioned. And we'd expect net flows to improve as we complete all phases of the sales integration work through this year and into 2020. While staying on the topic of flows but moving away from U.S. retail, I'd like to point out that we continue to see a strong institutional pipeline.

The institutional won but not funded AUM continues to build quarter-over-quarter and year-over-year. And in particular notes, we were notified this quarter of $10 billion mandate, won by our solutions team, which is expected to fund in the first half of 2020. Also, we received notification of a recent $100 million when into the newly launched OFI emerging markets local debt fund on our cross-border fund range in EMEA.

It's still very early days, but we're beginning to see revenue synergies from the deal. There is strong retail and institutional interest in the OFI products and the pipeline is warming.

The next – let me move to the topic of expense synergies. If you'll recall, we have been projecting to achieve run rate net expense synergies of $475 million by the end of the first quarter of 2021. At the end of the third quarter, we achieved 105% of our synergy target or $501 million of run rate expense reductions for the combined organizations.

This represents an elimination of 15% to the expense base of the pre-combined organizations. We already saw that the opportunity to stay more than $475 million by the time of the transaction closing, we only had a clear line of sight, regarding the $475 million in savings. After we closed the deal, we were able to look deeper into the business and we started making significant progress on the integration. And we now see that we can run the business with this slower expense base.

There is still further integration work to be completed, but we're confident that we can deliver the higher level of expense synergy that we're presenting to you today. And as a reminder, the synergy level is net of investments made in areas that further strengthen our distribution and investment capabilities and processes and which allow us to drive future growth and avoid future cost.

We presented on Slide 9 of our deck summarizing these expense synergies, this illustrates the combined firms' representative run rate, annual operating expense base. But please do keep in mind that this assumes FX and market conditions are in line roughly with the end of Q3 levels.

So in summary, before we go to Q&A, let met just say that we see the potential for the long-term net flows to trend in the right direction, although that clearly not where we want them to be right now. One of the key areas of outflows we're experiencing is centered in

U.S. retail space and that is largely due to the shortfall and gross sales that we expect will ultimately be corrected. And as the U.S. retail sales teams complete their integration.

We continue to work hard managing the things within our control, improving gross sales, funding greater expense savings and adding to our deal-related expense and revenue synergies, and continuing to invest in areas that we believe will allow us to grow more quickly in the future.

And with that, operator, I'd ask you to please open up the call for Q&A.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] We do have our first question from Ken Worthington with JPMorgan. Your line is open.

Ken Worthington

Hi, good morning.

Marty Flanagan

Good morning.

Ken Worthington

Can you first talk about the journey back to positive long-term net sales? So a positive net long-term sales, something you foresee for Invesco in 2020? And if not, 2020, when? And then, can you maybe describe the path to positive sales, which new or existing products or asset classes do you see driving the incrementally better sales or incrementally lower outflows that we're seeing today, the more specifically, you could be the better? And then why?

Marty Flanagan

Good question, Ken. Let me hit a couple of those and I'll ask Loren and Greg to pitch in, too. So let's say on the what Loren was pointed out about the deal because I think it's actually quite critical. The – to put sales force point in clarity as we've said in the past, literally the sales force now represents half of old Invesco, old OFI. They're literally going through training right now.

We actually as you always do have disruption when you do transfer agency conversions in the like, they'll probably be up and running, I'd say fully into December, so I think early next year. And the quality of the team is the best we've ever had. So we've viewed that the historical gross sales. We will exceed those that will be, so when does that happen into next year, that will surely happen, ideally on the first half of next year from our perspective. Again, I'd put it in the context of Loren date of the – it all depends on the market, but with this market continues, that's what we foresee.

Loren Starr

Yes. I think in terms of the path to positive, so we're clearly saying we're going to become look like that's where really we're saying because of the sales improving. I think the path to positive is going to be a function of some other things that are – some within our control and some without of our control. So one thing that is still very much weighing on our flow picture for the firm globally is sort of just the macro environment and some of the political uncertainty that exists, where we see risk off, it's affecting everybody.

And so in Europe for example, that risk off behaviors drove driven flows into cash and in a way from active products. And that's something that we can control, but we're definitely looking to see hopefully some of these events becoming more clear, Brexit being the most obvious one. The other element that I think is moving in a positive direction and is an important precursor to flows is performance.

And we've had some headwinds around performance that we're beginning to see sort of a turnaround and particularly in sort of recent months where you can see just how strong the comeback or the pullback in performances when we see some release on some of these macro topics for example, what we're seeing in terms of what's going on in Europe and the UK has a big impact on our UK business. I think Greg, I mean, you can speak to that a little bit if you want.

Greg McGreevey

Yes. Maybe can just to get a little granular to the essence of your question. So it's that intersection between demand and performance. Maybe point to kind of four or five areas to get to the specific question that you asked on. One would be fixed income, where as you know, we have very strong performance. We're seeing quite strong demand in almost all markets. Part of the transaction that we talked about before with Oppenheimer was to really leverage their global equity capability, which is incredibly strong.

