Invesco Ltd.
Form 10-K
February 24, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

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

For the fiscal year ended December 31, 2011
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	98-0557567
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1555 Peachtree Street, N.E., Suite 1800, Atlanta, GA	30309
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (404) 892-0896
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Shares, $0.20 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
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 þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o(Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes o No þ
At June 30, 2011, the aggregate market value of the voting stock held by non-affiliates was $8.4 billion, based on the closing price of the registrant's Common Shares, par value U.S. $0.20 per share, on the New York Stock Exchange. At January 31, 2012, the most recent practicable date, the number of Common Shares outstanding was 446,157,905.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant will incorporate by reference information required in response to Part III, Items 10-14 in its definitive Proxy Statement for its annual meeting of shareholders, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2011.

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We include cross references to captions elsewhere in this Annual Report on Form 10-K, which we refer to as this “Report,” where you can find related additional information. The following table of contents tells you where to find these captions.

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SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report, the documents incorporated by reference herein, other public filings and oral and written statements by us and our management, may include statements that constitute "forward-looking statements" within the meaning of the United States securities laws. These statements are based on the beliefs and assumptions of our management and on information available to us at the time such statements are made. Forward-looking statements include information concerning possible or assumed future results of our operations, expenses, earnings, liquidity, cash flows and capital expenditures, industry or market conditions, assets under management, acquisition activities and the effect of completed acquisitions, debt levels and our ability to obtain additional financing or make payments on our debt, legal and regulatory developments, demand for and pricing of our products and other aspects of our business or general economic conditions. In addition, when used in this Report, the documents incorporated by reference herein or such other documents or statements, words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "projects," "forecasts," and future or conditional verbs such as "will," "may," "could," "should," and "would," and any other statement tha necessarily depends on future events, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of performance or other outcomes. 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.

The following important factors, and other factors described elsewhere in this Report or incorporated by reference into this Report or contained in our other filings with the U.S. Securities and Exchange Commission (SEC), among others, could cause our results to differ materially from any results described in any forward-looking statements:

- variations in demand for our investment products or services, including termination or non-renewal of our investment advisory agreements;
- significant changes in net asset flows into or out of the accounts we manage or declines in market value of the assets in, or redemptions or other withdrawals from, those accounts;
- enactment of adverse state, federal or foreign legislation or changes in government policy or regulation (including accounting standards) affecting our operations, our capital requirements or the way in which our profits are taxed;
- significant fluctuations in the performance of debt and equity markets worldwide;
- exchange rate fluctuations, especially as against the U.S. Dollar;
- the effect of economic conditions and interest rates in the U.S. or globally;
- our ability to compete in the investment management business;
- the effect of consolidation in the investment management business;
- limitations or restrictions on access to distribution channels for our products;
- our ability to attract and retain key personnel, including investment management professionals;
- the investment performance of our investment products;
- our ability to acquire and integrate other companies into our operations successfully and the extent to which we can realize anticipated cost savings and synergies from such acquisitions;
- changes in regulatory capital requirements;
- our debt and the limitations imposed by our credit facility;
- the effect of failures or delays in support systems or customer service functions, and other interruptions of our operations;
- the occurrence of breaches and errors in the conduct of our business, including any failure to properly safeguard confidential and sensitive information;
- the execution risk inherent in our ongoing company-wide transformational initiatives;
- the effect of political or social instability in the countries in which we invest or do business;
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the effect of terrorist attacks in the countries in which we invest or do business and the escalation of hostilities that could result therefrom;

- war and other hostilities in or involving countries in which we invest or do business; and
- adverse results in litigation, including private civil litigation related to mutual fund fees and any similar potential regulatory or other proceedings.

Other factors and assumptions not identified above were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized may also cause actual results to differ materially from those projected. For more discussion of the risks affecting us, please refer to Part I, Item 1A, “Risk Factors.”

You should consider the areas of risk described above in connection with any forward-looking statements that may be made by us and our businesses generally. We expressly disclaim any obligation to update any of the information in this or any other public report if any forward-looking statement later turns out to be inaccurate, whether as a result of new information, future events or otherwise. For all forward-looking statements, we claim the “safe harbor” provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

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PART I
Item 1. Business

Introduction

Invesco is a leading independent global investment manager, dedicated to helping investors worldwide achieve their financial objectives. By delivering the combined power of our distinctive investment management capabilities, Invesco provides a comprehensive range of investment strategies and vehicles to our retail, institutional and high-net-worth clients around the world. Operating in more than 20 countries, Invesco had $625.3 billion in assets under management (AUM) as of December 31, 2011.

The key drivers of success for Invesco are long-term investment performance, effective distribution relationships, and high-quality client service delivered across a diverse spectrum of investment management capabilities, distribution channels, geographic areas and market exposures. By achieving success in these areas, we seek to generate competitive investment results, positive net flows, increased AUM and associated revenues. We are affected significantly by market movements, which are beyond our control; however, we endeavor to mitigate the impact of market movement by maintaining broad diversification across asset classes, investment vehicles, client domiciles and geographies. We measure relative investment performance by comparing our investment capabilities to competitors' products, industry benchmarks and client investment objectives. Generally, distributors, investment advisors and consultants take into consideration longer-term investment performance (e.g., three-year and five-year performance) in their selection of investment product and manager recommendations to their clients, although shorter-term performance may also be an important consideration. Third-party ratings may also influence client investment decisions. Quality of client service is monitored in a variety of ways, including periodic client satisfaction surveys, analysis of response times and redemption rates, competitive benchmarking of services and feedback from investment consultants.

Invesco Ltd. is organized under the laws of Bermuda, and our common shares are listed and traded on the New York Stock Exchange under the symbol “IVZ.” We maintain a Web site at www.invesco.com. (Information contained on our Web site shall not be deemed to be part of, or be incorporated into, this document).

Strategy

The company focuses on four key strategic priorities that are designed to strengthen our business over time and help ensure our long-term success:

- Achieve strong investment performance over the long term for our clients;
- Deliver our investment capabilities anywhere in the world to meet our clients' needs;
- Harness the power of our global operating platform by continuously improving our processes and procedures and further integrating the support structures of our business globally; and
- Perpetuate a high-performance organization by driving greater transparency, accountability and execution at all levels.

Since 2005 Invesco has taken a number of steps to unify our business and present the organization as a single firm to our clients around the world. We believe these changes have strengthened Invesco's ability to operate more efficiently and effectively as an integrated, global organization.

One of Invesco's great strengths is our separate, distinct investment teams in multiple markets across the globe. A key focus of our business is nurturing a strong investment culture and providing the support that enables our investment teams to develop well-performing investment capabilities within our local and global markets.

The ability to leverage the capabilities developed by our investment teams to meet client demand across the globe is a significant differentiator for our firm. As an example, our highly regarded real estate team in Dallas has produced industry-leading results for clients over most of its 20 years in the business. Real estate securities and REITs managed in Dallas were first introduced to the U.S. institutional and retail markets in 1988. A few years later, we saw demand for this highly marketable capability in Japan and Australia, and made it available to investors through mutual funds in those markets. We introduced our REIT capability to the European offshore market in August 2005, and to the Canadian retail market in 2007. More recently, we leveraged this capability in an actively managed real estate exchange-traded fund (ETF) delivered in the US - the first of its kind.

There are many more examples where Invesco has leveraged market-leading capabilities in one part of our business to meet client demand in other parts of our business. This is another of Invesco's great strengths, and it is supported by our efficient global operating platform and effective sales platform that span established and growing markets around the world. It's also a tremendous competitive advantage, since few firms have the breadth of strategies, strong investment culture and on-the-ground sales and service presence to match Invesco's. Our ability to understand local needs and provide solutions globally represents a significant

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opportunity in a world-wide market of investable funds that exceeds $54 trillion (as of December 31, 2011).

We take a unified approach to our business and present our financial statements and other disclosures under the single operating segment "investment management."

Recent Developments

Throughout 2011, we continued to execute our long-term strategy, which we believe further improved our ability to serve our clients, reinforced our reputation as a premier global investment manager, and helped to deliver competitive levels of operating income and margins. In addition, we took steps to further strengthen our financial position and augment our capital flexibility through the execution of a new credit facility and the maintenance of a balanced approach to capital management. Currently, Invesco is one of only four publicly rated investment managers designated with a "strong" enterprise risk management rating from Standard & Poor's, which reflects our comprehensive approach to identifying and mitigating risks outside of the firm's risk tolerance levels.

Invesco's commitment to a multi-year strategy set a firm foundation for the company's many achievements throughout the year:

- Relative investment performance remained strong across the enterprise, with 80% of ranked assets* performing ahead of peers on a 5-year basis at year end;
- We focused on strengthening and deepening relationships with clients in key markets. For example, we maintained a market share ranking in the top three on all major platforms in the U.K. retail market and further strengthened relationships with leading financial institutions in all U.S. retail channels, where 70% of our U.S. AUM is with top 20 distributors;
- We expanded our presence and improved our competitive advantage as a global investment manager in fast-growing, high-priority markets and segments;
- We continued our share repurchase program, purchasing more than $436 million in shares; and
- We maintained strong inflows at Invesco PowerShares, and continued to expand our offering of intelligent ETFs within the Canadian marketplace through local exchange listings and an innovative suite of mutual funds.

The 2010 acquisition of Morgan Stanley's retail asset management business, including Van Kampen Investments, enabled Invesco to further strengthen our competitive position in the U.S. The addition of this diversified business, on June 1, 2010, brought $114.6 billion in AUM across equity, fixed income and alternative asset classes (including mutual funds, variable insurance funds, separate accounts and unit investment trusts (UITs)). Furthermore, Invesco gained the experience, knowledge and expertise of nearly 600 investment, distribution and operations support professionals globally. The combined depth and breadth of our investment capabilities, our strong investment performance and a focused client engagement effort resulted in solid momentum in our U.S. retail business throughout 2011.

Together, these efforts resulted in positive net flows for our business in 2011. Adjusted operating margin improved to 36.9% in 2011 from 35.6% in 2010. See Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Schedule of Non-GAAP Information," for a reconciliation of operating income to net operating income, and by calculation, a reconciliation of operating margin to adjusted operating margin, and important additional disclosures.

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* As of December 31, 2011, 80% of ranked assets were performing ahead of peers on a 5-year basis. Of total Invesco AUM, 58% were ranked at year-end. See Part II, Item 7, "Management's Discussion and Analysis of Financial

Condition and Results of Operations - Investment Capabilities Performance Overview," for more discussion of AUM rankings by investment capability.

Certain Demographic and Industry Trends

Demographic and economic trends around the world continue to transform the investment management industry and underscore the need to be well-diversified with broad capabilities globally and across asset classes:

- There is an increasing number of investors who seek external professional advice and investment managers to help them reach their financial goals.
- As the "baby boomer" generation continues to mature, there is a large segment of the world population that is reaching retirement age. Economic growth in emerging market countries has created a large and rapidly expanding middle class and high net worth population with accelerating levels of wealth. As a result, globally, there is a high degree of demand

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for an array of investment solutions that span the breadth of investment capabilities, with a particular emphasis on savings vehicles for retirement. We believe Invesco, as one of the few truly global, independent investment managers, is very well-positioned to attract these retirement assets through its products that are focused on long-term investment performance.

- Given the dynamics of the global markets over the past year, we have seen increased demand for investment solutions that provide reasonable returns in volatile markets. Investors increasingly recognize the need for reducing downside risk in addition to upside participation. Invesco has been growing rapidly in this market space and has a market-leading asset allocation capability that is highly sought by retail and institutional investors.
- Investors are increasingly seeking to invest outside their domestic markets in order to increase their returns and mitigate risk. They seek firms that operate globally and have investment expertise in markets around the world.
- Although the U.S. and Europe are currently the two largest markets for financial assets by a wide margin, other markets in the world, such as China and India, are rapidly growing. As these population-heavy markets mature, investment managers that are truly global will be in the best position to capture this growth. Additionally, population age differences between emerging and developed markets will result in differing investment needs and horizons among countries. Asset allocation and pension type also differ substantially among countries. Firms such as Invesco, with diversified investment capabilities and product types, are best positioned to meet clients' needs in these markets. Invesco has a meaningful and expanding market presence in many of the world's fastest growing and wealthiest regions, including the U.S., Canada, Western Europe and the U.K., the Middle East and Asia-Pacific. Our strong U.S. presence and growing global presence represent significant long-term growth prospects for our business.
- The global trend towards the provision of defined contribution retirement plans continues, although significant opportunity remains for managers to increase defined benefit market share. Invesco has the capability to serve both the defined benefit and defined contribution markets globally.

Invesco is well positioned to capture the opportunities created by global demographic and industry trends. Through a variety of economic and market environments, we have significantly strengthened our competitive position. Our multi-year strategy is designed to leverage our global presence, our distinctive worldwide investment management capabilities and our talented people to further grow our business and ensure our long-term success across a variety of markets.

