

Invesco Ltd.  
Form 10-Q  
October 24, 2018  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13908

Invesco Ltd.

(Exact Name of Registrant as Specified in Its Charter)

Bermuda

(State or Other Jurisdiction of Incorporation or Organization)

98-0557567

(I.R.S. Employer Identification No.)

1555 Peachtree Street, N.E., Suite 1800, Atlanta, GA

(Address of Principal Executive Offices)

30309

(Zip Code)

(404) 892-0896

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes  
o No

As of September 30, 2018, the most recent practicable date, the number of Common Shares outstanding was  
411,335,893.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

Invesco Ltd.

Condensed Consolidated Balance Sheets

(Unaudited)

\$ in millions, except per share data	As of	
	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	1,631.5	2,006.4
Unsettled fund receivables	851.6	793.8
Accounts receivable	557.5	622.5
Investments	643.8	674.6
Assets of consolidated investment products (CIP):		
Cash and cash equivalents of CIP	282.8	511.3
Accounts receivable and other assets of CIP	56.7	131.5
Investments of CIP	6,074.6	5,658.0
Assets held for policyholders	12,268.2	12,444.5
Prepaid assets	130.9	124.4
Other assets	69.0	61.7
Property, equipment and software, net	469.2	490.7
Intangible assets, net	2,156.5	1,558.7
Goodwill	7,311.5	6,590.7
Total assets	32,503.8	31,668.8
<b>LIABILITIES</b>		
Accrued compensation and benefits	552.7	696.1
Accounts payable and accrued expenses	864.2	895.7
Liabilities of CIP:		
Debt of CIP	4,820.5	4,799.8
Other liabilities of CIP	315.8	498.8
Policyholder payables	12,268.2	12,444.5
Unsettled fund payables	821.5	783.8
Long-term debt	2,814.6	2,075.8
Deferred tax liabilities, net	304.3	275.5
Total liabilities	22,761.8	22,470.0
Commitments and contingencies (See Note 11)		
<b>TEMPORARY EQUITY</b>		
Redeemable noncontrolling interests in consolidated entities	423.2	243.2
<b>PERMANENT EQUITY</b>		
Equity attributable to Invesco Ltd.:		
Common shares (\$0.20 par value; 1,050.0 million authorized; 490.4 million shares issued as of September 30, 2018 and December 31, 2017)	98.1	98.1
Additional paid-in-capital	6,293.0	6,282.0
Treasury shares	(2,710.8)	(2,781.9)
Retained earnings	5,892.6	5,489.1

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Accumulated other comprehensive income/(loss), net of tax	(585.8 )	(391.2 )
Total equity attributable to Invesco Ltd.	8,987.1	8,696.1
Equity attributable to nonredeemable noncontrolling interests in consolidated entities	331.7	259.5
Total permanent equity	9,318.8	8,955.6
Total liabilities, temporary and permanent equity	32,503.8	31,668.8
See accompanying notes.		

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Invesco Ltd.  
Condensed Consolidated Statements of Income  
(Unaudited)

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
\$ in millions, except per share data				
Operating revenues:				
Investment management fees	1,038.9	1,062.3	3,133.1	3,027.9
Service and distribution fees	248.0	217.6	737.0	635.3
Performance fees	7.9	42.3	28.6	70.3
Other	47.0	15.5	159.5	51.2
Total operating revenues	1,341.8	1,337.7	4,058.2	3,784.7
Operating expenses:				
Third-party distribution, service and advisory	408.0	380.4	1,236.0	1,095.6
Employee compensation	385.5	388.1	1,157.0	1,151.8
Marketing	34.0	29.5	94.9	83.0
Property, office and technology	104.8	92.8	308.7	267.3
General and administrative	87.4	86.6	287.1	250.5
Total operating expenses	1,019.7	977.4	3,083.7	2,848.2
Operating income	322.1	360.3	974.5	936.5
Other income/(expense):				
Equity in earnings of unconsolidated affiliates	11.8	12.9	28.8	41.1
Interest and dividend income	4.0	2.5	11.0	7.0
Interest expense	(29.6)	(23.6)	(82.3)	(71.2)
Other gains and losses, net	5.9	13.9	1.9	23.9
Other income/(expense) of CIP, net	28.1	31.7	56.2	92.5
Income before income taxes	342.3	397.7	990.1	1,029.8
Income tax provision	(61.1)	(123.1)	(201.8)	(291.4)
Net income	281.2	274.6	788.3	738.4
Net (income)/loss attributable to noncontrolling interests in consolidated entities	(11.6)	(7.1)	(19.7)	(19.3)
Net income attributable to Invesco Ltd.	269.6	267.5	768.6	719.1
Earnings per share:				
-basic	\$0.65	\$0.65	\$1.86	\$1.76
-diluted	\$0.65	\$0.65	\$1.86	\$1.76
Dividends declared per share	\$0.30	\$0.29	\$0.89	\$0.86

See accompanying notes.

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Invesco Ltd.

Condensed Consolidated Statements of Comprehensive Income  
(Unaudited)

\$ in millions	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Net income	281.2	274.6	788.3	738.4
Other comprehensive income/(loss), net of tax:				
Currency translation differences on investments in foreign subsidiaries	(23.6 )	142.4	(192.6)	352.4
Other comprehensive income/(loss), net of tax	1.5	3.3	1.2	8.4
Other comprehensive income/(loss)	(22.1 )	145.7	(191.4)	360.8
Total comprehensive income/(loss)	259.1	420.3	596.9	1,099.2
Comprehensive loss/(income) attributable to noncontrolling interests in consolidated entities	(11.6 )	(7.1 )	(19.7 )	(19.3 )
Comprehensive income/(loss) attributable to Invesco Ltd.	247.5	413.2	577.2	1,079.9
See accompanying notes.				

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Invesco Ltd.

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	Nine months ended September 30,	
\$ in millions	2018	2017
Operating activities:		
Net income	788.3	738.4
Adjustments to reconcile net income to net cash provided by/(used in) operating activities:		
Amortization and depreciation	105.6	82.2
Share-based compensation expense	124.5	134.9
Other (gains)/losses, net	(1.9)	(27.6)
Other (gains)/losses of CIP, net	2.3	(53.4)
Equity in earnings of unconsolidated affiliates	(28.8)	(41.1)
Distributions from equity method investees	9.9	14.9
Changes in operating assets and liabilities:		
(Purchase)/sale of investments by CIP, net	(228.3)	(277.7)
(Purchase)/sale of investments, net	(36.4)	146.8
(Increase)/decrease in receivables	(280.7)	(3,134.3)
Increase/(decrease) in payables	207.6	3,189.9
Net cash provided by/(used in) operating activities	662.1	773.0
Investing activities:		
Purchase of property, equipment and software	(68.3)	(82.7)
Purchase of investments by CIP	(3,780.1)	(4,432.4)
Sale of investments by CIP	2,633.5	4,219.6
Purchase of investments	(114.9)	(123.5)
Sale of investments	101.2	154.2
Capital distributions from equity method investees	15.0	61.3
Purchase of business	(1,469.3)	(299.2)
Net cash provided by/(used in) investing activities	(2,682.9)	(502.7)
Financing activities:		
Purchases of treasury shares	(49.7)	(58.6)
Dividends paid	(368.3)	(352.7)
Third-party capital invested into CIP	421.1	397.7
Third-party capital distributed by CIP	(89.4)	(93.2)
Borrowings of debt by CIP	1,975.4	1,887.4
Repayments of debt by CIP	(1,030.8)	(1,962.4)
Net borrowings/(repayments) under credit facility	737.2	(28.7)
Payment of contingent consideration	(11.4)	(10.3)
Net cash provided by/(used in) financing activities	1,584.1	(220.8)
Increase/(decrease) in cash and cash equivalents	(436.7)	49.5
Foreign exchange movement on cash and cash equivalents	(27.3)	87.1
Foreign exchange movement on cash and cash equivalents of CIP	(1.7)	4.4
Net cash inflows (outflows) upon consolidation/deconsolidation of CIP	(137.7)	(9.0)
Cash and cash equivalents, beginning of period	2,517.7	2,070.2
Cash and cash equivalents, end of period	1,914.3	2,202.2



Cash and cash equivalents	1,631.5	1,716.3
Cash and cash equivalents of CIP	282.8	485.9
Total cash and cash equivalents per consolidated statement of cash flows	1,914.3	2,202.2
See accompanying notes.		

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Invesco Ltd.  
Condensed Consolidated Statements of Changes in Equity  
(Unaudited)

\$ in millions	Equity Attributable to Invesco Ltd.									
	Common Shares	Additional Paid-in-Capital	Treasury Shares	Retained Earnings	Other Comprehensive Income/(Loss)	Accumulated Total Equity Attributable to Invesco Ltd.	Nonredeemable Noncontrolling Interests in Consolidated Entities	Total Permanent Equity	Redeemable Noncontrolling Interests in Consolidated Entities	Temporary Equity
January 1, 2018	98.1	6,282.0	(2,781.9)	5,489.1	(391.2 )	8,696.1	259.5	8,955.6	243.2	
Adjustment for adoption of ASU 2016-01	—	—	—	3.2	(3.2 )	—	—	—	—	
January 1, 2018, as adjusted	98.1	6,282.0	(2,781.9)	5,492.3	(394.4 )	8,696.1	259.5	8,955.6	243.2	
Net income	—	—	—	768.6	—	768.6	29.7	798.3	(10.0 )	
Other comprehensive income/(loss)	—	—	—	—	(191.4 )	(191.4 )	—	(191.4 )	—	
Change in noncontrolling interests in consolidated entities, net	—	—	—	—	—	—	42.5	42.5	190.0	
Dividends	—	—	—	(368.3 )	—	(368.3 )	—	(368.3 )	—	
Employee share plans:										
Share-based compensation	—	124.5	—	—	—	124.5	—	124.5	—	
Vested shares	—	(114.6 )	114.6	—	—	—	—	—	—	
Other share awards	—	1.1	6.2	—	—	7.3	—	7.3	—	
Purchase of shares	—	—	(49.7 )	—	—	(49.7 )	—	(49.7 )	—	
September 30, 2018	98.1	6,293.0	(2,710.8)	5,892.6	(585.8 )	8,987.1	331.7	9,318.8	423.2	

See accompanying notes.

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Invesco Ltd.  
 Consolidated Statements of Changes in Equity (continued)  
 (Unaudited)

\$ in millions	Equity Attributable to Invesco Ltd.								
	Common Shares	Additional Paid-in-Capital	Treasury Shares	Retained Earnings	Other Comprehensive Income	Accumulated Other Comprehensive Income	Total Equity Attributable to Invesco Ltd.	Nonredeemable Noncontrolling Interests in Consolidated Entities	Noncontrolling Total Permanent Equity
January 1, 2017	98.1	6,227.4	(2,845.8)	4,833.4	(809.3 )	7,503.8	108.0	7,611.8	283.7
Net income	—	—	—	719.1	—	719.1	(6.3 )	712.8	25.6
Other comprehensive income	—	—	—	—	360.8	360.8	—	360.8	—
Change in noncontrolling interests in consolidated entities, net	—	—	—	—	—	—	133.1	133.1	0.3
Dividends	—	—	—	(352.7 )	—	(352.7 )	—	(352.7 )	—
Employee share plans:									
Share-based compensation	—	134.9	—	—	—	134.9	—	134.9	—
Vested shares	—	(116.4 )	116.4	—	—	—	—	—	—
Other share awards	—	2.2	4.5	—	—	6.7	—	6.7	—
Purchase of shares	—	—	(58.6 )	—	—	(58.6 )	—	(58.6 )	—
September 30, 2017	98.1	6,248.1	(2,783.5)	5,199.8	(448.5 )	8,314.0	234.8	8,548.8	309.6

See accompanying notes.

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Invesco Ltd.

Notes to the Condensed Consolidated Financial Statements

(Unaudited)

1. ACCOUNTING POLICIES

Corporate Information

Invesco Ltd. (Parent) and all of its consolidated entities (collectively, the company or Invesco) provide retail and institutional clients with an array of global investment management capabilities. The company operates globally and its sole business is investment management.

Certain disclosures included in the company's annual report on Form 10-K for the year ended December 31, 2017 (annual report or Form 10-K) are not required to be included on an interim basis in the company's quarterly reports on Forms 10-Q (Report). The company has condensed or omitted these disclosures. Therefore, this Report should be read in conjunction with the company's annual report.

Basis of Accounting and Consolidation

The unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with rules and regulations of the Securities and Exchange Commission and consolidate the financial statements of the Parent and all of its controlled subsidiaries. In the opinion of management, the financial statements reflect all adjustments, consisting of normal recurring accruals, which are necessary for the fair statement of the financial condition and results of operations for the periods presented. All significant intercompany transactions, balances, revenues and expenses are eliminated upon consolidation. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Accounting Pronouncements Recently Adopted

Revenue Recognition. On January 1, 2018 the company adopted Accounting Standard Update 2014-09, "Revenue from Contracts with Customers" (ASU 2014-09), which revised revenue accounting rules through the creation of Accounting Standard Codification Topic 606 (ACS 606) and expanded the disclosure requirements. The company adopted ASU 2014-09 on January 1, 2018 using the modified retrospective transition method applied to contracts that were not complete as of that date. Under this method, entities are required to report any effect from adoption as a cumulative effect adjustment to retained earnings at the adoption date. The adoption of the standard did not have an effect on opening retained earnings, net income or earnings per share measures. The impact of ASU 2014-09 on the timing of recognition of performance fee revenues may result in future performance fees being recognized earlier under ASU 2014-09, but this will depend on the terms and conditions in the relevant agreement.

The application of the new principal versus agent guidance in ASU 2014-09 resulted in presentation changes in the Consolidated Statements of Income whereby certain costs are now reported on a gross basis, when Invesco is acting as principal, and reported on a net basis, when Invesco is acting as an agent. In accordance with the ASU 2014-09 requirements, the disclosure of the impact of adoption on the Condensed Consolidated Statements of Income was as follows (in millions):

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\$ in millions	Three months ended September 30, 2018			Nine months ended September 30, 2018		
	As Reported	Adjustments Related to Adoption of ASC 606	Balances Without Adoption of ASC 606	As Reported	Adjustments Related to Adoption of ASC 606	Balances Without Adoption of ASC 606
Condensed Consolidated Statements of Income						
Operating revenues:						
Investment management fees	1,038.9	50.3	1,089.2	3,133.1	157.9	3,291.0
Service and distribution fees	248.0	(32.4)	215.6	737.0	(95.9)	641.1
Performance fees	7.9	—	7.9	28.6	—	28.6
Other	47.0	(34.5)	12.5	159.5	(110.0)	49.5
Total operating revenues	1,341.8	(16.6)	1,325.2	4,058.2	(48.0)	4,010.2
Operating expenses:						
Third-party distribution, service and advisory	408.0	(21.1)	386.9	1,236.0	(61.6)	1,174.4
Employee compensation	385.5	—	385.5	1,157.0	—	1,157.0
Marketing	34.0	—	34.0	94.9	—	94.9
Property, office and technology	104.8	—	104.8	308.7	—	308.7
General and administrative	87.4	4.5	91.9	287.1	13.6	300.7
Total operating expenses	1,019.7	(16.6)	1,003.1	3,083.7	(48.0)	3,035.7
Operating income	322.1	—	322.1	974.5	—	974.5

Financial Instruments. On January 1, 2018, the company adopted Accounting Standards Update 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities" (ASU 2016-01). Under the new standard, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value with any changes recognized in earnings. ASU 2016-01 requires a modified retrospective approach to adoption. Accumulated gains of \$3.2 million were reclassified into retained earnings at adoption date. With effect from the adoption of ASU 2016-01, seed money, investments held to settle the company's deferred compensation plan liabilities, and other equity securities are no longer categorized as trading investments or available-for-sale investments but instead are referred to as "equity investments," and all gains or losses arising from changes in the fair value of these equity investments will be included in income. Prior period balances have been conformed to be presented as "equity investments," however the prior period treatment of gains or losses arising from changes in the fair value of the investments was retained. As ASU 2016-01 required a modified retrospective approach to adoption, available-for-sale seed money balances of \$69.3 million at December 31, 2017 are presented as "equity investments" to conform to the current period presentation of seed money; however, the related accounting basis in that period was available-for-sale.

Statement of Cash Flows. On January 1, 2018, the company adopted Accounting Standards Update 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments" (ASU 2016-15), which clarified how certain cash receipts and cash payments are classified and presented on the Statement of Cash Flows, including distributions from equity method investees. The amendments require a retrospective approach to adoption. As a result of adopting this standard, \$12.7 million was reclassified from net cash provided by/(used in) investing activities to net cash provided by/(used in) operating activities for the nine months ended September 30, 2017.

On January 1, 2018, the company adopted Accounting Standards Update 2016-18, "Statement of Cash Flows: Restricted Cash" (ASU 2016-18). The standard requires the inclusion of restricted cash within cash and cash

equivalents when reconciling the beginning and ending cash and cash equivalents balances on the statements of cashflows. ASU 2016-18 requires a retrospective approach to adoption. Accordingly, changes in CIP cash of \$251.7 million for the nine months ended September 30, 2017 are no longer presented as a component of the company's cash provided by operations as they were reported in the Form 10-Q for the period ended September 30, 2017. These changes in CIP cash now form part of the reconciliation of corporate cash and CIP cash at the end of the Condensed Consolidated Statements of Cash Flows for the period ended September 30, 2017. The adoption of this standard does not impact corporate cash and cash equivalents.

Pension Costs. On January 1, 2018, the company adopted Accounting Standard Update 2017-07, "Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" (ASU 2017-07). The amendments require that the service cost component of net periodic pension costs be recorded within employee

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compensation expense and the other components of net benefit cost be recorded in other gains and losses, net in the Condensed Consolidated Statements of Income. The company utilized a practical expedient that permits an employer to use the amounts disclosed in its pension plan footnote for the prior comparative periods as the estimation basis for applying the retrospective presentation. The application of the new rules results in the reclassification of the non-service cost components of the pension costs/(benefit) to other gains and losses, net, and has no impact to net income. For the three and nine months ended September 30, 2017, the reclassification increased operating income by \$5.0 million and \$3.7 million, respectively, with a corresponding decrease to other gains and losses, net.

**Other Income.** On January 1, 2018, the company adopted Accounting Standard Update 2017-05, "Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets." The standard clarified the scope of accounting for gains and losses from the derecognition of nonfinancial assets and added guidance for partial sales of nonfinancial assets. The adoption of this standard did not have a material impact on the company's financial condition, results of operations or cash flows.

### **Pending Accounting Pronouncements**

In February 2016, the FASB issued Accounting Standards Update 2016-02, "Leases" (ASU 2016-02). The standard requires that lessees recognize lease assets and lease liabilities on the balance sheet for all leases with a lease term greater than 12 months. ASU 2016-02 is effective for fiscal years and interim periods within those years beginning after December 15, 2018 and requires a modified retrospective approach to adoption. In July 2018, the FASB issued Accounting Standard Update 2018-11, "Leases: Targeted Improvements" (ASU 2018-11) which provided an additional, optional transition method related to implementing the new leases standard. ASU 2018-11 provides that companies can initially apply the new leases standard at adoption and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The company has decided to implement the leases standard under this optional transition method on January 1, 2019. The company is continuing to evaluate the potential impact of this standard through a detailed review of a sample of lease arrangements. A global cross-functional team is analyzing and assessing the impact of adopting the new lease accounting guidance. The company has selected a lease accounting software tool to assist in the accounting for lease arrangements under the new accounting rules and is currently in the process of implementing the tool and abstracting lease contract data for input into the lease accounting tool.

In August 2018, the FASB issued Accounting Standards Update 2018-15, "Intangibles-Goodwill and Other-Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract" (ASU 2018-15). The standard update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019 and interim periods within those years and early adoption is permitted. The amendments allow either a retrospective or prospective approach to all implementation costs incurred after adoption. The company does not anticipate a material impact upon the adoption of this amendment.

### **Revenue Recognition Accounting Policy**

Revenue is measured and recognized based on the five step process outlined in ASC 606, Revenue from Contracts with Customers. Revenue is determined based on the transaction price negotiated with the customer, net of discounts, value added tax and other sales-related taxes.

Investment management fees are derived from providing professional services to manage client accounts and sponsored investment vehicles. Investment management services are satisfied over time as the services are provided

and are typically based upon a percentage of the value of the client's assets under management. Investment management fees for certain arrangements include fees for distribution and administrative-related services. Any fees collected in advance are deferred and recognized as income over the period in which services are rendered. Service fees are earned for services rendered relating to fund accounting, transfer agent, administrative and/or other maintenance activities performed for sponsored investment vehicles. Service fees are generally based upon a percentage of the value of the assets under management. Service fees are also earned from the delivery of digital solutions to our customers. All of these services are transferred over time.

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The company provides distribution services to certain sponsored investment vehicles. Fees are generally earned based upon a percentage of the value of the assets under management, as the fee amounts do not crystallize completely upon the sale of a share or unit. Accordingly, the distribution fee revenues are recognized over time as the amount of the fees becomes known. For example, U.S. distribution fees can include 12b-1 fees earned from certain mutual funds to cover allowable sales and marketing expenses for those funds and also include asset-based sales charges paid by certain mutual funds for a period of time after the sale of those funds. Generally, retail products offered outside of the U.S. do not generate a separate distribution fee; the quoted management fee rate is inclusive of these services. The company also has certain arrangements whereby the distribution fees are paid upon the subscription or redemption of a share or unit.

Performance fee revenues associated with retail funds will fluctuate from period to period and may not correlate with general market changes, since most of the fees are driven by relative performance to the respective benchmark rather than by absolute performance. Performance fee revenues, including carried interests and performance fees related to partnership investments and separate accounts, are generated on certain management contracts when performance hurdles are achieved. Such fee revenues are recorded in operating revenues when the contractual performance criteria have been met and when it is probable that a significant reversal of revenue recognized will not occur in future reporting periods. Cash receipt of performance fees generally occurs after the performance fee revenue is earned; however, the company may receive, from time-to-time, cash distributions of carried interest before any revenue is earned. Such distributions are reflected as deferred carried interest liabilities within accounts payable and accrued expenses on the Condensed Consolidated Balance Sheets. Given the uniqueness of each fee arrangement, performance fee contracts are evaluated on an individual basis to determine the timing of revenue recognition. Performance fees typically arise from investment management activities that were initially undertaken in prior reporting periods. Other revenues include fees derived primarily from transaction commissions earned upon the sale of new investments into certain of our funds and fees earned upon the completion of transactions in our real estate and private equity asset groups. Real estate transaction fees are derived from commissions earned through the buying and selling of properties. Private equity transaction fees include commissions associated with the restructuring of, and fees from providing advice to, portfolio companies held by the funds. These transaction fees are recorded in the Condensed Consolidated Statements of Income on the date when Invesco's services are complete which typically coincides with when the transactions are legally complete.

#### Principal versus Agent

The company utilizes third party service providers to fulfill certain performance obligations in its revenue agreements. Generally, the company is deemed to be the principal in these arrangements, because the company controls the investment management and other related services before they are transferred to customers. Such control is evidenced by the company's primary responsibility to customers, the ability to negotiate the third party contract price and select and direct third party service providers, or a combination of these factors. Therefore, investment management and service and distribution fee revenues and the related third party distribution, service and advisory expenses are reported on a gross basis.

Third-party distribution, service and advisory expenses include periodic "renewal" commissions paid to brokers and independent financial advisors for the continuing oversight of their clients' assets over the time they are invested and are payments for the servicing of client accounts. Renewal commissions are calculated based upon a percentage of the AUM value and apply to much of the company's non-U.S. retail operations. As discussed above, the revenues from the company's U.S. retail operations include 12b-1 distribution fees, which are largely passed through to brokers who sell the funds as third-party distribution expenses along with additional marketing support distribution costs. Both the revenues and the costs are dependent on the underlying AUM of the brokers' clients. Third-party distribution expenses also include the amortization of upfront commissions paid to broker-dealers for sales of fund shares with a contingent deferred sales charge (a charge levied to the investor for client redemption of AUM within a certain contracted period of time). The upfront distribution commissions are amortized over the redemption period. Also included in third-party

distribution, service and advisory expenses are sub-transfer agency fees that are paid to third parties for processing client share purchases and redemptions, call center support and client reporting. These costs are reimbursed by the related funds.

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## 2. FAIR VALUE OF ASSETS AND LIABILITIES

The carrying value and fair value of financial instruments are presented in the below summary table. The fair value of financial instruments held by CIP is presented in Note 12, "Consolidated Investment Products." See the company's most recently filed Form 10-K for additional disclosures on valuation methodology and fair value.

\$ in millions	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	1,631.5	1,631.5	2,006.4	2,006.4
Equity investments	309.2	309.2	346.6	346.6
Available-for-sale debt investments	—	—	15.9	15.9
Foreign time deposits *	20.1	20.1	28.6	28.6
Assets held for policyholders	12,268.2	12,268.2	12,444.5	12,444.5
Policyholder payables *	(12,268.2)	(12,268.2)	(12,444.5)	(12,444.5)
Contingent consideration liability	(45.4 )	(45.4 )	(57.4 )	(57.4 )
Long-term debt *	(2,814.6 )	(2,883.3 )	(2,075.8 )	(2,258.1 )

These financial instruments are not measured at fair value on a recurring basis. See the most recently filed Form \*10-K for additional information about the carrying and fair values of these financial instruments. Foreign time deposits are measured at cost plus accrued interest, which approximates fair value, and are accordingly classified as Level 2 securities.