There's quite strong demand for global equities and its various flavors in a lot of markets outside of the U.S. And so we're seeing that, I think ETFs and the traction that Loren kind of mentioned with this when we're going to hopefully see in the first quarter and when it farms in solutions. We're seeing that traction really take shape in almost kind of all markets, if you will. And then global liquidity, that was kind of mentioned as one of those areas, not only in China that we talked about on prior calls, but we're just kind of seeing that in other markets.

So that's really for I think the gross sales side and where that demand and performance, where we have that strong performance kind of intersects. Clearly, we're seeing some – on the redemption side, some important performance improvements in a number of those funds that have had the most significant amount of outflows. I'm happy to drill into those numbers, but I think on a year-to-date basis, which is still short-term for most of our funds, both here with the legacy Oppenheimer, we're seeing some notable improvement that has to continue. But if we see that in concert with those things that I talked about, that's really how I think we get to the positive flow picture.

Ken Worthington

Okay, thank you. And then on the synergies, can you talk about the outlook from here both synergies and dis-synergies? So maybe starting with dis-synergies, I believe there's still a 529 plan outflow. I think that's a fourth quarter event. Correct me if I'm wrong. Any other deal related dis-synergies that we should expect in the near-term.

And then on the cost side, you took out $501 million. Is that the end number we should expect? In other words, if you get more, do you are reinvested? Are you going to reinvest some of the $501 million? And if not, any idea on how much more we'll be able – shareholders will be able to keep that wouldn't be reinvested.

Loren Starr

So Ken, on the first point that the synergies, you're correct, there's the $2 billion New Mexico outflow that is to be expected in the fourth quarter. That has been dis-synergy. The only other dis-synergies are the ones we just talked about in terms of the gross sales being abnormally low, some of the kind of a general disruption related to GA conversions. I mean those have been dis-synergies to the flow picture that should end. We're seeing begin to improve overtime, but there isn't anything else that we know of in terms of dis-synergy, and if anything, again, we're seeing more positive revenue synergies that take on potential for the products in the C Caps in Europe for example is a good real live flow coming in.

In terms of the $501 million, that number is net of investments. So that is the number that we are saying you're going to get. There is no intention for us to invest through that number. So that's the bottom line. There are more opportunities for us to sort of generate more synergies. We believe some of that may get invested, some may drop to the bottom line. We're at this point comfortable with the $501 million. And we will continue to keep you updated in terms of the potential upside on that number.

Ken Worthington

Thank you very much.

Marty Flanagan

You're welcome.

Operator

Thank you. Our next question comes from Mike Carrier with Bank of America. Your line is open.

Mike Carrier

Good morning, and thanks for taking the questions. First one just on the sales and the flows, I think Marty, you mentioned over the past, probably one to two years, there's been some negative impacts the business, whether it was Brexit and some of the European headwinds and then on the value side versus growth, that being the headwind. It seems like some of those things are at least starting to potentially like shift gear. But just wondering if you're seeing any early signs some like improvement on that front.

Marty Flanagan

Yes. So look what we think are fundamental strengths of our organization. So I think EMEA, I think Asia-Pac, Brexit and trade wars, they have just tremendous headwinds for us and against, so posting results in light of that, it's not an excuse, it's just a reality. We are sensing with Brexit in particular, certainly end game coming here – like to starting to see just recently the performance is starting to pick up very strongly, which is a very good sign.

And so again they say hope is not a strategy, but you definitely are sensing some relief here. And look, we have Sterling being at, what is it 120, 129 is a whole lot different than 119. So again some of these – be able to continue to manage through it, but any relief is just really powerful. They get on a few anything in the performance.

Greg McGreevey

Yes. My quick, I think the rotation is starting to happen from a growth to value. The market's starting to recognize, but not all companies are the same. Some make better capital allocation and are able to produce different returns on investment. So we're starting to see probably the most impactful thing is a lower correlation of stocks to the index. And that really gives our active managers, the ability to use their strong stock picking skills. And so I think that's part of the reason when we kind of look at our year-to-date performance improvement, it's really the result of some of those factors that has kind of allowed our performance to improve the $64,000 question is always, is that going to continue?

The one thing we know is, it's not going to continue forever in terms of what we've seen over the course of the last 10 years. So it gives us some comfort that when this does change, given the strong teams that we have, we'll be able to generate the performance that you've come to expect.

Mike Carrier

Okay, thanks. And then Loren, maybe just on the fee rate, so you got to bump this quarter with Oppenheimer, the trend over the past couple of years has been a little bit more on the negative side. You've just given the expansion on the ETF front and then the industry is seeing some pricing pressures. There's some news on FMAs that that's coming under pressure as well on some platforms. But just when you look at some of the investments that you guys are making and now with Oppenheimer, on the platform, I know it's tough to predict, but do you see some areas that yes, like higher fee, like momentum or trends versus some of the areas that are going to pressure that fee rate overtime. Is any update on how you're thinking about that and then managing expenses with that mind?