Investment Management Capabilities

Supported by a global operating platform, Invesco delivers a comprehensive array of investment capabilities and services to retail, institutional and high-net-worth investors. We have a significant presence in the institutional and retail segments of the investment management industry in North America, Europe and Asia-Pacific, serving clients in more than 100 countries.

We believe that the proven strength of our distinct and globally located investment centers and their well-defined investment disciplines and risk management provide us with a competitive advantage. There are few independent investment managers with teams as globally diverse as Invesco's and with the same breadth and depth of investment capabilities and vehicles. We offer multiple investment objectives within the various asset classes and products that we manage. Our asset classes, broadly defined, include money market, fixed income, balanced, equity and alternatives. Approximately 43% of our AUM as of December 31, 2011, were invested in equity securities (December 31, 2010: 48%), 24% in fixed income, and 33% in other investments (December 31, 2010: 21% in fixed income, and 31% in other investments).

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The following table sets forth the investment objectives, sorted by asset class, which we manage:

Investment Objectives by Asset Class

Money Market	Fixed Income	Balanced	Equity	Alternatives
Cash Plus	Convertibles	Asset Allocation	Enhanced Index/Quantitative	Absolute Return
Government/Treasury	Core/Core Plus	Global	Global	Asian Direct Real Estate
Prime	Emerging Markets	Single Country	International	Commodities
Taxable	Enhanced Cash	Target Date	Large Cap Core	Currencies
Tax-Free	Government Bonds	Target Risk	Large Cap Growth	European Direct Real Estate
	High-Yield Bonds		Large Cap Value	Financial Structures
	Intermediate Term		Mid Cap Core	Global REITS
	International/Global		Mid Cap Growth	Private Capital - Direct
	Investment Grade Credit		Mid Cap Value	Private Capital - Fund of Funds
	Municipal Bonds		Regional/Single Country	Risk Premia Capture
	Passive/Enhanced		Sector Funds	U.S. Direct Real Estate
	Senior Secured Loans		Small Cap Core	U.S. REITS
	Short Term		Small Cap Growth	
	Stable Value		Small Cap Value	
	Structured Securities (ABS, MBS, CMBS)			

The following table sets forth the categories of investment vehicles sold through our three principal distribution channels:

Investment Vehicles by Distribution Channel

Retail	Institutional	Private Wealth Management
Closed-end Mutual Funds	Collective Trust Funds	Exchange-Traded Funds
Exchange-Traded Funds	Exchange-Traded Funds	Managed Accounts
Individual Savings Accounts	Institutional Separate Accounts	Mutual Funds
Investment Companies with Variable Capital	Private Capital Funds	Private Capital Funds
Investment Trusts		Separate Accounts
Open-end Mutual Funds		
Separately Managed Accounts (SMA)		
Unit Investment Trusts		
Variable Insurance Funds		

One of Invesco's greatest competitive strengths is the diversification in its AUM by client domicile, distribution channel and asset class. Our distribution network has attracted assets of 60% retail, 37% institutional, and 3% private wealth management clients as of December 31, 2011. By client domicile, 31% of client AUM are outside the U.S., and we serve clients in more than 100 countries. The following tables present a breakdown of AUM by client domicile, distribution channel and asset class as of December 31, 2011. Additionally, the fourth table below illustrates the split of our higher-fee active AUM as compared to our lower-fee ETF, UIT, and passive AUM. We define active AUM as AUM excluding ETF, UIT and passive AUM.

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AUM Diversification

By Client Domicile

($ billions)		1-Yr Change
U.S.	$430.0	3.5 %
Canada	$23.4	(16.1)%
U.K.	$89.8	(2.5)%
Continental Europe	$32.0	(9.3)%
Asia	$50.1	9.4 %
Total	$625.3	1.4 %

By Distribution Channel

($ billions)		1-Yr Change
Retail	$373.9	(1.1)%
Institutional	$233.5	5.5 %
PWM	$17.9	5.3 %
Total	$625.3	1.4 %

By Asset Class

($ billions)		1-Yr Change
Equity	$271.0	(7.8)%
Balanced	$44.6	2.5 %
Money Market	$74.0	8.3 %
Fixed Income	$149.0	12.9 %
Alternative	$86.7	10.2 %
Total	$625.3	1.4 %

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Active vs. ETF, UIT, and Passive

($ billions)		1-Yr Change
Active	$529.0	(1.3)%
ETF, UIT, and Passive	$96.3	19.2 %
Total	$625.3	1.4 %

See Part II, Item 8, Financial Statements and Supplementary Data - Note 18, "Geographic Information," for a geographic breakdown of our consolidated operating revenues for the years ended December 31, 2011, 2010 and 2009.

Channel refers to the distribution channel from which the AUM originated. Retail AUM arose from client investments into funds available to the public with shares or units. Institutional AUM originated from individual corporate clients, endowments, foundations, government authorities, universities, or charities. Private Wealth Management AUM arose from high net worth client investments.

Retail

Invesco is a significant provider of retail investment solutions to clients in all major markets: Invesco in the U.S., Canada, Europe and Asia, Invesco Perpetual in the U.K., and Invesco PowerShares (for our ETF products). Collectively, the retail investment management teams managed assets of $373.9 billion as of December 31, 2011. We offer retail products within all of the major asset classes. Our retail products are primarily distributed through third-party financial intermediaries, including traditional broker-dealers, fund "supermarkets," retirement platforms, financial advisors, banks, insurance companies and trust companies.

The U.K., U.S. and Canadian retail operations rank among the largest by AUM in their respective markets. As of December 31, 2011, Invesco Perpetual was the No. 1 retail fund provider in the U.K.; Invesco's U.S. retail business was the 9th largest non-proprietary fund complex in the U.S. by long-term assets, including the Invesco Powershares franchise; and Invesco Canada was the 9th largest retail fund manager in Canada by long-term assets. Invesco Great Wall, our joint venture in China, was one of the largest Sino-foreign managers of equity products in China, with AUM of approximately $6.7 billion as of December 31, 2011. Invesco PowerShares adds a leading set of ETF products (with $59.9 billion in AUM and 209 exchange-traded funds as of December 31, 2011) to the extensive choices we make available to our retail investors. We provide our retail clients with one of the industry's most robust and comprehensive product lines.

Institutional

We provide investment solutions to institutional investors globally, with a major presence in the U.S., U.K., Continental Europe and Asia-Pacific with $233.5 billion in AUM as of December 31, 2011. We offer a broad suite of domestic and global strategies, including traditional equities, structured equities, fixed income (including money market funds for institutional clients), real estate, private equity, distressed equities, financial structures and absolute return strategies. Regional sales forces distribute our products and provide services to clients and intermediaries around the world. We have a diversified client base that includes major public entities, corporations, unions, non-profit organizations, endowments, foundations, pension funds and financial institutions. Invesco's institutional money market funds serve some of the largest financial institutions and corporations in the world.

Private Wealth Management

Through Atlantic Trust, Invesco provides high-net-worth individuals and their families with a broad range of personalized and sophisticated wealth management services, including financial counseling, estate planning, asset allocation, investment management (including use of third-party managed investment products), private equity, trust, custody and family office services. Atlantic Trust also provides investment management services to foundations and endowments. Atlantic Trust obtains new clients through referrals from existing clients, recommendations from other professionals serving the high-net-worth market, such as attorneys and accountants, and from financial intermediaries, such as brokers. Atlantic Trust has offices in 11 U.S. cities and

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managed $17.9 billion as of December 31, 2011.

Employees

As of December 31, 2011, we had 6,162 employees across the globe. As of December 31, 2010 and 2009, we had 5,617 and 4,890 employees, respectively. None of our employees is covered under collective bargaining agreements. The increase from 2009 is primarily driven by acquisitions in 2010 and the in-sourcing of our Hyderabad, India, facility, which commenced in late 2010 and continued into early 2011.

Competition

The investment management business is highly competitive, with points of differentiation including investment performance, the range of products offered, brand recognition, business reputation, financial strength, the depth and continuity of relationships, quality of service and the level of fees charged for services. We compete with a large number of investment management firms, commercial banks, investment banks, broker dealers, hedge funds, insurance companies and other financial institutions. We believe that the quality and diversity of our investment styles, product types and channels of distribution enable us to compete effectively in the investment management business. We also believe being an independent investment manager is a competitive advantage, as our business model avoids conflicts that are inherent within institutions that both distribute and/or serve investment products and manage investment products. Lastly, we believe continued execution against our multi-year strategy will further strengthen our long-term competitive position.

Management Contracts

We derive substantially all of our revenues from investment management contracts with funds and other clients. Fees vary with the type of assets being managed, with higher fees earned on actively managed equity and balanced accounts, along with real estate and alternative asset products, and lower fees earned on fixed income, money market and stable value accounts, as well as certain ETFs. Investment management contracts are generally terminable upon thirty or fewer days' notice. Typically, retail investors may withdraw their funds at any time without prior notice. Institutional and private wealth management clients may elect to terminate their relationship with us or reduce the aggregate amount of assets under management with very short notice periods.

Available Information

We file current and periodic reports, proxy statements and other information with the SEC, copies of which can be obtained from the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, at www.sec.gov. We make available free of charge on our Web site, www.invesco.com, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

Item 1A. Risk Factors

Volatility and disruption in world capital and credit markets, as well as adverse changes in the global economy, can negatively affect Invesco's revenues, operations, financial condition and liquidity and may continue to do so.

The capital and credit markets continue to experience substantial volatility. In this regard:

- In the event of extreme circumstances, including economic, political, or business crises, such as a widespread systemic failure in the global financial system or additional failures of firms that have significant obligations as counterparties on financial instruments, we may suffer significant declines in assets under management and severe liquidity or valuation issues in the short-term sponsored investment products in which client and company assets are invested, all of which would adversely affect our operating results, financial condition, liquidity, credit ratings, ability to access capital markets, and retention and ability to attract key employees. Additionally, these factors could impact our ability to realize the carrying value of our goodwill and other intangible assets.
- In addition to the impact of the market volatility on client portfolios, the illiquidity and volatility of both the global fixed income and equity markets could negatively affect our ability to manage client inflows and outflows from pooled

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investment vehicles or to timely meet client redemption requests.

- Our money market funds have always maintained a $1.00 net asset value (NAV); however, we do not guarantee such level. Market conditions could lead to severe liquidity issues in money market products, which could affect their NAVs. If the NAV of one of our money market funds were to decline below $1.00 per share, such funds could experience significant redemptions in assets under management, loss of shareholder confidence and reputational harm. In 2010, the SEC adopted new rules governing U.S. registered money market funds. These rules are designed to significantly strengthen the regulatory requirements governing money market funds, increase the resilience of such funds to economic stresses, and reduce the risk of runs on these funds. Regulators in the U.S. continue to evaluate whether to propose mandating a variable ("floating") NAV for money market funds. The company believes such a change would have significant adverse consequences on the money market funds industry and the short-term credit markets.
- Even if legislative or regulatory initiatives or other efforts successfully stabilize and add liquidity to the financial markets, we may need to modify our strategies, businesses or operations, and we may incur increased capital requirements and constraints or additional costs in order to satisfy new regulatory requirements or to compete in a changed business environment.

We may not adjust our expenses quickly enough to match significant deterioration in global financial markets.

If we are unable to effect appropriate expense reductions in a timely manner in response to declines in our revenues, or if we are otherwise unable to adapt to rapid changes in the global marketplace, our profitability, financial condition and results of operations would be adversely affected.

Our revenues and profitability would be adversely affected by any reduction in assets under our management as a result of either a decline in market value of such assets or net outflows, which would reduce the investment management fees we earn.

We derive substantially all of our revenues from investment management contracts with clients. Under these contracts, the investment management fees paid to us are typically based on the market value of assets under management. Assets under management may decline for various reasons. For any period in which revenues decline, our income and operating margin may decline by a greater proportion because certain expenses remain fixed. Factors that could decrease assets under management (and therefore revenues) include the following:

Declines in the market value of the assets in the funds and accounts managed. These could be caused by price declines in the securities markets generally or by price declines in the market segments in which those assets are concentrated. Approximately 43% of our total assets under management were invested in equity securities and approximately 57% were invested in fixed income and other investments at December 31, 2011. Our AUM as of January 31, 2012, were $648.3 billion. We cannot predict whether volatility in the markets will result in substantial or sustained declines in the securities markets generally or result in price declines in market segments in which our assets under management are concentrated. Any of the foregoing could negatively impact our revenues, income and operating margin.