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The following table presents, by hierarchy levels, the carrying value of the company's assets and liabilities, including major security type for equity and debt securities, which are measured at fair value on the company's Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively:

		As of September 30, 2018			
\$ in millions	Fair Value Measurements	Quoted	Significant	Significant	
		Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:					
Cash equivalents:					
Money market funds	404.2	404.2	—	—	
Investments:*					
Equity investments:					
Seed money	202.3	202.3	—	—	
Investments related to deferred compensation plans	90.4	90.4	—	—	
Other equity securities	16.5	16.5	—	—	
Assets held for policyholders	12,268.2	12,268.2	—	—	
Total	12,981.6	12,981.6	—	—	
Liabilities:					
Contingent consideration liability	(45.4 )	—	—	(45.4 )	
Total	(45.4 )	—	—	(45.4 )	
		As of December 31, 2017			
\$ in millions	Fair Value Measurements	Quoted	Significant	Significant	
		Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:					
Cash equivalents:					
Money market funds	875.5	875.5	—	—	
Investments:*					
Equity investments:					
Seed money	243.0	243.0	—	—	
Investments related to deferred compensation plans	92.3	92.3	—	—	
Other equity securities	11.3	11.3	—	—	
Available-for-sale debt investments:					
CLOs	6.0	—	6.0	—	
Other debt securities	9.9	—	—	9.9	

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Assets held for policyholders	12,444.5	12,444.5	—	—
Total	13,682.5	13,666.6	6.0	9.9
Liabilities:				
Contingent consideration liability	(57.4 )	—	—	(57.4 )
Total	(57.4 )	—	—	(57.4 )

Foreign time deposits of \$20.1 million (December 31, 2017: 28.6 million) are excluded from this table. Equity  
\* method and other investments of \$308.7 million and \$5.8 million, respectively, (December 31, 2017: \$277.3 million  
and \$6.2 million, respectively) are also excluded from this table. These investments are not measured at fair value, in  
accordance with applicable accounting standards.

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The following table shows a reconciliation of the beginning and ending fair value measurements for level 3 assets and liabilities during the three and nine months ended September 30, 2018 and September 30, 2017, which are valued using significant unobservable inputs:

\$ in millions	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	Contingent Consideration Liability	Other Debt Securities	Contingent Consideration Liability	Other Debt Securities
Beginning balance	(50.1 )	9.9	(57.4 )	9.9
Net unrealized gains and losses included in other gains and losses, net*	0.4	—	0.6	—
Disposition/settlements	4.3	(9.9 )	11.4	(9.9 )
Ending balance	(45.4 )	—	(45.4 )	—

  

\$ in millions	Three months ended September 30, 2017		Nine months ended September 30, 2017	
	Contingent Consideration Liability	Other Debt Securities	Contingent Consideration Liability	Other Debt Securities
Beginning balance	(69.2 )	9.8	(78.2 )	12.9
Purchases/acquisitions	—	—	—	7.3
Net unrealized gains and losses included in other gains and losses, net*	(1.6 )	—	0.2	—
Disposition/settlements	3.1	(0.1 )	10.3	—
Transfer from level 3 to level 2	—	—	—	(12.9)
Ending balance	(67.7 )	9.7	(67.7 )	9.7

\*These unrealized gains and losses are attributable to balances still held at the respective period ends.

Contingent Consideration Liability

At September 30, 2018 inputs used in the model included assumed growth rates in AUM ranging from (2.34)% to 0.74% (weighted average growth rate of (0.03)%) and a discount rate of 4.84%. Changes in fair value are recorded in other gains and losses, net in the Condensed Consolidated Statements of Income in the period incurred. An increase in AUM levels and/or a decrease in the discount rate would increase the fair value of the contingent consideration liability, while a decrease in forecasted AUM and/or an increase in the discount rate would decrease the liability.

Total Return Swaps

The company entered into total return swap arrangements with respect to certain ETFs in the three months ended September 30, 2018. At September 30, 2018, the aggregate notional value of the total return swaps was \$172.5 million. Under the terms of each total return swap, the company receives the related market gains or losses on the underlying investments and pays a floating rate to the respective counterparty. At September 30, 2018, the fair value of the total return swaps related to the ETFs resulted in a liability balance of \$1.3 million. For the three months ended September 30, 2018, market valuation losses of \$1.3 million were recognized in other gains and losses, net. The fair value of the total return swaps was determined under the market approach using quoted prices of the underlying investments and, as such, is classified as level 2 of the valuation hierarchy. The total return swaps are not designated for hedge accounting.



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## 3. INVESTMENTS

The disclosures below include details of the company's investments. Investments held by CIP are detailed in Note 12, "Consolidated Investment Products."

\$ in millions	September 30, December 31,	
	2018	2017
Equity investments:		
Seed money	202.3	243.0
Investments related to deferred compensation plans	90.4	92.3
Other equity securities	16.5	11.3
Available-for-sale debt investments:		
CLOs	—	6.0
Other debt securities	—	9.9
Equity method investments	308.7	277.3
Foreign time deposits	20.1	28.6
Other	5.8	6.2
Total investments	643.8	674.6

## Available for sale debt investments

Upon adoption of ASU 2016-01, as of January 1, 2018, seed money investments formerly classified as available-for-sale are now included as equity investments. Realized gains and losses recognized in the Condensed Consolidated Statements of Income during the period from investments classified as available-for-sale are as follows:

\$ in millions	For the three months ended September 30, 2018			For the nine months ended September 30, 2018		
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses
CLOs	4.2	1.5	—	16.5	2.3	—
Other debt securities	—	—	—	6.3	—	(3.6 )
	4.2	1.5	—	22.8	2.3	(3.6 )
\$ in millions	For the three months ended September 30, 2017			For the nine months ended September 30, 2017		
	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses	Proceeds from Sales	Gross Realized Gains	Gross Realized Losses
Seed money	15.2	1.6	—	61.7	2.7	(1.5 )
CLOs	3.5	0.8	—	6.1	1.2	—
Other debt securities	0.1	0.2	—	8.6	1.0	—
	18.8	2.6	—	76.4	4.9	(1.5 )

Gross unrealized holding gains and losses recognized in accumulated other comprehensive income/(loss) from available-for-sale debt investments are presented in the table below:

\$ in millions	December 31, 2017			
	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value



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Seed money	65.1	5.5	(1.3	)	69.3
CLOs	4.9	1.1	—		6.0
Other debt securities	9.9	—	—		9.9
	79.9	6.6	(1.3	)	85.2

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At December 31, 2017: 50 seed money funds had incurred gross unrealized holding losses. The following table provides a breakdown of the unrealized losses.

\$ in millions	December 31, 2017	
	Fair Value	Gross Unrealized Losses
Less than 12 months	9.4	(0.8 )
12 months or greater	15.0	(0.5 )
Total	24.4	(1.3 )

## Equity investments

The unrealized gains and losses for the three and nine months ended September 30, 2018, that relate to equity investments still held at September 30, 2018, were a \$2.2 million net gain and \$1.4 million net gain, respectively (three and nine months ended September 30, 2017: \$3.9 million net gain and \$14.1 million net gain related to trading investments held at September 30, 2017).

## 4. LONG-TERM DEBT

The disclosures below include details of the company's debt. Debt of CIP is detailed in Note 12, "Consolidated Investment Products."

\$ in millions	September 30, 2018		December 31, 2017	
	Carrying Value**	Fair Value	Carrying Value**	Fair Value
Floating rate credit facility expiring August 11, 2022	737.2	737.2	—	—
Unsecured Senior Notes*:				
\$600 million 3.125% - due November 30, 2022	597.4	589.8	596.9	608.8
\$600 million 4.000% - due January 30, 2024	594.6	607.2	594.0	634.7
\$500 million 3.750% - due January 15, 2026	495.4	494.4	495.1	515.0
\$400 million 5.375% - due November 30, 2043	390.0	454.8	389.8	499.6
Long-term debt	2,814.6	2,883.3	2,075.8	2,258.1

\* The company's senior note indentures contain certain restrictions on mergers or consolidations. Beyond these items, there are no other restrictive covenants in the indentures.

\*\* The difference between the principal amounts and the carrying values of the senior notes in the table above reflect the unamortized debt issuance costs and discounts.

The company maintains approximately \$15.8 million in letters of credit from a variety of banks. The letters of credit are generally one-year automatically-renewable facilities and are maintained for various commercial reasons.

## 5. SHARE CAPITAL

The number of common shares and common share equivalents issued are represented in the table below:

In millions	As of	
	September 30, 2018	December 31, 2017
Common shares issued	490.4	490.4
Less: Treasury shares for which dividend and voting rights do not apply	(79.1 )	(83.3 )

Common shares outstanding

411.3 407.1

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## 6. OTHER COMPREHENSIVE INCOME/(LOSS)

The components of accumulated other comprehensive income/(loss) were as follows:

\$ in millions	For the three months ended September 30, 2018				Total
	Foreign currency translation	Employee benefit plans	Equity method investments	Available-for-sale investments	
Other comprehensive income/(loss) net of tax:					
Currency translation differences on investments in foreign subsidiaries	(23.6 )	—	—	—	(23.6 )
Other comprehensive income, net	—	1.4	0.9	(0.8 )	1.5
Other comprehensive income/(loss), net of tax	(23.6 )	1.4	0.9	(0.8 )	(22.1 )
Beginning balance	(459.5)	(107.4 )	2.0	1.2	(563.7)
Other comprehensive income/(loss), net of tax	(23.6 )	1.4	0.9	(0.8 )	(22.1 )
Ending balance	(483.1)	(106.0 )	2.9	0.4	(585.8)

\$ in millions	For the nine months ended September 30, 2018				Total
	Foreign currency translation	Employee benefit plans	Equity method investments	Available-for-sale investments	
Other comprehensive income/(loss) net of tax:					
Currency translation differences on investments in foreign subsidiaries	(192.6)	—	—	—	(192.6)
Other comprehensive income, net	—	3.7	(1.4 )	(1.1 )	1.2
Other comprehensive income/(loss), net of tax	(192.6)	3.7	(1.4 )	(1.1 )	(191.4)
Beginning balance	(290.5)	(109.7 )	4.3	4.7	(391.2)
Adjustment for adoption of ASU 2016-01	—	—	—	(3.2 )	(3.2 )
January 1, 2018, as adjusted	(290.5)	(109.7 )	4.3	1.5	(394.4)
Other comprehensive income/(loss), net of tax	(192.6)	3.7	(1.4 )	(1.1 )	(191.4)
Ending balance	(483.1)	(106.0 )	2.9	0.4	(585.8)

\$ in millions	For the three months ended September 30, 2017				Total
	Foreign currency translation	Employee benefit plans	Equity method investments	Available-for-sale investments	
Other comprehensive income/(loss) net of tax:					
Currency translation differences on investments in foreign subsidiaries	142.4	—	—	—	142.4
Other comprehensive income, net	—	5.3	(0.1 )	(1.9 )	3.3
Other comprehensive income/(loss), net of tax	142.4	5.3	(0.1 )	(1.9 )	145.7
Beginning balance	(469.9)	(138.5 )	6.0	8.2	(594.2)
Other comprehensive income/(loss), net of tax	142.4	5.3	(0.1 )	(1.9 )	145.7
Ending balance	(327.5)	(133.2 )	5.9	6.3	(448.5)



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\$ in millions	For the nine months ended September 30, 2017				Total
	Foreign currency translation	Employee benefit plans	Equity method investments	Available-for-sale investments	
Other comprehensive income/(loss) net of tax:					
Currency translation differences on investments in foreign subsidiaries	352.4	—	—	—	352.4
Other comprehensive income, net	—	6.0	1.1	1.3	8.4
Other comprehensive income/(loss), net of tax	352.4	6.0	1.1	1.3	360.8
Beginning balance	(679.9)	(139.2)	4.8	5.0	(809.3)
Other comprehensive income/(loss), net of tax	352.4	6.0	1.1	1.3	360.8
Ending balance	(327.5)	(133.2)	5.9	6.3	(448.5)

## Net Investment Hedge

The company designated certain intercompany debt as a non-derivative net investment hedging instrument against foreign currency exposure related to its net investment in foreign operations. At September 30, 2018, £130 million (\$169.5 million) of intercompany debt was designated as a net investment hedge. For the nine months ended September 30, 2018, the Company recognized foreign currency gains of \$6.4 million resulting from the net investment hedge within currency translation differences on investments in foreign subsidiaries in other comprehensive income. No hedge ineffectiveness was recognized in income.

## 7. REVENUE

The geographic disaggregation of revenue for the three and nine months ended September 30, 2018 is presented below. There are no revenues attributed to the company's country of domicile, Bermuda.

\$ in millions	For the	For the
	three months ended September 30, 2018	nine months ended September 30, 2018
North America	835.5	2,483.8
EMEA	442.8	1,369.1
Asia-Pacific	63.5	205.3
Total operating revenues	1,341.8	4,058.2

The opening and closing balance of deferred carried interest liabilities for the nine months ended September 30, 2018 was \$60.4 million and \$60.9 million, respectively. During the nine months ended September 30, 2018, no performance fee revenue was recognized that was included in the deferred carried interest liability balance at the beginning of the period.

## 8. SHARE-BASED COMPENSATION

The company recognized total expenses of \$124.5 million and \$134.9 million related to equity-settled share-based payment transactions in the nine months ended September 30, 2018 and 2017, respectively.



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## Share Awards

Movements on share awards during the periods ended September 30, are detailed below:

Millions of shares, except fair values	For the nine months ended September 30, 2018			For the nine months ended September 30, 2017		
	Time- Vested	Performance- Vested	Weighted Average Grant Date Fair Value (\$)	Time- Vested	Performance- Vested	
Unvested at the beginning of period	12.0	0.9	31.52	12.1	0.8	
Granted during the period	5.5	0.4	32.09	5.3	0.3	
Forfeited during the period	(0.2)	—	31.71	(0.4)	—	
Vested and distributed during the period	(4.6)	(0.4)	32.14	(4.8)	(0.2)	
Unvested at the end of the period	12.7	0.9	31.55	12.2	0.9	

The total fair value of shares that vested during the nine months ended September 30, 2018 was \$156.1 million (nine months ended September 30, 2017: \$158.0 million). The weighted average grant date fair value of the share awards that were granted during the nine months ended September 30, 2018 was \$32.09 (nine months ended September 30, 2017: \$32.21).

At September 30, 2018, there was \$324.4 million of total unrecognized compensation cost related to non-vested share awards; that cost is expected to be recognized over a weighted average period of 2.61 years.

## 9. TAXATION

At September 30, 2018, the total amount of gross unrecognized tax benefits was \$19.2 million as compared to the December 31, 2017 total of \$19.6 million. At December 31, 2017, the company had not completed the accounting for the tax effects of enacting the Tax Cuts and Jobs Act (the "2017 Tax Act") and therefore recognized a provisional income tax benefit of \$130.7 million. As of September 30, 2018, the company has refined its estimate related to the deductibility of executive compensation based on recent IRS proposed guidance, and recognized additional income tax expense of \$1.5 million in the quarter. In accordance with Staff Accounting Bulletin No. 118, the company is required to complete its assessment and finalize the accounting in the fourth quarter of 2018 and though unlikely, the final amounts could differ from the estimates recorded to date as additional guidance continues to be issued.



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## 10. EARNINGS PER SHARE

The calculation of earnings per share is as follows:

In millions, except per share data	For the three months ended		For the nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Net income	\$281.2	\$274.6	\$788.3	\$738.4
Net (income)/loss attributable to noncontrolling interests in consolidated entities	(11.6 )	(7.1 )	(19.7 )	(19.3 )
Net income attributable to Invesco Ltd.	269.6	267.5	768.6	719.1
Less: Allocation of earnings to restricted shares	(8.3 )	(8.0 )	(23.3 )	(21.6 )
Net income attributable to common shareholders	\$261.3	\$259.5	\$745.3	\$697.5

## Invesco Ltd:

Weighted average shares outstanding - basic	414.3	410.0	413.2	409.2
Dilutive effect of non-participating share-based awards	0.1	0.5	0.2	0.4
Weighted average shares outstanding - diluted	414.4	410.5	413.4	409.6

## Common shareholders:

Weighted average shares outstanding - basic	414.3	410.0	413.2	409.2
Less: Weighted average restricted shares	(12.7 )	(12.2 )	(12.5 )	(12.3 )
Weighted average common shares outstanding - basic	401.6	397.8	400.7	396.9
Dilutive effect of non-participating share-based awards	0.1	0.5	0.2	0.4
Weighted average common shares outstanding - diluted	401.7	398.3	400.9	397.3

## Earnings per share:

Basic earnings per share	\$0.65	\$0.65	\$1.86	\$1.76
Diluted earnings per share	\$0.65	\$0.65	\$1.86	\$1.76

See Note 8, "Share-Based Compensation," for a summary of share awards outstanding under the company's share-based compensation programs. These programs could result in the issuance of common shares from time to time that would affect the measurement of basic and diluted earnings per share.

There were 0.9 million and 0.7 million shares of performance-vested awards and no time-vested awards excluded from the computation of diluted earnings per share during the three and nine months ended September 30, 2018, respectively, due to their inclusion being anti-dilutive (three and nine months ended September 30, 2017: none). There were no contingently issuable shares excluded from the diluted earnings per share computation during the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017: 0.1 million), because the necessary performance conditions for the shares to be issuable had not yet been satisfied at the end of the respective period.

## 11. COMMITMENTS AND CONTINGENCIES

Commitments and contingencies may arise in the ordinary course of business.

## Off Balance Sheet Commitments

The company has committed to co-invest in certain sponsored investment products which may be called in future periods. At September 30, 2018, the company's undrawn capital commitments were \$414.2 million (December 31, 2017: \$292.8 million).

The Parent and various company subsidiaries have entered into agreements with financial institutions to guarantee certain obligations of other company subsidiaries. The company would be required to perform under these guarantees in the event of certain defaults. The company has not had prior claims or losses pursuant to these contracts and expects

the risk of loss to be remote.

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Legal Contingencies

The company is from time to time involved in litigation relating to claims arising in the ordinary course of its business. The nature and progression of litigation can make it difficult to predict the impact a particular lawsuit will have on the company. There are many reasons that the company cannot make these assessments, including, among others, one or more of the following: the proceeding is in its early stages; the damages sought are unspecified, unsupported, unexplained or uncertain; the claimant is seeking relief other than compensatory damages; the matter presents novel legal claims or other meaningful legal uncertainties; discovery has not started or is not complete; there are significant facts in dispute; and there are other parties who may share in any ultimate liability.

In management's opinion, adequate accrual has been made as of September 30, 2018 to provide for any such losses that may arise from matters for which the company could reasonably estimate an amount. Management is of the opinion that the ultimate resolution of such claims will not materially affect the company's business, financial position, results of operation or liquidity. Furthermore, in management's opinion, it is not possible to estimate a range of reasonably possible losses with respect to other litigation contingencies.

The investment management industry also is subject to extensive levels of ongoing regulatory oversight and examination. In the United States, United Kingdom, and other jurisdictions in which the company operates, governmental authorities regularly make inquiries, hold investigations and administer market conduct examinations with respect to the company's compliance with applicable laws and regulations. Additional lawsuits or regulatory enforcement actions arising out of these inquiries may in the future be filed against the company and related entities and individuals in the United States, United Kingdom, and other jurisdictions in which the company and its affiliates operate. Any material loss of investor and/or client confidence as a result of such inquiries and/or litigation could result in a significant decline in AUM, which would have an adverse effect on the company's future financial results and its ability to grow its business.

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## 12. CONSOLIDATED INVESTMENT PRODUCTS (CIP)

The following table presents the balances related to CIP that are included on the Condensed Consolidated Balance Sheets as well as Invesco's net interest in the CIP for each period presented. See the company's most recently filed Form 10-K for additional disclosures on valuation methodology and fair value.

\$ in millions	As of	
	September 30, 2018	December 31, 2017
Cash and cash equivalents of CIP	282.8	511.3
Accounts receivable and other assets of CIP	56.7	131.5
Investments of CIP	6,074.6	5,658.0
Less: Debt of CIP	(4,820.5)	(4,799.8 )
Less: Other liabilities of CIP	(315.8 )	(498.8 )
Less: Retained earnings	7.0	16.7
Less: Accumulated other comprehensive income, net of tax	(6.9 )	(16.6 )
Less: Equity attributable to redeemable noncontrolling interests	(423.2 )	(243.2 )
Less: Equity attributable to nonredeemable noncontrolling interests	(330.8 )	(258.6 )
Invesco's net interests in CIP	523.9	500.5

The following table reflects the impact of consolidation of investment products into the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 and 2017:

\$ in millions	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Total operating revenues	(4.7 )	(6.2 )	(18.8 )	(25.7 )
Total operating expenses	5.1	4.2	14.5	5.2
Operating income	(9.8 )	(10.4)	(33.3 )	(30.9 )
Equity in earnings of unconsolidated affiliates	(3.4 )	(5.7 )	(9.8 )	(8.4 )
Other gains and losses, net	8.0	(9.8 )	16.3	(32.4 )
Interest and dividend income of CIP	71.0	52.7	196.0	156.4
Interest expense of CIP	(51.7)	(36.3)	(137.5)	(117.3)
Other gains/(losses) of CIP, net	8.8	15.3	(2.3 )	53.4
Income before income taxes	22.9	5.8	29.4	20.8
Net income	22.9	5.8	29.4	20.8
Net (income)/loss attributable to noncontrolling interests in consolidated entities	(11.6)	(7.1 )	(19.7 )	(19.3 )
Net income attributable to Invesco Ltd.	11.3	(1.3 )	9.7	1.5
Non-consolidated VIEs				

At September 30, 2018, the company's carrying value and maximum risk of loss with respect to variable interest entities (VIEs) in which the company is not the primary beneficiary was \$286.1 million (December 31, 2017: \$227.3 million).

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## Balance Sheet information - newly consolidated VIEs/VOEs

During the nine months ended September 30, 2018, there were twenty-two newly consolidated VIEs and eight newly consolidated voting rights entities (VOEs) (September 30, 2017: the company consolidated fifteen new VIEs.) The table below illustrates the summary balance sheet amounts related to these products before consolidation into the company. The balances below are reflective of the balances existing at the consolidation date after the initial funding of the investments by the company and unrelated third-party investors. The current period activity for the consolidated funds, including the initial funding and subsequent investment of initial cash balances into underlying investments of CIP, is reflected in the company's Condensed Consolidated Financial Statements.

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
\$ in millions	VIEs	VOEs	VIEs
Cash and cash equivalents of CIP	17.4	—	14.9
Accounts receivable and other assets of CIP	6.2	1.9	8.5
Investments of CIP	800.6	172.6	331.9
Total assets	824.2	174.5	355.3
Debt of CIP	555.2	—	15.1
Other liabilities of CIP	37.7	—	105.1
Total liabilities	592.9	—	120.2
Total equity	231.3	174.5	235.1
Total liabilities and equity	824.2	174.5	355.3

## Balance Sheet information - deconsolidated VIEs/VOEs

During the nine months ended September 30, 2018, the company determined that it was no longer the primary beneficiary of five VIEs (September 30, 2017: the company determined that it was no longer the primary beneficiary of six VIEs and one VOE). The amounts deconsolidated from the Condensed Consolidated Balance Sheets are illustrated in the table below. There was no net impact to the Condensed Consolidated Statements of Income for the nine months ended September 30, 2018 and 2017 from the deconsolidation of these investment products.

	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	
\$ in millions	VIEs	VIEs	VOEs
Cash and cash equivalents of CIP	104.9	15.7	—
Accounts receivable and other assets of CIP	26.2	4.1	0.2
Investments of CIP	912.4	242.9	49.8
Total assets	1,043.5	262.7	50.0
Debt of CIP	938.3	4.2	—
Other liabilities of CIP	9.0	3.1	—

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Total liabilities	947.3	7.3	—
Total equity	96.2	255.4	50.0
Total liabilities and equity	1,043.5	262.7	50.0

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The following tables present the fair value hierarchy levels of certain CIP balances which are measured at fair value as of September 30, 2018 and December 31, 2017:

As of September 30, 2018					
\$ in millions	Fair Value Measurements	Quoted	Significant	Significant	Investments Measured at NAV as a practical expedient
		Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:					
Bank loans	5,110.6	—	5,110.6	—	—
Bonds	505.6	—	505.6	—	—
Equity securities	243.0	239.2	3.8	—	—
Equity and fixed income mutual funds	18.3	18.3	—	—	—
Investments in other private equity funds	185.0	—	—	—	185.0
Real estate investments	12.1	—	—	12.1	—
Total assets at fair value	6,074.6	257.5	5,620.0	12.1	185.0
As of December 31, 2017					
\$ in millions	Fair Value Measurements	Quoted	Significant	Significant	Investments Measured at NAV as a practical expedient
		Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
Assets:					
Bank loans	4,894.2	—	4,894.2	—	—
Bonds	302.0	—	302.0	—	—
Equity securities	203.2	198.8	4.4	—	—
Equity and fixed income mutual funds	19.0	19.0	—	—	—
Investments in other private equity funds	163.4	—	—	—	163.4
Real estate investments	76.2	—	—	76.2	—
Total assets at fair value	5,658.0	217.8	5,200.6	76.2	163.4

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The following tables show a reconciliation of the beginning and ending fair value measurements for level 3 assets and liabilities using significant unobservable inputs:

	Three months ended September 30, 2018 Level 3 Assets	Nine months ended September 30, 2018 Level 3 Assets
\$ in millions		
Beginning balance	52.0	76.2
Purchases	—	13.0
Sales	(39.3 )	(84.8 )
Gains and losses included in the Condensed Consolidated Statements of Income*	(0.6 )	7.7
Ending balance	12.1	12.1

  

	Three months ended September 30, 2017 Level 3 Assets	Nine months ended September 30, 2017 Level 3 Assets
\$ in millions		
Beginning balance	59.9	40.7
Purchases	—	15.1
Sales	—	(5.1 )
Gains and losses included in the Condensed Consolidated Statements of Income*	3.6	12.8
Ending balance	63.5	63.5

Included in gains/(losses) of CIP, net in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2018 are \$0.5 million and \$0.8 million respectively, in net unrealized losses

\*attributable to investments still held at September 30, 2018 by CIP (for the three and nine months ended

September 30, 2017: \$3.6 million and \$12.4 million respectively, in net unrealized gains are attributable to investments still held at September 30, 2017 by CIP).