Loren Starr

So it's a very dynamic, there are a lot of puts and takes in the fee rate. There are some definitely some positive things in our fee rate. In terms of we've talked about in the past with our institutional pipeline, where the assets that are funding are in a higher fee rates in the assets declining. We continue to build out I think a strong set of capabilities around alternatives, which tend to have a higher fee rates and aren't going to be sort of pressured by indexing.

We are also very supportive and like our ETF business and we want to continue to grow it. And so those are coming in at lower fee rates and that is a good thing for us. They are great margin products as long as you can grow them quickly and sort of great scale and those products, we embrace that phenomenon and want to grow that part of the book.

I think it is very hard to provide guidance on this measure just in general. And really there's just so much that's outside of our control in terms of the mix of products not to mention currency in markets. So we're probably not in a great position or we're probably more likely to refrain on providing guidance on fee rate going forward just because it is so dynamic. But I would say it's a real even fight in terms of the things that are sort of helping us on the fee rate on the positive side versus things that may be putting it to the flip side.

Mike Carrier

Okay. Thanks a lot.

Loren Starr

Yes.

Operator

Thank you. Our next question comes from Brian Bedell with Deutsche Bank. Your line is open.

Brian Bedell

Great, thanks. Good morning, folks. Maybe if I'm wondering if you could just go into just the integration process and you realize obviously you've hit the $500 million of cost, but like you said there's definitely so more work to do. It's still pretty early. Maybe just can you outline what types of things are being done over the next couple quarters? For example, the any kind of back office arrangement on custody fund accounting in mid-office if that's in process for the combined organization, in any thoughts on how much product rationalization has contributed to the $500 million and in any future rationalization that might be planned from that?

Marty Flanagan

Let me hit a couple of things and then Loren and Greg can pitch in. So yes, so all the systems have converted over to our systems from Oppenheimer. So that's a good development. We still have with the transfer agency, one more software upgrade that will happen at the end of November, all the middle and back office will end up converting through next year again. So still I think first quarter 2021, as we said. So that's in progress too. And those are the areas where we'll know more when we get in – further into it, but that's all underway right now.

Loren Starr

Yes. I think listen, it's the fund mergers and those types of product rationalizations have not happened yet. So that's not part of inherently the $501 million. There may be some sort of incremental savings associated that there's probably some incremental investments as well, that we're hoping to do. So I'd say really it is – the $501 million is a number that we feel extremely confident that we'll be able to deliver through a variety, they are right now. We are going to continue to look at some of the other integration opportunities really around tech, run operations as well. Some – there's all sorts of efficiencies that we can still continue to create in our sales efforts, as well as our investment efforts. So I can't get too specific at this point, but ultimately, we're still looking at the wide range of opportunities around this integration as we get closer to the business.

Marty Flanagan

I do want to come back to the product rationalization, think of, it's a small thing, not a big thing. And I think I've spent some overreaction to it in the past. So it's a small thing, not a big thing, just remember that.

Greg McGreevey

Yes. Maybe just to put a finer point on that, Marty, I mean, I think when you look at the impacted assets, we think it's around 2% of our total assets, roughly 14 legacy, Invesco maybe 15 OppenheimerFunds. So we're not in the grand scheme of our whole product mix. It's really a both small percentage of funds, and if even smaller percentage of assets.

Brian Bedell

That color is really helpful. Is it clear to think that operating margin obviously is going up from the 40% that we're already seeing, because there's sounds like there'll be incremental savings of course, revenue dependent. But maybe just also talk about the growth sale initiatives and the potential to improve that from even levels before the deal, to what extent can you do that through the institutional offering of the Oppenheimer products in the potential sale of Oppenheimer retail in Europe. And I guess any color for $10 billion mandate on the solutions team in terms of what disciplines that's coming in?

Marty Flanagan

Yes, so look, I could be repeating myself, but there's nothing we are full steam ahead on driving gross sales right now. And I said previously, if you look at the most acute area where there was disruption, it was a U.S. wealth management platform. We think January 1st, we'll be on our front feet and full steam ahead and we anticipate seeing higher gross sales on the back of that. Greg mentioned, we do now have alarming here. We do now have six OppenheimerFunds on the C Cap range to set road shows in Europe for two weeks ago, so early days. But as Loren said, I think we saw already $100 million, it's not going to change our world, but that's very, very fast and it's going to continue.

So what we're seeing institutionally is, I talked about lot going on a fixed income, lot going on a real estate. So that really the also part of the business continues to be in high demand institutionally and to looking for some opportunities in the retail channel. So we're very excited about what's in front of us.