Redemptions and other withdrawals from, or shifting among, the funds and accounts managed. These could be caused by investors (in response to adverse market conditions or pursuit of other investment opportunities) reducing their investments in funds and accounts in general or in the market segments on which Invesco focuses; investors taking profits from their investments; poor investment performance of the funds and accounts managed by Invesco; and portfolio risk characteristics, which could cause investors to move assets to other investment managers. Poor performance relative to other investment management firms tends to result in decreased sales, increased redemptions of fund shares, and the loss of private institutional or individual accounts, with corresponding decreases in our revenues. Failure of our funds and accounts to perform well could, therefore, have a material adverse effect on us. Furthermore, the fees we earn vary with the types of assets being managed, with higher fees earned on actively managed equity and balanced accounts, along with real estate and alternative asset products, and lower fees earned on fixed income and stable return accounts. Therefore, our revenues may decline if clients shift their investments to lower fee accounts.

Declines in the value of seed capital and partnership investments. The company has investments in sponsored investment products that invest in a variety of asset classes, including, but not limited to equities, fixed income products, private equity, and real estate. Investments in these products are generally made to establish a track record, meet purchase size requirements for trading blocks, or demonstrate economic alignment with other investors in our funds. Adverse market conditions may result in the need to write down the value of these seed capital and partnership investments. As of December 31, 2011, the company had $194.1 million in seed capital and partnership investments.

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Our investment advisory agreements are subject to termination or non-renewal, and our fund and other investors may withdraw their assets at any time.

Substantially all of our revenues are derived from investment advisory agreements. Investment advisory agreements are generally terminable upon 30 or fewer days' notice. Agreements with U.S. mutual funds may be terminated with notice, or terminated in the event of an “assignment” (as defined in the Investment Company Act), and must be renewed annually by the disinterested members of each fund's board of directors or trustees, as required by law. In addition, the board of trustees or directors of certain other fund accounts of Invesco or our subsidiaries generally may terminate these investment advisory agreements upon written notice for any reason. Mutual fund and unit trust investors may generally withdraw their funds at any time without prior notice. Institutional clients may elect to terminate their relationships with us or reduce the aggregate amount of assets under our management, and individual clients may elect to close their accounts, redeem their shares in our funds, or shift their funds to other types of accounts with different fee structures. Any termination of or failure to renew a significant number of these agreements, or any other loss of a significant number of our clients or assets under management, would adversely affect our revenues and profitability.

Our revenues and profitability from money market and other fixed income assets may be harmed by interest rate, liquidity and credit volatility.

Certain institutional investors using money market products and other short-term duration fixed income products for cash management purposes may shift these investments to direct investments in comparable instruments in order to realize higher yields than those available in money market and other fund products holding lower yielding instruments. These redemptions would reduce managed assets, thereby reducing our revenues. In addition, rising interest rates will tend to reduce the market value of bonds held in various investment portfolios and other products. Thus, increases in interest rates could have an adverse effect on our revenues from money market portfolios and from other fixed income products. If securities within a money market portfolio default, or investor redemptions force the portfolio to realize losses, there could be negative pressure on its net asset value. Although money market investments are not guaranteed instruments, the company might decide, under such a scenario, that it is in its best interest to provide support in the form of a support agreement, capital infusion, or other methods to help stabilize a declining net asset value. Some of these methods could have an adverse impact on our profitability. Additionally, we have $25.5 million invested in Invesco Mortgage Capital Inc., $50.4 million of equity at risk invested in our collateralized loan obligation products, and $16.5 million invested in fixed income seed money at December 31, 2011, the valuation of which could change with changes in interest and default rates.

We operate in an industry that is highly regulated in many countries, and any adverse changes in the laws or regulations governing our business could decrease our revenues and profitability.

As with all investment management companies, our activities are highly regulated in almost all countries in which we conduct business. Laws and regulations applied at the national, state or provincial and local level generally grant governmental agencies and industry self-regulatory authorities broad administrative discretion over our activities, including the power to limit or restrict business activities. Subsidiaries operating in the European Union (EU) also are subject to various EU Directives, which are implemented by member state national legislation. Possible sanctions include the revocation of licenses to operate certain businesses, the suspension or expulsion from a particular jurisdiction or market of any of our business organizations or their key personnel, the imposition of fines and censures on us or our employees and the imposition of additional capital requirements. It is also possible that laws and regulations governing our operations or particular investment products could be amended or interpreted in a manner that is adverse to us.

Certain of our subsidiaries are required to maintain minimum levels of capital. These and other similar provisions of applicable law may have the effect of limiting withdrawals of capital, repayment of intercompany loans and payment of dividends by such entities. A sub-group of Invesco subsidiaries, including all of our regulated EU subsidiaries, is subject to consolidated capital requirements under EU Directives, and capital is maintained within this sub-group to satisfy these regulations. At December 31, 2011, the European sub-group had cash and cash equivalent balances of $440.0 million (December 31, 2010: $456.2 million) , much of which is used to satisfy these regulatory requirements. Complying with our regulatory commitments may result in an increase in the capital requirements applicable to the European sub-group. As a result of corporate restructuring and the regulatory undertakings that we have given, certain of these EU subsidiaries may be required to limit their dividends to the parent company, Invesco Ltd. We cannot guarantee that further corporate restructuring will not be required to comply with applicable legislation.

The regulatory environment in which we operate frequently changes and has seen significant increased regulation in recent years. Various changes in law and regulation have been enacted or adopted and are beginning to be implemented or otherwise developed in multiple jurisdictions globally in response to the crisis in the financial markets that began in 2007. Various other proposals remain under consideration by various legislators, regulators, other government officials and other public policy commentators. Certain enacted provisions and certain other proposals are potentially far reaching and, depending upon their

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implementation, could have a material impact on Invesco's business. While many of these provisions appear designed to address perceived problems in the banking sector, certain of the provisions will or may be applied to other financial services companies, including investment managers. We may be adversely affected as a result of new or revised legislation or regulations or by changes in the interpretation or enforcement of existing laws and regulations. To the extent that existing regulations are amended or future regulations are adopted that reduce the sale, or increase the redemptions, of our products and services, or that negatively affect the investment performance of our products, our aggregate assets under management and our revenues could be adversely affected. In addition, regulatory changes have imposed and may continue to impose additional costs, which could negatively impact our profitability.

In the United States, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. While Invesco does not at this time believe that the Dodd-Frank Act will fundamentally change the investment management industry or cause Invesco to reconsider its fundamental strategy, certain provisions will, and other provisions may, increase regulatory burdens and related compliance costs. In addition, the scope and impact of many provisions of the Dodd-Frank Act will be determined by implementing regulations, some of which require lengthy proposal and promulgation periods. Moreover, the Dodd-Frank Act mandates many regulatory studies, some of which pertain directly to the investment management industry, which could lead to additional legislation or regulation. As a result of these uncertainties regarding implementation of the Dodd-Frank Act and such other future potential legislative or regulatory changes, the impact of the Dodd-Frank Act on the investment management industry and Invesco cannot be predicted at this time.

The European Union has promulgated or is considering various new or revised directives pertaining to financial services, including investment managers. Such directives are progressing at various stages, and are being or will or would be implemented by national legislation in member states. As with the Dodd-Frank Act, Invesco does not believe implementation of these directives will fundamentally change our industry or cause us to reconsider our fundamental strategy, but it does appear certain provisions will, and other provisions may, increase regulatory burdens and compliance costs. Similar developments are being implemented or considered in other jurisdictions where we do business; such developments could have similar effects.

Potential developments under enacted and proposed legal and regulatory changes, and related matters, include, without limitation:

- Expanded prudential regulation over investment management firms.
- New or increased capital requirements and related regulation (including new capital requirements pertaining to money market funds).
- Additional change to the regulation of money market funds in the U.S. The SEC has adopted changes to Rule 2a-7, the primary securities regulation governing U.S. registered money market funds. These new rules are designed to significantly strengthen the regulatory requirements governing money market funds, increase the resilience of such funds to economic stresses, and reduce the risk of runs on these funds. Regulators in the U.S. continue to evaluate whether to propose additional legal and regulatory changes impacting money market funds. Invesco believes certain potential changes that have been the subject of recent media reports would have significant adverse consequences on the money market funds industry and the short-term credit markets.
- Changes to the distribution of investment funds and other investment products. In the U.S., the SEC previously has proposed and may repropose significant changes to Rule 12b-1. Invesco believes these proposals could increase operational and compliance costs. The U.K. Financial Services Authority continues to develop its Retail Distribution Review, which is expected to reshape the manner in which retail investment funds are sold in the U.K. The EU adopted the Alternative Investment Fund Manager Directive; implementing legislation in member states could, among other elements, impose restrictions on the marketing and sale within the EU of private equity and other alternative investment funds sponsored by non-EU managers. Various regulators have promulgated or are considering other new disclosure and suitability requirements pertaining to the distribution of investment funds and

other investment products, including enhanced standards and requirements pertaining to disclosures made to retail investors at the point of sale.

- Guidelines regarding the structure and components of compensation, including under the Dodd-Frank Act and various EU Directives.
- New and potentially complex and burdensome tax reporting and tax withholding obligations and related compliance activities pertaining to sponsored investment products, including obligations under the Foreign Account Tax Compliance Act (FATCA).
- Additional resourcing for regulatory examinations and inspections, including enforcement reviews, and a more aggressive posture regarding commencing enforcement proceedings resulting in fines, penalties and additional remedial activities.

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- Changes impacting certain other products or markets (e.g., retirement savings).
- Enhanced licensing and qualification requirements for key personnel.
- Other additional rules and regulations and disclosure requirements. Certain provisions impose additional disclosure burdens on public companies, including Invesco. Certain proposals could impose requirements for more widespread disclosures of compensation to highly-paid individuals. Depending upon the scope of any such requirements, Invesco could be disadvantaged in retaining key employees vis-à-vis private companies, including hedge fund sponsors.
- Strengthening standards regarding various ethical matters, including enhanced focus of U.S. regulators and law enforcement agencies on compliance with the Foreign Corrupt Practices Act and the enactment of the U.K. Bribery Act.
- Other changes impacting the identity or the organizational structure of regulators with supervisory authority over Invesco.

Invesco cannot at this time predict the full impact of potential legal and regulatory changes on its business. It is possible such changes could impose new compliance costs or capital requirements or impact Invesco in other ways that could have a material adverse impact on Invesco's results of operations, financial condition or liquidity. Moreover, certain legal or regulatory changes could require us to modify our strategies, businesses or operations, and we may incur other new constraints or costs in order to satisfy new regulatory requirements or to compete in a changed business environment.

To the extent that existing or future regulations affecting the sale of our products and services or our investment strategies cause or contribute to reduced sales or increased redemptions of our products or impair the investment performance of our products, our aggregate assets under management and results of operations might be adversely affected.

Civil litigation and governmental enforcement actions and investigations could adversely affect our assets under management and future financial results, and increase our costs of doing business.

Invesco and certain related entities have in recent years been subject to various legal proceedings arising from normal business operations and/or matters that have been the subject of previous regulatory actions. See Part I, Item 3, “Legal Proceedings,” for additional information.

Our investment management professionals and other key employees are a vital part of our ability to attract and retain clients, and the loss of key individuals or a significant portion of those professionals could result in a reduction of our revenues and profitability.

Retaining highly skilled technical and management personnel is important to our ability to attract and retain clients and retail shareholder accounts. The market for investment management professionals is competitive and has grown more so in recent periods as the investment management industry has experienced growth. The market for investment managers is also increasingly characterized by the movement of investment managers among different firms. Our policy has been to provide our investment management professionals with a supportive professional working environment and compensation and benefits that we believe are competitive with other leading investment management firms. However, we may not be successful in retaining our key personnel, and the loss of key individuals or significant investment management personnel could reduce the attractiveness of our products to potential and current clients and could, therefore, adversely affect our revenues and profitability.

If our reputation is harmed, we could suffer losses in our business, revenues and net income.

Our business depends on earning and maintaining the trust and confidence of clients, regulators and other market participants, and our good reputation is critical to our business. Our reputation is vulnerable to many threats that can be difficult or impossible to control, and costly or impossible to remediate. Regulatory inquiries, material errors in public reports, employee dishonesty or other misconduct and rumors, among other things, can substantially damage our reputation, even if they are baseless or satisfactorily addressed. Further, our business requires us to continuously manage actual and potential conflicts of interest, including situations where our services to a particular client conflict, or are perceived to conflict, with the interests of another client or those of Invesco. We have procedures and controls that are designed to address and manage conflicts of interest, but this task can be complex and difficult, and our reputation could be damaged, and the willingness of clients to enter into transactions in which such a conflict might arise may be affected, if we fail - or appear to fail - to deal appropriately with conflicts of interest. In addition, potential or perceived conflicts could give rise to litigation or regulatory enforcement actions. Any damage to our reputation could impede our ability to attract and retain clients and key personnel, and lead to a reduction in the amount of our assets under management, any of which could have a material adverse effect on our revenues and net income.