The collateral assets held by consolidated CLOs are primarily invested in senior secured bank loans, bonds, and equity securities. Bank loan investments of \$5,036.5 million, which comprise the majority of consolidated CLO portfolio collateral, are senior secured corporate loans from a variety of industries, including but not limited to the aerospace and defense, broadcasting, technology, utilities, household products, healthcare, oil and gas, and finance industries. Bank loan investments mature at various dates between 2018 and 2026 pay interest at LIBOR plus a spread of up to 9.5%, and typically range in S&P credit rating categories from BBB down to unrated. Interest income on bank loans and bonds is recognized based on the unpaid principal balance and stated interest rate of these investments on an accrual basis. At September 30, 2018, the unpaid principal balance exceeds the fair value of the senior secured bank loans and bonds by approximately \$50.1 million (December 31, 2017: the unpaid principal balance exceeded the fair value of the senior secured bank loans and bonds by approximately \$84.6 million). Approximately less than 1% of the collateral assets were in default as of September 30, 2018 and 2017. CLO investments are valued based on price quotations provided by third party pricing sources. These third party sources aggregate indicative price quotations daily to provide the company with a price for the CLO investments. The company has developed internal controls to



review the reasonableness and completeness of these price quotations on a daily basis. If necessary, price quotations are challenged through a third-party pricing challenge process.

Notes issued by consolidated CLOs mature at various dates between 2026 and 2031 and have a weighted average maturity of 10.8 years. The notes are issued in various tranches with different risk profiles. The interest rates are generally variable rates based on LIBOR plus a pre-defined spread, which varies from 0.55% for the more senior tranches to 7.45% for the more subordinated tranches. The investors in this debt are not affiliated with the company and have no recourse to the general credit of the company for this debt.

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## Quantitative Information about Level 3 Fair Value Measurements

At September 30, 2018, there were \$12.1 million of investments held by consolidated real estate funds that were valued using recent private market transactions.

The following table shows significant unobservable inputs used in the fair value measurement of level 3 assets at December 31, 2017:

Assets and Liabilities	Fair Value at December 31, 2017 (\$ in millions)	Valuation Technique	Unobservable Inputs	Range	Weighted Average (by fair value)
Real Estate Investments	\$76.2	Discounted Cash Flow	Discount rate	7% - 33%	17.00 %
			Terminal capitalization rate	5.30	% 5.30 %
			Average rent growth rate	2% - 3%	2.50 %

The following narrative indicates the sensitivity of inputs illustrating the impact of significant increases to the inputs. A directionally opposite impact would apply for significant decreases in these inputs:

For real estate investments, a change in the average rent growth rate would result in a directionally-opposite change in the assumptions for discount rate and terminal capitalization rate. Significant increases in the average growth rate would result in significantly higher fair values. Significant increases in the assumptions for discount rate and terminal capitalization rate in isolation would result in significantly lower fair value measurements.

The table below summarizes as of September 30, 2018 and December 31, 2017, the nature of investments that are valued using the NAV as a practical expedient and any related liquidation restrictions or other factors which may impact the ultimate value realized.

in millions, except term data	September 30, 2018			December 31, 2017		
	Fair Value	Total Unfunded Commitments	Weighted Average Remaining Term <sup>(2)</sup>	Fair Value	Total Unfunded Commitments	Weighted Average Remaining Term <sup>(2)</sup>
Private equity funds <sup>(1)</sup>	\$185.0	\$83.0	5.5 years	\$163.4	\$53.9	5.5 years

(1) These investments are not subject to redemption; however, for certain funds, the investors may sell or transfer their interest, which may require approval by the general partner of the underlying funds.

(2) These investments are expected to be returned through distributions as a result of liquidations of the funds' underlying assets over the weighted average periods indicated.

## 13. RELATED PARTIES

Certain managed funds are deemed to be affiliated entities under the related party definition in ASC 850, "Related Party Disclosures." Additionally, related parties include those defined in the company's proxy statement.



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\$ in millions	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Affiliated operating revenues:				
Investment management fees	915.6	937.0	2,757.1	2,654.5
Service and distribution fees	238.9	217.2	723.9	634.1
Performance fees	0.8	40.5	7.6	52.1
Other	47.6	14.9	148.3	46.0
Total affiliated operating revenues	1,202.9	1,209.6	3,636.9	3,386.7
\$ in millions	September 30, 2018		December 31, 2017	
Affiliated asset balances:				
Cash and cash equivalents	404.2		875.5	
Unsettled fund receivables	376.2		204.0	
Accounts receivable	342.5		359.9	
Investments	602.6		608.5	
Assets held for policyholders	12,267.8		12,444.2	
Other assets	3.4		9.2	
Total affiliated asset balances	13,996.7		14,501.3	
Affiliated liability balances:				
Accrued compensation and benefits	74.7		90.7	
Accounts payable and accrued expenses	64.3		64.5	
Unsettled fund payables	184.2		288.8	
Total affiliated liability balances	323.2		444.0	

**14. BUSINESS COMBINATIONS**

On April 6, 2018, the company acquired the Guggenheim Investments' ETF business for \$1.2 billion. The company borrowed \$835 million on its credit facility in connection with the acquisition. The initial estimates of identified assets acquired in the purchase are \$527 million of acquired intangible assets (primarily indefinite-lived fund management contracts) and \$677 million of tax deductible goodwill.

On June 4, 2018, the company acquired Intelliflo, a market-leading UK provider of advisor focused digital solutions. Our initial estimated purchase price allocation consists primarily of acquired intangible assets (customer relationships, developed technology and related assets) and goodwill.

As the company receives additional information related to these recent transactions, certain initially recorded estimates may change.

**15. SUBSEQUENT EVENTS**

On October 17, 2018, the company signed a definitive agreement whereby Invesco will acquire Massachusetts Mutual Life Insurance Company's ("MassMutual") asset management affiliate, OppenheimerFunds, Inc., for consideration of 81.9 million shares of common stock and \$4 billion in perpetual, non-cumulative preferred stock with a 21-year non-call period and a fixed rate of 5.9%. The shareholder agreement specifies a lock-up period of two years for the common stock and five years for the preferred stock. The transaction is expected to close in the second quarter of

2019, pending necessary regulatory and other third-party approvals.

On October 18, 2018, the company announced a third quarter 2018 dividend of 30.0 cents per share, payable on December 3, 2018, to shareholders of record at the close of business on November 13, 2018 with an ex-dividend date of November 9, 2018.

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On October 18, 2018, the company announced plans to buy back \$1.2 billion of the company's common shares within the next two years. In connection with this effort, on October 24, 2018, the company entered into a forward contract to purchase \$300.0 million of its common shares; the purchase price for such shares will be determined no later than December 31, 2018 and settlement of the purchase will occur by the third quarter of 2019.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes thereto, which appear elsewhere in this Report. Except for the historical financial information, this Report may include statements that constitute "forward-looking statements" under the United States securities laws. Forward-looking statements include information concerning future results of our operations, expenses, earnings, liquidity, cash flow and capital expenditures, industry or market conditions, assets under management, geopolitical events and their potential impact on the company, acquisitions and divestitures, debt and our ability to obtain additional financing or make payments, regulatory developments, demand for and pricing of our products and other aspects of our business or general economic conditions. In addition, words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "projects," "forecasts," and future or conditional verbs such as "will," "may," "could," "should," and "would" as well as any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees, and they involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in this Report and our most recent Form 10-K filed with the Securities and Exchange Commission ("SEC").

You may obtain these reports from the SEC's website at [www.sec.gov](http://www.sec.gov). We expressly disclaim any obligation to update the information in any public disclosure if any forward-looking statement later turns out to be inaccurate.

References

In this Report, unless otherwise specified, the terms "we," "our," "us," "company," "firm," "Invesco," and "Invesco Ltd." refer to Invesco Ltd., a company incorporated in Bermuda, and its subsidiaries.

Executive Overview

The following executive overview summarizes the significant trends affecting our results of operations and financial condition for the periods presented. This overview and the remainder of this management's discussion and analysis supplements and should be read in conjunction with the Condensed Consolidated Financial Statements of Invesco Ltd. and its subsidiaries and the notes thereto contained elsewhere in this Report.

The three months ended September 30, 2018 saw a divergence in global returns as U.S. markets outperformed other world markets. In the U.S., strong economic growth and positive earnings data helped to propel markets higher despite continued concerns of escalations in the trade war between the U.S. and China. Additionally, continued strong economic indicators led the Federal Reserve to enact a 25 basis point increase in the federal funds rate during the period. The S&P reached record levels during the quarter before ultimately finishing the period up 7.2%. European markets were mixed as fears over trade wars and the impact of tariffs impacted emerging markets while positive economic indicators led the Bank of England to raise interest rates by 25 basis points during the quarter. Concerns of no deal between the UK and the EU on the Brexit referendum also weighed on markets which led the FTSE 100 to finish the period down 1.7%. In Japan, a positive economic outlook, weakening Yen, and improving corporate profits helped to drive markets higher with the Nikkei 225 finishing the quarter up 8.1%.

Bond returns for the quarter were mixed as strong economic indicators and rate increases implemented in the U.S. and UK drove yields higher. Corporate bonds saw positive returns for the period while government bonds returns were mostly negative which led to the U.S. Aggregate Bond Index to finish flat for the quarter.





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The table below summarizes returns based on price appreciation/(depreciation) of several major market indices for the three and nine months ended periods ended September 30, 2018 and 2017:

	Index expressed in currency	Three months ended		Nine months ended	
		September 30, 2018	2017	September 30, 2018	2017
Equity Index					
S&P 500	U.S. Dollar	7.2 %	4.0%	9.0 %	12.5 %
FTSE 100	British Pound	(1.7)%	0.8%	(2.3)%	3.2 %
FTSE 100	U.S. Dollar	(2.8)%	3.8%	(5.8)%	12.0%
Nikkei 225	Japanese Yen	8.1 %	1.6%	6.0 %	6.5 %
Nikkei 225	U.S. Dollar	5.6 %	1.4%	5.1 %	10.3%
MSCI Emerging Markets	U.S. Dollar	(2.0)%	7.0%	(9.5)%	25.5%
Bond Index					
Barclays U.S. Aggregate Bond	U.S. Dollar	0.0 %	0.9%	(1.6)%	3.1 %

The company's financial results are impacted by the strengthening or weakening of the U.S. Dollar against other currencies, as discussed in the "Foreign Exchange Impact on Balance Sheet, Assets Under Management and Results of Operations" section and the "Results of Operations" section below.

Our revenues are directly influenced by the level and composition of our AUM. Therefore, movements in global capital market levels, net new business inflows (or outflows) and changes in the mix of investment products between asset classes and geographies may materially affect our revenues from period to period. As fee rates differ across geographic locations, changes to exchange rates have an impact on the net revenue yields.

Invesco benefits from our long-term efforts to ensure a diversified base of AUM. One of Invesco's core strengths, and a key differentiator for the company within the industry, is our broad diversification across client domiciles, asset classes and distribution channels. Our geographic diversification recognizes growth opportunities in different parts of the world. This broad diversification mitigates the impact on Invesco of different market cycles and enables the company to take advantage of growth opportunities in various markets and channels. The company is moving to a unified brand - Invesco, while preserving the time-tested and distinctive investment perspectives, processes and approaches of our different investment teams across the globe. This effort will contribute to a more consistent client experience across multiple markets and strengthen our ability to market our comprehensive range of capabilities more effectively.

On October 17, 2018, Invesco entered into a definitive agreement to acquire OppenheimerFunds from MassMutual, which includes approximately \$250 billion of AUM. This strategic transaction will bring Invesco's total AUM to more than \$1.2 trillion, making it the 13th-largest global investment manager and sixth-largest US retail investment manager<sup>(1)</sup>, further enhancing the company's ability to meet client needs through its comprehensive range of high-conviction active, passive and alternative capabilities. Under the terms of the agreement, Invesco will acquire OppenheimerFunds for consideration of 81.9 million shares of Invesco common equity and \$4 billion in perpetual, non-cumulative preferred shares with a 21-year non-call period and a fixed rate of 5.9%. The shareholder agreement specifies a lock-up period of two years for the common stock and five years for the preferred stock.

The highly complementary investment and distribution capabilities of Invesco and OppenheimerFunds will strengthen the combined organization's ability to provide more relevant investment outcomes to an expanded number of institutional and retail clients in the US and around the globe. Both Invesco's and OppenheimerFunds' clients will

benefit from the resulting combination, which will incorporate OppenheimerFunds' high-performing investment capabilities, including a strong international and emerging markets equity franchise, and its powerful US third-party distribution platform, with Invesco's global distribution organization, strong and diversified product lineup, and institutional and technology-driven client outreach. The transaction is expected to close in the second quarter of 2019, pending necessary regulatory and other third-party approvals.

Invesco Great Wall Fund Management Company ("Invesco Great Wall"), the company's largest joint venture in China, is experiencing strong growth. In June, Invesco Great Wall's Jingyi Money Market Fund was selected as one of seven money market funds to be included in the money market program, Yu'E Bao, administered by Ant Financial, an affiliate of Alibaba. Given the company's influence on Invesco Great Wall, a change in regulation allowing increased foreign ownership, and reaching agreement in principle in the third quarter to obtain a majority stake of the joint venture, the company began reporting 100% of the flows and AUM for Invesco Great Wall beginning in the third quarter. The company's non-GAAP operating results now reflect the economics of these holdings on a basis consistent with the underlying AUM and flows.

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On April 6, 2018 the company completed its previously announced acquisition of Guggenheim Investments' exchange-traded funds (ETF) business, which consists of \$38.1 billion of assets under management (at date of acquisition). The acquisition strengthens Invesco's market-leading ETF capabilities as well as the firm's efforts to meet the needs of institutional and retail clients in the U.S. and across the globe, which will contribute further to the growth and long-term success of the business. With this acquisition, Invesco's ETF assets under management total \$233.0 billion globally (as of September 30, 2018). The aggregate purchase price paid by Invesco upon completion of the transaction was \$1.2 billion.

On June 4, 2018, the company acquired Intelliflo, the No. 1 technology platform for financial advisors in the UK.<sup>(2)</sup> The addition of Intelliflo builds on the 2016 acquisition of Jemstep to deliver a global, advisor-focused digital platform that enhances the firm's ability to meet evolving client needs.

Invesco continues to demonstrate its commitment to supporting financial advisors with industry leading tools and resources, such as Jemstep, as we believe these areas are key to delivering superior investment experiences. The range of investment capabilities available through Jemstep are broad across the firm's active, alternative and ETF offerings. Additionally, Jemstep offers open architecture to help advisors provide customized solutions for clients. As a market-leading provider of digital solutions, Jemstep continues to expand its capabilities and market presence, and is an integral part of Invesco's growth strategy.

The Markets in Financial Instrument Directive (MiFID II) became effective in Europe in January 2018. Invesco is committed to ensuring our investment professionals have access to the external research market in order to achieve our long-term investment performance goals. Beginning in January 2018, external research costs incurred for MiFID II impacted funds and client accounts in Europe have been absorbed by the company and are not material to the company's financial statements.

On December 22, 2017, the 2017 Tax Act was signed into law. The 2017 Tax Act, among other items, reduces the federal corporate tax rate from 35% to 21% effective January 1, 2018. Our intention is to use the additional cash flow generated from the lower tax rate first to reduce the outstanding balance on the credit facility resulting from acquisitions. After the credit facility balance is reduced, any residual excess will follow our capital management priorities.

In addition, during the third quarter of 2018:

Invesco Great Wall (IGW) won numerous industry awards during the Asset Management Association of China's inaugural event to mark the 20<sup>th</sup> anniversary of the establishment of China's fund industry. IGW was recognized in two categories: Outstanding Fund Management Company & Management Team for its successive management teams (Chairman, CEO, Chief Supervisor) since launch, and Outstanding Products & Management Team for its IGW Select Equity Mixed Securities Fund, IGW Domestic Demand Growth Mixed Securities Fund and IGW DingYi Mixed Securities Fund.

Invesco was recognized as being among the top three investment managers in servicing institutional investors in Asia by market intelligence consultant Greenwich Associates.

Invesco won the 2018 Multi Asset Manager of the year award, which was given at the LAPF Investment Awards held in London. This award recognizes the combined capabilities of the Henley Multi-Asset team, Invesco Global Asset Allocation (IBRA) team and IQS Balanced Solutions team, highlighting the breadth of our multi-asset offering.

Invesco Wholesalers Todd Matlack and Lloyd Silk were named to the National Association of Plan Advisors' 2018 Top 100 DC Wholesalers. These "DC Wingmen" made the cut from a pool of about 1,400 wholesalers, based on voting

by thousands of NAPA members.

Invesco launched a new suite of factor ETFs which brings together some of our best passive and active capabilities.

The suite includes eight products and leverages the expertise of our Fixed Income team and our new Indexing team.

Invesco launched the Invesco Perpetual Summit Growth range - five multi-asset funds designed to help financial advisers in the UK match the risk profiles of their clients by accessing the breadth of Invesco's diverse investment capabilities.

- Invesco launched Canada's first equal-weight European large-cap ETF providing equal-weight exposure to the companies that make up the S&P Europe 350 Index. Invesco S&P Europe 350 Equal Weight Index ETF (EQE) offers investors the potential benefits of balanced exposure, disciplined rebalancing and higher return potential.

Invesco earned an A+ rating in PRI (Principles for Responsible Investment) for its overall approach to responsible investment for second consecutive year.

Invesco Real Estate signed the single largest asset deal in its European history.

One of the company's strategic objectives is to harness the power of our global platform by improving effectiveness and efficiency by allocating our resources to the opportunities that will best benefit clients and our business. During 2018, the company has continued our efforts to transform several key business support functions to become more effective and efficient

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by leveraging shared service centers, outsourcing, automating key processes and optimizing the company's office footprint. Consistent with this objective, business optimization charges of \$14.5 million and \$28.7 million were recorded during the three and nine months ended September 30, 2018. Total costs of these initiatives at completion are estimated to be approximately \$160 million, of which \$9 million remains to be incurred through 2018. At the end of the third quarter 2018, these initiatives have produced annualized run-rate expense savings of approximately \$54 million, and by completion in 2018, the annualized run-rate savings is expected to be up to \$62 million.

Source for global ranking: P&I Research, Morningstar (AUM as of June 2018) and Simfund (AUM as of Dec. 31, 2017), Advisor Brandscape. Source for US ranking: Invesco and Strategic Insight. Based on AUM of US (1) domiciled long-term open-end, closed-end, exchange traded funds, money market funds, and VI assets as measured at the parent company level. It does not include funds that are not US domiciled or any other categories of investment vehicles not expressly listed, such as, but not limited to SA, SMA and UIT assets. (2) Data as of June 30, 2018. Source: Platform - Adviser Market: Fintech and Digital, January 2018 report.

Presentation of Management's Discussion and Analysis of Financial Condition and Results of Operations - Impact of Consolidated Investment Products

The company provides investment management services to, and has transactions with, various retail mutual funds and similar entities, private equity, real estate, fund-of-funds, collateralized loan obligation products (CLOs), and other investment entities sponsored by the company for the investment of client assets in the normal course of business. The company serves as the investment manager, making day-to-day investment decisions concerning the assets of the products. Investment products that are consolidated are referred to in this Form 10-Q (Report) as consolidated investments products (CIP). CIP includes all variable and voting interest entities, as applicable. The company's economic risk with respect to each investment in CIP is limited to its equity ownership and any uncollected management and performance fees. See also Note 12, "Consolidated Investment Products," for additional information regarding the impact of the consolidation of managed funds.

The majority of the company's CIP balances are CLO-related. The collateral assets of the CLOs are held solely to satisfy the obligations of the CLOs. The company has no right to the benefits from, nor does it bear the risks associated with, the collateral assets held by the CLOs, beyond the company's direct investments in, and management and performance fees generated from, the CLOs. If the company were to liquidate, the collateral assets would not be available to the general creditors of the company, and as a result, the company does not consider them to be company assets. Likewise, the investors in the CLOs have no recourse to the general credit of the company for the notes issued by the CLOs. The company therefore does not consider this debt to be a company liability.

The impact of CIP is so significant to the presentation of the company's Condensed Consolidated Financial Statements that the company has elected to deconsolidate these products in its non-GAAP disclosures. The following discussion therefore combines the results presented under U.S. generally accepted accounting principles (U.S. GAAP) with the company's non-GAAP presentation. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains four distinct sections, which follow the AUM discussion:

• Results of Operations (three and nine months ended September 30, 2018 compared to three and nine months ended September 30, 2017);

• Schedule of Non-GAAP Information;

• Balance Sheet Discussion; and

• Liquidity and Capital Resources.

Wherever a non-GAAP measure is referenced, a disclosure will follow in the narrative or in the note referring the reader to the Schedule of Non-GAAP Information, where additional details regarding the use of the non-GAAP measure by the company are disclosed, along with reconciliations of the most directly comparable U.S. GAAP measures to the non-GAAP measures. To further enhance the readability of the Results of Operations section, separate

tables for each of the revenue, expense, and other income and expenses (non-operating income/expense) sections of the income statement introduce the narrative that follows, providing a section-by-section review of the company's income statements for the periods presented.

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## Summary Operating Information

Summary operating information is presented in the table below:

\$ in millions, other than per share amounts, operating margins and AUM	Three months ended		Nine months ended	
	September 30,		September 30,	
U.S. GAAP Financial Measures Summary	2018	2017	2018	2017
Operating revenues	1,341.8	1,337.7	4,058.2	3,784.7
Operating income	322.1	360.3	974.5	936.5
Operating margin	24.0	% 26.9	% 24.0	% 24.7
Net income attributable to Invesco Ltd.	269.6	267.5	768.6	719.1
Diluted EPS	0.65	0.65	1.86	1.76
Non-GAAP Financial Measures Summary				
Net revenues <sup>(1)</sup>	966.9	976.6	2,898.8	2,750.0
Adjusted operating income <sup>(2)</sup>	357.8	402.4	1,091.6	1,084.7
Adjusted operating margin <sup>(2)</sup>	37.0	% 41.2	% 37.7	% 39.4
Adjusted net income attributable to Invesco Ltd. <sup>(3)</sup>	274.4	291.8	821.4	806.8
Adjusted diluted EPS <sup>(3)</sup>	0.66	0.71	1.99	1.97
Assets Under Management				
Ending AUM (billions)	980.9	917.5	980.9	917.5
Average AUM (billions)	985.1	890.8	970.1	856.6

Net revenues is a non-GAAP financial measure. Net revenues are operating revenues plus the net revenues of Invesco Great Wall, less third-party distribution, service and advisory expenses, plus management and performance fees earned from CIP. See "Schedule of Non-GAAP Information," for the reconciliation of operating revenues to net revenues.

Adjusted operating income and adjusted operating margin are non-GAAP financial measures. Adjusted operating margin is adjusted operating income divided by net revenues. Adjusted operating income includes operating income plus the net operating income of Invesco Great Wall, the operating income impact of the consolidation of investment products, business combination-related adjustments, compensation expense related to market valuation changes in deferred compensation plans, and other reconciling items. See "Schedule of Non-GAAP Information," for the reconciliation of operating income to adjusted operating income.

Adjusted net income attributable to Invesco Ltd. and adjusted diluted EPS are non-GAAP financial measures. Adjusted net income attributable to Invesco Ltd. is net income attributable to Invesco Ltd. adjusted to exclude the impact of CIP on net income attributable to Invesco Ltd., add back business combination-related adjustments, the net income impact of deferred compensation plans and other reconciling items. Adjustments made to net income attributable to Invesco Ltd. are tax-effected in arriving at adjusted net income attributable to Invesco Ltd. By calculation, adjusted diluted EPS is adjusted net income attributable to Invesco Ltd. divided by the weighted average number of shares outstanding (for diluted EPS). See "Schedule of Non-GAAP Information," for the reconciliation of net income attributable to Invesco Ltd. to adjusted net income attributable to Invesco Ltd.