Loren Starr

Yes. And I think we also haven't yet fully sort of explored the full opportunity with MassMutual and there the revenue synergies working with their advisors. Again as we've talked in the past they have 8,500 advisors. They're the seventh largest distribution for us in wealth management space. And so we are now actively working with MassMutual with our products and our solutions that we trying to understand what is a good fit within their network. That has yet to sort of get plugged in. So that we'll provide some further lift that was not there pre-deal for any of the combined firms just as an example.

Marty Flanagan

And again, we've not talked about as we really like our position in China and we just see that rapidly growing in the quarters and years ahead.

Greg McGreevey

Yes. And I think this relates to Oppenheimer, maybe you can just put a finer point on, one of the biggest opportunities we see is to promote the legacy OppenheimerFunds into both retail and institutional channels. We've been spending a lot of time post the merger between investments marketing and distribution. Those would be things like our global equity suite, things on the global fixed income side, muni bonds to mention kind of three very specific areas. And so we're optimistic, it's still kind of early days, but we really come together across those three areas to see again and that intersection between demand and where we have investment capabilities, so where we're going to be able to get out to prospects and clients.

Loren Starr

And Brian just on the color on the $10 billion solutions when it's not a appropriate for us to talk about, it’s just the client has not sort of released their own notification of that. So when it comes public, we'll be able to talk a little bit more about that deal.

Brian Bedell

Okay, fair enough. Thanks for all the details. That’s very helpful.

Operator

Thank you. Our next question comes from Alex Blostein with Goldman Sachs. Your line is open.

Ryan Bailey

Good morning. This is actually Ryan Bailey on behalf of Alex. I was wondering going back to Slide 9, if we're looking at that $2.9 billion number. Is that the right run rate, I guess as we should be thinking about the expense base entering 2020? And then are there any puts and takes in that number? And then maybe coming back to the $501 million, that's a net synergy number. Can you give us a little bit of color around like maybe how much investments would be included in the gross number, and then where those investments are going?

Greg McGreevey

Yes. So on the $2.905 billion that is the right run rate for you to be assuming going into through 2020. We feel confident, again, assuming kind of markets flat to September and effects that that number is definitely achievable, if not – if one that we can do better on. In effects that that number is definitely achievable, if not – if one that we can do better on. In terms of their $501 million that is a net number, there is about $30 million of investment that is already been done relative to the Oppenheimer transaction.

So you can think about our gross number being closer to $531 million. And so the $501 million, and those have been areas that where we invested around technology, sort of their sales team effectiveness, really again trying to create a better platform for WMI business to be successful. We do think there's opportunity for us to invest more and we do plan to invest more to continue to grow and make our team more effective. That will be some – will be entirely funded by further sort of integration or savings. But with that said, there is opportunity for us to deliver more net synergies to the bottom line beyond the $501 million. We believe, but we're not at the point where we're able to commit to that.

Ryan Bailey

Got it, okay. And then maybe if we turn to capital for a second, so you've done two forwards over the last two quarters. It's about $500 million, it sounds like you're – you have to pay out between sort of 1Q and 2Q 2021. Do you expect to do any more of these over the next call or year or so? And then is there any shift in capital priorities overall?

Greg McGreevey

Good question. The answer is no. We don't intend to do any more forwards at this stage. We think that we will still be doing buybacks, but there's only $260 million left on the remainders stub of what our commitment is. And that's one that a commitment that we think we can complete over through open market purchases easily and effectively without using foreign purchases. So that is going to be done, probably through the course of 2020. The – in terms of changes to capital priority, there are no changes to the capitol priority. We continue to focus on first returning capital to organic needs, through seed is not seeing significant needs around seed above and beyond expectations.

So we think that is largely sort of status quo. We want to continue to be able to grow our dividends every year under our markets. And so that's still part of our priority. And then the remainder of capital will be returned to shareholders through buybacks. So that priority is still exists. I will say that we still is very important to us to maintain our investment credit rating and we also want to continue to build cash. So we have $1 billion of cash in excess of what is required from a regulatory perspective. All that is consistent with our past priorities and all are still intact in terms of our thinking.

Ryan Bailey

Got it. Thank you very much.

Greg McGreevey

You're welcome.

Operator

Thank you. Our next question comes from Brennan Hawken with UBS. Your line is open.

Brennan Hawken

Good morning. Thanks for taking the question. Just wanted to follow-up on that last one on the expense comment on the $2.905 billion. Loren, I just wanted to kind of clarify, because previously you guys had walked through the synergy, the expense synergy quarter by quarter, and you've upsized the ultimate target. So $475 million goes to $501 million that's really clear. It clear that your end run rate for expenses would be the $2.905 billion. But I thought in your response to the prior question, you said that that the $2.905 billion would be the run rate entering in 2020, but I'd thought previously you had said the expense synergies you get there by the time you exit 1Q 2021. Is that – is the previous timeline still intact or you accelerating the timeline too?