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Failure to comply with client contractual requirements and/or investment guidelines could result in damage awards against us and loss of revenues due to client terminations.

Many of the investment management agreements under which we manage assets or provide products or services specify investment guidelines or contractual requirements that Invesco is required to observe in the provision of its services. A failure to comply with these guidelines or contractual requirements could result in damage to our reputation or in our clients seeking to recover losses, withdrawing their assets or terminating their contracts, any of which could cause our revenues and net income to decline. We maintain various compliance procedures and other controls to prevent, detect and correct such errors. When an error is detected, we typically will make a payment into the applicable client account to correct it. Significant errors could impact our results of operations.

Competitive pressures may force us to reduce the fees we charge to clients, increase commissions paid to our financial intermediaries or provide more support to those intermediaries, all of which could reduce our profitability.

The investment management business is highly competitive, and we compete based on a variety of factors, including investment performance, the range of products offered, brand recognition, business reputation, financial strength, stability and continuity of client and intermediary relationships, quality of service, level of fees charged for services and the level of compensation paid and distribution support offered to financial intermediaries. We continue to face market pressures regarding fee levels in certain products.

We face strong competition in every market in which we operate. Our competitors include a large number of investment management firms, commercial banks, investment banks, broker-dealers, hedge funds, insurance companies and other financial institutions. Some of these institutions have greater capital and other resources, and offer more comprehensive lines of products and services, than we do. Our competitors seek to expand their market share in many of the products and services we offer. If these competitors are successful, our revenues and profitability could be adversely affected. In addition, there are relatively few barriers to entry by new investment management firms, and the successful efforts of new entrants into our various distribution channels around the world have also resulted in increased competition.

In recent years there have been several instances of industry consolidation, both in the area of distributors and manufacturers of investment products. Further consolidation may occur in these areas in the future. The increasing size and market influence of certain distributors of our products and of certain direct competitors may have a negative impact on our ability to compete at the same levels of profitability in the future, should we find ourselves unable to maintain relevance in the markets in which we compete.

We may engage in strategic transactions that could create risks.

As part of our business strategy, we regularly review, and from time to time have discussions with respect to, potential strategic transactions, including potential acquisitions, dispositions, consolidations, joint ventures or similar transactions, some of which may be material. There can be no assurance that we will find suitable candidates for strategic transactions at acceptable prices, have sufficient capital resources to pursue such transactions, be successful in negotiating the required agreements, or successfully close transactions after signing such agreements.

Acquisitions also pose the risk that any business we acquire may lose customers or employees or could underperform relative to expectations. We could also experience financial or other setbacks if pending transactions encounter unanticipated problems, including problems related to closing or integration. Following the completion of an acquisition, we may have to rely on the seller to provide administrative and other support, including financial reporting and internal controls, to the acquired business for a period of time. There can be no assurance that such sellers will do so in a manner that is acceptable to us.

Our ability to access the capital markets in a timely manner should we seek to do so depends on a number of factors.

Our access to the capital markets, including for purposes of financing potential acquisitions, depends significantly on our credit ratings. We have received credit ratings of A3/Stable and A-/Stable from Moody's and Standard & Poor's credit rating agencies, respectively, as of the date of this Annual Report on Form 10-K. According to Moody's, obligations rated 'A' are considered upper medium grade and are subject to low credit risk. Invesco's rating of A3 is at the low end of the A range (A1, A2, A3), but three notches above the lowest investment grade rating of Baa3. Standard and Poor's rating of A- is at the lower end of the A rating, with BBB- representing Standard and Poor's lowest investment grade rating. According to Standard and Poor's, A obligations exhibit a strong capacity to meet financial commitments, but are somewhat susceptible to adverse economic conditions or changing circumstances. We believe that rating agency concerns include but are not limited to: our revenues are exposed to equity market volatility, negative tangible equity, and potential impact from regulatory changes to the industry. Additionally, the rating agencies could decide to downgrade the entire investment management industry, based on their perspective of future growth and solvency. Material deterioration of these factors, and others defined by each rating agency, could result in downgrades to our credit ratings,

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thereby limiting our ability to generate additional financing. Our credit facility borrowing rates are tied to our credit ratings. Management believes that solid investment grade ratings are an important factor in winning and maintaining institutional business and strives to manage the company to maintain such ratings.

A reduction in our long- or short-term credit ratings could increase our borrowing costs, limit our access to the capital markets, and may result in outflows thereby reducing AUM and revenues. Continued volatility in global finance markets may also affect our ability to access the capital markets should we seek to do so. If we are unable to access capital markets in a timely manner, our business could be adversely affected.

Our indebtedness could adversely affect our financial position or results of operations.

As of December 31, 2011, we had outstanding total debt of $1,284.7 million and total equity attributable to common shareholders of $7,784.8 million, excluding retained earnings appropriated for investors in consolidated investment products. The amount of indebtedness we carry could limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or other purposes, increase our vulnerability to adverse economic and industry conditions, limit our flexibility in planning for, or reacting to, changes in our business or industry, and place us at a disadvantage in relation to our competitors. Any or all of the above factors could materially adversely affect our financial position or results of operations.

Our credit facility imposes restrictions on our ability to conduct business and, if amounts borrowed under it were subject to accelerated repayment, we might not have sufficient assets to repay such amounts in full.

Our credit facility requires us to maintain specified financial ratios, including maximum debt-to-earnings and minimum interest coverage ratios. This credit facility also contains customary affirmative operating covenants and negative covenants that, among other things, restrict certain of our subsidiaries' ability to incur debt and restrict our ability to transfer assets, merge, make loans and other investments and create liens. The breach of any covenant (either due to our actions or due to a significant and prolonged market-driven decline in our operating results) would result in a default under the credit facility. In the event of any such default, lenders that are party to the credit facility could refuse to make further extensions of credit to us and require all amounts borrowed under the credit facility, together with accrued interest and other fees, to be immediately due and payable. If any indebtedness under the credit facility were subject to accelerated repayment, we might not have sufficient liquid assets to repay such indebtedness in full.

Changes in the distribution channels on which we depend could reduce our revenues and hinder our growth.

We sell a significant portion of our investment products through a variety of financial intermediaries, including major wire houses, regional broker-dealers, banks and financial planners in North America, and independent brokers and financial advisors, banks and financial organizations in Europe and Asia. Increasing competition for these distribution channels could cause our distribution costs to rise, which would lower our net revenues. Following the financial crisis, there has been consolidation of banks and broker-dealers, particularly in the U.S., and a limited amount of migration of brokers and financial advisors away from major banks to independent firms focused largely on providing advice. If these trends continue, our distribution costs could increase as a percentage of our revenues generated. Additionally, particularly outside of the U.S., certain of the intermediaries upon whom we rely to distribute our investment products also sell their own competing proprietary funds and investment products, which could limit the distribution of our products. Increasingly, investors, particularly in the institutional market, rely on external consultants and other unconflicted third parties for advice on the choice of investment manager. These consultants and third parties tend to exert a significant degree of influence and they may favor a competitor of Invesco as better meeting their particular client's needs. There is no assurance that our investment products will be among their recommended choices in the future. If one of our major distributors were to cease operations, it could have a significant adverse effect on our revenues and profitability. Any failure to maintain strong business relationships with these distribution sources and the consultant community would impair our ability to sell our products, which in turn could have a negative effect on our revenues and profitability.

We could be subject to losses if we fail to properly safeguard confidential and sensitive information.

We maintain and transmit confidential information about our clients as well as proprietary information relating to our business operations as part of our regular operations. Our systems could be attacked by unauthorized users or corrupted by computer viruses or other malicious software code, or authorized persons could inadvertently or intentionally release confidential or proprietary information.

Such disclosure could, among other things, damage our reputation, allow competitors to access our proprietary business information, result in liability for failure to safeguard our clients' data, result in the termination of contracts by our existing customers, subject us to regulatory action, or require material capital and operating expenditures to investigate and remediate the

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breach.

Our business is vulnerable to deficiencies and failures in support systems and customer service functions that could lead to breaches and errors, resulting in loss of customers or claims against us or our subsidiaries.

The ability to consistently and reliably obtain accurate securities pricing information, process client portfolio and fund shareholder transactions and provide reports and other customer service to fund shareholders and clients in other accounts managed by us is essential to our continuing success. In recent periods, illiquid markets for certain types of securities have required increased use of fair value pricing, which is dependent on certain subjective judgments that have the potential to be challenged. Any delays or inaccuracies in obtaining pricing information, processing such transactions or such reports, other breaches and errors, and any inadequacies in other customer service, could result in reimbursement obligations or other liabilities, or alienate customers and potentially give rise to claims against us. Our customer service capability, as well as our ability to obtain prompt and accurate securities pricing information and to process transactions and reports, is highly dependent on communications and information systems and on third-party vendors. These systems or vendors could suffer deficiencies, failures or interruptions due to various natural or man-made causes, and our back-up procedures and capabilities may not be adequate to avoid extended interruptions in operations. Certain of these processes involve a degree of manual input, and thus similar problems could occur from time to time due to human error.

If we are unable to successfully recover from a disaster or other business continuity problem, we could suffer material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.

If we were to experience a local or regional disaster or other business continuity problem, such as a pandemic or other natural or man-made disaster, our continued success will depend, in part, on the availability of our personnel, our office facilities and the proper functioning of our computer, telecommunication and other related systems and operations. In such an event, our operational size, the multiple locations from which we operate, and our existing back-up systems would provide us with an important advantage. Nevertheless, we could still experience near-term operational challenges with regard to particular areas of our operations, such as key executive officers or technology personnel. Further, as we strive to achieve cost savings by shifting certain business processes to lower-cost geographic locations such as India, the potential for particular types of natural or man-made disasters, political, economic or infrastructure instabilities, or other country- or region-specific business continuity risks increases. Although we seek to regularly assess and improve our existing business continuity plans, a major disaster, or one that affected certain important operating areas, or our inability to recover successfully should we experience a disaster or other business continuity problem, could materially interrupt our business operations and cause material financial loss, loss of human capital, regulatory actions, reputational harm or legal liability.

Since many of our subsidiary operations are located outside of the United States and have functional currencies other than the U.S. dollar, changes in the exchange rates to the U.S. dollar affect our reported financial results from one period to the next.

The largest component of our net assets, revenues and expenses, as well as our assets under management, is presently denominated in U.S. Dollars. However, we have a large number of subsidiaries outside of the United States whose functional currencies are not the U.S. dollar. As a result, fluctuations in the exchange rates to the U.S. dollar affect our reported financial results from one period to the next. We do not actively manage our exposure to such effects. Consequently, significant strengthening of the U.S. dollar relative to the U.K. Pound Sterling, Euro, or Canadian dollar, among other currencies, could have a material negative impact on our reported financial results.

The carrying value of goodwill and other intangible assets on our balance sheet could become impaired, which would adversely affect our results of operations.

We have goodwill and indefinite-lived intangible assets on our balance sheet that are subject to annual impairment reviews. We also have definite-lived intangible assets on our balance sheet that are subject to impairment testing if indicators of impairment are identified. Goodwill and intangible assets totaled $6,907.9 million and $1,322.8 million, respectively, at December 31, 2011 (December 31, 2010: $6,980.2 million and $1,337.2 million, respectively). We may not realize the value of such assets. We perform impairment reviews of the book values of these assets on an annual basis or more frequently if impairment indicators are present. A variety of factors could cause such book values to become impaired. Should valuations be deemed to be impaired, a write-down of the related assets would occur, adversely affecting our results of operations for the period. See Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies - Goodwill” and “- Intangibles,” for additional details of the company's goodwill impairment analysis process.

Bermuda law differs from the laws in effect in the United States and may afford less protection to shareholders.

Our shareholders may have more difficulty protecting their interests than shareholders of a corporation incorporated in a jurisdiction of the United States. As a Bermuda company, we are governed by the Companies Act 1981 of Bermuda (Companies Act). The Companies Act differs in some material respects from laws generally applicable to United States corporations and shareholders, including provisions relating to interested directors, mergers, amalgamations and acquisitions, takeovers, shareholder lawsuits and indemnification of directors.

Under Bermuda law, the duties of directors and officers of a company are generally owed to the company only. Shareholders of Bermuda companies do not generally have rights to take action against directors or officers of the company, and may only do so in limited circumstances. Directors and officers may owe duties to a company's creditors in cases of impending insolvency. Directors and officers of a Bermuda company must, in exercising their powers and performing their duties, act honestly and in good faith with a view to the best interests of the company and must exercise the care and skill that a reasonably prudent person would exercise in comparable circumstances. Directors have a duty not to put themselves in a position in which their duties to the company and their personal interests may conflict and also are under a duty to disclose any personal interest in any material contract or proposed material contract with the company or any of its subsidiaries. If a director or officer of a Bermuda company is found to have breached his duties to that company, he may be held personally liable to the company in respect of that breach of duty.