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## Investment Capabilities Performance Overview

Invesco's first strategic priority is to achieve strong investment performance over the long-term for our clients. The table below presents the one-, three- and five-year performance of our actively managed investment products measured by the percentage of AUM ahead of benchmark and AUM in the top half of peer group.<sup>(1)</sup>

	Benchmark Comparison			Peer Group Comparison		
	% of AUM Ahead of Benchmark			% of AUM In Top Half of Peer Group		
	1yr	3yr	5yr	1yr	3yr	5yr
Equities						
U.S. Core	14	%0	%13	%26	%0	%7
U.S. Growth	31	%40	%40	%9	%56	%36
U.S. Value	35	%50	%50	%35	%50	%50
Sector Funds	49	%57	%53	%49	%34	%29
U.K.	6	%8	%70	%2	%7	%6
Canadian	5	%11	%0	%5	%11	%0
Asian	74	%75	%90	%57	%87	%85
Continental European	54	%85	%99	%35	%66	%79
Global	40	%37	%50	%42	%50	%67
Global Ex U.S. and Emerging Markets	1	%17	%12	%0	%17	%4
Fixed Income						
Money Market	98	%99	%99	%86	%87	%98
U.S. Fixed Income	58	%90	%88	%65	%78	%86
Global Fixed Income	34	%45	%48	%38	%36	%41
Stable Value	100	%100	%100	%100	%100	%100
Other						
Alternatives	35	%66	%66	%41	%46	%75
Balanced	41	%46	%46	%31	%94	%85

Excludes passive products, closed-end funds, private equity limited partnerships, non-discretionary funds, unit investment trusts, fund of funds with component funds managed by Invesco, stable value building block funds and CDOs. Certain funds and products were excluded from the analysis because of limited benchmark or peer group data. Had these been available, results may have been different. These results are preliminary and subject to revision. AUM measured in the one, three, and five year quartile rankings represents 52%, 52%, and 49% of total Invesco AUM, respectively, and AUM measured versus benchmark on a one, three, and five year basis represents (1) 65%, 63%, and 58% of total Invesco AUM as of 9/30/18. Peer group rankings are sourced from a widely-used third party ranking agency in each fund's market (Lipper, Morningstar, IA, Russell, Mercer, eVestment Alliance, SITCA, Value Research) and asset-weighted in USD. Rankings are as of prior quarter-end for most institutional products and prior month-end for Australian retail funds due to their late release by third parties. Rankings are calculated against all funds in each peer group. Rankings for the primary share class of the most representative fund in each composite are applied to all products within each composite. Performance assumes the reinvestment of dividends. Past performance is not indicative of future results and may not reflect an investor's experience.





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## Foreign Exchange Impact on Balance Sheet, Assets Under Management and Results of Operations

A significant portion of our business is based outside of the U.S. The strengthening or weakening of the U.S. Dollar against other currencies, primarily the Pound Sterling, Canadian Dollar, Euro and Japanese Yen will impact our assets, liabilities, AUM and reported revenues and expenses from period to period. The assets, liabilities and AUM of foreign subsidiaries are translated at period end spot foreign currency exchange rates. The income statements of foreign currency subsidiaries are translated into U.S. Dollars, the reporting currency of the company, using average foreign exchange rates.

The table below illustrates the spot foreign exchange rates used for translation of non-U.S. Dollar denominated assets, liabilities and AUM into U.S. Dollars:

Spot Foreign Exchange Rates	September 30, 2018		June 30, 2017		December 31, 2016	
	2018	2017	2018	2017	2017	31, 2016
Pound Sterling (\$ per £)	1.304	1.320	1.353	1.342	1.299	1.236
Canadian Dollar (CAD per \$)	1.292	1.316	1.253	1.250	1.299	1.341
Japan (¥ per \$)	113.550	110.760	112.645	112.575	112.375	116.600
Euro (\$ per Euro)	1.161	1.168	1.201	1.182	1.140	1.054

The table below illustrates the average foreign exchange rates used for translation of non-U.S. Dollar denominated income, including revenues and expenses, into U.S. Dollars:

Average Foreign Exchange Rates	Three months ended September 30, 2018		Nine months ended September 30, 2017	
	2018	2017	2018	2017
Pound Sterling (\$ per £)	1.303	1.308	1.352	1.275
Canadian Dollar (CAD per \$)	1.307	1.253	1.287	1.306
Japan (¥ per \$)	111.448	110.906	109.586	111.888
Euro (\$ per Euro)	1.163	1.174	1.195	1.113

A comparison of period end spot rates between September 30, 2018 and December 31, 2017 shows a weakening of the Pound Sterling, the Euro, the Japanese Yen and the Canadian Dollar relative to the U.S. Dollar, which is reflected in the translation of our Pound Sterling-based, Euro-based, Canadian Dollar-based and Japanese Yen-based assets, liabilities and AUM into U.S. Dollars, respectively.

A comparison of the average foreign exchange rates used for the three months ended September 30, 2018 when compared to the three months ended September 30, 2017 shows a weakening of the Pound Sterling, the Euro, Canadian Dollar and Japanese Yen relative to the U.S. Dollar, which is reflected in the translation of our Pound Sterling-based, Japanese Yen-based, Canadian Dollar-based and Euro-based revenue and expenses into U.S. Dollars.

A comparison of the the nine months ended September 30, 2018 when compared to the nine months ended September 30, 2017 shows a strengthening of the Pound Sterling, the Euro, Canadian Dollar and Japanese Yen relative to the U.S. Dollar, which is reflected in the translation of our Pound Sterling-based, Japanese Yen-based, Canadian Dollar-based and Euro-based revenue and expenses into U.S. Dollars.

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Assets Under Management movements for the three and nine months ended September 30, 2018 compared with the three and nine months ended September 30, 2017

The following presentation and discussion of AUM includes Passive and Active AUM. Passive AUM include index-based ETFs, unit investment trusts (UITs), non-fee earning leverage, foreign exchange overlays and other passive mandates. Active AUM is total AUM less Passive AUM.

Non-management fee earning AUM includes Invesco QQQ, UITs and product leverage. The net flows in non-management fee earning AUM can be relatively short-term in nature and, due to the relatively low revenue yield, these can have a significant impact on overall net revenue yield.

The AUM tables and the discussion below refer to AUM as long-term. Long-term inflows and the underlying reasons for the movements in this line item include investments from new clients, existing clients adding new accounts/funds or contributions/subscriptions into existing accounts/funds, and new funding commitments into private equity funds. Long-term outflows reflect client redemptions from accounts/funds and include the return of invested capital on the maturity or liquidation of private equity funds. We present net flows into institutional money market funds separately because shareholders of those funds typically use them as short-term funding vehicles and because their flows are particularly sensitive to short-term interest rate movements.

Changes in AUM were as follows:

\$ in billions	For the three months ended September 30,					
	2018			2017		
	Total AUM	Active	Passive	Total AUM	Active	Passive
June 30	963.3	722.1	241.2	858.3	701.7	156.6
Long-term inflows	43.6	28.3	15.3	45.0	35.1	9.9
Long-term outflows	(54.8 )	(39.2 )	(15.6 )	(40.9 )	(32.3 )	(8.6 )
Long-term net flows	(11.2 )	(10.9 )	(0.3 )	4.1	2.8	1.3
Net flows in non-management fee earning AUM	3.2	—	3.2	0.9	—	0.9
Net flows in institutional money market funds	3.1	3.1	—	5.4	5.4	—
Total net flows	(4.9 )	(7.8 )	2.9	10.4	8.2	2.2
Reinvested distributions <sup>(1)</sup>	1.7	1.7	—	1.1	1.1	—
Market gains and losses <sup>(1)</sup>	14.3	4.7	9.6	15.0	9.3	5.7
Acquisitions <sup>(5)</sup>	9.5	9.3	0.2	26.0	—	26.0
Foreign currency translation	(3.0 )	(3.0 )	—	6.7	6.7	—
September 30	980.9	727.0	253.9	917.5	727.0	190.5
Average AUM						
Average long-term AUM	803.6	652.6	151.0	732.7	640.8	91.9
Average AUM	985.1	736.3	248.8	890.8	717.0	173.8
Revenue yield						
Gross revenue yield on AUM <sup>(2)</sup>	55.8	70.2	14.3	60.7	71.6	16.0
Gross revenue yield on AUM before performance fees <sup>(2)</sup>	55.4	69.7	14.3	58.7	69.2	16.0
Net revenue yield on AUM <sup>(3)</sup>	39.3	47.7	14.3	43.9	50.6	16.0
Net revenue yield on AUM before performance fees <sup>(3)</sup>	38.9	47.3	14.3	41.9	48.2	16.0

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\$ in billions	For the nine months ended September 30,					
	2018	2017			2017	
	Total AUM	Active	Passive	Total AUM	Active	Passive
December 31	937.6	738.6	199.0	812.9	668.5	144.4
Long-term inflows	154.6	104.0	50.6	132.5	106.1	26.4
Long-term outflows	(173.5)	(124.8)	(48.7)	(126.5)	(104.0)	(22.5)
Long-term net flows	(18.9)	(20.8)	1.9	6.0	2.1	3.9
Net flows in non-management fee earning AUM	3.7	—	3.7	1.4	—	1.4
Net flows in institutional money market funds	4.4	4.4	—	0.1	0.1	—
Total net flows	(10.8)	(16.4)	5.6	7.5	2.2	5.3
Reinvested distributions <sup>(1)</sup>	3.0	3.0	—	1.1	1.1	—
Market gains and losses <sup>(1)</sup>	12.4	(1.6)	14.0	51.1	36.4	14.7
Transfers <sup>(4)</sup>	—	1.5	(1.5)	—	—	—
Acquisitions <sup>(5)</sup>	47.6	10.5	37.1	26.0	—	26.0
Foreign currency translation	(8.9)	(8.6)	(0.3)	18.9	18.8	0.1
September 30	980.9	727.0	253.9	917.5	727.0	190.5
Average AUM						
Average long-term AUM	797.5	660.2	137.3	706.7	624.8	81.9
Average AUM	970.1	739.4	230.7	856.6	695.9	160.7
Revenue yield						
Gross revenue yield on AUM <sup>(2)</sup>	56.6	69.9	14.8	59.5	69.6	16.4
Gross revenue yield on AUM before performance fees <sup>(2)</sup>	56.2	69.3	14.8	58.4	68.2	16.4
Net revenue yield on AUM <sup>(3)</sup>	39.8	47.7	14.8	42.8	48.9	16.4
Net revenue yield on AUM before performance fees <sup>(3)</sup>	39.4	47.1	14.8	41.6	47.4	16.4

(1) In 2018 reinvested distributions are shown in a separate line in the AUM tables. For periods prior to the third quarter of 2017, reinvested distributions are included in market gains and losses.

Gross revenue yield on AUM is equal to annualized total operating revenues divided by average AUM, excluding Invesco Great Wall AUM. Prior to the third quarter 2018, management reflected its interests in Invesco Great Wall on a proportional consolidation basis, which was consistent with the presentation of our share of the AUM from these investments. Given the company's influence on Invesco Great Wall, a change in regulation allowing (2) increased foreign ownership, and reaching agreement in principle to obtain majority stake of the joint venture, the company began reporting 100% of the flows and AUM for Invesco Great Wall beginning in the third quarter. For quarterly AUM, our share of the average AUM in the three and nine months ended September 30, 2018 for Invesco Great Wall was \$22.4 billion and \$13.7 billion, respectively (three and nine months ended September 30, 2017: \$8.6 billion and \$8.3 billion).

It is appropriate to exclude the average AUM of Invesco Great Wall for purposes of computing gross revenue yield on AUM, because the revenues resulting from these AUM are not presented in our operating revenues. Under U.S. GAAP, our share of the net income of Invesco Great Wall is recorded as equity in earnings of unconsolidated affiliates on our Condensed Consolidated Statements of Income. Gross revenue yield, the most comparable U.S. GAAP-based measure to net revenue yield, is not considered a meaningful effective fee rate measure. Additionally, the numerator of the gross revenue yield measure, operating revenues, excludes the management fees earned from CIP; however, the denominator of the measure includes the AUM of these investment products. Therefore, the gross revenue yield measure is not considered representative of the company's effective fee rate from AUM.

(3)

Net revenue yield on AUM is equal to annualized net revenues divided by average AUM. See “Schedule of Non-GAAP Information” for a reconciliation of operating revenues to net revenues.

(4) During the second quarter of 2018, \$1.5 billion of passive ETF AUM were reclassified to active AUM.

As of July 1, 2018, we began including 100% of Invesco Great Wall Fund Management Company, which added (5) \$9.5 billion in AUM during the third quarter. The acquisition of Guggenheim Investments' ETF business on April 6, 2018 added \$38.1 billion in AUM during the second quarter.

#### Flows

AUM at September 30, 2018 were \$980.9 billion (September 30, 2017: \$917.5 billion). During the three months ended September 30, 2018, we experienced long-term net outflows of \$11.2 billion. The company also experienced net inflows of institutional money market funds of \$3.1 billion and net inflows in non-management fee earning AUM of \$3.2 billion during

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the period. Long-term net outflows during the three months ended September 30, 2018 consisted of outflows of actively managed AUM products of \$10.9 billion and passive AUM products of \$0.3 billion. Long-term net outflows for the period were from our retail distribution channel of \$7.9 billion and our institutional distribution channel of \$3.3 billion. On a client domicile basis, long-term net outflows were from the U.S., UK, Continental Europe and Canada of \$5.9 billion, \$3.7 billion, \$1.7 billion and \$0.3 billion, respectively. These were partially offset by inflows of \$0.4 billion from Asia during the three months ended September 30, 2018.

During the three months ended September 30, 2017, we experienced long-term net inflows of \$4.1 billion. We also experienced net inflows in institutional money market funds of \$5.4 billion and net inflows in non-management fee earning AUM of \$0.9 billion during this period. Long-term net inflows during the three months ended September 30, 2017, included \$1.3 billion of inflows in passive AUM and \$2.8 billion of inflows in actively managed AUM products. Net long-term inflows were from retail distribution channel of \$2.8 billion and \$1.3 billion from our institutional channel. On a client domicile basis, long-term net inflows of \$3.3 billion for Europe, \$1.1 billion for U.K. and \$0.1 billion for Asia were partially offset by long-term outflows of \$0.3 billion and \$0.1 billion for U.S. and Canada, respectively.

Average AUM during the three months ended September 30, 2018 were \$985.1 billion, compared to \$890.8 billion for the three months ended September 30, 2017.

During the nine months ended September 30, 2018, we experienced long-term net outflows of \$18.9 billion. The company also experienced net inflows of institutional money market funds of \$4.4 billion and non-management fee earning AUM of \$3.7 billion, respectively, during the period. Long-term net outflows during the nine months ended September 30, 2018 consisted of outflows of actively managed AUM products of \$20.8 billion, offset by inflows of passive AUM products of \$1.9 billion. Long-term net outflows for the period were from our retail distribution channel of \$16.7 billion and our institutional distribution channel of \$2.2 billion, respectively. On a client domicile basis, long-term net outflows were from the U.S., UK and Canada of \$15.0 billion, \$7.9 billion and \$0.5 billion, respectively. These were partially offset by inflows of \$1.5 billion and \$3.0 billion from Continental Europe and Asia, respectively, during the nine months ended September 30, 2018.

During the nine months ended September 30, 2017, we experienced long-term net inflows of \$6.0 billion. We also experienced net inflows in non-management fee earning AUM of \$1.4 billion and net inflows in institutional money market funds of \$0.1 billion during this period. Long-term net inflows during the nine months ended September 30, 2017, included \$3.9 billion of inflows in passive AUM and \$2.1 billion in actively managed AUM products. Net long-term inflows were from retail distribution channel of \$7.7 billion and \$1.7 billion of outflows in our institutional channel. On a client domicile basis, long-term net inflows of \$9.0 billion and \$0.5 billion for Europe and Asia were partially offset by long-term outflows of \$1.8 billion, \$1.5 billion, and \$0.2 billion for U.K., U.S., and Canada, respectively.

Average AUM during the nine months ended September 30, 2018 were \$970.1 billion, compared to \$856.6 billion for the nine months ended September 30, 2017.

#### Market Returns and Reinvested Distributions

During the three months ended September 30, 2018, positive market movement led to a \$14.3 billion increase in AUM, with gains in our equity asset class of \$14.5 billion. Reinvested distributions of \$1.7 billion were from the equity asset class of \$1.2 billion, fixed income class of \$0.3 billion, balanced class of \$0.1 billion and alternatives asset class of \$0.1 billion. During the three months ended September 30, 2017, positive market movement including reinvested distributions led to a \$15.0 billion increase in AUM, primarily with gains in the equity asset class of \$13.1 billion.

During the nine months ended September 30, 2018, positive market movement led to a \$12.4 billion increase in AUM, with gains in our equity class of \$17.6 billion and money market class of \$0.3 billion. These gains were offset by losses from negative market movement in our fixed income class of \$3.0 billion, alternatives class of \$1.3 billion and balanced asset class of \$1.2 billion. Reinvested distributions of \$3.0 billion were from the equity asset class of \$1.8

billion, fixed income class of \$0.8 billion, alternatives asset class of \$0.3 billion and balanced asset class of \$0.1 billion. During the nine months ended September 30, 2017, positive market movement including reinvested distributions led to a \$51.1 billion increase in AUM, primarily with gains in the equity asset class of \$44.2 billion, fixed income class of \$4.6 billion and balanced asset class of \$2.1 billion.

Acquisitions

On April 6, 2018, we completed the acquisition of Guggenheim Investments' ETF business, which added \$38.1 billion in AUM at date of purchase. As of July 1, 2018, we began including 100% of Invesco Great Wall Fund Management Company, which added \$9.5 billion in AUM during the third quarter.

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## Foreign Exchange Rates

During the three months ended September 30, 2018, we experienced decreases in AUM of \$3.0 billion due to changes in foreign exchange rates. In the three months ended September 30, 2017, AUM increased by \$6.7 billion due to foreign exchange rate changes. See the company's disclosures regarding the changes in foreign exchange rates during three months ended September 30, 2018 in the "Foreign Exchange Impact on Balance Sheet, Assets Under Management and Results of Operations" section above for additional information regarding the movement of foreign exchange rates.

During the nine months ended September 30, 2018, we experienced decreases in AUM of \$8.9 billion due to changes in foreign exchange rates. In the nine months ended September 30, 2017, AUM increased by \$18.9 billion due to foreign exchange rate changes. See the company's disclosures regarding the changes in foreign exchange rates during nine months ended September 30, 2018 in the "Foreign Exchange Impact on Balance Sheet, Assets Under Management and Results of Operations" section above for additional information regarding the movement of foreign exchange rates.

## Revenue Yield

Gross revenue yield on AUM decreased 4.9 basis points to 55.8 basis points in the three months ended September 30, 2018 from the three months ended September 30, 2017 level of 60.7 basis points. Management does not consider gross revenue yield, the most comparable U.S. GAAP-based measure to net revenue yield, to be a meaningful effective fee rate measure for the reasons outlined in footnote 2 to the Changes in AUM table above.

Net revenue yield on AUM decreased 4.6 basis points to 39.3 basis points in the three months ended September 30, 2018 when compared to the three months ended September 30, 2017 yield of 43.9 basis points. Excluding performance fees, the net revenue yield decreased 3.0 basis point to 38.9 basis points in the three months ended September 30, 2018 (three months ended September 30, 2017: 41.9 basis points). Net revenue yield on AUM decreased 3.0 basis points to 39.8 basis points in the nine months ended September 30, 2018 when compared to the nine months ended September 30, 2017 yield of 42.8 basis points. Excluding performance fees, the net revenue yield decreased 2.2 basis point to 39.4 basis points in the nine months ended September 30, 2018 (nine months ended September 30, 2017: 41.6 basis points).

As a significant proportion of our AUM is based outside of the U.S., changes in foreign exchange rates result in a change to the mix of U.S. Dollar denominated AUM with AUM denominated in other currencies. As fee rates differ across geographic locations, changes to exchange rates have an impact on the net revenue yields. See the company's disclosures regarding the changes in foreign exchange rates in the "Foreign Exchange Impact on Balance Sheet, Assets Under Management and Results of Operations" section above for additional information regarding the movement of foreign exchange rates.

Additionally, changes in our AUM mix significantly impact our net revenue yield. Passive AUM generally earn a lower effective fee rate than active asset classes. The acquisitions of the European ETF business in the third quarter of 2017 and the Guggenheim ETF acquisition in April 2018 increased the level of passive AUM and have a dilutive impact on the company's overall net revenue yield. The company has experienced outflows from active AUM and inflows into passive AUM, increasing the proportion of passive to active AUM during the three and nine months ended September 30, 2018.

At September 30, 2018, passive AUM were \$253.9 billion, representing 25.9% of total AUM at that date; whereas at September 30, 2017, passive AUM were \$190.5 billion, representing 20.8% of our total AUM at that date. In the three months ended September 30, 2018, the net revenue yield on passive AUM was 14.3 basis points compared to 16.0 basis points in the three months ended September 30, 2017, a decrease of 1.7 basis points. In the nine months ended September 30, 2018, the net revenue yield on passive AUM was 14.8 basis points compared to 16.4 basis points in the nine months ended September 30, 2017, a decrease of 1.6 basis points.

Changes in our AUM by channel, asset class, and client domicile, and average AUM by asset class, are presented below:





Table of ContentsTotal AUM by Channel<sup>(1)</sup>As of and for the Three Months Ended September 30, 2018 and 2017:

\$ in billions	Total	Retail	Institutional
June 30, 2018	963.3	635.5	327.8
Long-term inflows	43.6	34.4	9.2
Long-term outflows	(54.8 )	(42.3 )	(12.5 )
Long-term net flows	(11.2 )	(7.9 )	(3.3 )
Net flows in non-management fee earning AUM	3.2	2.2	1.0
Net flows in institutional money market funds	3.1	4.5	(1.4 )
Total net flows	(4.9 )	(1.2 )	(3.7 )
Reinvested distributions <sup>(2)</sup>	1.7	1.7	—
Market gains and losses <sup>(2)</sup>	14.3	13.0	1.3
Acquisitions <sup>(8)</sup>	9.5	4.5	5.0
Foreign currency translation	(3.0 )	(1.4 )	(1.6 )
September 30, 2018	980.9	652.1	328.8
June 30, 2017	858.3	572.4	285.9
Long-term inflows	45.0	35.8	9.2
Long-term outflows	(40.9 )	(33.0 )	(7.9 )
Long-term net flows	4.1	2.8	1.3
Net flows in non-management fee earning AUM	0.9	(1.0 )	1.9
Net flows in institutional money market funds	5.4	—	5.4
Total net flows	10.4	1.8	8.6
Reinvested distributions <sup>(2)</sup>	1.1	1.1	—
Market gains and losses <sup>(2)</sup>	15.0	14.5	0.5
Acquisitions	26.0	26.0	—
Foreign currency translation	6.7	5.7	1.0
September 30, 2017	917.5	621.5	296.0
As of and for the Nine Months Ended September 30, 2018 and 2017:			
\$ in billions	Total	Retail	Institutional
December 31, 2017	937.6	637.0	300.6
Long-term inflows	154.6	120.4	34.2
Long-term outflows	(173.5 )	(137.1 )	(36.4 )
Long-term net flows	(18.9 )	(16.7 )	(2.2 )
Net flows in non-management fee earning AUM	3.7	3.7	—
Net flows in institutional money market funds	4.4	6.2	(1.8 )
Total net flows	(10.8 )	(6.8 )	(4.0 )
Reinvested distributions <sup>(2)</sup>	3.0	3.0	—
Transfers <sup>(7)</sup>	—	(29.5 )	29.5
Market gains and losses <sup>(2)</sup>	12.4	11.5	0.9
Acquisitions <sup>(8)</sup>	47.6	42.6	5.0
Foreign currency translation	(8.9 )	(5.7 )	(3.2 )
September 30, 2018	980.9	652.1	328.8
December 31, 2016	812.9	526.5	286.4
Long-term inflows	132.5	107.4	25.1
Long-term outflows	(126.5 )	(99.7 )	(26.8 )

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Long-term net flows	6.0	7.7	(1.7 )
Net flows in non-management fee earning AUM	1.4	(1.5 )	2.9
Net flows in institutional money market funds	0.1	—	0.1
Total net flows	7.5	6.2	1.3
Reinvested distributions <sup>(2)</sup>	1.1	1.1	—
Market gains and losses <sup>(2)</sup>	51.1	46.9	4.2
Acquisitions	26.0	26.0	—
Foreign currency translation	18.9	14.8	4.1
September 30, 2017	917.5	621.5	296.0

See accompanying notes immediately following these AUM tables.