Marty Flanagan

We are accelerating the timeline. So we're delivering the full synergies, 105% of the synergies effective this quarter, so pretty much all that kind of wait for it to come has gone. We can declare victory effectively in terms of bringing you that run rate effective this quarter. I think the point that we're trying to make, or I've been making that there's still integration work happening in the background, but we are getting the synergies and those savings effective this quarter into Q4 into – first quarter 2020 so far. So that that is hopefully it helps answer your question.

hopefully it helps answer your question.

Brennan Hawken

It does. It's very clear. Thank you. Sorry if that's a – if it was redundant and previously indicated, I just wanted to clarify.

Marty Flanagan

No need to worry.

Brennan Hawken

Yes, agreed. Good and helpful. So there was previously referenced the announcement we got recently from Wirehouse expected to launch a program optional for participating asset managers on SMA products. Is this a sort of product that you think would be compelling? I know that a lot of times on the shelf having a – you got to have a good product, it's got to be the performance has to be strong, the value add has to be clear, but it also has to be at a compelling value, a compelling fee rate, especially versus the peers.

So is this the sort of program while not – maybe not commenting specific to any program, because I know you wouldn't want to do that until then front run. But is this a sort of program that you think would be compelling? Is this a sort of program that you think you would participate in? And do you think it would help accelerate your sales in that important broker sold channel for you? Thanks.

Loren Starr

Yes. So Brennan I think just to put some context in terms of the SMA business generally, we're currently ranked 36 in the industry. So it's not a big part of our business. We have sort of under $10 billion in overall SMA business. I think related to that particular platform that you're talking about our exposures probably less than $0.5 billion. So it’s not a big deal for us, just in general. We did see it. It is little too early for us to say just how interesting and attractive, it might be for us. There is definitely some potential upside but also some things that we have to get an understanding before we said it would be interesting for us to participate. And…

Marty Flanagan

Yes. And I just add, just listening to our conversation today, we just have so many opportunities in different channels to work in, within the United States retail institutional globally and our focus continues to be there. And that's where we see the excitement and really what's going to be the force behind, you can see the growth of the organization. So, again, we have plenty to work with what's on our plate right now.

Brennan Hawken

All right, fair enough. Thanks for taking my questions.

Marty Flanagan

Thank you.

Operator

Thank you. Our next question comes from Patrick Davitt with Autonomous Research. Your line is open.

Patrick Davitt

Hey, good morning guys. Thank you. Another one on the $2.9 billion run rate, understanding that's kind of a baseline for 2020. Should we'd still assume – to the extent, we assume asset inflation in our models, some upside to that with kind of normal increase in expenses related to asset build. Or is that really kind of what you think it will be and can go lower from there?

Loren Starr

Yes. So I think we made a caveat, which is that's based on sort of assets based on September AUM, as we saw a huge market up tick, there's definitely some amount of variability in our incentive plans that would scale up, which is what we – you'd expect. Similarly, as we saw a down market, we would also sort of see that flex down. So there's normal kind of variability that would happen around incentive plans. But, ultimately, there is no – you should not expect to any sort of hidden inflation numbers into 2020 on this number at all. This number, we're feeling is comfortable based on the current AUM levels.

Patrick Davitt

Okay, great. That's helpful, thanks. And then when you announced the deal, you kind of announced an expectation of, I think 2 basis points of revenue yield deterioration from breakage. Is that related to the rationalization process? So we should still expect that when you do rationalize or is that something separate?

Loren Starr

That is something that would include the potential for breakage with those rationalizations. And again, that was $45 million. We don't think it's going to be anywhere near that amount, as I think it was already discussed. It's a small number of amounts of products or assets in general. So I think as I' mentioned in the past, that $45 million could be an upside to the overall modeling and the fee rate deterioration that we've provided in terms of deal economics.

Operator

Does that conclude your question, Patrick?

Patrick Davitt

Yes, thank you.

Operator

Thank you. Our next question comes from Bill Katz with Citi. Your line is open.

Bill Katz

Okay. Thank you very much for taking the questions. Fortunate, I do want to spend on more time on this $2.9 billion, because I'm still actually a little confused by it, so I apologize, but my denseness. So is there enough synergies go forward from here that could offset the inflation to the extent that flows worth to build against the path that you think that could play through. And just assuming a "normalized" market with so called $0.07 for equities? I'm just trying to sort of see, how that $2.9 my trend as the business gets a little bit better.

Loren Starr

We haven't done the sensitivity. I mean, I think if you look at how the firm has – it's a bonus pools, it's really the largest component of it. And it's a percentage of PCBOI. It's in the proxy. It's kind of, that's how we operate. It's the same concept that's going to come into a sec going forward. So if we see flows really driving, higher levels of AUM, which we'd love to see or if the market improves from here, you're going to see sort of just a normal type of flex around those types of bonus pools. So again, I would point you to kind of of our past experience, the same kind of set of ratios that you've seen in the past in terms of how complexes with revenues and assets.