Our Bye-Laws provide for indemnification of our directors and officers in respect of any loss arising or liability attaching to them in respect of any negligence, default, breach of duty or breach of trust of which a director or officer may be guilty in relation to us other than in respect of his own fraud or dishonesty, which is the maximum extent of indemnification permitted under the Companies Act. Under our Bye-Laws, each of our shareholders agrees to waive any claim or right of action, both individually and on our behalf, other than those involving fraud or dishonesty, against us or any of our officers, directors or employees. The waiver applies to any action taken by a director, officer or employee, or the failure of such person to take any action, in the performance of his duties, except with respect to any matter involving any fraud or dishonesty on the part of the director, officer or employee. This waiver limits the right of shareholders to assert claims against our directors, officers and employees unless the act or failure to act involves fraud or dishonesty.

We have anti-takeover provisions in our Bye-Laws that may discourage a change of control.

Our Bye-Laws contain provisions that could make it more difficult for a third-party to acquire us or to obtain majority representation on our board of directors without the consent of our board. As a result, shareholders may be limited in their ability to obtain a premium for their shares under such circumstances.

Legislative and other measures that may be taken by U.S. and/or other governmental authorities could materially increase our tax burden or otherwise adversely affect our financial conditions, results of operations or cash flows.

Under current laws, as the company is domiciled and tax resident in Bermuda, taxation in other jurisdictions is dependent upon the types and the extent of the activities of the company undertaken in those jurisdictions. There is a risk that changes in either the types of activities undertaken by the company or changes in tax rules relating to tax residency could subject the company and its shareholders to additional taxation.

We continue to assess the impact of various U.S. federal and state legislative proposals, and modifications to existing tax treaties between the United States and foreign countries, that could result in a material increase in our U.S. federal and state taxes. Proposals have been introduced in the U.S. Congress that, if ultimately enacted, could either limit treaty benefits on certain payments made by our U.S. subsidiaries to non-U.S. affiliates, treat the company as a U.S.

corporation and thereby subject the earnings from non-U.S. subsidiaries of the company to U.S. taxation, or both. We cannot predict the outcome of any specific legislative proposals. However, if such proposals were to be enacted, or if modifications were to be made to certain existing tax treaties, the consequences could have a materially adverse impact on the company, including increasing our tax burden, increasing costs of our tax compliance or otherwise adversely affecting our financial condition, results of operations or cash flows.

Examinations and audits by tax authorities could result in additional tax payments for prior periods.

The company and its subsidiaries are subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions and are subject to ongoing tax audits in various jurisdictions. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations in a multitude of jurisdictions across our global operations. Tax authorities may disagree with certain positions we have taken and assess additional taxes. We recognize potential liabilities and record tax liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional income taxes will be due. We adjust these liabilities in light of changing facts and circumstances. Due to the complexity

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of some of these uncertainties, however, the ultimate resolution may result in a payment that is materially different from our current estimate of the tax liabilities.

Item 1B. Unresolved Staff Comments

N/A

Item 2. Properties

Our registered office is located in Hamilton, Bermuda, and our principal executive offices are in leased office space at 1555 Peachtree Street N.E., Suite 1800, Atlanta, Georgia, 30309, U.S.A. We own office facilities at Perpetual Park, Henley-on-Thames, Oxfordshire, RG9 1HH, United Kingdom, and at 301 W. Roosevelt, Wheaton, Illinois, 60187, and we lease our additional principal offices located at 30 Finsbury Square, London, EC2A 1AG, United Kingdom; 11 Greenway Plaza, Houston, Texas 77046; 1166 Avenue of the Americas, New York, New York 10036; 17W110 22nd Street, Oakbrook Terrace, Illinois 60181, 5140 Yonge Street, Toronto, Ontario M2N 6X7, and DivyaSree Orion, 14th & 15th Floor, Block 6 - North Tower Survey No. 66/1 Raidurga, Serilingampally Mandal, Ranga Reddy District, Hyderabad, India. We lease office space in 16 other countries.

Item 3. Legal Proceedings

See Part II, Item 8, Financial Statements and Supplementary Data, -- Note 19, "Commitments and Contingencies," for information regarding legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Invesco Ltd. is organized under the laws of Bermuda, and our common shares are listed and traded on the New York Stock Exchange under the symbol “IVZ.” At January 31, 2012, there were approximately 6,496 holders of record of our common shares.

The following table sets forth, for the periods indicated, the high and low reported share prices on the New York Stock Exchange, based on data reported by Bloomberg.

	Invesco Ltd. Common Shares		
	High	Low	Dividends Declared*
2011			
Fourth Quarter	$20.96	$14.85	$ 0.1225
Third Quarter	$23.90	$15.51	$ 0.1225
Second Quarter	$26.00	$21.92	$ 0.1225
First Quarter	$27.42	$23.77	$ 0.1100
2010			
Fourth Quarter	$24.24	$21.06	$ 0.1100

Third Quarter	$21.90	$16.63	$ 0.1100
Second Quarter	$23.66	$16.83	$ 0.1100
First Quarter	$23.63	$18.32	$ 0.1025

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* Dividends declared represent amounts declared in the current quarter but are attributable to the prior fiscal quarter.

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The following graphs illustrate the cumulative total shareholder return of our common shares (ordinary shares prior to December 4, 2007) over the five-year period ending December 31, 2011, and compares it to the cumulative total return of the Standard and Poor's (S&P) 500 Index and to a group of peer investment management companies. The Peer Index utilized in the first chart below reflects a newly comprised Peer Index in the company's 2011 Form 10-K. The company has analyzed its peer group and has made the determination that the members of the peer group should consist of companies in the S&P 500 and the S&P 400 that are also in the Asset Management and Custody Bank sub-index, plus Alliance Bernstein, a competitor not in this sub-index but which is another global asset manager followed by industry analysts. We believe this peer group is a more representative peer group for Invesco. These tables are not intended to forecast future performance of our common shares.

New Peer Index

Note: The above chart is the average annual total return for the period from December 31, 2006 through December 31, 2011. Peer Index includes Affiliated Managers Group, Alliance Bernstein, Ameriprise Financial, Bank of New York Mellon, BlackRock, Eaton Vance, Federated Investors, Franklin Resources, Invesco Ltd., Janus, Legg Mason, Northern Trust, SEI Investments, State Street, and T. Rowe Price. Returns for the index are average annual total returns.

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The following graph illustrates the company's cumulative total shareholder return with the Peer Index firms that were utilized in the company's 2010 Form 10-K:

Previous Peer Index

Note: The above chart is the average annual total return for the period from December 31, 2006 through December 31, 2011. Peer Index includes Affiliated Managers Group, Alliance Bernstein, BlackRock, Eaton Vance, Federated Investors, Franklin Resources, Gamco, Invesco Ltd., Janus, Legg Mason, Schroders, T. Rowe Price, and Waddell & Reed. Returns for the index are average annual total returns.

Important Information Regarding Dividend Payments

Invesco declares and pays dividends on a quarterly basis in arrears. On January 26, 2012, the company declared a fourth quarter cash dividend of $0.1225 per share, which will be paid on March 9, 2012, to shareholders of record as of February 23, 2012.

The total dividend attributable to the 2011 fiscal year of $0.49 per share represented an 11.4% increase over the total dividend attributable to the 2010 fiscal year of $0.44 per share. The declaration, payment and amount of any future dividends will be determined 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. See also Part II, Item 7, “Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Dividends,” for additional details regarding dividends.

Securities Authorized for Issuance under Equity Compensation Plans

The equity compensation plan information required in Item 201(d) of Regulation S-K is set forth in the definitive Proxy Statement for the company's annual meeting of shareholders, which will be filed with the SEC no later than 120 days after the close of the fiscal year ended December 31, 2011, and is incorporated by reference in this Report.

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Repurchases of Equity Securities

The following table shows share repurchase activity during the three months ended December 31, 2011:

Month	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Number at end of period (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2) (billions)
October 1 - 31, 2011	418,905	$17.43	250,000	$0.8
November 1 - 30, 2011	4,481,246	$19.30	4,463,000	$0.7
December 1 - 31, 2011	740,609	$19.71	631,491	$0.7
	5,640,760		5,344,491	

(1) An aggregate of 296,269 shares were surrendered to us by Invesco employees to satisfy tax withholding obligations or loan repayments in connection with the vesting of equity awards.

(2) On April 23, 2008, our board of directors authorized a share repurchase authorization of up to $1.5 billion of our common shares with no stated expiration date.

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Item 6. Selected Financial Data

The following tables present selected consolidated financial information for the company as of and for each of the five fiscal years in the period ended December 31, 2011. Except as otherwise noted below, the consolidated financial information has been prepared in accordance with U.S. generally accepted accounting principles.

	As of and For The Years Ended December 31,				
$ in millions, except per share and other data	2011	2010	2009	2008	2007
Operating Data:					
Operating revenues	4,092.2	3,487.7	2,627.3	3,307.6	3,878.9
Net revenues[1,4]	2,898.4	2,521.1	1,941.0	2,437.9	2,823.3
Operating income	898.1	589.9	484.3	747.8	994.3
Adjusted operating income[2]	1,068.9	897.7	565.6	826.1	1,078.6
Operating margin	21.9 %	16.9 %	18.4 %	22.6 %	25.6 %
Adjusted operating margin[2,4]	36.9 %	35.6 %	29.1 %	33.9 %	38.2 %
Net income attributable to common shareholders	729.7	465.7	322.5	481.7	673.6
Adjusted net income[3]	781.6	639.7	378.1	527.1	718.2
Per Share Data:					
Earnings per share:					
-basic	1.58	1.01	0.77	1.24	1.68
-diluted	1.57	1.01	0.76	1.21	1.64
Adjusted diluted EPS[3]	1.68	1.38	0.89	1.32	1.74
Dividends declared per share	0.4775	0.4325	0.4075	0.5200	0.3720
Balance Sheet Data:					
Total assets	19,347.0	20,444.1	10,909.6	9,756.9	12,925.2
Current maturities of total debt	215.1	—	—	297.2	—
Long-term debt	1,069.6	1,315.7	745.7	862.0	1,276.4
Long-term debt of consolidated investment products	5,512.9	5,865.4	—	—	116.6
Total equity attributable to common shareholders	8,119.1	8,264.6	6,912.9	5,689.5	6,590.6
Total equity	9,137.6	9,360.9	7,620.8	6,596.2	7,711.8
Other Data:					
Ending AUM (in billions)	625.3	616.5	459.5	377.1	529.3
Average AUM (in billions)	634.3	532.3	415.8	468.9	511.7
Headcount	6,162	5,617	4,890	5,325	5,475

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(1) Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus our proportional share of the net revenues of our joint venture investments, plus management fees earned from, less other revenue recorded by, consolidated investment products. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Schedule of Non-GAAP Information," for the reconciliation of operating revenues to net revenues.

(2) Adjusted operating margin is adjusted operating income divided by net revenues. Adjusted operating income includes operating income plus our proportional share of the operating income of our joint venture investments, transaction and integration charges, amortization of acquisition-related prepaid compensation and other intangibles, compensation expense related to market valuation changes in deferred compensation plans, the operating income impact of the consolidation of investment products, and other reconciling items. See Item 7,

"Management's Discussion and Analysis of Financial Condition and Results of Operations - Schedule of Non-GAAP Information," for the reconciliation of operating income to adjusted operating income.

(3) Adjusted net income is net income attributable to common shareholders adjusted to add back transaction and integration charges, amortization of acquisition-related prepaid compensation and other intangibles, and the tax cash flow benefits resulting from tax amortization of goodwill and indefinite-lived intangible assets. Adjusted net income excludes the net income of consolidated investment products, and the net income impact of deferred compensation plans and other reconciling items. By calculation, adjusted EPS is adjusted net income divided by the weighted average number of shares outstanding (for diluted EPS). See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Schedule of Non-GAAP Information," for the reconciliation of net income to adjusted net income.

(4) In 2011 the company changed its presentation of marketing support expenses from marketing expenses to third-party distribution, service and advisory expenses in the Consolidated Statements of Income. Such reclassifications had no impact on total operating expenses, net income, or equity attributable to common shareholders. Refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Reclassifications."

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 Consolidated Financial Statements of Invesco Ltd. and its subsidiaries (collectively, the “company” or “Invesco”) and the notes thereto contained elsewhere in this Annual Report on Form 10-K.