Table of ContentsPassive AUM by Channel<sup>(1)</sup>

As of and for the Three Months Ended September 30, 2018 and 2017:

\$ in billions	Total	Retail	Institutional
June 30, 2018	241.2	225.6	15.6
Long-term inflows	15.3	15.3	—
Long-term outflows	(15.6)	(15.6)	—
Long-term net flows	(0.3)	(0.3)	—
Net flows in non-management fee earning AUM	3.2	2.2	1.0
Net flows in institutional money market funds	—	—	—
Total net flows	2.9	1.9	1.0
Market gains and losses	9.6	9.6	—
Acquisitions <sup>(8)</sup>	0.2	0.2	—
Foreign currency translation	—	—	—
September 30, 2018	253.9	237.3	16.6

June 30, 2017	156.6	141.5	15.1
Long-term inflows	9.9	9.9	—
Long-term outflows	(8.6)	(8.6)	—
Long-term net flows	1.3	1.3	—
Net flows in non-management fee earning AUM	0.9	(1.0)	1.9
Net flows in institutional money market funds	—	—	—
Total net flows	2.2	0.3	1.9
Market gains and losses	5.7	5.6	0.1
Acquisitions	26.0	26.0	—
Foreign currency translation	—	—	—
September 30, 2017	190.5	173.4	17.1

As of and for the Nine Months Ended September 30, 2018 and 2017:

\$ in billions	Total	Retail	Institutional
December 31, 2017	199.0	182.0	17.0
Long-term inflows	50.6	50.6	—
Long-term outflows	(48.7)	(48.7)	—
Long-term net flows	1.9	1.9	—
Net flows in non-management fee earning AUM	3.7	3.7	—
Net flows in institutional money market funds	—	—	—
Total net flows	5.6	5.6	—
Transfers <sup>(7)</sup>	(1.5)	(1.4)	(0.1)
Market gains and losses	14.0	14.4	(0.4)
Acquisitions <sup>(8)</sup>	37.1	37.1	—
Foreign currency translation	(0.3)	(0.4)	0.1
September 30, 2018	253.9	237.3	16.6

December 31, 2016	144.4	128.8	15.6
Long-term inflows	26.4	26.4	—
Long-term outflows	(22.5)	(21.3)	(1.2)
Long-term net flows	3.9	5.1	(1.2)
Net flows in non-management fee earning AUM	1.4	(1.5)	2.9

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Net flows in institutional money market funds	—	—	—
Total net flows	5.3	3.6	1.7
Market gains and losses	14.7	15.0	(0.3 )
Acquisitions	26.0	26.0	—
Foreign currency translation	0.1	—	0.1
September 30, 2017	190.5	173.4	17.1

See accompanying notes immediately following these AUM tables.

Table of ContentsTotal AUM by Asset Class<sup>(3)</sup>

As of and for the Three Months Ended September 30, 2018 and 2017:

\$ in billions	Total	Equity	Fixed Income	Balanced	Money Market <sup>(5)</sup>	Alternatives
June 30, 2018	963.3	446.9	232.7	57.4	80.4	145.9
Long-term inflows	43.6	21.9	10.6	1.6	1.9	7.6
Long-term outflows	(54.8)	(29.4)	(10.9)	(2.7)	(1.3)	(10.5)
Long-term net flows	(11.2)	(7.5)	(0.3)	(1.1)	0.6	(2.9)
Net flows in non-management fee earning AUM	3.2	2.3	0.9	—	—	—
Net flows in institutional money market funds	3.1	—	—	—	3.1	—
Total net flows	(4.9)	(5.2)	0.6	(1.1)	3.7	(2.9)
Reinvested distributions <sup>(2)</sup>	1.7	1.2	0.3	0.1	—	0.1
Market gains and losses <sup>(2)</sup>	14.3	14.5	(0.2)	(0.2)	0.1	0.1
Acquisitions <sup>(8)</sup>	9.5	4.3	1.6	1.0	2.4	0.2
Foreign currency translation	(3.0)	(1.1)	(0.7)	(0.2)	(0.3)	(0.7)
September 30, 2018	980.9	460.6	234.3	57.0	86.3	142.7
Average AUM	985.1	459.2	235.4	57.8	89.4	143.3
% of total average AUM	100.0%	46.6 %	23.9 %	5.9 %	9.1 %	14.5 %
June 30, 2017	858.3	391.2	208.9	52.2	76.1	129.9
Long-term inflows	45.0	19.1	12.4	3.1	1.3	9.1
Long-term outflows	(40.9)	(22.5)	(8.5)	(3.0)	(1.1)	(5.8)
Long-term net flows	4.1	(3.4)	3.9	0.1	0.2	3.3
Net flows in non-management fee earning AUM	0.9	(1.0)	1.9	—	—	—
Net flows in institutional money market funds	5.4	—	—	—	5.4	—
Total net flows	10.4	(4.4)	5.8	0.1	5.6	3.3
Reinvested distributions <sup>(2)</sup>	1.1	0.8	0.2	0.1	—	—
Market gains and losses <sup>(2)</sup>	15.0	13.1	0.9	0.6	0.1	0.3
Acquisitions	26.0	12.2	7.8	—	—	6.0
Foreign currency translation	6.7	3.3	0.9	1.2	0.1	1.2
September 30, 2017	917.5	416.2	224.5	54.2	81.9	140.7
Average AUM	890.8	403.2	217.2	53.8	80.7	135.9
% of total average AUM	100.0%	45.3 %	24.4 %	6.0 %	9.1 %	15.3 %

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As of and for the Nine Months Ended September 30, 2018 and 2017:

\$ in billions	Total	Equity	Fixed Income	Balanced	Money Market <sup>(5)</sup>	Alternatives
December 31, 2017	937.6	431.2	225.8	57.7	78.7	144.2
Long-term inflows	154.6	74.0	38.6	10.6	4.9	26.5
Long-term outflows	(173.5)	(95.2)	(37.5)	(9.9)	(3.9)	(27.0)
Long-term net flows	(18.9)	(21.2)	1.1	0.7	1.0	(0.5)
Net flows in non-management fee earning AUM	3.7	4.0	(0.3)	—	—	—
Net flows in institutional money market funds	4.4	—	—	—	4.4	—
Total net flows	(10.8)	(17.2)	0.8	0.7	5.4	(0.5)
Reinvested distributions <sup>(2)</sup>	3.0	1.8	0.8	0.1	—	0.3
Market gains and losses <sup>(2)</sup>	12.4	17.6	(3.0)	(1.2)	0.3	(1.3)
Acquisitions <sup>(8)</sup>	47.6	31.2	11.5	1.0	2.4	1.5
Foreign currency translation	(8.9)	(4.0)	(1.6)	(1.3)	(0.5)	(1.5)
September 30, 2018	980.9	460.6	234.3	57.0	86.3	142.7
Average AUM	970.1	448.9	232.6	58.6	84.6	145.4
% of total average AUM	100.0 %	46.3 %	24.0 %	6.0 %	8.7 %	15.0 %
December 31, 2016	812.9	364.1	201.7	46.8	78.3	122.0
Long-term inflows	132.5	57.4	34.3	9.4	3.1	28.3
Long-term outflows	(126.5)	(70.0)	(26.5)	(7.3)	(2.9)	(19.8)
Long-term net flows	6.0	(12.6)	7.8	2.1	0.2	8.5
Net flows in non-management fee earning AUM	1.4	(1.2)	2.6	—	—	—
Net flows in institutional money market funds	0.1	—	—	—	0.1	—
Total net flows	7.5	(13.8)	10.4	2.1	0.3	8.5
Reinvested distributions <sup>(2)</sup>	1.1	0.8	0.2	0.1	—	—
Market gains and losses <sup>(2)</sup>	51.1	44.2	4.6	2.1	0.1	0.1
Transfers <sup>(4)</sup>	—	—	(3.0)	—	3.0	—
Acquisitions	26.0	12.2	7.8	—	—	6.0
Foreign currency translation	18.9	8.7	2.8	3.1	0.2	4.1
September 30, 2017	917.5	416.2	224.5	54.2	81.9	140.7
Average AUM	856.6	389.6	208.8	50.9	77.3	129.9
% of total average AUM	100.0 %	45.5 %	24.4 %	5.9 %	9.0 %	15.2 %

See accompanying notes immediately following these AUM tables.

Table of ContentsPassive AUM by Asset Class<sup>(3)</sup>

As of and for the Three Months Ended September 30, 2018 and 2017:

\$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives
June 30, 2018	241.2	163.3	63.1	—	—	14.8
Long-term inflows	15.3	11.1	3.0	—	—	1.2
Long-term outflows	(15.6)	(9.8 )	(2.9 )	—	—	(2.9 )
Long-term net flows	(0.3 )	1.3	0.1	—	—	(1.7 )
Net flows in non-management fee earning AUM	3.2	2.3	0.9	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	2.9	3.6	1.0	—	—	(1.7 )
Market gains and losses	9.6	10.0	(0.2 )	—	—	(0.2 )
Acquisitions <sup>(8)</sup>	0.2	0.2	—	—	—	—
Foreign currency translation	—	—	—	—	—	—
September 30, 2018	253.9	177.1	63.9	—	—	12.9
Average AUM	248.8	171.4	64.2	—	—	13.2
% of total average AUM	100.0%	68.9 %	25.8 %	—%	—%	5.3 %
June 30, 2017	156.6	103.5	46.5	—	—	6.6
Long-term inflows	9.9	5.9	2.8	—	—	1.2
Long-term outflows	(8.6 )	(6.3 )	(1.7 )	—	—	(0.6 )
Long-term net flows	1.3	(0.4 )	1.1	—	—	0.6
Net flows in non-management fee earning AUM	0.9	(1.0 )	1.9	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	2.2	(1.4 )	3.0	—	—	0.6
Market gains and losses	5.7	5.5	0.1	—	—	0.1
Acquisitions	26.0	12.2	7.8	—	—	6.0
September 30, 2017	190.5	119.8	57.4	—	—	13.3
Average AUM	173.8	112.2	51.9	—	—	9.7
% of total average AUM	100.0%	64.6 %	29.9 %	—%	—%	5.6 %



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As of and for the Nine Months Ended September 30, 2018 and 2017:

\$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives
December 31, 2017	199.0	128.4	57.3	—	—	13.3
Long-term inflows	50.6	33.9	10.2	—	—	6.5
Long-term outflows	(48.7 )	(32.2 )	(10.0 )	—	—	(6.5 )
Long-term net flows	1.9	1.7	0.2	—	—	—
Net flows in non-management fee earning AUM	3.7	4.0	(0.3 )	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	5.6	5.7	(0.1 )	—	—	—
Market gains and losses	14.0	16.1	(1.5 )	—	—	(0.6 )
Transfers <sup>(7)</sup>	(1.5 )	—	(0.3 )	—	—	(1.2 )
Acquisitions <sup>(8)</sup>	37.1	27.1	8.7	—	—	1.3
Foreign currency translation	(0.3 )	(0.2 )	(0.2 )	—	—	0.1
September 30, 2018	253.9	177.1	63.9	—	—	12.9
Average AUM	230.7	154.6	61.6	—	—	14.5
% of total average AUM	100.0%	67.0 %	26.7 %	%	%	6.3 %
December 31, 2016	144.4	93.5	41.7	—	—	9.2
Long-term inflows	26.4	16.2	7.9	—	—	2.3
Long-term outflows	(22.5 )	(15.8 )	(3.0 )	—	—	(3.7 )
Long-term net flows	3.9	0.4	4.9	—	—	(1.4 )
Net flows in non-management fee earning AUM	1.4	(1.2 )	2.6	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	5.3	(0.8 )	7.5	—	—	(1.4 )
Market gains and losses	14.7	14.9	0.4	—	—	(0.6 )
Acquisitions	26.0	12.2	7.8	—	—	6.0
Foreign currency translation	0.1	—	—	—	—	0.1
September 30, 2017	190.5	119.8	57.4	—	—	13.3
Average AUM	160.7	104.5	47.5	—	—	8.6
% of total average AUM	100.0%	65.0 %	29.6 %	%	%	5.4 %

See accompanying notes immediately following these AUM tables.

Table of ContentsTotal AUM by Client Domicile<sup>(6)</sup>

As of and for the Three Months Ended September 30, 2018 and 2017:

\$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
June 30, 2018	963.3	622.1	25.4	100.9	126.3	88.6
Long-term inflows	43.6	22.9	0.9	2.7	10.9	6.2
Long-term outflows	(54.8)	(28.8)	(1.2)	(6.4)	(12.6)	(5.8)
Long-term net flows	(11.2)	(5.9)	(0.3)	(3.7)	(1.7)	0.4
Net flows in non-management fee earning AUM	3.2	3.2	—	—	—	—
Net flows in institutional money market funds	3.1	(2.1)	—	—	—	5.2
Total net flows	(4.9)	(4.8)	(0.3)	(3.7)	(1.7)	5.6
Reinvested distributions <sup>(2)</sup>	1.7	1.6	—	0.1	—	—
Market gains and losses <sup>(2)</sup>	14.3	14.1	—	(0.2)	0.8	(0.4)
Acquisitions <sup>(8)</sup>	9.5	—	—	—	—	9.5
Foreign currency translation	(3.0)	—	0.5	(1.0)	(0.6)	(1.9)
September 30, 2018	980.9	633.0	25.6	96.1	124.8	101.4
June 30, 2017	858.3	559.2	24.8	103.8	86.6	83.9
Long-term inflows	45.0	20.6	1.0	4.3	13.8	5.3
Long-term outflows	(40.9)	(20.9)	(1.1)	(3.2)	(10.5)	(5.2)
Long-term net flows	4.1	(0.3)	(0.1)	1.1	3.3	0.1
Net flows in non-management fee earning AUM	0.9	0.9	—	—	—	—
Net flows in institutional money market funds	5.4	4.9	—	0.3	0.2	—
Total net flows	10.4	5.5	(0.1)	1.4	3.5	0.1
Reinvested distributions <sup>(2)</sup>	1.1	1.1	—	—	—	—
Market gains and losses <sup>(2)</sup>	15.0	12.2	0.1	(0.2)	2.3	0.6
Acquisitions	26.0	—	—	—	26.0	—
Foreign currency translation	6.7	—	1.0	3.0	2.3	0.4
September 30, 2017	917.5	578.0	25.8	108.0	120.7	85.0

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As of and for the Nine Months Ended September 30, 2018 and 2017:

\$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
December 31, 2017	937.6	585.4	26.8	110.9	127.1	87.4
Long-term inflows	154.6	72.9	3.5	10.1	46.1	22.0
Long-term outflows	(173.5)	(87.9)	(4.0 )	(18.0)	(44.6 )	(19.0 )
Long-term net flows	(18.9 )	(15.0)	(0.5 )	(7.9 )	1.5	3.0
Net flows in non-management fee earning AUM	3.7	3.7	—	—	—	—
Net flows in institutional money market funds	4.4	0.8	—	(2.3 )	(0.3 )	6.2
Total net flows	(10.8 )	(10.5)	(0.5 )	(10.2)	1.2	9.2
Reinvested distributions <sup>(2)</sup>	3.0	2.6	—	0.4	—	—
Market gains and losses <sup>(2)</sup>	12.4	17.4	0.1	(2.0 )	(0.6 )	(2.5 )
Acquisitions <sup>(8)</sup>	47.6	38.1	—	—	—	9.5
Foreign currency translation	(8.9 )	—	(0.8 )	(3.0 )	(2.9 )	(2.2 )
September 30, 2018	980.9	633.0	25.6	96.1	124.8	101.4
December 31, 2016	812.9	539.5	23.1	98.2	72.1	80.0
Long-term inflows	132.5	67.0	3.2	12.4	31.9	18.0
Long-term outflows	(126.5)	(68.5)	(3.4 )	(14.2)	(22.9 )	(17.5 )
Long-term net flows	6.0	(1.5 )	(0.2 )	(1.8 )	9.0	0.5
Net flows in non-management fee earning AUM	1.4	1.4	—	—	—	—
Net flows in institutional money market funds	0.1	1.3	—	(1.2 )	0.7	(0.7 )
Total net flows	7.5	1.2	(0.2 )	(3.0 )	9.7	(0.2 )
Reinvested distributions <sup>(2)</sup>	1.1	1.1	—	—	—	—
Market gains and losses <sup>(2)</sup>	51.1	36.1	1.1	5.3	6.1	2.5
Acquisitions	26.0	—	—	—	26.0	—
Foreign currency translation	18.9	0.1	1.8	7.5	6.8	2.7
September 30, 2017	917.5	578.0	25.8	108.0	120.7	85.0

See accompanying notes immediately following these AUM tables.

Table of ContentsPassive AUM by Client Domicile<sup>(6)</sup>

As of and for the Three Months Ended September 30, 2018 and 2017:

\$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
June 30, 2018	241.2	209.4	0.5	—	30.6	0.7
Long-term inflows	15.3	9.5	0.1	—	5.6	0.1
Long-term outflows	(15.6)	(9.2)	—	—	(6.3)	(0.1)
Long-term net flows	(0.3)	0.3	0.1	—	(0.7)	—
Net flows in non-management fee earning AUM	3.2	3.2	—	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	2.9	3.5	0.1	—	(0.7)	—
Market gains and losses	9.6	9.1	—	—	0.5	—
Transfers	—	(0.5)	—	—	—	0.5
Acquisitions <sup>(8)</sup>	0.2	—	—	—	—	0.2
Foreign currency translation	—	—	—	—	—	—
September 30, 2018	253.9	221.5	0.6	—	30.4	1.4
June 30, 2017	156.6	152.8	0.6	—	2.1	1.1
Long-term inflows	9.9	6.1	0.1	—	3.7	—
Long-term outflows	(8.6)	(5.1)	(0.1)	—	(3.4)	—
Long-term net flows	1.3	1.0	—	—	0.3	—
Net flows in non-management fee earning AUM	0.9	0.9	—	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	2.2	1.9	—	—	0.3	—
Market gains and losses	5.7	5.1	—	—	0.6	—
Acquisitions	26.0	—	—	—	26.0	—
Foreign currency translation	—	—	—	—	—	—
September 30, 2017	190.5	159.8	0.6	—	29.0	1.1

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As of and for the Nine Months Ended September 30, 2018 and 2017:

\$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
December 31, 2017	199.0	167.3	0.6	—	30.0	1.1
Long-term inflows	50.6	30.2	0.1	—	20.0	0.3
Long-term outflows	(48.7 )	(28.9 )	(0.1 )	—	(19.5 )	(0.2)
Long-term net flows	1.9	1.3	—	—	0.5	0.1
Net flows in non-management fee earning AUM	3.7	3.7	—	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	5.6	5.0	—	—	0.5	0.1
Market gains and losses	14.0	14.3	—	—	0.2	(0.5)
Transfers <sup>(7)</sup>	(1.5 )	(2.0 )	—	—	—	0.5
Acquisitions <sup>(8)</sup>	37.1	36.9	—	—	—	0.2
Foreign currency translation	(0.3 )	—	—	—	(0.3 )	—
September 30, 2018	253.9	221.5	0.6	—	30.4	1.4
December 31, 2016	144.4	139.9	0.5	—	1.9	2.1
Long-term inflows	26.4	22.1	0.2	—	4.1	—
Long-term outflows	(22.5 )	(17.4 )	(0.1 )	—	(3.8 )	(1.2)
Long-term net flows	3.9	4.7	0.1	—	0.3	(1.2)
Net flows in non-management fee earning AUM	1.4	1.4	—	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Total net flows	5.3	6.1	0.1	—	0.3	(1.2)
Market gains and losses	14.7	13.8	—	—	0.8	0.1
Acquisitions	26.0	—	—	—	26.0	—
Foreign currency translation	0.1	—	—	—	—	0.1
September 30, 2017	190.5	159.8	0.6	—	29.0	1.1

(1) Channel refers to the internal distribution channel from which the AUM originated. Retail AUM represents AUM distributed by the company's retail sales team. Institutional AUM represents AUM distributed by our institutional sales team. This aggregation is viewed as a proxy for presenting AUM in the retail and institutional markets in which the company operates.

(2) In 2018 reinvested distributions are shown in a separate line in the AUM tables. For periods prior to the third quarter of 2017, reinvested distributions are included in market gains and losses.

(3) Asset classes are descriptive groupings of AUM by common type of underlying investments.

(4) During January 2017, the company reclassified certain AUM previously classified in fixed income to money market totaling \$3.0 billion.

(5) Ending Money Market AUM includes \$80.3 billion in institutional money market AUM.

(6) Client domicile disclosure groups AUM by the domicile of the underlying clients.

(7) During the second quarter of 2018, \$1.5 billion of passive ETF AUM were reclassified to active AUM. During the first quarter of 2018, \$29.5 billion of AUM were transferred from retail into institutional to better reflect the activities of institutional sales teams and the clients they support.

(8) The acquisition of Guggenheim Investments' ETF business on April 6, 2018 added \$38.1 billion in AUM during the second quarter. As of July 1, 2018, we began including 100% of Invesco Great Wall Fund Management Company, which added \$9.5 billion in AUM during the third quarter.



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Results of Operations for the three and nine months ended September 30, 2018 compared to the three and nine months ended September 30, 2017

The discussion below includes the use of non-GAAP financial measures. See “Schedule of Non-GAAP Information” for additional details and reconciliations of the most directly comparable U.S. GAAP measures to the non-GAAP measures.

The results of the European ETF business are included from its acquisition date of August 18, 2017. 2018 also includes the results of the Guggenheim Investments' ETF acquisition from April 6, 2018 (date of acquisition), and the results of Intelliflo from June 4, 2018 (date of acquisition).

As discussed in Part I, Item 1, Financial Statements - Note 1, “Accounting Policies,” the company adopted Accounting Standard Update 2014-09, “Revenue from Contracts with Customers” (ASU 2014-09) as of January 1, 2018. As a result of the modified retrospective adoption method, 2017 results of operations presented below were not restated to apply ASC 606. Therefore, comparisons between periods are impacted by the adoption as discussed below. The adoption of the standard did not have an effect on net income or earnings per share measures.

**Operating Revenues and Net Revenues**

The main categories of revenues, and the dollar and percentage change between the periods, are as follows:

	Three months ended September 30,		Variance 2018 vs 2017		Nine months ended September 30,		Variance 2018 vs 2017	
	2018	2017	\$	%	2018	2017	\$	%
			Change	Change			Change	Change
\$ in millions								
Investment management fees	1,038.9	1,062.3	(23.4)	(2.2)%	3,133.1	3,027.9	105.2	3.5%
Service and distribution fees	248.0	217.6	30.4	14.0%	737.0	635.3	101.7	16.0%
Performance fees	7.9	42.3	(34.4)	(81.3)%	28.6	70.3	(41.7)	(59.3)%
Other	47.0	15.5	31.5	203.2%	159.5	51.2	108.3	211.5%
Total operating revenues	1,341.8	1,337.7	4.1	0.3%	4,058.2	3,784.7	273.5	7.2%
Third-party distribution, service and advisory expenses	(408.0)	(380.4)	(27.6)	7.3%	(1,236.0)	(1,095.6)	(140.4)	12.8%
Invesco Great Wall	28.4	13.1	15.3	116.8%	57.8	35.2	22.6	64.2%
CIP	4.7	6.2	(1.5)	(24.2)%	18.8	25.7	(6.9)	(26.8)%
Net revenues	966.9	976.6	(9.7)	(1.0)%	2,898.8	2,750.0	148.8	5.4%

Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus net revenues from Invesco Great Wall, plus management and performance fees earned from CIP. See "Schedule of Non-GAAP Information" for additional important disclosures regarding the use of net revenues.

The impact of foreign exchange rate movements decreased operating revenues by \$6.8 million, equivalent to 0.5% of total operating revenues, during the three months ended September 30, 2018 when compared to the three months ended September 30, 2017. The impact of foreign exchange rate movements increased operating revenues by \$60.7 million, equivalent to 1.5% of total operating revenues, during the nine months ended September 30, 2018 when compared to the nine months ended September 30, 2017.

Additionally, our revenues are directly influenced by the level and composition of our AUM. Therefore, movements in global capital market levels, net new business inflows (or outflows) and changes in the mix of investment products between asset classes and geographies may materially affect our revenues from period to period. As discussed in the Executive Overview, markets have been volatile in 2018, and returns from capital markets were mixed in the three and nine months ended September 30, 2018.

**Investment Management Fees**

Investment management fees decreased by \$23.4 million (2.2%) in the three months ended September 30, 2018, to \$1,038.9 million (three months ended September 30, 2017: \$1,062.3 million). This compares to a 10.6% increase in average AUM. The impact of foreign exchange rate movements decreased investment management fees by \$6.5 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. After allowing for foreign exchange movements, investment management fees decreased by \$16.9 million (1.6%), which is a net decrease comprised of a decrease in management fees due to the application of new revenue recognition guidance of \$50.3 million, partially offset by increases in



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management fees of \$33.4 million during the three months ended September 30, 2018. The \$33.4 million increase is due to higher average AUM, including the impact of the Guggenheim acquisition, and includes offsetting decreases from changes in the product mix of AUM.

Investment management fees increased by \$105.2 million (3.5%) in the nine months ended September 30, 2018, to \$3,133.1 million (nine months ended September 30, 2017: \$3,027.9 million). This compares to a 13.3% increase in average AUM. The impact of foreign exchange rate movements increased investment management fees by \$58.3 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. After allowing for foreign exchange movements, investment management fees increased by \$46.9 million (1.6%), which is a net increase comprised of increases in management fee of \$204.8 million, offset by a decrease in management fees due to the application of new revenue recognition guidance of \$157.9 million during the nine months ended September 30, 2018. The \$204.8 million increase in management fees resulted from increased average AUM levels, including the impact of the Guggenheim acquisition, offset by changes in the product mix of AUM. Changes in product mix of AUM result in changes in the average revenue yield derived from AUM due to differing fee rates and structures, which impacts our management fees. See the company's disclosures regarding the changes in AUM and revenue yields during the three and nine months ended September 30, 2018 in the "Assets Under Management" section above for additional information regarding the impact of changes in AUM on management fee yields.