Marty Flanagan

Bill, I think the point out, profitability will improve if that's really the underlying question and you would get a margin expansion in that scenario that you're talking about it. That's the fundamental question.

Loren Starr

Yes. The incremental margin is still at the high level of 50% to 65%, as assets and revenues grow.

Bill Katz

Okay, that is very helpful. Just two more questions and just [indiscernible] On the institutional channel, I certainly appreciate the notion that your pipeline is getting better and the fee rate underneath that is better than what's going out the door. But when I look at just over the slide that continues to sort of point to flattish flow Page 5 – flattish flows overall. At what point does some of that very strong pipeline feed into maybe a more positive growth? Or maybe another way to think about is where you losing traction, where you're gaining traction?

Loren Starr

I think, in terms of pipeline as we send, we're gaining traction in some of the places that were quite successful in China, Greater China. So geographically that's been really a strong area for growth across all sorts of asset classes in Chinese equities fixed income. I think it has a lot of upside for us as we continue to see success and further penetration in that market. We do think that Europe is got a lot of opportunity, particularly as we build out the solutions capabilities and we are meeting the needs around fixed income and general use of factors and other capabilities that have been part of our growth engine story for some time. So those are upsides. Real estate continues to be a major driver of opportunity for the firm overall.

I think in terms downside, there isn't a ton of downsides. We don't see sort of big likely to terminates or sort of big ugly story on the downside for institutional. The reason that as it kind of turned negative here, it's been largely because of the volatile market that we've been in and some of the fundings have slowed just because of the uncertainty, work that we're doing in Europe and UK have definitely slowed to some extent just because of the – sort of the risk off a behavior that we're seeing is people want to understand what direction – things are going in. And so we do believe that, I mean, those numbers are going to fund. It's just a matter of timing.

Bill Katz

Thank you. Just one last clarification I probably did, I think you covered before on that $10 billion mandate that you expect to find in the first half of the year. Is there a way to think about the fee rate associated with that? I apologize, if you already covered that.

Loren Starr

Yes. Again, just because it hasn't been disclosed publicly, we're not going to talk about it, because it really will be transparent to the client and if and when they disclose it. So we just think it's appropriate for us to be talking about fee rates for clients.

Bill Katz

Okay. Thank you.

Operator

Operator

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

Dan Fannon

Thanks. My question is around the UK, obviously, Brexit has been an overhang, but also there's been the scrutiny of Woodford and the asset management industry as a whole. Could you talk about, kind of perpetual, because they're being brought into same in the same discussions around the platforms and how these funds are being sold and you obviously your performance there has been hit? And so I guess just in general, can you talk about the outlook for perpetual, what any ramifications you may or may not expect from some of the platforms and how funds were sold and how your business practice might differ from the way it's been written about in the price for other funds?

Marty Flanagan

Look, it's a good question. And you obviously it's very topical in the UK, yes, I can't speak for win, but what I will say, one of the most fundamental things that we did, strategically was purchasing Intelliflo. And that's early days, but that is really a very powerful platform that we think is going to make quite a difference for us in that marketplace. And you should realize, if 35% market share, we've just please the model portfolios, it's early. Clients are starting to go on the platform. It's going to start picking up next year. And I think that was a very important strategic decision that we made.

And with regard to investment performance, again, these markets more recently have been very, very positive for us and in those teams. And the combination thereof I think puts us in a good place. And this is how, speaking at a retail level, I think as what you're addressing. Institutionally, we continue to be very, very strong in the market and growing. Greg, I don't know, if you want add anything.

Greg McGreevey

Look, I think just highlight the year-to-date improvement that we've seen in our Henley business overall, especially on the equity side with a number of our assets, especially those that have had the most significant size in the top half of peers improving pretty dramatically from 2018 and 2017. So don't want to get too far ahead of the fact that it's relatively short term performance. But September was an especially strong month for performance within the Henley equity side and so we're travelling definitely in the right direction if you will. And we've seen significant improvement also within the Henley fixed income side.

So the one thing I think on that business because is kind of gets to outflows and what we may see there, I think that group historically, like a lot of our other equity teams has an incredibly strong culture, skill and capabilities. And I think that team historically has produced incredibly strong performance. It's really been the recent market environment in the short run has kind of impacted our performance notwithstanding with the positive things that have happened on year-to-date basis.

So, I'm highly confident that we'll be able to given those skills to return back to what we would expect that group and what they historically have produced in terms of performance. And Marty?

Marty Flanagan

Yes. The Brexit coming into the market environment has been a tremendous headwind for us, but that's a high degree of confidence in our investment teams. And at some point it will not be a risk off world and we anticipate, we are participating very strongly in it.

Dan Fannon

I guess to clarify on the performance, I'm looking at Slide 14 and I look at the UK on the one, three and five year numbers. And so what improvement are you citing I guess or is it somewhere else that I could see that?