Financial markets began 2011 on an upswing due to optimism that the global economy was finally recovering from the 2008 financial crisis. However, the optimism was replaced by volatility as a number of shocks hit the global economy, negatively impacting equity markets around the world. First, Japan suffered a devastating earthquake that triggered a tsunami and nuclear emergency. While markets outside of Japan recovered from the initial shock, the Nikkei 225 index declined over 17% for the year. Additionally, Continental Europe's sovereign debt issues worsened during 2011, resulting in deepening concern about the financial condition of Greece and other countries. Efforts by European authorities to address the crisis repeatedly fell short of market expectations and, as a result, equity markets in Europe suffered declines in 2011, with the FTSE 100 index down almost 6%. In the U.S., concern of default on the country's debt payments intensified in early August 2011, followed immediately thereafter by the first-ever downgrade of the U.S.'s credit rating by S&P to AA+ from AAA. U.S. equity markets, as illustrated by the movement in the S&P 500, were able to recover from double digit declines in the third quarter of 2011 to finish at levels consistent with the beginning of 2011. Although global equity markets have staged a strong recovery after December 2008, many still remain below their 2007 highs.

The table below summarizes the year ended December 31 returns based on price appreciation of several major market indices for 2011, 2010, and 2009:

Index	Year ended December 31,		
	2011	2010	2009
S&P 500	0.0%	12.8%	23.5%
FTSE 100	(5.6)%	9.0%	22.1%
Nikkei 225	(17.3)%	(3.0%)	19.0%
MSCI Emerging Markets	(20.4)%	16.4%	74.5%

Despite the downgrade of the U.S. credit rating, returns on U.S. Treasury securities increased significantly in 2011 as investors' concern about the solvency of European sovereigns and continued uncertainty on the economic recovery resulted in a flight to perceived safety. The increased demand for Treasury securities caused 10-year Treasury prices to soar, pushing yields to record lows during the year, briefly touching 1.70% during the third quarter. For the year of 2011, the 10-year Treasury returned 17.2%.
Invesco made progress in a number of areas that further enhanced our competitive position as the markets continued their

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measured return to pre-financial crisis levels. Throughout 2011, the company's financial performance strengthened. In addition, Invesco continued to deliver strong, long-term investment performance, maintained its focus on its clients, and enhanced its profile in the industry.

As a global investment management firm dedicated to delivering investment excellence to our clients, Invesco is committed to further strengthening and enhancing our best-in-class risk management approach. A key factor in Invesco's ability to weather the economic storms of the past three years was our integrated approach to risk management.

Invesco's enterprise risk management (ERM) approach is embedded in its management processes across the organization. Broadly, our approach includes two governance structures - one for investments and another for business risk.

- Investment risk oversight is supported by the Global Performance Measurement and Risk group and the investment teams.
- Business risk oversight is supported by the Corporate Risk Management Committee and related committees.

Our Global Performance Measurement and Risk group provides senior management and the Board with insight into core investment risks, while our Corporate Risk Management Committee facilitates a focus on strategic, operational and other key business risks. Further, business component, functional, and geographic risk management committees maintain an ongoing risk assessment process that provides a bottom-up perspective on the specific risk areas existing in various domains of our business. A key value of a robust enterprise risk management process is facilitating the flow of information and insight across the organization and applying that information to more effectively managing risk. Through this regular and consistent risk communication, the Board has reasonable assurance that all material risks of the company are being addressed and that the company is propagating a risk-aware culture in which effective risk management is sewn into the fabric of the business. As a result of our efforts in this area, Invesco is one of only four publicly rated asset managers designated with a “strong” enterprise risk management rating by S&P.

In addition, we benefited from our long-term efforts to ensure a diversified base of assets under management. 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 geographical diversification recognizes growth opportunities in different parts of the world. This broad diversification enables Invesco to withstand different market cycles and take advantage of growth opportunities in various markets and channels.

The addition of Morgan Stanley's retail asset management business, including Van Kampen Investments (the "acquired business" or "acquisition") in 2010 and our anticipated successful integration of the business during 2011 enabled Invesco to further strengthen our competitive position in the U.S. The depth and breadth of our investment capabilities, our strong investment performance and a focused client engagement effort resulted in solid momentum in our U.S. retail business throughout 2011.

European Infrastructure

As part of the transformational initiative announced earlier this year, the company is in the process of outsourcing its transfer agency function in Europe, which is presently operated internally. This outsourcing activity is expected to be completed by December 2012. We believe that taking steps today to outsource our European transfer agency will allow the firm to better respond in the future to the pending but still uncertain regulatory environment. It is too early to accurately forecast the implications of all the proposed regulations (e.g., MIFID II in Europe and the Retail Distribution Review in the U.K.), but it is clear that these have the potential to significantly change the relationships between distributors, clients and investment managers. Under any likely scenario, we believe outsourcing our

European transfer agency will reduce both the cost and risk of operations for us and will allow us to react more swiftly to changes in the marketplace, and therefore further solidify and strengthen our competitive position.

During the year ended December 31, 2011, the company incurred $18.8 million of costs directly related to the implementation of this initiative and will incur total implementation costs of up to $40 million by the projected completion date of December 2012. The $40 million estimate is based on the expected cost to outsource our European transfer agency and on our plans to make certain structural changes to our product and distribution platforms. As regulations become more clear in the future, we will be able to provide updated estimates of the implementation costs and benefits of this initiative, to the extent that clarity of regulations affects the scope of the initiative. The implementation costs associated with the European transformation will include primarily systems and data conversion, surplus leased space, staff severance related to a reduction in headcount of approximately 330 employees, fund redomicile, legal, and consulting costs. These costs will be included within the respective expense line items in the U.S. GAAP Condensed Consolidated Income Statement and will be excluded in arriving at non-GAAP earnings information. This initiative is expected to generate material ongoing cost savings (approximately $15 million per year) that will more than fully offset the implementation expense within a three year time frame after completion.

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Presentation of Management's Discussion and Analysis of Financial Condition and Results of Operations

The company provides investment management services to, and has transactions with, various 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. Certain of these entities are consolidated under variable interest or voting interest entity consolidation guidance. See Part II, Item 8, Financial Statements and Supplementary Data - Note 1, "Accounting Policies" and Note 20, "Consolidated Investment Products," for additional details.

Effective January 1, 2010, the company adopted guidance now encompassed in Accounting Standards Codification Topic 810, "Consolidation." The adoption of this new guidance had a significant impact on the presentation of the company's financial statements in 2011 and 2010, as its provisions required the company to consolidate certain CLOs that were not previously consolidated. In accordance with the standard, prior periods have not been restated to reflect the consolidation of these CLOs. The majority of the company's consolidated investment products balances were CLO-related as of December 31, 2011 and 2010. 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 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. Additionally, 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 consolidation of investment products is so significant to the presentation of company's financial statements (but not to the underlying financial condition or results of operations of the company) that, combined with the presentation of newly-incurred transaction and integration costs and additional intangible asset amortization resulting from the acquired business, the company expanded its use of non-GAAP measures beginning with the presentation of the company's results for the three months ended March 31, 2010. The discussion that follows therefore combines results presented under U.S. generally accepted accounting principles (GAAP) with the company's non-GAAP presentation. There are four distinct sections within this Management's Discussion and Analysis of Financial Condition and Results of Operations after the Assets Under Management discussion:

- Results of Operations (for the year ended December 31, 2011, compared with the year ended December 31, 2010, and for the year ended December 31, 2010, compared with the year ended December 31, 2009);
- Schedule of Non-GAAP Information;
- Balance Sheet Discussion; and
- Liquidity and Capital Resources.

The Results of Operations, Balance Sheet, and Cash Flow (within the Liquidity and Capital Resources section) discussions begin with tables illustrating the impact of the consolidation of investment products. The narrative that follows each of these sections separately provides discussion of the underlying financial statement activity for the company, before consolidation of investment products, as well as of the financial statement activity of consolidated investment products. Additionally, 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 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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Reclassifications

In 2011, the company changed its presentation of marketing support expenses from marketing expenses to third-party distribution, service and advisory expenses in the Consolidated Statements of Income. Such reclassifications had no impact on total operating expenses, net income, or equity attributable to common shareholders. The impact to 2010, 2009, 2008 and 2007 is illustrated below:

	For the year ended December 31,			
$ in millions	2010	2009	2008	2007
Third-party distribution, service and advisory expenses, as previously reported	972.7	693.4	875.5	1,051.1
Reclassification	81.1	43.6	52.3	58.6
Third-party distribution, service and advisory expenses, as reclassified	1,053.8	737.0	927.8	1,109.7
Marketing expenses, as previously reported	159.6	108.9	148.2	157.6
Reclassification	(81.1)	(43.6)	(52.3)	(58.6)
Marketing expenses, as reclassified	78.5	65.3	95.9	99.0
Net revenues, as previously reported	2,602.2	1,984.6	2,490.2	2,881.9
Reclassification	(81.1)	(43.6)	(52.3)	(58.6)
Net revenues, as reclassified	$2,521.1	$1,941.0	$2,437.9	$2,823.3

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, all periods have been reclassified to conform with the current presentation. In addition, all measures calculated from net revenues and operating expenses, such as net revenue yield and adjusted operating margin, have been recalculated based on the new presentation.

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Summary Operating Information

Summary operating information for 2011, 2010 and 2009 is presented in the table below.

$ in millions, other than per share amounts, operating margins and AUM	Year ended December 31,					
U.S. GAAP Financial Measures Summary	2011		2010		2009	
Operating revenues	$4,092.2		$3,487.7		$2,627.3	
Operating income	$898.1		$589.9		$484.3	
Operating margin	21.9	%	16.9	%	18.4	%
Net income attributable to common shareholders	$729.7		$465.7		$322.5	
Diluted EPS	$1.57		$1.01		$0.76	
Non-GAAP Financial Measures Summary						
Net revenues(1)	$2,898.4		$2,521.1		$1,941.0	
Adjusted operating income(2)	$1,068.9		$897.7		$565.6	
Adjusted operating margin(2)	36.9	%	35.6	%	29.1	%
Adjusted net income attributable to common shareholders(3)	$781.6		$639.7		$378.1	
Adjusted diluted EPS(3)	$1.68		$1.38		$0.89	
Assets Under Management						
Ending AUM (billions)	$625.3		$616.5		$459.5	
Average AUM (billions)	$634.3		$532.3		$415.8	

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(1) Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus our proportional share of the net revenues of our joint venture investments, plus management and performance fees earned from, less other revenue recorded by, consolidated investment products. See "Schedule of Non-GAAP Information" for the reconciliation of operating revenues to net revenues.

(2) Adjusted operating margin is adjusted operating income divided by net revenues. Adjusted operating income includes operating income plus our proportional share of the operating income of our joint venture investments, transaction and integration charges, amortization of acquisition-related prepaid compensation and other intangibles, compensation expense related to market valuation changes in deferred compensation plans, the operating income impact of the consolidation of investment products, European infrastructure expenses and other reconciling items. See "Schedule of Non-GAAP Information" for the reconciliation of operating income to adjusted operating income.

(3) Adjusted net income attributable to common shareholders is net income attributable to common shareholders adjusted to add back transaction and integration charges, amortization of acquisition-related prepaid compensation and other intangibles, and the tax cash flow benefits resulting from tax amortization of goodwill and indefinite-lived intangible assets. Adjusted net income attributable to common shareholders excludes the net income of consolidated investment products, and the net income impact of deferred compensation plans, European infrastructure expenses and other reconciling items. By calculation, adjusted diluted EPS is adjusted net income attributable to common shareholders divided by the weighted average number of diluted shares outstanding. See "Schedule of Non-GAAP Information" for the reconciliation of net income to adjusted net income.

A significant portion of our business and AUM 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 reported revenues and expenses from period to period. 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. The returns from most global capital markets decreased in the year ended December 31, 2011. These market value decreases were offset by net new business inflows which resulted in a net increase in AUM of $8.8 billion during the year. AUM at January 31, 2012 were $648.3 billion.

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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. Long-term performance in our equities capabilities, as measured by the percentage of AUM ahead of benchmark and ahead of peer median, is generally strong with some pockets of outstanding performance. Within our equity asset class, Asian, European, Global Ex U.S. and Emerging Markets have had strong relative performance versus competitors and versus benchmark over three- and five-year periods. Our U.S. Value funds have exceptional long-term performance with over 96% of assets ahead of benchmarks and peer group medians on a three- and five-year basis. U.K. and European equity funds reflect strong performance with 96% and 93%, respectively, of assets beating benchmarks and peers on a five-year basis. Within our fixed income asset class, Stable Value products have achieved excellent long-term performance with 100% of AUM ahead of benchmarks and peers on a one-, three-, and five-year basis.