**Service and Distribution Fees**

In the three months ended September 30, 2018, service and distribution fees increased by \$30.4 million (14.0%) to \$248.0 million when compared to three months ended September 30, 2017 of \$217.6 million. The impact of foreign exchange rate movements decreased service and distribution fees by \$0.5 million during the three months ended September 30, 2018 as compared to the third quarter of 2017. The application of new revenue recognition guidance increased service and distribution fees by \$32.4 million during the three months ended September 30, 2018. The 2018 increase reflects the inclusion of Intelliflo revenues, offset by lower transfer agency fees.

In the nine months ended September 30, 2018, service and distribution fees increased by \$101.7 million (16.0%) to \$737.0 million (nine months ended September 30, 2017: \$635.3 million). The impact of foreign exchange rate movements increased service and distribution fees by \$0.7 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. The application of new revenue recognition guidance increased service and distribution fees by \$95.9 million during the nine months ended September 30, 2018. The 2018 increase reflects the inclusion of Intelliflo revenues and higher administration fees, offset by lower transfer agency fees.

**Performance Fees**

Of our \$980.9 billion in AUM at September 30, 2018, approximately \$46.3 billion or 4.7%, could potentially earn performance fees, including carried interests and performance fees related to partnership investments and separate accounts.

In the three months ended September 30, 2018, performance fees decreased by \$34.4 million (81.3%) to \$7.9 million when compared to the performance fees in the three months ended September 30, 2017 of \$42.3 million. Performance fees during the third quarter of 2018 were primarily generated by real estate products and private equity partnerships. Performance fees during the third quarter of 2017 were primarily generated by Invesco's Mortgage Recovery Fund. In the nine months ended September 30, 2018, performance fees decreased by \$41.7 million (59.3%) to \$28.6 million when compared to the performance fees in the nine months ended September 30, 2017 of \$70.3 million. Performance fees during the third quarter of 2018 were primarily generated by real estate products of \$14.4 million, private equity partnerships of \$6.5 million U.K. closed end funds of \$5.4 million and bank loan products of \$1.2 million.

Performance fees during the nine months ended September 30, 2017 included \$36.8 million from Invesco's Mortgage Recovery Fund.

**Other Revenues**

In the three months ended September 30, 2018, other revenues increased by \$31.5 million (203.2%) to \$47.0 million (three months ended September 30, 2017: \$15.5 million). The impact of foreign exchange rate movements increased other revenues by \$0.2 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. After allowing for foreign exchange rate changes, the increase in other revenues was \$31.3 million, which is comprised of an increase of \$34.5 million due to the application of new revenue recognition guidance, offset by a decrease of \$3.2 million resulting from lower real estate transaction fees.

In the nine months ended September 30, 2018, other revenues increased by \$108.3 million (211.5%) to \$159.5 million (nine months ended September 30, 2017: \$51.2 million). The impact of foreign exchange rate movements increased other revenues by \$0.8 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017.

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After allowing for foreign exchange rate changes, the increase in other revenues was \$107.5 million, which is comprised of an increase of \$110.0 million due to the application of new revenue recognition guidance, offset by a decrease of \$2.5 million resulting from lower real estate transaction fees.

**Third-Party Distribution, Service and Advisory Expenses**

Third-party distribution, service and advisory expenses increased by \$27.6 million (7.3%) in the three months ended September 30, 2018 to \$408.0 million (three months ended September 30, 2017: \$380.4 million). The impact of foreign exchange rate movements decreased third-party distribution, service and advisory expenses by \$1.7 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. After allowing for foreign exchange rate changes, the increase in third-party distribution, service and advisory expenses was \$29.3 million. Included in this increase is \$25.1 million due to the application of new revenue recognition guidance. The increase also consists of increased unitary fees of \$10.7 million and fund expenses of \$4.0 million, increased renewal commissions of \$4.1 million, and increased assets sales fees of \$2.2 million, which are in line with the increase in related AUM. These increases were offset by a decrease in service fees of \$12.6 million.

Third-party distribution, service and advisory expenses increased by \$140.4 million (12.8%) in the nine months ended September 30, 2018 to \$1,236.0 million (nine months ended September 30, 2017: \$1,095.6 million). The impact of foreign exchange rate movements increased third-party distribution, service and advisory expenses by \$5.2 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. After allowing for foreign exchange rate changes, the increase in third-party distribution, service and advisory expenses was \$135.2 million. Included in this increase is \$85.7 million due to the application of new revenue recognition guidance. The increase also consists of increased renewal commissions of \$38.9 million, increased unitary fees of \$26.0 million, fund expenses of \$17.8 million related to Guggenheim Investments' ETF acquisition and other increases in AUM. These increases were offset by a decrease in service fees of \$33.4 million.

**Revenues, net of third-party distribution expenses, from Invesco Great Wall**

The company's most significant joint venture arrangement is our 49% investment in Invesco Great Wall Fund Management Company Limited (the "Invesco Great Wall" joint venture). Management believes that the revenues, net of third-party distribution expenses, from Invesco Great Wall should be added to operating revenues to arrive at net revenues, as it is important to evaluate the contribution to the business that Invesco Great Wall is making. See "Schedule of Non-GAAP Information" for additional disclosures regarding the use of net revenues.

Prior to the third quarter 2018, management reflected its interests in Invesco Great Wall on a proportional consolidation basis, which was consistent with the presentation of our share of the AUM from Invesco Great Wall. Given the company's influence on the Invesco Great Wall joint venture, a change in regulation allowing increased foreign ownership, and reaching agreement in principle to obtain a majority stake of the joint venture, the company began reporting 100% of the flows and AUM for Invesco Great Wall beginning in the third quarter. The company's non-GAAP operating results now reflect the economics of these holdings on a basis consistent with the underlying AUM and flows. Adjusted net income is reduced by the amount of earnings attributable to non-controlling interests. Revenues, net of third-party distribution expenses, from Invesco Great Wall were \$28.4 million and average AUM was \$22.4 billion, reflecting 100% of the flows and AUM for the three months ended September 30, 2018. The 2017 period included \$13.1 million of revenues, net of third-party distribution expenses, from Invesco Great Wall and average AUM of \$8.6 billion, reflecting 49% of the flows and AUM.

Revenues, net of third-party distribution expenses, from Invesco Great Wall were \$57.8 million and average AUM was \$13.7 billion for the nine months ended September 30, 2018, reflecting 100% of the flows and AUM for the three months ended September 30, 2018 and 49% of the flows and AUM for the six month ended June 30, 2018. The 2017 period included \$35.2 million of revenues, net of third-party distribution expenses, from Invesco Great Wall and average AUM of \$8.3 billion, reflecting 49% of the flows and AUM.



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## Management, performance and other fees earned from CIP

Management believes that the consolidation of investment products may impact a reader's analysis of our underlying results of operations and could result in investor confusion or the production of information about the company by analysts or external credit rating agencies that is not reflective of the underlying results of operations and financial condition of the company. Accordingly, management believes that it is appropriate to adjust operating revenues for the impact of CIP in calculating net revenues. As management and performance fees earned by Invesco from the consolidated products are eliminated upon consolidation of the investment products, management believes that it is appropriate to add these operating revenues back in the calculation of net revenues. See "Schedule of Non-GAAP Information" for additional disclosures regarding the use of net revenues.

The elimination of management and performance fees earned from CIP was \$4.7 million in the three months ended September 30, 2018 (three months ended September 30, 2017: \$6.2 million). The decrease is due to the decrease in management fees earned from CLOs.

The elimination of management and performance fees earned from CIP was \$18.8 million in the nine months ended September 30, 2018 (nine months ended September 30, 2017: \$25.7 million). The decrease is due to the decrease in performance fees earned from CLOs.

## Operating Expenses

The main categories of operating expenses, and the dollar and percentage changes between periods, are as follows:

	Variance					Variance				
	Three months ended September 30,		2018 vs 2017			Nine months ended September 30,		2018 vs 2017		
	2018	2017	\$	%	Change	2018	2017	\$	%	Change
\$ in millions										
Third-party distribution, service and advisory	408.0	380.4	27.6	7.3 %		1,236.0	1,095.6	140.4	12.8 %	
Employee compensation	385.5	388.1	(2.6)	(0.7)%		1,157.0	1,151.8	5.2	0.5 %	
Marketing	34.0	29.5	4.5	15.3 %		94.9	83.0	11.9	14.3 %	
Property, office and technology	104.8	92.8	12.0	12.9 %		308.7	267.3	41.4	15.5 %	
General and administrative	87.4	86.6	0.8	0.9 %		287.1	250.5	36.6	14.6 %	
Total operating expenses	1,019.7	977.4	42.3	4.3 %		3,083.7	2,848.2	235.5	8.3 %	

The tables below set forth these expense categories as a percentage of total operating expenses and operating revenues, which we believe provides useful information as to the relative significance of each type of expense.

	Three months ended September 30, 2018				Three months ended September 30, 2017			
		% of Total Operating Expenses	% of Operating Revenues			% of Total Operating Expenses	% of Operating Revenues	
\$ in millions								
Third-party distribution, service and advisory	408.0	40.0 %	30.4 %		380.4	38.9 %	28.4 %	
Employee compensation	385.5	37.8 %	28.7 %		388.1	39.7 %	29.0 %	
Marketing	34.0	3.3 %	2.5 %		29.5	3.0 %	2.2 %	
Property, office and technology	104.8	10.3 %	7.8 %		92.8	9.5 %	6.9 %	
General and administrative	87.4	8.6 %	6.5 %		86.6	8.9 %	6.5 %	
Total operating expenses	1,019.7	100.0 %	76.0 %		977.4	100.0 %	73.1 %	



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\$ in millions	Nine months ended September 30, 2018				Nine months ended September 30, 2017			
		% of Total Operating Expenses	% of Operating Revenues			% of Total Operating Expenses	% of Operating Revenues	
Third-party distribution, service and advisory	1,236.0	40.1 %	30.5 %		1,095.6	38.5 %	28.9 %	
Employee compensation	1,157.0	37.5 %	28.5 %		1,151.8	40.4 %	30.4 %	
Marketing	94.9	3.1 %	2.3 %		83.0	2.9 %	2.2 %	
Property, office and technology	308.7	10.0 %	7.6 %		267.3	9.4 %	7.1 %	
General and administrative	287.1	9.3 %	7.1 %		250.5	8.8 %	6.6 %	
Total operating expenses	3,083.7	100.0 %	76.0 %		2,848.2	100.0 %	75.3 %	

During the three months ended September 30, 2018, operating expenses increased by \$42.3 million (4.3%) to \$1,019.7 million (three months ended September 30, 2017: \$977.4 million). The impact of foreign exchange rate movements decreased operating expenses by \$5.4 million, or 0.5% of total operating expenses, during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. The application of new revenue recognition guidance increased operating expenses by \$16.6 million during the three months ended September 30, 2018. The remaining variances are from the activities of the business, and are addressed below on a line-item by line-item basis.

During the nine months ended September 30, 2018, operating expenses increased by \$235.5 million (8.3%) to \$3,083.7 million (nine months ended September 30, 2017: \$2,848.2 million). The impact of foreign exchange rate movements increased operating expenses by \$35.3 million, or 1.1% of total operating expenses, during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. The application of new revenue recognition guidance increased operating expenses by \$48.0 million during the nine months ended September 30, 2018. The remaining variances are from the activities of the business, and are addressed below on a line-item by line-item basis.

The adoption of ASU 2017-07 resulted in the reclassification of non-service components of net periodic pension costs /(benefits) from employee compensation expenses to other gains and losses, net. See Part I, Item 1, Financial Statements - Note 1, "Accounting Policies" for more information.

#### Third-Party Distribution, Service and Advisory Expenses

Third-party distribution, service and advisory expenses are discussed above in the operating and net revenues section.

#### Employee Compensation

Employee compensation decreased \$2.6 million (0.7%) to \$385.5 million in the three months ended September 30, 2018 (three months ended September 30, 2017: \$388.1 million). The impact of foreign exchange rate movements decreased employee compensation by \$2.9 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. After allowing for foreign exchange rate changes, the increase in employee compensation was \$0.3 million.

During the three months ended September 30, 2018, increases in base salaries of \$13.5 million and staff benefits of \$2.6 million were primarily related to annual merit increases and increases in headcount (including the European ETF business, the Guggenheim Investments' ETF and the Intelliflo acquisitions). These increases were partially offset by decreases in commissions and staff bonus expenses of \$11.3 million and business optimization charges of \$4.1 million.

Employee compensation increased \$5.2 million (0.5%) to \$1,157.0 million in the nine months ended September 30, 2018 (nine months ended September 30, 2017: \$1,151.8 million). The impact of foreign exchange rate movements increased employee compensation by \$17.5 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. After allowing for foreign exchange rate changes, the decrease in employee compensation was \$12.3 million.

During the nine months ended September 30, 2018, the decrease in employee compensation cost was driven by lower business optimization charges of \$19.4 million, lower deferred compensation costs of \$18.3 million related to accelerated vesting due to multiple senior executive retirements during the comparable period and a decrease in commissions and staff bonus expenses of \$18.3 million. These decreases were partially offset by an increase in base salaries of \$37.2 million and staff benefits of \$6.5 million primarily related to annual merit increases and increases in headcount (including the European ETF business, the Guggenheim Investments' ETF and the Intelliflo acquisitions). Headcount at September 30, 2018 was 7,410 (September 30, 2017: 6,994), with the increase primarily attributable to acquisitions.

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## Marketing

Marketing expenses increased by \$4.5 million (15.3%) in the three months ended September 30, 2018 to \$34.0 million (three months ended September 30, 2017: \$29.5 million). The impact of foreign exchange rate movements decreased marketing expenses by \$0.2 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. After allowing for foreign exchange rate changes, the increase in marketing expenses was \$4.7 million. The increase relates to increased marketing activities in 2018 and includes an increase in costs related to our move to a unified global brand.

Marketing expenses increased by \$11.9 million (14.3%) in the nine months ended September 30, 2018 to \$94.9 million (nine months ended September 30, 2017: \$83.0 million). The impact of foreign exchange rate movements increased marketing expenses by \$1.8 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. After allowing for foreign exchange rate changes, the increase in marketing expenses was \$10.1 million. The increase relates to increased marketing activities in 2018 and includes an increase in costs related to our move to a unified global brand.

## Property, Office and Technology

Property, office and technology costs increased by \$12.0 million (12.9%) to \$104.8 million in the three months ended September 30, 2018 (three months ended September 30, 2017: \$92.8 million). The impact of foreign exchange rate movements decreased property, office and technology expenses by \$0.6 million during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. After allowing for foreign exchange rate movements, the increase was \$12.6 million. This increase was comprised of a \$12.1 million increase in technology and communications expenses due to increases in depreciation and maintenance of \$6.8 million as a result of long-term technology projects brought into service and outsourced administration costs of \$4.9 million, which include a full quarter of Intelliflo.

Property, office and technology costs increased by \$41.4 million (15.5%) to \$308.7 million in the nine months ended September 30, 2018 (nine months ended September 30, 2017: \$267.3 million). The impact of foreign exchange rate movements increased property, office and technology expenses by \$4.1 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. After allowing for foreign exchange rate movements, the increase was \$37.3 million. This increase was comprised of a \$32.7 million increase in technology and communications expenses due to increases in depreciation and maintenance of \$21.5 million as a result of long-term technology projects brought into service, outsourced administration costs of \$7.7 million and software purchases and telephone and communication lines costs of \$2.2 million. Property and office costs increased \$4.6 million over the comparable 2017 period, due to increases in property taxes, depreciation and rent expenses.

## General and Administrative

General and administrative expenses increased by \$0.8 million (0.9%) to \$87.4 million in the three months ended September 30, 2018 (three months ended September 30, 2017: \$86.6 million). There is no impact of foreign exchange rate movements on general and administrative expenses during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. The application of the new revenue recognition guidance decreased general and administrative expenses by \$4.5 million during the three months ended September 30, 2018. General and administrative expenses for the three months ended September 30, 2018 included an increase of \$17.0 million in consulting, audit, legal and professional services costs related to acquisitions and business optimization, \$4.2 million in fund expenses related to the redomicile of certain funds to Luxembourg, \$7.7 million in amortization of intangibles related to recent acquisitions and an increase of \$1.6 million in fund launch costs incurred by CIPs compared to the three months ended September 30, 2017. General and administrative expenses for the three months ended September 30, 2018 also included a \$26.7 million credit for increased recoverable VAT from applying additional regulatory guidance. The credit represents a cumulative adjustment for 2014 through the second quarter of 2018.

General and administrative expenses increased by \$36.6 million (14.6%) to \$287.1 million in the nine months ended September 30, 2018 (nine months ended September 30, 2017: \$250.5 million). The impact of foreign exchange rate movements increased general and administrative expenses by \$6.7 million during the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. After allowing for foreign exchange rate movements, general and administrative costs increased \$29.9 million compared to the same period in 2017. The application of the new revenue recognition guidance decreased general and administrative expenses by \$13.6 million during the nine months ended September 30, 2018.

The increases in general and administrative expenses in the nine months ended September 30, 2018 included an increase of \$34.8 million in consulting, audit, legal and professional services costs related to acquisitions and business optimization, \$10.1

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million in amortization of intangibles related to recent acquisitions, \$9.4 million in fund expenses which include costs to redomicile certain funds to Luxembourg, \$6.9 million in fund launch costs incurred by CIPs, \$5.3 million in travel expenses and \$4.6 million in temporary labor compared to the nine months ended September 30, 2017. These increases were offset by a \$26.7 million credit for increased recoverable VAT from applying additional regulatory guidance. The credit represents a cumulative adjustment for 2014 through the second quarter of 2018.

## Other Income and Expenses

The main categories of other income and expenses, and the dollar and percentage changes between periods are as follows:

	Three months ended				Nine months ended			
	September 30,		Variance 2018 vs 2017		September 30,		Variance 2018 vs 2017	
	2018	2017	\$ Change	% Change	2018	2017	\$ Change	% Change
\$ in millions								
Equity in earnings of unconsolidated affiliates	11.8	12.9	(1.1 )	(8.5 )%	28.8	41.1	(12.3)	(29.9)%
Interest and dividend income	4.0	2.5	1.5	60.0 %	11.0	7.0	4.0	57.1 %
Interest expense	(29.6)	(23.6)	(6.0 )	25.4 %	(82.3)	(71.2)	(11.1)	15.6 %
Other gains and losses, net	5.9	13.9	(8.0 )	(57.6)%	1.9	23.9	(22.0)	(92.1)%
Other income/(expense) of CIP, net	28.1	31.7	(3.6 )	(11.4)%	56.2	92.5	(36.3)	(39.2)%
Total other income and expenses	20.2	37.4	(17.2)	(46.0)%	15.6	93.3	(77.7)	(83.3)%

## Equity in earnings of unconsolidated affiliates

Equity in earnings of unconsolidated affiliates decreased by \$1.1 million to \$11.8 million in the three months ended September 30, 2018 (three months ended September 30, 2017: \$12.9 million). The decrease in equity in earnings is primarily driven by decrease in earnings from our real estate investments.

Equity in earnings of unconsolidated affiliates decreased by \$12.3 million to \$28.8 million in the nine months ended September 30, 2018 (nine months ended September 30, 2017: \$41.1 million). The decrease in equity in earnings is driven by decreases of \$13.8 million in earnings from our real estate investments and \$2.6 million from private equity investments. These decreases were partially offset by an increase of \$5.3 million from our joint venture investments in China.

## Other gains and losses, net

Other gains and losses, net were a gain of \$5.9 million in the three months ended September 30, 2018. Included in the \$5.9 million gain were \$2.9 million of gains on the appreciation of investments and instruments held for our deferred compensation plans, net realized investment gains of \$1.5 million, \$0.9 million of gains related to our defined benefit pension plan, \$0.9 million gains related to the mark-to-market of foreign exchange put option contracts and gains resulting from the revaluation of intercompany foreign currency denominated loans into the various functional currencies of our subsidiaries, \$0.4 million related to a change in the fair value of the acquisition-related contingent consideration liability. These gains were partially offset by net losses during the period of \$0.7 million related to the mark-to-market on seed money investments. With effect from the adoption of ASU 2016-01 on January 1, 2018, all gains or losses arising from changes in the fair value of seed money formerly classified as available-for-sale are included in income.

Other gains and losses, net were a gain of \$13.9 million in the three months ended September 30, 2017. The 2017 period included a realized gain of \$12.1 million related to revaluation of Euros held in the U.K. in anticipation of payment for the Source acquisition, net trading gains of \$6.1 million on the appreciation of investments and the total return swap held for our deferred compensation plans, net foreign exchange gains on intercompany loans of \$2.7 million and \$2.6 million of net realized gains from available-for-sale investments. These gains were partially offset by

net losses during the period of \$2.5 million related to the mark-to-market of foreign exchange put option contracts intended to provide protection against the impact of a significant decline in the Pound Sterling/U.S. Dollar and Euro/U.S. Dollar foreign exchange rates and a \$1.6 million loss related to an acquisition-related change in the fair value of the contingent consideration liability. The 2017 period also includes a reclassification of of the non-service cost components of the pension costs/(benefit) of \$5.0 million per Accounting Standard Update 2017-07, adopted on January 1, 2018.

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Other gains and losses, net were a gain of \$1.9 million in the nine months ended September 30, 2018. Included in the \$1.9 million gain were net realized investment gains of \$3.9 million, \$3.1 million of gains related to our defined benefit pension plan and \$0.6 million related to a change in the fair value of the acquisition-related contingent consideration liability. These gains were partially offset by \$2.3 million loss related to the mark-to-market on seed money investments and an investment impairment charge of \$3.9 million.

Other gains and losses, net were a gain of \$23.9 million in the nine months ended September 30, 2017. The 2017 period included a net trading gains of \$20.9 million on the appreciation of investments and the total return swap held for our deferred compensation plans, realized gain of \$12.1 million related to revaluation of Euros held in the U.K. in anticipation of payment for the Source acquisition, \$8.7 million related to the mark-to-market on seed money investments, \$8.0 million of net realized gains from available-for-sale investments and net foreign exchange gains on intercompany loans of \$2.0 million. These gains were partially offset by net losses during the period of \$19.9 million related to the mark-to-market of foreign exchange put option contracts intended to provide protection against the impact of a significant decline in the Pound Sterling/U.S. Dollar and Euro/U.S. Dollar foreign exchange rates and a investment impairment charge of \$3.3 million. The 2017 period also includes a reclassification of of the non-service cost components of the pension costs/(benefit) of \$5.0 million per Accounting Standard Update 2017-07, adopted on January 1, 2018.

Other income/(expense) of CIP

Other income/(expense) of CIP includes interest and dividend income, interest expense, and other gains/(losses of CIP).

In the three months ended September 30, 2018, interest and dividend income of CIP increased by \$18.3 million (34.7%) to \$71.0 million (three months ended September 30, 2017: \$52.7 million). Interest expense of CIP increased by \$15.4 million (42.4%) to \$51.7 million (three months ended September 30, 2017: \$36.3 million).

In the nine months ended September 30, 2018, interest and dividend income of CIP increased by \$39.6 million (25.3%) to \$196.0 million (nine months ended September 30, 2017: \$156.4 million). Interest expense of CIP increased by \$20.2 million (17.2%) to \$137.5 million (nine months ended September 30, 2017: \$117.3 million).

The increase in interest income and interest expense of CIP in 2018 is primarily due to the impact of newly consolidated CLOs and other funds during 2018, partially offset by the impact of funds deconsolidated during the nine months ended September 30, 2018.

Included in other gains/(losses) of CIP, net, are realized and unrealized gains and losses on the underlying investments and debt of CIP. In the three months ended September 30, 2018, other gains and losses of CIP were net gains of \$8.8 million as compared to a net gain of \$15.3 million in the three months ended September 30, 2017. The net gains during the three months ended September 30, 2018 were attributable to market-driven gains of investments held by consolidated funds.

Included in other gains/(losses) of CIP, net, are realized and unrealized gains and losses on the underlying investments and debt of CIP. In the nine months ended September 30, 2018, other gains and losses of CIP were a net loss of \$2.3 million as compared to a net gain of \$53.4 million in the nine months ended September 30, 2017. The net loss during the nine months ended September 30, 2018 was attributable to market-driven losses of investments held by consolidated funds.

Net impact of CIP and related noncontrolling interests in consolidated entities

The net impact to net income attributable to Invesco Ltd. in each period primarily represents the changes in the value of the company's holding in its consolidated CLOs, which is reclassified into other gains/(losses) from accumulated other comprehensive income upon consolidation. The consolidation of investment products during the three months ended September 30, 2018 resulted in a net increase in net income attributable to Invesco Ltd. of \$11.3 million (three months ended September 30, 2017: \$1.3 million decrease). The consolidation of investment products during the nine months ended September 30, 2018 resulted in a net increase in net income attributable to Invesco Ltd. of \$9.7 million (nine months ended September 30, 2017: \$1.5 million increase). CIP are taxed at the investor level and not at the

product level; therefore, there is no tax provision reflected in the net impact of CIP.