Loren Starr

Yes, so this is at the end of – so this is – looking at it on a one year basis, I was giving you a year-to-date numbers. So the four quarter of last year as I think you know is an especially troubling year for kind of all equity performance. And so that really impacted when you looked at the one year performance at the end of September of 2019 those numbers, if you look at it on a year-to-date basis you would definitely see improvement.

And then I was referencing specifically the September number where we had roughly about 90% of all of our assets within the Henley group in the top half of our peer groups. So again, it's relatively short-term, but we're starting to see that trend in the right direction for the same reasons that we talked about earlier. Well, hopefully did that clarify?

Dan Fannon

Yes, yes it does. And then just a follow-up on Asia, outside of money markets, I guess what products are selling in that region? And I just kind of what – I guess or what are you or where you see potential other kind of avenues of growth in that region?

Marty Flanagan

Yes. So through Invesco Great Wall its very broad, equity products are very, very strong, highly performing they are recognized as one of the top tier local money managers there. Institutionally, in China it's very broad, heavy real estate fixed income [indiscernible] market to add, so very broad and very deep in that area.

Dan Fannon

Okay. Thank you.

Marty Flanagan

Yes.

Operator

Thank you. Our next question comes from Michael Cyprys with Morgan Stanley. Your line is open.

Michael Cyprys

Hey, good morning. Thanks for taking the question. Just hoping to dig in a little bit more on the institutional channel, it's good to hear that the pipeline is up and improving here. Just hoping you could talk a little bit about some of the investments that you've been making in the institutional business, particularly around data, technology and also the ability to customize. And I guess the question is how is your approach different today versus say two years ago and what might be most different as you look out over the next two to three years?

Marty Flanagan

Yes. Look it's a great question and let me hit on a couple of points and I'll have Greg pitch into. I think we and all our competitors would tell you it's a great opportunity. The other reality is the demands on clients have never been – from clients has never been stronger. And so this depth and breadth of investment capabilities has mattered, but right behind it exactly what you're talking about investments in technology around analytics, insights, has been very material. And if we look at this beyond its a necessity as you're going to compete and win with institutions, thought leadership is an another area that becomes very, very important in these conversations because what we're seeing with appliances, they're wanting to work with us very deeply and very broadly and so its effectively opening up the organization to whatever set of capabilities that we have and so it's been material and it's been real.

Greg, what would you think?

Greg McGreevey

Yes I think, the big three areas that we've invested in are capabilities on the solutions front, the client experience, which would be both technology and systems as well as thought leadership where we've added with very strong content from our investment teams, the ability both in marketing and within that group to be able to provide that content into the marketplace.

On the solutions front, it's been one of the largest investments I think we've made as an organization. And the ability to partner with clients to help them create outcomes that they really desire is where the market is moving to. And it gives us, I think, an ability because of the individual resources and expertise that we've added to really have the conversations that we need to, and provide those outcomes that I think are so – the clients are looking for.

Part of the reason that we were able to talk about that client on the institutional side and a lot of the other pipeline is really the result of that investment that we made a number of years ago in solutions. We wouldn't have been able to obtain that client, when we talked about that was $10 billion without the investment that we made. And we're seeing a lot of momentum with other clients as a result of those three areas that I kind of talked about and Marty talked about within the institutional side. And we think that's only going to be a trend that will continue. So we're excited about that.

Michael Cyprys

Great. And just a quick follow-up, is there any way to sort of quantify, I guess, how much investment spend is currently in the expense run rate and how we should think about that, if anything kind of peeling back over the next couple of years or if that get recycled into other investments? How should we be thinking about it?

Marty Flanagan

So, we have an enormous amount of investments in our run rate. I think we've – it’s well in excess of sort of $100 million of investments just generally around the firm across a variety of growth engine areas that we've talked about in the past around China, around solutions, around factor-based investing. So that is – in our run rate, we expect to continue to build that number over time, but offset that with further savings as we talked about through synergies and just general, sort of prudent expense management and discipline.

Loren Starr

And I think the key thing for where we're at within solutions, which is kind of a broad area, we feel quite confident that the majority of the investments that we've made within solutions has already been made. Although the other things that we might need to do on the distribution side and in another areas to kind of support that, but, we really feel like we've made the significant amount of headway into the individuals that we've need to hire there.

Greg McGreevey

And really – again, just to put some, how do we see it and what have we done? Our solutions team uses our capabilities, right? I think that's quite different than what a number of our competitors do. So literally, sort of sits on top of – looking through all the investment capabilities that we have and it's really hand in hand with the clients. And what we're seeing clients do where if you go back two and three and four years, it was more of what product does a client want and what do we have doesn't match off much more. It's becoming a much more holistic engagement with our clients. Now it might be a capability or second capability, but it's really that insights and analytics that is really just changing the dynamic with the client for any institutional money manager to be successful in our view.

Michael Cyprys

Great. Thank you.