		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	39	%21	%83	%	85	%31	%81	%
	U.S. Growth	28	%28	%33	%	21	%9	%69	%
	U.S. Value	7	%100	%96	%	89	%92	%96	%
	Sector	26	%85	%92	%	45	%50	%63	%
	U.K.	100	%8	%96	%	100	%0	%93	%
	Canadian	18	%48	%4	%	49	%48	%36	%
	Asian	29	%69	%87	%	33	%42	%81	%
	European	93	%64	%93	%	56	%58	%90	%
	Global	70	%47	%71	%	80	%47	%23	%
	Global Ex U.S. and Emerging Markets	80	%87	%98	%	74	%77	%78	%
Other	Alternatives	70	%50	%82	%	32	%14	%41	%
	Balanced	15	%93	%82	%	71	%29	%77	%
Money Market	Money Market	37	%62	%72	%	96	%93	%94	%
Fixed Income	U.S. Fixed Income	62	%79	%46	%	65	%63	%71	%
	Global Fixed Income	27	%92	%66	%	18	%77	%80	%
	Stable Value	100	%100	%100	%	100	%100	%100	%

Note: AUM measured in the one-, three-, and five-year peer group rankings represents 59%, 58%, and 58% of total Invesco AUM, respectively, and AUM measured versus benchmark on a one-, three-, and five-year basis represents 70%, 69%, and 67% of total Invesco AUM, respectively, as of 12/31/11. Peer group rankings are sourced from a widely-used third party ranking agency in each fund's market (Lipper, Morningstar, Russell, Mercer, eVestment Alliance, SITCA) 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 for the most representative fund in each GIPS composite are applied to all products within each GIPS composite. Excludes passive products, closed-end funds, private equity limited partnerships, non-discretionary direct real estate, unit investment trusts and CDOs. Certain other 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. 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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Assets Under Management

The company's rolling presentation of AUM from period to period (on the following pages) illustrates long-term inflows and outflows separately from the net flows into institutional money market funds. 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. 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.

There are numerous drivers of AUM inflows and outflows, including individual investor decisions to change their investment preferences, fiduciaries making broad asset allocation decisions on behalf of advised clients and reallocation of investments within portfolios. We are not a party to these asset allocation decisions, as the company does not generally have access to the underlying investor's decision-making process, including their risk appetite or liquidity needs. Therefore, the company is not in a position to provide meaningful information regarding the drivers of inflows and outflows.

AUM at December 31, 2011 were $625.3 billion (December 31, 2010: $616.5 billion; December 31, 2009: $459.5 billion). During the year ended December 31, 2011, net long-term inflows increased AUM by $19.2 billion, while negative market movements decreased AUM by $15.3 billion. We experienced net inflows in institutional money market funds of $5.3 billion and decreases in AUM of $0.4 billion due to changes in foreign exchange rates during the year ended December 31, 2011. During the year ended December 31, 2010, net inflows increased AUM by $5.5 billion and positive market movements increased AUM by $43.9 billion. We experienced net outflows in institutional money market funds of $15.5 billion and increases in AUM of $1.6 billion due to changes in foreign exchange rates during the year ended December 31, 2010. Morgan Stanley's retail asset management business, including Van Kampen Investments (the “acquired business” or the “acquisition”) added $114.6 billion in AUM at June 1, 2010. Additionally, during the year ended December 31, 2010, other acquisitions added $6.9 billion of AUM, net of dispositions. During the year ended December 31, 2009, net inflows increased AUM by $16.6 billion and positive market movements increased AUM by $54.7 billion. We experienced net outflows in institutional money market funds of $0.1 billion and increases in AUM of $11.2 billion due to changes in foreign exchange rates during the year ended December 31, 2009. Average AUM during the year ended December 31, 2011 were $634.3 billion, compared to $532.3 billion for the year ended December 31, 2010 and $415.8 billion for the year ended December 31, 2009.

Net inflows during the year ended December 31, 2011 included net long-term inflows of ETF, UIT and passive AUM of $17.5 billion and other net long-term inflows of $1.7 billion. Net flows were driven by net inflows into both our retail and institutional distribution channels of $9.1 billion and $8.9 billion, respectively, primarily in the fixed income asset class, while our equity asset class experienced net outflows of $7.9 billion.

Market gains and losses/reinvestment of AUM includes the net change in AUM resulting from changes in market values of the underlying investments from period to period and reinvestment of client dividends. Of the total decrease in AUM resulting from market losses during the year ended December 31, 2011, $14.8 billion of this decrease was due to the change in value of our equity asset class across all of our business components. Our balanced and alternatives asset classes were also negatively impacted by the change in market valuations during the period. During the year ended December 31, 2011, our equity AUM decreased in line with equity markets globally. As discussed in the “Executive Overview” section of this Management's Discussion and Analysis, the equity markets were extremely volatile during the year ended December 31, 2011. Of the $43.9 billion increase in AUM resulting from market gains during the year ended December 31, 2010, $33.4 billion was due to the change in value of our equity asset class, in line with increases in the S&P 500 and the FTSE 100 indices of 12.8% and 9.0%, respectively, during that period. Of the $54.7 billion increase in AUM resulting from market increases during the year ended December 31, 2009, $42.1

billion of this increase was due to the change in value of our equity asset class, in line with increases in the S&P 500 and the FTSE 100 indices of 23.5% and 22.1%, respectively, during that period.

Foreign exchange rate movements in our AUM result from the effect of changes in foreign exchange rates from period to period as non-U.S. Dollar denominated AUM is translated into U.S. Dollars, the reporting currency of the company. The impact of the change in foreign exchange rates in the year ended December 31, 2011 was driven primarily by the weakening of the Pound Sterling relative to the U.S. Dollar, which was reflected in the translation of our Pound Sterling-based AUM into U.S. Dollars, the weakening of the Canadian Dollar relative to the U.S. Dollar, which was reflected in the translation of our Canadian Dollar-based AUM into U.S. Dollars, the weakening of the Euro relative to the U.S. Dollar, which was reflected in the translation of our Euro-based AUM into U.S. Dollars, partly offset by the strengthening of the Japanese Yen relative to the U.S. Dollar, which was reflected in the translation of our Yen-based AUM into U.S. Dollars. The impact of the change in foreign exchange rates in the year ended December 31, 2010 was driven primarily by the strengthening of the Japanese Yen and Canadian Dollar relative to the U.S. Dollar, partially offset by the weakening of the Pound Sterling and Euro relative to the U.S. Dollar. The impact of the change in foreign exchange rates at December 31, 2009 was driven by the strengthening of the Pound Sterling, Canadian Dollar and Euro relative

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to the U.S. Dollar.

The table below illustrates the spot foreign exchange rates for translation into the U.S. Dollar, the reporting currency of the company, at December 31, 2011, 2010, and 2009:

	December 31, 2011	December 31, 2010	December 31, 2009
Pound Sterling ($ per £)	1.555	1.565	1.614
Canadian Dollar (CAD per $)	1.018	0.994	1.048
Japan (¥ per $)	76.950	81.080	93.035
Euro ($ per Euro)	1.299	1.342	1.434

Net revenue yield decreased 1.7 basis points to 45.7 basis points in the year ended December 31, 2011 from the year ended December 31, 2010 level of 47.4 basis points. Market driven changes in our asset mix significantly impact our net revenue yield. Our equity AUM generally earn a higher net revenue rate than money market AUM.
At December 31, 2011, equity AUM were $271.0 billion, representing 43% of our total AUM at that date; whereas at December 31, 2010, equity AUM were $294.0 billion, representing 48% of our total AUM at that date. In addition, ETF, UIT and Passive AUM generally earn a lower effective fee rate than active asset classes. At December 31, 2011, ETF, UIT and Passive AUM were $96.3 billion, representing 15.4% of total AUM at that date; whereas at December 31, 2010, ETF, UIT and Passive AUM were $80.8 billion, representing 13.1% of our total AUM at that date.

Gross revenue yield on AUM decreased 1.1 basis points to 64.9 basis points in the year ended December 31, 2011 from the year ended December 31, 2010 level of 66.0 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. The numerator of the gross revenue yield measure, operating revenues, excludes the management fees earned from consolidated investment products; 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 true effective fee rate from AUM. See “Schedule of Non-GAAP Information” for a reconciliation of operating revenues (gross revenues) to net revenues.

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Changes in AUM were as follows:

$ in billions	Total AUM	Active	ETF, UIT & Passive	Total AUM	Active	ETF, UIT & Passive	Total AUM	Active	ETF, UIT & Passive
	2011	2011	2011	2010	2010	2010	2009	2009	2009
January 1	616.5	535.7	80.8	459.5	406.5	53.0	377.1	346.6	30.5
Long-term inflows	177.6	106.3	71.3	154.7	84.6	70.1	106.1	65.7	40.4
Long-term outflows	(158.4)	(104.6)	(53.8)	(149.2)	(83.4)	(65.8)	(89.5)	(59.9)	(29.6)
Long-term net flows	19.2	1.7	17.5	5.5	1.2	4.3	16.6	5.8	10.8
Net flows in institutional money market funds	5.3	5.3	—	(15.5)	(15.5)	—	(0.1)	(0.1)	—
Market gains and losses/reinvestment	(15.3)	(13.2)	(2.1)	43.9	36.3	7.6	54.7	43.3	11.4
Acquisitions/dispositions, net	—	—	—	121.5	107.1	14.4	—	—	—
Foreign currency translation	(0.4)	(0.5)	0.1	1.6	0.1	1.5	11.2	10.9	0.3
December 31	625.3	529.0	96.3	616.5	535.7	80.8	459.5	406.5	53.0
Average long-term AUM	566.0	474.7	91.3	463.5	393.8	69.7	328.8	291.2	37.6
Average institutional money market AUM	68.3	68.3	—	68.8	68.8	—	87.0	87.0	—
Average AUM	634.3	543.0	91.3	532.3	462.6	69.7	415.8	378.2	37.6
Gross revenue yield on AUM(1)	64.9bps	74.0bps	10.8bps	66.0bps	74.3bps	10.8bps	63.8bps	68.8bps	13.4bps
Gross revenue yield on AUM before performance fees(1)	64.3bps	73.3bps	10.8bps	65.5bps	73.8bps	10.8bps	63.0bps	68.0bps	13.4bps
Net revenue yield on AUM(2)	45.7bps	51.6bps	10.8bps	47.4bps	52.9bps	10.8bps	46.7bps	50.0bps	13.4bps
Net revenue yield on AUM before performance fees(2)	45.1bps	50.8bps	10.8bps	46.9bps	52.3bps	10.8bps	46.0bps	49.2bps	13.4bps

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(1) Gross revenue yield on AUM is equal to annualized total operating revenues divided by average AUM, excluding joint venture (JV) AUM. Our share of the average AUM in 2011 for our JVs in China was $3.3 billion (2010: $3.6 billion, 2009: $3.7 billion). It is appropriate to exclude the average AUM of our JVs 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 pre-tax earnings of the JVs is recorded as equity in earnings of unconsolidated affiliates on our Consolidated Statements of Income.

(2) 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.

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Our AUM by channel, by asset class, and by client domicile were as follows:

Total AUM by Channel[1]

$ in billions	Total	Retail	Institutional	Private Wealth Management
January 1, 2011 AUM	616.5	378.1	221.4	17.0
Long-term inflows	177.6	135.4	38.7	3.5
Long-term outflows	(158.4)	(126.3)	(29.8)	(2.3)
Long-term net flows	19.2	9.1	8.9	1.2
Net flows in institutional money market funds	5.3	—	5.3	—
Market gains and losses/reinvestment	(15.3)	(12.3)	(2.7)	(0.3)
Foreign currency translation	(0.4)	(1.0)	0.6	—
December 31, 2011 AUM	625.3	373.9	233.5	17.9
January 1, 2010 AUM[2]	459.5	239.1	205.2	15.2
Long-term inflows	154.7	106.2	45.2	3.3
Long-term outflows	(149.2)	(107.4)	(39.6)	(2.2)
Long-term net flows	5.5	(1.2)	5.6	1.1
Net flows in institutional money market funds	(15.5)	—	(15.5)	—
Market gains and losses/reinvestment	43.9	36.8	6.4	0.7
Acquisitions/dispositions, net	121.5	104.0	17.5	—
Foreign currency translation	1.6	(0.6)	2.2	—
December 31, 2010 AUM	616.5	378.1	221.4	17.0
January 1, 2009 AUM[2]	377.1	165.6	198.1	13.4
Long-term inflows	106.1	85.1	16.1	4.9
Long-term outflows	(89.5)	(67.0)	(18.0)	(4.5)
Long-term net flows	16.6	18.1	(1.9)	0.4
Net flows in institutional money market funds	(0.1)	—	(0.1)	—
Market gains and losses/reinvestment	54.7	45.7	7.6	1.4
Foreign currency translation	11.2	9.7	1.5	—
December 31, 2009 AUM	459.5	239.1	205.2	15.2

See accompanying notes to these AUM tables on the following page.