Noncontrolling interests in consolidated entities represent the profit or loss amounts attributed to third party investors in CIP. The impact of any gains or losses resulting from valuation changes in the investments of non-CLO CIP attributable to the interests of third parties are offset by resulting changes in gains and losses attributable to noncontrolling interests in consolidated entities and therefore do not have a material effect on the financial condition, operating results (including earnings per share), liquidity or capital resources of the company's common shareholders. Similarly, any gains or losses resulting from valuation changes in the investments of CLOs attributable to the interests of third parties are offset by the calculated value of the notes issued by the CLOs (offsetting in other gains/(losses) of CIP) and therefore also do not have a material effect on the

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financial condition, operating results (including earnings per share), liquidity or capital resources of the company's common shareholders.

Additionally, CIP represent less than 1% of the company's AUM. Therefore, the net gains or losses of CIP are not indicative of the performance of the company's aggregate AUM.

**Income Tax Expense**

The company's subsidiaries operate in several taxing jurisdictions around the world, each with its own statutory income tax rate. As a result, the blended average statutory tax rate will vary from year to year depending on the mix of the profits and losses of the company's subsidiaries.

Our effective tax rate decreased to 17.8% for the three months ended September 30, 2018 (three months ended September 30, 2017: 31.0%). The inclusion of income from non-controlling interests in consolidated entities decreased our effective tax rate by 0.7% in 2018 and 0.5% in 2017. 2018 included 3.1% and 1.1% rate decreases, respectively, resulting from the acceleration of software tax amortization and other provision adjustments to our 2017 U.S. tax return as filed. Included in the rate decrease for 2018 was a 5.7% rate deduction as a result of a lower Federal tax rates effective January 1, 2018, partially offset by a 0.4% rate increase due to refining our estimated tax effects of the Tax Cuts and Jobs Act (the "2017 Tax Act"). 2017 included a 3.5% rate increase as a result of Illinois tax regulation changes.

Our effective tax rate decreased to 20.4% for the nine months ended September 30, 2018 (nine months ended September 30, 2017: 28.3%). The inclusion of income from non-controlling interests in consolidated entities decreased our effective tax rate by 0.4% in 2018 and 0.5% in 2017. 2018 included 1.0% and 0.4% rate decreases, respectively, from the acceleration of software tax amortization and other provision adjustments to our 2017 U.S. tax return as filed. Included in the rate decrease for 2018 was a 5.5% rate deduction as a result of a lower Federal tax rates effective January 1, 2018 partially offset by a 0.2% rate increase due to refining our estimated tax effects of the Tax Cuts and Jobs Act (the "2017 Tax Act"). 2017 included a 1.3% rate increase as a result of Illinois tax regulation changes.

**Schedule of Non-GAAP Information**

We utilize the following non-GAAP performance measures: net revenue (and by calculation, net revenue yield on AUM), adjusted operating income, adjusted operating margin, adjusted net income attributable to Invesco Ltd. and adjusted diluted earnings per share (EPS). The company believes the adjusted measures provide valuable insight into the company's ongoing operational performance and assist in comparisons to its competitors. These measures also assist the company's management with the establishment of operational budgets and forecasts and assist the Board of Directors and management of the company in determining incentive compensation decisions. The most directly comparable U.S. GAAP measures are operating revenues (and by calculation, gross revenue yield on AUM), operating income, operating margin, net income attributable to Invesco Ltd. and diluted EPS. Each of these measures is discussed more fully below.

The following are reconciliations of operating revenues, operating income (and by calculation, operating margin), and net income attributable to Invesco Ltd. (and by calculation, diluted EPS) on a U.S. GAAP basis to a non-GAAP basis of net revenues, adjusted operating income (and by calculation, adjusted operating margin), and adjusted net income attributable to Invesco Ltd. (and by calculation, adjusted diluted EPS). These non-GAAP measures should not be considered as substitutes for any U.S. GAAP measures and may not be comparable to other similarly titled measures of other companies. Additional reconciling items may be added in the future to these non-GAAP measures if deemed appropriate. The tax effects related to the reconciling items have been calculated based on the tax rate attributable to the jurisdiction to which the transaction relates. Notes to the reconciliations follow the tables.

Reconciliation of Operating revenues to Net revenues:

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	Three months		Nine months ended	
	ended September		September 30,	
\$ in millions	2018	2017	2018	2017
Operating revenues, U.S. GAAP basis	1,341.8	1,337.7	4,058.2	3,784.7
Invesco Great Wall <sup>(1)</sup>	28.4	13.1	57.8	35.2
Third party distribution, service and advisory expenses <sup>(2)</sup>	(408.0 )	(380.4 )	(1,236.0)	(1,095.6)
CIP <sup>(3)</sup>	4.7	6.2	18.8	25.7
Net revenues	966.9	976.6	2,898.8	2,750.0

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## Reconciliation of Operating income to Adjusted operating income:

\$ in millions	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Operating income, U.S. GAAP basis	322.1	360.3	974.5	936.5
Invesco Great Wall <sup>(1)</sup>	11.7	5.8	23.3	12.4
CIP <sup>(3)</sup>	9.8	10.4	33.3	30.9
Business combinations <sup>(4)</sup>	18.6	8.6	46.4	22.1
Compensation expense related to market valuation changes in deferred compensation plans <sup>(5)</sup>	3.9	5.0	8.2	14.1
Other reconciling items <sup>(6)</sup>	(8.3 )	12.3	5.9	68.7
Adjusted operating income	357.8	402.4	1,091.6	1,084.7
Operating margin*	24.0 %	26.9 %	24.0 %	24.7 %
Adjusted operating margin**	37.0 %	41.2 %	37.7 %	39.4 %

Reconciliation of Net income attributable to Invesco Ltd. to Adjusted net income attributable to Invesco Ltd.:

\$ in millions, except per share data	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Net income attributable to Invesco Ltd., U.S. GAAP basis	269.6	267.5	768.6	719.1
CIP <sup>(3)</sup>	(11.3 )	1.3	(9.7 )	(1.5 )
Business combinations, net of tax <sup>(4)</sup>	24.0	2.7	57.3	22.3
Deferred compensation plan market valuation changes and dividend income less compensation expense, net of tax <sup>(5)</sup>	0.7	(0.7 )	5.7	(4.7 )
Other reconciling items, net of tax <sup>(6)</sup>	(8.6 )	21.0	(0.5 )	71.6
Adjusted net income attributable to Invesco Ltd.	274.4	291.8	821.4	806.8
Average shares outstanding - diluted	414.4	410.5	413.4	409.6
Diluted EPS	\$0.65	\$0.65	\$1.86	\$1.76
Adjusted diluted EPS***	\$0.66	\$0.71	\$1.99	\$1.97

\* Operating margin is equal to operating income divided by operating revenues.

\*\* Adjusted operating margin is equal to adjusted operating income divided by net revenues.

Adjusted diluted EPS is equal to adjusted net income attributable to Invesco Ltd. divided by the weighted average

\*\*\* number of common and restricted shares outstanding. There is no difference between the calculated earnings per share amounts presented above and the calculated earnings per share amounts under the two class method.

## (1) Invesco Great Wall

Prior to the third quarter 2018, management reflected its interests in Invesco Great Wall Fund Management Company ("Invesco Great Wall") on a proportional consolidation basis, which was consistent with the presentation of our share of the AUM from these investments. Given the company's influence on Invesco Great Wall, a change in regulation allowing increased foreign ownership, and reaching agreement in principle in the third quarter to obtain a majority stake of the joint venture, the company began reporting 100% of the flows and AUM for Invesco Great Wall beginning in the third quarter. The company's non-GAAP operating results now reflect the economics of these holdings on a basis consistent with the underlying AUM and flows. Adjusted net income is reduced by the amount of

earnings attributable to non-controlling interests.

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## (2) Third-party distribution, service and advisory expenses

Third-party distribution, service and advisory expenses include renewal commissions and distribution costs (12b-1 and marketing support) paid to brokers and independent financial advisors, and other service and administrative fees paid to third parties. While the terms used for these types of expenses vary by geography, they are all expense items that are closely linked to the value of AUM and the revenue earned by Invesco from AUM. Since the company has been deemed to be the principal in the third-party arrangements, the company must reflect these expenses gross of operating revenues under U.S. GAAP.

Management believes that the deduction of third-party distribution, service and advisory expenses from operating revenues appropriately reflects the nature of these expenses as being passed through to external parties who perform functions on behalf of, and distribute, the company's managed funds. Further, these expenses vary extensively by geography due to the differences in distribution channels. The net presentation assists in identifying the revenue contribution generated by the business, removing distortions caused by the differing distribution channel fees and allowing for a fair comparison with U.S. peer investment managers and within Invesco's own investment units. Additionally, management evaluates net revenue yield on AUM, which is equal to net revenues divided by average AUM during the reporting period. This financial measure is an indicator of the basis point net revenues we receive for each dollar of AUM we manage and is useful when evaluating the company's performance relative to industry competitors and within the company for capital allocation purposes.

## (3) CIP

See Part I, Item 1, Financial Statements, Note 12 - "Consolidated Investment Products" for a detailed analysis of the impact to the company's Condensed Consolidated Financial Statements from the consolidation of CIP. The reconciling items add back the management and performance fees earned by Invesco from the consolidated products and remove the revenues and expenses recorded by the consolidated products that have been included in the U.S. GAAP Condensed Consolidated Statements of Income.

Management believes that the consolidation of investment products may impact a reader's analysis of our underlying results of operations and could result in investor confusion or the production of information about the company by analysts or external credit rating agencies that is not reflective of the underlying results of operations and financial condition of the company. Accordingly, management believes that it is appropriate to adjust operating revenues, operating income and net income for the impact of CIP in calculating the respective net revenues, adjusted operating income and adjusted net income.

CIP Revenue:

	Three months ended September 30, 2018		Nine months ended September 30, 2017	
\$ in millions, except per share data	2018	2017	2018	2017
Management fees earned from CIP, eliminated upon consolidation	4.7	6.2	18.8	18.9
Performance fees earned from CIP, eliminated upon consolidation	—	—	—	6.8
CIP related adjustments in arriving at net revenues	4.7	6.2	18.8	25.7

## (4) Business combinations

Business combination related adjustments are comprised of amounts incurred by the company in connection with business combinations. Management believes it is useful to investors and other users of our Condensed Consolidated Financial Statements to adjust for these items in arriving at adjusted operating income, adjusted operating margin and adjusted diluted EPS. Business combination related adjustments include: transaction and integration charges, the reversal of business combination-related deferred tax liabilities recorded under U.S. GAAP, currency gains recognized on revaluation of foreign currencies held in anticipation of payment for acquisition and other acquisition/disposition

related adjustments. By adjusting for these items, this will aid comparability of our results period to period, and aid comparability with peer companies that may not have similar acquisition and disposition related income or charges.

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See table below for a reconciliation of business combination-related items:

\$ in millions	Three months ended		Nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
Business combinations:				
Intangible amortization expense <sup>(a)</sup>	11.7	4.0	21.2	10.8
Employee compensation expense <sup>(b)</sup>	0.9	1.7	2.7	4.4
Transaction and integration expense <sup>(c)</sup>	6.0	2.9	22.5	6.9
Adjustments to operating income	18.6	8.6	46.4	22.1
Changes in contingent consideration estimates <sup>(d)</sup>	(0.4)	1.6	(0.6)	(0.1)
Foreign exchange gain related to business acquisitions <sup>(e)</sup>	—	(12.1)	—	(12.1)
Taxation:				
Taxation on amortization <sup>(a)</sup>	(0.5)	(0.4)	(1.5)	(1.2)
Taxation on employee compensation expense <sup>(b)</sup>	(0.2)	(0.6)	(0.6)	(1.7)
Deferred taxation <sup>(f)</sup>	7.7	4.9	18.5	14.7
Taxation on transaction and integration <sup>(c)</sup>	(1.3)	(1.0)	(5.0)	(1.8)
Taxation on changes in contingent consideration estimates <sup>(d)</sup>	0.1	(0.6)	0.1	0.1
Taxation on foreign exchange gain related to business acquisitions	—	2.3	—	2.3
Adjustments to net income attributable to Invesco Ltd.	24.0	2.7	57.3	22.3

(a) Intangible amortization expense is associated with intangible assets that are identified from acquisition of a business and are amortized on a straight-line basis over useful lives.

(b) Employee compensation expenses are related to previous acquisitions.

Transaction and integration expenses reflect the legal, regulatory, advisory, valuation, integration-related employee incentive awards, other professional or consulting fees and general and administrative costs, which includes travel (c) costs related to transactions and the costs of temporary staff involved in executing the transaction, and the post-closing costs of integrating the acquired business into the company's existing operations, including incremental costs associated with achieving synergy savings.

During 2015, the company acquired investment management contracts from Deutsche Bank and the purchase price (d) was solely comprised of contingent consideration payable in future periods. Adjustment represents the change in the fair value of contingent consideration liability.

Other gains and losses for 2017 includes a realized gain of \$12.1 million related to revaluation of Euros held in the (e) U.K. in anticipation of payment for the European ETF business acquisition.

While finite-lived intangible assets are amortized under U.S. GAAP, there is no amortization charge on goodwill and indefinite-lived intangibles. In certain qualifying situations, these can be amortized for tax purposes, generally over a 15-year period, as is the case in the U.S. These deferred tax liabilities represent tax benefits that are not (f) included in the Consolidated Statements of Income absent an impairment charge or the disposal of the related business. The company receives these tax benefits but does not anticipate a sale or impairment of these assets in the foreseeable future, and therefore the deferred tax liabilities recognized under U.S. GAAP are not expected to be used either through a credit in the Consolidated Statements of Income or through settlement of tax obligations.

(5) Market movement on deferred compensation plan liabilities

Certain deferred compensation plan awards involve a return to the employee linked to the appreciation (depreciation) of specified investments, typically the funds managed by the employee. Invesco hedges economically the exposure to market movements.

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Since these plans are hedged economically, management believes it is useful to reflect the offset ultimately achieved from hedging the investment market exposure in the calculation of adjusted operating income (and by calculation, adjusted operating margin) and adjusted net income attributable to Invesco Ltd. (and by calculation, adjusted diluted EPS), to produce results that will be more comparable period to period.

See below for a reconciliation of deferred compensation related items:

	Three months ended		Nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
\$ in millions				
Market movement on deferred compensation plan liabilities:				
Compensation expense related to market valuation changes in deferred compensation liability	3.9	5.0	8.2	14.1
Adjustments to operating income	3.9	5.0	8.2	14.1
Market valuation changes and dividend income from investments and instruments held related to deferred compensation plans in other income/(expense)	(3.0)	(6.3)	(0.8)	(21.6)
Taxation:				
Taxation on deferred compensation plan market valuation changes and dividend income less compensation expense	(0.2)	0.6	(1.7)	2.8
Adjustments to net income attributable to Invesco Ltd.	0.7	(0.7)	5.7	(4.7)

## (6) Other reconciling items

Each of these other reconciling items has been adjusted from U.S. GAAP to arrive at the company's non-GAAP financial measures for the reasons either outlined in the paragraphs above, due to the unique character and magnitude of the reconciling item, or because the item represents a continuation of a reconciling item adjusted from U.S. GAAP in a prior period.

	Three months ended		Nine months ended	
	September 30, 2018	2017	September 30, 2018	2017
\$ in millions				
Other non-GAAP adjustments:				
Business optimization charges: <sup>(a)</sup>				
Employee compensation	3.5	7.6	7.8	27.2
Professional services and temporary labor	10.4	4.5	19.7	19.6
Property, office and technology	0.6	0.2	1.2	2.2
Prior period impact of multi-year VAT tax recovery <sup>(b)</sup>	(22.8)	—	(22.8)	—
Senior executive retirement and related costs <sup>(c)</sup>	—	—	—	19.7
Adjustments to operating income	(8.3)	12.3	5.9	68.7
Foreign exchange hedge (gain)/loss <sup>(d)</sup>	(2.3)	0.5	(5.9)	21.5
Taxation:				
Taxation on business optimization charges <sup>(a)</sup>	(2.9)	(3.8)	(6.2)	(16.8)
Taxation on senior executive retirement and related costs <sup>(c)</sup>	—	—	—	(5.9)
Taxation on foreign exchange hedge amortization <sup>(d)</sup>	0.6	(0.2)	1.4	(8.1)
Retroactive state tax adjustment <sup>(e)</sup>	—	12.2	—	12.2
Taxation on prior period impact of multi-year VAT recovery <sup>(b)</sup>	4.3	—	4.3	—

Adjustments to net income attributable to Invesco Ltd. (8.6 ) 21.0 (0.5 ) 71.6

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(a) Business optimization: Operating expenses for the three and nine months ended September 30, 2018 include costs associated with business transformation initiatives.

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As a result of an increase in our recoverable VAT from applying additional regulatory guidance, a credit was (b) recorded in the third quarter of 2018. The portion of the cumulative adjustment representing 2014 through 2017 has been removed for non-GAAP purposes.

Operating expenses for the nine months ended September 30, 2017 reflect the cost of multiple senior executive retirements, including, among others, the former Senior Managing Director of EMEA and the Chairman of our (c) Private Equity business, which resulted in expenses of \$19.7 million related to accelerated vesting of deferred compensation and other separation costs.

Included within other gains and losses, net is the mark-to-market of foreign exchange put option contracts intended to provide protection against the impact of a significant decline in the Pound Sterling/U.S. Dollar and the (d) Euro/U.S. Dollar foreign exchange rates. The Pound Sterling contracts provide coverage through June 28, 2019 and the Euro contracts provided coverage through December 27, 2017. The adjustment from U.S. GAAP to non-GAAP earnings removes the impact of market volatility; therefore, the company's non-GAAP results include only the amortization of the cost of the contracts during the contract period.

The income tax provision for the nine months ended September 30, 2017 includes a retroactive state tax adjustment (e) of \$12.2 million related to 2016 and prior open tax years caused by changes in the state tax regulations.

Table of ContentsBalance Sheet Discussion<sup>(1)</sup>

The following table represents a reconciliation of the balance sheet information presented on a U.S. GAAP basis to the balance sheet information excluding the impact of CIP and policyholder balances for the reasons outlined in footnote 1 to the table:

Balance sheet information \$ in millions	As of September 30, 2018				As of December 31, 2017			
	U.S. GAAP	Impact of CIP	Impact of Policyholders	As Adjusted	U.S. GAAP	Impact of CIP	Impact of Policyholders	As Adjusted
<b>ASSETS</b>								
Cash and cash equivalents	1,631.5	—	—	1,631.5	2,006.4	—	—	2,006.4
Unsettled fund receivables	851.6	—	—	851.6	793.8	—	—	793.8
Investments	643.8	(520.1 )	—	1,163.9	674.6	(478.9 )	—	1,153.5
Assets of CIP:				—				—
Investments and other assets of CIP	6,131.3	6,131.3	—	—	5,789.5	5,789.5	—	—
Cash and cash equivalents of CIP	282.8	282.8	—	—	511.3	511.3	—	—
Assets held for policyholders	12,268.2	—	12,268.2	—	12,444.5	—	12,444.5	—
Goodwill and intangible assets, net	9,468.0	—	—	9,468.0	8,149.4	—	—	8,149.4
Other assets <sup>(2)</sup>	1,226.6	(3.8 )	—	1,230.4	1,299.3	(21.6 )	—	1,320.9
Total assets	32,503.8	5,890.2	12,268.2	14,345.4	31,668.8	5,800.3	12,444.5	13,424.0
<b>LIABILITIES</b>								
Liabilities of CIP:								
Debt of CIP	4,820.5	4,820.5	—	—	4,799.8	4,799.8	—	—
Other liabilities of CIP	315.8	315.8	—	—	498.8	498.8	—	—
Policyholder payables	12,268.2	—	12,268.2	—	12,444.5	—	12,444.5	—
Unsettled fund payables	821.5	—	—	821.5	783.8	—	—	783.8
Long-term debt	2,814.6	—	—	2,814.6	2,075.8	—	—	2,075.8
Other liabilities <sup>(3)</sup>	1,721.2	—	—	1,721.2	1,867.3	—	—	1,867.3
Total liabilities	22,761.8	5,136.3	12,268.2	5,357.3	22,470.0	5,298.6	12,444.5	4,726.9
<b>EQUITY</b>								
Total equity attributable to Invesco Ltd.	8,987.1	(0.1 )	—	8,987.2	8,696.1	(0.1 )	—	8,696.2
Noncontrolling interests <sup>(4)</sup>	754.9	754.0	—	0.9	502.7	501.8	—	0.9
Total equity	9,742.0	753.9	—	8,988.1	9,198.8	501.7	—	8,697.1
Total liabilities and equity	32,503.8	5,890.2	12,268.2	14,345.4	31,668.8	5,800.3	12,444.5	13,424.0

(1) These tables include non-GAAP presentations. Assets of CIP are not available for use by Invesco. Additionally, there is no recourse to Invesco for CIP debt. Policyholder assets and liabilities are equal and offsetting and have no impact on Invesco's shareholder's equity.

(2) Amounts include accounts receivable, prepaid assets, property, equipment and software and other assets

(3) Amounts include accrued compensation and benefits, accounts payable and accrued expenses and deferred tax liabilities

(4) Amounts include redeemable noncontrolling interests in consolidated entities and equity attributable to nonredeemable noncontrolling interests in consolidated entities

Cash and cash equivalents

Cash and cash equivalents decreased by \$374.9 million from \$2,006.4 million at December 31, 2017 to \$1,631.5 million at September 30, 2018. See “Cash Flows Discussion” in the following section within this Management's Discussion and Analysis for additional discussion regarding the movements in cash flows during the period.

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## Unsettled fund receivables and payables

Unsettled fund receivables increased by \$57.8 million from \$793.8 million at December 31, 2017 to \$851.6 million at September 30, 2018, due primarily to higher transaction activity between funds and investors in late September 2018 when compared to late December 2017 in our U.K. funds and UITs, offset by lower activity in our cross-border funds. In our U.K. and cross-border operations, unsettled fund receivables are created by the normal settlement periods on transactions initiated by certain clients. In the company's capacity as sponsor of UITs, the company records receivables from brokers, dealers, and clearing organizations for unsettled sell trades of securities and UITs in addition to receivables from customers for unsettled sell trades of UITs. The presentation of the unsettled fund receivables and substantially offsetting payables (\$821.5 million at September 30, 2018 up from \$783.8 million at December 31, 2017) at trade date reflects the legal relationship between the underlying investor and the company.

## Investments

As of September 30, 2018, we had \$643.8 million in total investments (December 31, 2017: \$674.6 million). Included in investments are \$202.3 million of seed money investments in affiliated funds used to seed funds as we launch new products, and \$90.4 million of investments related to assets held for deferred compensation plans, which are also held primarily in affiliated funds. Seed investments decreased by a net \$40.7 million during the nine months ended September 30, 2018. The decrease in the period reflects cash redemptions of \$43.4 million and a decrease of \$104.8 million due to the consolidation of certain CIP in the period eliminating the investment balances upon consolidation as well a decrease of \$1.6 million driven by market valuation changes and foreign exchange movements. These decreases were partially offset by increases due to purchases of \$78.2 million and a non-cash increase of \$30.4 million due to the deconsolidation of certain CIP in the period (restoring the company's formerly eliminated investment balances). Investments related to deferred compensation awards decreased by a net \$1.9 million during the period. Included in investments are \$308.7 million in equity method investments in Invesco Great Wall and in certain of the company's private equity partnerships, real estate partnerships and other co-investments (December 31, 2017: \$277.3 million). The increase of \$31.4 million in equity method investments was driven by an increase from partnership contributions of \$40.0 million and \$28.8 million in current period earnings. This increase was partially offset primarily by a decrease of \$24.9 million due to distributions from partnership investments and a decrease of \$7.1 million due to changes in foreign exchange rates. Also included in investments are foreign time deposits of \$20.1 million, a decrease of \$8.5 million from the December 31, 2017 balance of \$28.6 million.

## Assets held for policyholders and policyholder payables

One of our subsidiaries, Invesco Perpetual Life Limited, is an insurance company that was established to facilitate retirement savings plans in the U.K. The entity holds assets that are managed for its clients on its balance sheet with an equal and offsetting liability. The decrease in the balance of these accounts from \$12,444.5 million at December 31, 2017 to \$12,268.2 million at September 30, 2018 was the result of negative foreign exchange rate movements of \$450.5 million, partially offset by net business inflows of \$164.0 million positive market movement of \$110.2 million.

## Intangible Assets, net

Intangible assets increased from \$1,558.7 million at December 31, 2017, to \$2,156.5 million at September 30, 2018. The increase includes \$633.3 million related to the preliminary purchase price allocation to intangible assets from the Guggenheim Investments' ETF and Intelliflo acquisitions in 2018, offset by amortization of \$21.2 million and decreases in foreign exchange movement of \$14.2 million.