Operator

Thank you. Our next question comes from Glenn Schorr with Evercore. Your line is open.

Glenn Schorr

Thank you. I want to drill down a little bit more on the MassMutual potential. You mentioned the 8,500 advisors, you also in the past talked about the general account. The advisors are not the same type of businesses as the retail broker dealers, the wire houses. So can you talk about what you expect to be selling into that channel? What do they typically consume and how quickly that can be? And then anything you could add on the general account, that'd be great?

Greg McGreevey

So look with MassMutual, again, I'd say early days, it's a very strong robust relationship and we're working through those multiple areas that we've talked about. What we'll do better on is telling you once we've accomplished something as opposed to what's coming that's not been received. So what not these calls, that said with the 8,500, we're looking at building models for that sales force. And you can think of traditional investment capabilities that would be available, some of the other wire houses. So it's not as different

as – it is different. But again, the commonality is there that, [indiscernible] frankly, we are in multiple conversations around the general accounts, right now with MassMutual. And again, once we accomplish something, we'll let you know.

Glenn Schorr

And the models are that a product of Jemstep being…

Greg McGreevey

It's really the solutions team that's doing them sort of building a combination of our active and factor capabilities and in consultation with the CIO and what they are looking for their client base.

Glenn Schorr

Cool. And then maybe just you could just update us on GTR. I wish that on the past and choppy markets like we saw this quarter, that was decent backdrop for GTR, just – if you could just talk about what you're seeing on the ground in terms of potential demand?

Loren Starr

I mean, I think what we've seen is, there's been a fair amount of outflow in the retail side, particularly in EMEA as that product has underperformed some loss. And I think there's sort of generally been, again, as I mentioned, sort of risk loss and people have sort of moved into cash. It still actually appeals to a lot of people in principle in terms of what it's trying to achieve as an outcome in a lower risk than the equity markets with good return over cash. It's currently, I think, it’s somewhat underperforming that level maybe by 200, 300 basis points. It's been improving in the current market. And so the performance has instead of come – is moving in the right direction. So again, we're hopeful that we can see that product at least stabilize at a minimum as opposed to sort of currently where it's in that flow.

Glenn Schorr

Okay. Thanks, Loren.

Operator

Thank you. Our last question comes from Kenneth Lee with RBC Capital Markets. Your line is open.

Kenneth Lee

Hi, thanks for taking the question. Just to follow-up on the UK flows, I'm looking at it from a broader perspective. Just wanted to get some of your thoughts, whether any of the recent regulatory activity or Brexit have been changing client preferences over the past year? And maybe just how would you characterize the sentiment of clients within the UK?

Marty Flanagan

Yes. Look, it is a – yes, it's really wearing on clients, right. It's been about Brexit transition has been a long and difficult, but from our perspective, where it's really come to light where you can feel it. It's really 2018 into this year. I mean, you can see it in our business, you can see it in the actions of clients and what they're doing. So it's more of a movement to risk off cash type things. So we're seeing less of a movement towards passive as you see here in the United States. So again, it has been a headwind. Again, so what have we done about it? We take it's been very important to change our ways to support our clients and Intelliflo was an important part of that. And again, it was [indiscernible]

Greg talked about the active performance was picking up what we are, as you see now and our portfolios are – we are bringing factors and passive into the market. And that is also something that we'll need to be on the Intelliflo from also that trend will pick up there in our mind. And again, I think you can see it just more broadly from our ETF flows throughout EMEA that is incredible strong. And right now, we're the number two flowing ETF provider in that part of the world.

So again, source transaction was very important for us and we see that pace just picking up as we look to the future. And if you remember when you go back when we announced it, you can look at the ETF business in EMEA literally looks like its 10 years behind where the United States was. And that was a couple of years ago. And you are absolutely seen that demand pickup as we anticipated, and we are a beneficiary of that. And we looked at that as another area of very important growth for us.

Kenneth Lee

Great. That's helpful. And just one more looking further out when you take into account, potential synergies with MassMutual fully integrated sales force being able to leverage a broader product set. Any updated thoughts on what could be like a long term potential organic growth expectations for the combined Invesco and OppenheimerFunds complex?

Marty Flanagan

Yes. I wish I had that crystal ball, but what I will tell you is, our organic growth rate will exceed that of our competition. And we've strongly believe with what we're building and what we have built, puts us in a very strong position for where the industry is going and how we're position against it. And so we are starting to see that in very – the areas that we've talked about on this call. Are they all at full potential? Absolutely not. But they are absolutely contributing, right now we're seeing it and you're seeing it and we're very excited about it.

Kenneth Lee

Great. Thanks.

Marty Flanagan

Yes.

Operator

At this time, we have no further question.

Marty Flanagan

Great. Again, on behalf of Loren, Greg and myself, thank you for your time and appreciate the questions and the dialogues. And have a great day.

Operator

That concludes today's conference. Thank you for participating. You may disconnect at this time.