## Goodwill

Goodwill increased from \$6,590.7 million at December 31, 2017, to \$7,311.5 million at September 30, 2018. The increase includes \$845.5 million related to the preliminary purchase price allocation to goodwill from the Guggenheim Investments' ETF and Intelliflo acquisitions in 2018 offset by a decrease in foreign exchange movements of \$124.7 million. The company's annual goodwill impairment review is performed as of October 1 of each year.



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Liquidity and Capital Resources

Our capital structure, together with available cash balances, cash flows generated from operations, existing capacity under our credit facility and further capital market activities, if necessary, should provide us with sufficient resources to meet present and future cash needs, including operating, debt and other obligations as they come due and anticipated future capital requirements.

Our capital management priorities have evolved with the growth and success of our business and include:

- reinvestment in the business;
- moderate annual growth of dividends (as further discussed in the "Dividends" section below);
- share repurchase; and
- target an approximate \$1 billion cash buffer in excess of European regulatory and liquidity requirements.

These priorities are executed in a manner consistent with our desire to maintain strong, investment grade credit ratings. As of the filing of the Report, Invesco held credit ratings of BBB+/Stable, A2/Stable and A-/Positive from Standard & Poor's Ratings Service ("S&P"), Moody's Investor Services ("Moody's") and Fitch Ratings ("Fitch"), respectively. Our ability to continue to access the capital markets in a timely manner depends on a number of factors, including our credit ratings, the condition of the global economy, investors' willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets. If we are unable to access capital markets in a timely manner, our business could be adversely impacted.

On October 17, 2018, the company entered into a definitive agreement, whereby Invesco will acquire MassMutual's asset management affiliate, OppenheimerFunds, Inc. In turn, MassMutual and the OppenheimerFunds employee shareholders will receive a combination of common and preferred equity consideration, and MassMutual will become a significant shareholder in Invesco, with an approximate 15.5% stake. Under the terms of the agreement, Invesco will acquire OppenheimerFunds with consideration to MassMutual and OppenheimerFunds employees consisting of 81.9 million shares of Invesco common equity and \$4 billion in perpetual, non-cumulative preferred shares with a 21-year non-call period and a fixed rate of 5.9%. The shareholder agreement specifies a lock-up period of two years for the common stock and five years for the preferred stock. The Preferred Stock will not be convertible into any other class of capital stock or debt of Invesco.

The Preferred Stock dividend is payable quarterly on a non-cumulative basis when, if and as declared by the Board of Directors of Invesco. However, if Invesco has not declared and paid or set aside for payment full quarterly dividends on the Preferred Stock for a particular dividend period, it may not declare or pay dividends on, or redeem, purchase or acquire, its Common Stock or other junior securities in the next succeeding dividend period. Shares of Preferred Stock can not be redeemed prior to the 21st anniversary of their original issue date, and are redeemable at the option of Invesco thereafter. The Preferred Stock has no put feature to accelerate redemption.

On October 18, 2018, the company announced a common stock buyback program of \$1.2 billion to be completed within the next two years, which will be financed through the strong operating cash flows of the combined Invesco and OppenheimerFunds organization. The company does not intend to use leverage to finance share buybacks for this program. In connection with this effort, on October 24, 2018, the company entered into a forward contract to purchase \$300.0 million of its common shares; the purchase price for such shares will be determined no later than December 31, 2018 and settlement of the purchase will occur by the third quarter of 2019.

On April 6, 2018, the company completed the acquisition of Guggenheim Investments' ETF business for a purchase price of \$1.2 billion. To fund the purchase, the company borrowed approximately \$835 million on its credit facility in early April 2018. In addition, the company also borrowed on the credit facility to fund part of the Intelliflo acquisition. The company plans to repay a significant portion of amounts borrowed over the course of 2018, returning leverage

ratios at or near pre-acquisition levels. In October 2018, the company paid \$436 million towards the outstanding balance on the credit facility, using cash received from the European sub-group, defined below.

On December 22, 2017, the 2017 Tax Act, was signed into law. The 2017 Tax Act, among other items, reduces the federal corporate tax rate from 35% to 21% effective January 1, 2018. Our intention is to use the additional cash flow generated from the lower tax rate first to reduce the outstanding balance on the credit facility resulting from recent acquisitions. After the credit facility balance is reduced, any residual excess will follow our capital management priorities.

Certain of our subsidiaries are required to maintain minimum levels of capital. Such requirements may change from time-to-time as additional guidance is released based on a variety of factors, including balance sheet composition, assessment of risk exposures and governance, and review from regulators. These and other similar provisions of applicable laws and regulations

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may have the effect of limiting withdrawals of capital, repayment of intercompany loans and payment of dividends by such entities. All of our regulated EU subsidiaries (the European sub-group) are subject to consolidated capital requirements under EU Directives, including those arising from the EU's Capital Requirements Directive and the U.K.'s Internal Capital Adequacy Assessment Process (ICAAP), and capital is maintained within this sub-group to satisfy these regulations. We meet these requirements in part by holding cash and cash equivalents. This retained cash can be used for general business purposes in the European sub-group in the countries where it is located. Due to the capital restrictions, the ability to transfer cash between certain jurisdictions may be limited. In addition, transfers of cash between international jurisdictions may have adverse tax consequences. We are in compliance with all regulatory minimum net capital requirements. As of September 30, 2018, the company's minimum regulatory capital requirement was \$734.4 million (December 31, 2017: \$761.4 million); the decrease was driven primarily by decreased business activity as well as the weakening of the Pound Sterling against the U.S. Dollar. The total amount of non-U.S. cash and cash equivalents was \$1,477.2 million at September 30, 2018 (December 31, 2017: \$1,595.6 million). In October 2018, upon completion of redomicile of certain funds, regulatory credit risk volatility has been reduced, which allowed the company to return capital to the parent.

In addition, the company is required to hold cash deposits with clearing organizations or to otherwise segregate cash to maintain compliance with federal and other regulations in connection with its UIT broker dealer entity. At September 30, 2018, these cash deposits totaled \$11.4 million (December 31, 2017: \$11.4 million).

The consolidation of \$6.4 billion and \$4.8 billion of assets and long-term debt of CIP as of September 30, 2018, respectively, did not impact the company's liquidity and capital resources. The company's risk with respect to each investment in CIP is limited to its equity ownership and any uncollected management and performance fees. The majority of CIP balances related to consolidated CLOs. The collateral assets of the CLOs are held solely to satisfy the obligations of the CLOs. The company has no right to the benefits from, nor does it bear the risks associated with, the collateral assets held by the CLOs, beyond the company's minimal direct investments in, and management and performance fees generated from, these products, which are eliminated upon consolidation. If the company were to liquidate, the collateral assets would not be available to the general creditors of the company, and as a result, the company does not consider them to be company assets. Likewise, if the CLOs were to liquidate, their investors would have no recourse to the general credit of the company. The company therefore does not consider this debt to be an obligation of the company. See Part I, Item 1, Financial Statements - Note 12, "Consolidated Investment Products," for additional details.

#### Cash Flows Discussion

The ability to consistently generate cash flow from operations in excess of dividend payments, share repurchases, capital expenditures, and ongoing operating expenses is one of our company's fundamental financial strengths.

Operations continue to be financed from current earnings and borrowings. Our principal uses of cash, other than for operating expenses, include dividend payments, capital expenditures, acquisitions, purchase of our shares in the open market and investments in certain new investment products.



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The following table represents a reconciliation of the cash flow information presented on a U.S. GAAP basis to the cash flow information, excluding the impact of the cash flows of Consolidated Investment Products for the reasons outlined in footnote 1 to the table:

Cash flow information <sup>(1)</sup>	Nine months ended September 30, 2018			Nine months ended September 30, 2017		
	U.S. GAAP	Impact of CIP	Excluding CIP	U.S. GAAP	Impact of CIP	Excluding CIP
\$ in millions						
Cash and cash equivalents, beginning of the period	2,517.7	511.3	2,006.4	2,070.2	742.2	1,328.0
Cash flows from operating activities <sup>(1)</sup>	662.1	(225.3 )	887.4	773.0	(255.4 )	1,028.4
Cash flows from investing activities	(2,682.9)	(1,140.1)	(1,542.8 )	(502.7 )	(225.8)	(276.9 )
Cash flows from financing activities	1,584.1	1,276.3	307.8	(220.8 )	229.5	(450.3 )
Increase/(decrease) in cash and cash equivalents	(436.7 )	(89.1 )	(347.6 )	49.5	(251.7)	301.2
Foreign exchange movement on cash and cash equivalents	(29.0 )	(1.7 )	(27.3 )	91.5	4.4	87.1
Net cash inflows (outflows) upon consolidation/deconsolidation of CIP	(137.7 )	(137.7 )	—	(9.0 )	(9.0 )	—
Cash and cash equivalents, end of the period	1,914.3	282.8	1,631.5	2,202.2	485.9	1,716.3
Cash and cash equivalents	1,631.5	—	1,631.5	1,716.3	—	1,716.3
Cash and cash equivalents of CIP	282.8	282.8	—	485.9	485.9	—
Total cash and cash equivalents per consolidated statement of cash flows	1,914.3	282.8	1,631.5	2,202.2	485.9	1,716.3

These tables include non-GAAP presentations. Cash held by CIP is not available for use by Invesco. Additionally, there is no recourse to Invesco for CIP debt. The cash flows of CIP do not form part of the company's cash flow (1)management processes, nor do they form part of the company's significant liquidity evaluations and decisions.

Policyholder assets and liabilities are equal and offsetting and have no impact on Invesco's shareholder's equity.

The impact of cash inflows/outflows from policyholder assets and liabilities are reflected within cash flows from operating activities as changes in receivable and/or payables, as applicable.

#### Operating Activities

Operating cash flows include the receipt of investment management and other fees generated from AUM, offset by operating expenses and changes in operating assets and liabilities. Although some receipts and payments are seasonal, particularly bonus payments which are paid out during the first quarter, in general, after allowing for the change in cash held by CIP, and investment activities, our operating cash flows move in the same direction as our operating income.

During the nine months ended September 30, 2018, cash provided by operating activities was \$662.1 million compared to \$773.0 million provided during the nine months ended September 30, 2017 (a decrease of \$110.9 million). As shown in the tables above, the impact of CIP to cash used in operating activities was \$225.3 million of cash used during the nine months ended September 30, 2018 compared to \$255.4 million of cash used during the nine months ended September 30, 2017. Excluding the impact of CIP, cash provided by operations was \$887.4 million during the nine months ended September 30, 2018 compared to \$1,028.4 million of cash provided by operating activities during the nine months ended September 30, 2017. Cash provided by operations in the 2017 period included \$131.1 million of dispositions of investments, including seed money and deferred compensation investments sold in connection with the entry into the total return swap.

There were no significant non-cash items that impacted the comparison between the periods of operating income to net cash provided by operations.

### Investing Activities

Net cash used in investing activities totaled \$2,682.9 million for the nine months ended September 30, 2018 (nine months ended September 30, 2017: net cash used of \$502.7 million). As shown in the tables above, the impact of CIP on investing activities, including investment purchases, sales and returns of capital, was \$1,140.1 million used (nine months ended September 30, 2017: \$225.8 million used). Excluding the impact of CIP cash flows, net cash used in investing activities was \$1,542.8 million (nine months ended September 30, 2017: net cash used of \$276.9 million). Cash outflows for the nine months ended September 30, 2018 included \$1,469.3 million related to business acquisitions (nine months ended September 30, 2017: \$299.2 million). Also included in cash outflows for the nine months ended September 30, 2018, excluding the impact of CIP, were purchases of investments of \$153.3 million (nine months ended

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September 30, 2017: \$190.3 million). These outflows were partially offset by collected proceeds of \$148.1 million from sales and returns of capital of investments (nine months ended September 30, 2017: \$295.3 million). During the nine months ended September 30, 2018, the company had capital expenditures of \$68.3 million (nine months ended September 30, 2017: \$82.7 million). Our capital expenditures related principally in each period to technology initiatives, including enhancements to platforms from which we maintain our portfolio management systems, improvements in computer hardware and software desktop products for employees, new telecommunications products to enhance our internal information flow, and back-up business recovery systems. Also, in each period, a portion of these costs related to improvements made to the various buildings and workspaces used in our offices. These projects have been funded with proceeds from our operating cash flows.

**Financing Activities**

Net cash provided by financing activities totaled \$1,584.1 million for the nine months ended September 30, 2018 (nine months ended September 30, 2017: net cash used of \$220.8 million). As shown in the tables above, the impact of CIP on financing activities provided cash of \$1,276.3 million (nine months ended September 30, 2017: cash provided of \$229.5 million). Excluding the impact of CIP, financing activities provided cash of \$307.8 million in the nine months ended September 30, 2018 (nine months ended September 30, 2017: cash used of \$450.3 million). Financing cash inflows during the nine months ended September 30, 2018 included a borrowing of \$737.2 million on the credit facility (nine months ended September 30, 2017: repayment of \$28.7 million). Financing cash outflows during the nine months ended September 30, 2018 included \$368.3 million of dividend payments for the dividends declared in January, April and July (nine months ended September 30, 2017: dividends paid of \$352.7 million), the payment of \$49.7 million to meet employees' withholding tax obligations on share vestings (nine months ended September 30, 2017: \$58.6 million) and a payment of \$11.4 million of contingent consideration (nine months ended September 30, 2017: \$10.3 million).

There were no non-CIP related financing cash inflows for the nine months ended September 30, 2017.

**Dividends**

Invesco declares and pays dividends on a quarterly basis in arrears. On October 18, 2018, the company announced a third quarter 2018 cash dividend of 30.0 cents per share to holders of common shares, which will be paid on December 3, 2018, to shareholders of record as of November 13, 2018 with an ex-dividend date of November 9, 2018. The declaration, payment and amount of any future dividends will be declared by our board of directors and will depend upon, among other factors, our earnings, financial condition and capital requirements at the time such declaration and payment are considered. The board has a policy of managing dividends in a prudent fashion, with due consideration given to profit levels, overall debt levels, and historical dividend payouts.

**Share Repurchase Plan**

The company did not purchase shares in the open market during the three and nine months ended September 30, 2018, (three and nine months ended September 30, 2017: none). The company did withhold an aggregate of 0.1 million shares and 1.5 million shares on vesting events during the three and nine months ended September 30, 2018, respectively to meet employees' withholding tax obligations (three and nine months ended September 30, 2017: 0.1 million and 1.8 million shares, respectively). The fair value of these shares withheld at the respective withholding dates was \$2.9 million and \$49.7 million during the three and nine months ended September 30, 2018 (three and nine months ended September 30, 2017: \$1.3 million and \$58.6 million). At September 30, 2018, approximately \$1,643.0 million remains available under the share repurchase authorizations approved by the Board on October 11, 2013 and July 22, 2016.

On October 18, 2018, the company announced a common stock buyback program of \$1.2 billion to be completed within the next two years. This program will utilize the existing share repurchase authorizations approved by the Board.



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## Long-term debt

Our long-term debt at September 30, 2018 was \$2,814.6 million (December 31, 2017: \$2,075.8 million) and was comprised of the following:

\$ in millions	September 30, December 31,	
	2018	2017
Floating rate credit facility expiring August 11, 2022	737.2	—
Unsecured Senior Notes:		
\$600 million 3.125% - due November 30, 2022	597.4	596.9
\$600 million 4.000% - due January 30, 2024	594.6	594.0
\$500 million 3.750% - due January 15, 2026	495.4	495.1
\$400 million 5.375% - due November 30, 2043	390.0	389.8
Long-term debt	2,814.6	2,075.8

For the nine months ended September 30, 2018, the company's weighted average cost of debt was 3.81% (nine months ended September 30, 2017: 3.94%).

The company's \$1.5 billion unsecured credit facility is scheduled to expire on August 11, 2022. Financial covenants under the credit agreement include: (i) the quarterly maintenance of a debt/EBITDA leverage ratio, as defined in the credit agreement, of not greater than 3.25:1.00, (ii) a coverage ratio (EBITDA, as defined in the credit agreement/interest payable for the four consecutive fiscal quarters ended before the date of determination) of not less than 4.00:1.00. As of September 30, 2018, we were in compliance with our financial covenants. At September 30, 2018, our leverage ratio was 1.61:1.00 (December 31, 2017: 1.18:1.00), and our interest coverage ratio was 16.59:1.00 (December 31, 2017: 18.64:1.00).

The September 30, 2018 coverage ratio calculations are as follows:

\$ millions	Total	Q3	Q2	Q1	Q4
		2018	2018	2018	2017
Net income attributable to Invesco Ltd.	1,176.8	269.6	245.1	253.9	408.2
Impact of CIP on net income attributable to Invesco Ltd.	(10.5 )	(11.3 )	2.2	(0.6 )	(0.8 )
Tax expense	178.6	61.1	72.3	68.4	(23.2 )
Amortization/depreciation	140.2	39.6	32.4	33.6	34.6
Interest expense	105.9	29.6	29.5	23.2	23.6
Share-based compensation expense	164.9	42.8	40.8	40.9	40.4
Unrealized gains and losses from investments, net*	0.5	(4.7 )	11.7	11.4	(17.9 )
EBITDA**	1,756.4	426.7	434.0	430.8	464.9
Adjusted debt**	\$2,830.5				
Leverage ratio (Debt/EBITDA - maximum 3.25:1.00)	1.61				
Interest coverage (EBITDA/Interest Expense - minimum 4.00:1.00)	16.59				

Adjustments for unrealized gains and losses from investments, as defined in our credit facility, may also include

\* non-cash gains and losses on investments to the extent that they do not represent anticipated future cash receipts or expenditures.

EBITDA and Adjusted debt are non-GAAP financial measures; however management does not use these measures for anything other than these debt covenant calculations. The calculation of EBITDA above (a reconciliation from net income attributable to Invesco Ltd.) is defined by our credit agreement, and therefore net income attributable to

\*\* Invesco Ltd. is the most appropriate GAAP measure from which to reconcile to EBITDA. The calculation of Adjusted debt is defined in our credit facility and equals total debt of \$2,814.6 million plus \$15.8 million in letters of credit.

## Credit and Liquidity Risk

Capital management involves the management of the company's liquidity and cash flows. The company manages its capital by reviewing annual and projected cash flow forecasts and by monitoring credit, liquidity and market risks, such as interest rate and foreign currency risks (as discussed in Part I, Item 3, "Quantitative and Qualitative Disclosures About Market Risk"), through measurement and analysis. The company is primarily exposed to credit risk through its cash and cash equivalent deposits, which are held by external firms. The company invests its cash balances in its own institutional money market products, as well as with external high credit-quality financial institutions. These arrangements create exposure to concentrations of credit risk.

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Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. All cash and cash equivalent balances are subject to credit risk, as they represent deposits made by the company with external banks and other institutions. As of September 30, 2018, our maximum exposure to credit risk related to our cash and cash equivalent balances is \$1,631.5 million. See Item 1, Financial Statements - Note 13, "Related Parties," for information regarding cash and cash equivalents invested in affiliated money market funds.

The company does not utilize credit derivatives or similar instruments to mitigate the maximum exposure to credit risk. The company does not expect any counterparties to its financial instruments to fail to meet their obligations.

Liquidity Risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with its financial liabilities. The company is exposed to liquidity risk through its \$2,814.6 million in long-term debt. The company actively manages liquidity risk by preparing cash flow forecasts for future periods, reviewing them regularly with senior management, maintaining a committed credit facility, scheduling significant gaps between major debt maturities and engaging external financing sources in regular dialogue.

Effects of Inflation

Inflation can impact our organization primarily in two ways. First, inflationary pressures can result in increases in our cost structure, especially to the extent that large expense components such as compensation are impacted. To the degree that these expense increases are not recoverable or cannot be counterbalanced through pricing increases due to the competitive environment, our profitability could be negatively impacted. Secondly, the value of the assets that we manage may be negatively impacted when inflationary expectations result in a rising interest rate environment.

Declines in the values of these AUM could lead to reduced revenues as management fees are generally calculated based upon the size of AUM.

Off Balance Sheet Commitments

See Part I, Item 1, Financial Statements - Note 11, "Commitments and Contingencies - Off Balance Sheet Commitments," for more information regarding undrawn capital commitments.

Contractual Obligations

We have future obligations under various contracts relating to debt and interest payments, financing and operating leases, long-term defined benefit pension and acquisition contracts. During the nine months ended September 30, 2018, there were no material changes to the company's contractual obligations.

Critical Accounting Policies and Estimates

There have been no significant changes to the critical accounting policies disclosed in our most recent Form 10-K for the year ended December 31, 2017. Critical accounting policies are those that require management's most difficult, subjective or complex judgments and would therefore be deemed the most critical to an understanding of our results of operations and financial condition.

Recent Accounting Standards

See Part I, Item 1, Financial Statements - Note 1, "Accounting Policies - Accounting Pronouncements Recently Adopted and Pending Accounting Pronouncements."

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of its business, the company is primarily exposed to market risk in the form of AUM market price risk, securities market risk, interest rate risk, and foreign exchange rate risk. There have not been any material changes to the company's exposures to market risks during the period ended September 30, 2018 that would require an update to the disclosures provided in the most recent Form 10-K.

AUM Market Price Risk

The company's investment management revenues are comprised of fees based on the value of AUM. Declines in the market prices of equity and fixed income securities, commodities and derivatives, or other similar financial instruments held in client portfolios could cause revenues to decline because of lower investment management fees by:

• Causing the value of AUM to decrease.

• Causing the returns realized on AUM to decrease (impacting performance fees).

• Causing clients to withdraw funds in favor of investments in markets that they perceive to offer greater opportunity and that the company does not serve.

• Causing clients to rebalance assets away from investments that the company manages into investments that the company does not manage.

• Causing clients to reallocate assets away from products that earn higher revenues into products that earn lower revenues.

Underperformance of client accounts relative to competing products could exacerbate these factors.

Securities Market Risk

The company has investments in managed investment products that invest in a variety of asset classes. Investments are generally made to establish a track record for a new fund or investment vehicle or to hedge economically exposure to certain deferred compensation plans. The company's exposure to market risk from financial instruments measured at fair value arises from its investments.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to interest rate risk primarily through its external debt and cash and cash equivalent investments. On September 30, 2018, the interest rates on 73.8% of the company's borrowings were fixed for a weighted average period of 9.2 years, and the company had a \$737.2 million balance on its floating rate credit facility.

Foreign Exchange Rate Risk

The company has certain investments in foreign operations, whose net assets and results of operations are exposed to foreign currency translation risk when translated into U.S. Dollars upon consolidation into Invesco Ltd. During the second quarter the company has extended its hedge of approximately 75% of the Pound Sterling-based operating income through June 28, 2019. These put option contracts are set at a strike level of \$1.250 based on the average daily foreign exchange rates for the applicable time period.

The company is exposed to foreign exchange revaluation into the Condensed Consolidated Statements of Income on monetary assets and liabilities that are held by subsidiaries in different functional currencies than the subsidiaries' functional currencies. Net foreign exchange revaluation gains were \$4.8 million in the nine months ended September 30, 2018 (nine months ended September 30, 2017: \$14.9 million gains), and are included in general and administrative expenses and other gains and losses, net on the Condensed Consolidated Statements of Income. We continue to monitor our exposure to foreign exchange revaluation and have put in place net investment hedge structures discussed in Part I, Item 1, Financial Statements, Note 6 -- "Other Comprehensive Income/(Loss)."





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Item 4. Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information the company is required to disclose in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in the reports that the company files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of September 30, 2018. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

We have evaluated any change in our internal control over financial reporting that occurred during the three months ended September 30, 2018 and have concluded that there was no change that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

See Part I, Item I, Note 11, "Commitments and Contingencies - Legal Contingencies," for information regarding legal proceedings.

## Item 1A. Risk Factors

The company has had no significant changes in its risk factors from those previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2017.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Repurchases of Equity Securities

The following table sets forth information regarding purchases of our common shares by us and any affiliated purchases during the three months ended September 30, 2018:

Month	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Number at end of period (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> (millions)
July 1-31, 2018	37,634	\$ 26.43	—	\$1,643.0
August 1-31, 2018	4,810	\$ 24.76	—	\$1,643.0
September 1-30, 2018	16,367	\$ 24.35	—	\$1,643.0
Total	58,811		—	

(1) An aggregate of 58,811 shares were surrendered to us by Invesco employees to satisfy tax withholding obligations in connection with the vesting of equity awards.

(2) At September 30, 2018, a balance of \$1,643.0 million remains available under the share repurchase authorizations approved by the Board on October 11, 2013 and July 22, 2016.

## Item 6. Exhibits

## Exhibit Index

10.1	<u>Agreement and Plan of Merger by and among MM Asset Management Holding LLC, Oppenheimer Acquisition Corp., Invesco Ltd., Gem Acquisition Corp. and Gem Acquisition Two Corp. dated as of October 17, 2018</u>
31.1	<u>Certification of Martin L. Flanagan pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Loren M. Starr pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Martin L. Flanagan pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Loren M. Starr pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document  
101.LABXBRL Taxonomy Extension Definition Linkbase Document  
101.PRE XBRL Taxonomy Extension Labels Linkbase Document  
101.DEF XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

INVESCO LTD.

October 24, 2018 /s/ MARTIN L. FLANAGAN

Martin L. Flanagan

President and Chief Executive Officer

October 24, 2018 /s/ LOREN M. STARR

Loren M. Starr

Senior Managing Director and Chief Financial Officer