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ETF, UIT & Passive AUM by Channel[(1)]

$ in billions	Total	Retail	Institutional	Private Wealth Management
January 1, 2011 AUM	80.8	70.6	10.2	—
Long-term inflows	71.3	59.9	11.4	—
Long-term outflows	(53.8)	(52.0)	(1.8)	—
Long-term net flows	17.5	7.9	9.6	—
Net flows in institutional money market funds	—	—	—	—
Market gains and losses/reinvestment	(2.1)	(1.6)	(0.5)	—
Foreign currency translation	0.1	—	0.1	—
December 31, 2011 AUM	96.3	76.9	19.4	—
January 1, 2010 AUM[(2)]	53.0	48.1	4.9	—
Long-term inflows	70.1	51.2	18.9	—
Long-term outflows	(65.8)	(47.2)	(18.6)	—
Long-term net flows	4.3	4.0	0.3	—
Net flows in institutional money market funds	—	—	—	—
Market gains and losses/reinvestment	7.6	4.8	2.8	—
Acquisitions/dispositions, net	14.4	13.7	0.7	—
Foreign currency translation	1.5	—	1.5	—
December 31, 2010 AUM	80.8	70.6	10.2	—
January 1, 2009 AUM[(2)]	30.5	27.2	3.3	—
Long-term inflows	40.4	40.1	0.3	—
Long-term outflows	(29.6)	(29.6)	—	—
Long-term net flows	10.8	10.5	0.3	—
Net flows in institutional money market funds	—	—	—	—
Market gains and losses/reinvestment	11.4	10.3	1.1	—
Foreign currency translation	0.3	0.1	0.2	—
December 31, 2009 AUM	53.0	48.1	4.9	—

See accompanying notes to these AUM tables on the following page.

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Total AUM by Asset Class[3]

$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives[4]
January 1, 2011 AUM	616.5	294.0	132.0	43.5	68.3	78.7
Long-term inflows	177.6	94.2	38.8	10.9	2.2	31.5
Long-term outflows	(158.4)	(102.1)	(25.1)	(7.9)	(2.0)	(21.3)
Long-term net flows	19.2	(7.9)	13.7	3.0	0.2	10.2
Net flows in institutional money market funds	5.3	—	—	—	5.3	—
Market gains and losses/reinvestment	(15.3)	(14.8)	3.2	(1.6)	0.2	(2.3)
Foreign currency translation	(0.4)	(0.3)	0.1	(0.3)	—	0.1
December 31, 2011 AUM	625.3	271.0	149.0	44.6	74.0 [5]	86.7
January 1, 2010 AUM[2]	459.5	192.6	76.2	39.9	83.5	67.3
Long-term inflows	154.7	95.8	32.7	8.2	1.5	16.5
Long-term outflows	(149.2)	(104.4)	(19.1)	(7.4)	(1.9)	(16.4)
Long-term net flows	5.5	(8.6)	13.6	0.8	(0.4)	0.1
Net flows in institutional money market funds	(15.5)	—	—	—	(15.5)	—
Market gains and losses/reinvestment	43.9	33.4	4.2	2.5	0.1	3.7
Acquisitions/dispositions, net	121.5	75.1	37.9	0.3	0.6	7.6
Foreign currency translation	1.6	1.5	0.1	—	—	—
December 31, 2010 AUM	616.5	294.0	132.0	43.5	68.3	78.7
January 1, 2009 AUM[2]	377.1	140.6	61.5	31.7	84.2	59.1
Long-term inflows	106.1	58.4	19.4	8.2	2.2	17.9
Long-term outflows	(89.5)	(55.2)	(12.6)	(8.0)	(3.1)	(10.6)
Long-term net flows	16.6	3.2	6.8	0.2	(0.9)	7.3
Net flows in institutional money market funds	(0.1)	—	—	—	(0.1)	—
Market gains and losses/reinvestment	54.7	42.1	6.5	6.0	—	0.1
Foreign currency translation	11.2	6.7	1.4	2.0	0.3	0.8
December 31, 2009 AUM	459.5	192.6	76.2	39.9	83.5	67.3

See accompanying notes to these AUM tables on the following page.

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ETF, UIT and Passive AUM by Asset Class[3]

$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives[4]
January 1, 2011 AUM	80.8	42.8	19.8	—	—	18.2
Long-term inflows	71.3	46.9	12.1	—	—	12.3
Long-term outflows	(53.8)	(42.6)	(2.6)	—	—	(8.6)
Long-term net flows	17.5	4.3	9.5	—	—	3.7
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and losses/reinvestment	(2.1)	(1.5)	0.7	—	—	(1.3)
Foreign currency translation	0.1	—	—	—	—	0.1
December 31, 2011 AUM	96.3	45.6	30.0	—	—	20.7
January 1, 2010 AUM	53.0	31.1	4.0	—	—	17.9
Long-term inflows	70.1	56.5	7.4	—	—	6.2
Long-term outflows	(65.8)	(56.3)	(1.4)	—	—	(8.1)
Long-term net flows	4.3	0.2	6.0	—	—	(1.9)
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and losses/reinvestment	7.6	5.6	0.6	—	—	1.4
Acquisitions/dispositions, net	14.4	4.5	9.2	—	—	0.7
Foreign currency translation	1.5	1.4	—	—	—	0.1
December 31, 2010 AUM	80.8	42.8	19.8	—	—	18.2
January 1, 2009 AUM[2]	30.5	21.6	0.9	—	—	8.0
Long-term inflows	40.4	26.4	2.5	—	—	11.5
Long-term outflows	(29.6)	(25.7)	—	—	—	(3.9)
Long-term net flows	10.8	0.7	2.5	—	—	7.6
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and losses/reinvestment	11.4	8.8	0.6	—	—	2.0
Foreign currency translation	0.3	—	—	—	—	0.3
December 31, 2009 AUM	53.0	31.1	4.0	—	—	17.9

See accompanying notes to these AUM tables on the following page.

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Total AUM by Client Domicile[6]

$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia[7]
January 1, 2011 AUM	616.5	415.4	27.9	92.1	35.3	45.8
Long-term inflows	177.6	120.4	2.6	14.3	17.2	23.1
Long-term outflows	(158.4)	(106.9)	(5.7)	(13.8)	(18.4)	(13.6)
Long-term net flows	19.2	13.5	(3.1)	0.5	(1.2)	9.5
Net flows in institutional money market funds	5.3	5.7	0.1	(0.7)	(0.1)	0.3
Market gains and losses/reinvestment	(15.3)	(4.6)	(0.8)	(1.6)	(1.6)	(6.7)
Foreign currency translation	(0.4)	—	(0.7)	(0.5)	(0.4)	1.2
December 31, 2011 AUM	625.3	430.0	23.4	89.8	32.0	50.1
January 1, 2010 AUM	459.5	294.1	29.0	84.9	24.4	27.1
Long-term inflows	154.7	94.1	2.1	16.2	15.7	26.6
Long-term outflows	(149.2)	(88.8)	(6.8)	(14.1)	(12.3)	(27.2)
Long-term net flows	5.5	5.3	(4.7)	2.1	3.4	(0.6)
Net flows in institutional money market funds	(15.5)	(16.5)	—	(1.5)	3.5	(1.0)
Market gains and losses/reinvestment	43.9	30.0	2.2	7.0	2.0	2.7
Acquisitions/dispositions, net	121.5	102.6	0.1	1.8	2.9	14.1
Foreign currency translation	1.6	(0.1)	1.3	(2.2)	(0.9)	3.5
December 31, 2010 AUM	616.5	415.4	27.9	92.1	35.3	45.8
January 1, 2009 AUM[2]	377.1	252.7	23.8	57.1	22.3	21.2
Long-term inflows	106.1	68.7	1.9	18.4	9.9	7.2
Long-term outflows	(89.5)	(58.3)	(5.3)	(7.5)	(10.8)	(7.6)
Long-term net flows	16.6	10.4	(3.4)	10.9	(0.9)	(0.4)
Net flows in institutional money market funds	(0.1)	2.8	(0.1)	—	(1.4)	(1.4)
Market gains and losses/reinvestment	54.7	28.2	4.4	11.2	3.8	7.1
Foreign currency translation	11.2	—	4.3	5.7	0.6	0.6
December 31, 2009 AUM	459.5	294.1	29.0	84.9	24.4	27.1

See accompanying notes to these AUM tables on the following page.

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ETF, UIT and Passive AUM by Client Domicile(6)

$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia(7)
January 1, 2011 AUM	80.8	77.3	—	—	1.2	2.3
Long-term inflows	71.3	67.5	—	—	0.5	3.3
Long-term outflows	(53.8)	(53.4)	—	—	(0.4)	—
Long-term net flows	17.5	14.1	—	—	0.1	3.3
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and losses/reinvestment	(2.1)	(1.8)	—	—	—	(0.3)
Foreign currency translation	0.1	—	—	—	—	0.1
December 31, 2011 AUM	96.3	89.6	—	—	1.3	5.4
January 1, 2010 AUM(2)	53.0	50.2	—	—	1.1	1.7
Long-term inflows	70.1	54.1	—	—	0.2	15.8
Long-term outflows	(65.8)	(46.9)	—	—	(0.3)	(18.6)
Long-term net flows	4.3	7.2	—	—	(0.1)	(2.8)
Net flows in institutional money market funds						
Market gains and losses/reinvestment	7.6	6.2	—	—	0.2	1.2
Acquisitions/dispositions, net	14.4	13.7	—	—	—	0.7
Foreign currency translation	1.5	—	—	—	—	1.5
December 31, 2010 AUM	80.8	77.3	—	—	1.2	2.3
January 1, 2009 AUM(2)	30.5	28.8	—	—	0.6	1.1
Long-term inflows	40.4	40.0	—	—	0.4	—
Long-term outflows	(29.6)	(29.5)	—	—	(0.1)	—
Long-term net flows	10.8	10.5	—	—	0.3	—
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and losses/reinvestment	11.4	10.8	—	—	0.2	0.4
Foreign currency translation	0.3	0.1	—	—	—	0.2
December 31, 2009 AUM	53.0	50.2	—	—	1.1	1.7

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(1) Channel refers to the distribution channel from which the AUM originated. Retail AUM arose from client investments into funds available to the public with shares or units. Institutional AUM originated from individual corporate clients, endowments, foundations, government authorities, universities, or charities. Private Wealth Management AUM arose from high net worth client investments.

(2) The beginning balances were adjusted to reflect certain asset reclassifications.

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

(4) See Part I, Item 1, "Business - Objectives by Asset Class" for a description of the investment objectives included within the Alternatives asset class.

(5) Ending Money Market AUM includes $69.4 billion in institutional money market AUM and $4.6 billion in retail money market AUM.

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

(7) Net flows in Asia in 2010 were driven by an inflow of $15.8 billion in the three months ended June 30, 2010 and an outflow of $18.6 billion in the three months ended December 31, 2010 related to a passive mandate in Japan which was a post-close direct consequence of the acquired business.

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Results of Operations for the Year Ended December 31, 2011, compared with the Year Ended December 31, 2010

Adoption of Guidance now encompassed in Accounting Standards Codification (ASC) Topic 810, "Consolidation"

The company provides investment management services to, and has transactions with, various 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. Certain of these entities are consolidated under variable interest or voting interest entity consolidation guidance. See Part II, Item 8, Financial Statements and Supplementary Data - Note 1, "Accounting Policies" and Note 20, "Consolidated Investment Products," for additional details.

The guidance now encompassed in ASC Topic 810, which was effective January 1, 2010, had a significant impact on the presentation of the company's financial statements in 2011 and 2010, as its provisions required the company to consolidate certain CLOs that were not previously consolidated. In accordance with the standard, prior periods have not been restated to reflect the consolidation of these CLOs.

The majority of the company's consolidated investment products balances were CLO-related as of December 31, 2011 and 2010. 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 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. Additionally, 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 discussion that follows will separate consolidated investment product results of operations from the company's investment management operations through 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.

Condensed Consolidating Statements of Income

$ in millions	Before Consolidation(1)		Consolidated Investment Products		Adjustments(1)(2)		Total	
Year ended December 31, 2011								
Total operating revenues	4,139.4		0.1		(47.3	)	4,092.2	
Total operating expenses	3,181.1		60.3		(47.3	)	3,194.1	
Operating income	958.3		(60.2	)	—		898.1	
Equity in earnings of unconsolidated affiliates	30.7		—		(0.2	)	30.5	
Interest and dividend income	19.3		307.2		(8.3	)	318.2	
Other investment income/(losses)	49.0		(159.2	)	20.3		(89.9	)
Interest expense	(61.8	)	(195.3	)	8.3		(248.8	)
Income before income taxes	995.5		(107.5	)	20.1		908.1	
Income tax provision	(286.1	)	—		—		(286.1	)
Net income	709.4		(107.5	)	20.1		622.0	
(Gains)/losses attributable to noncontrolling interests in consolidated entities, net	0.1		107.6		—		107.7	
Net income attributable to common shareholders	709.5		0.1		20.1		729.7	

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$ in millions	Before Consolidation[1]	Consolidated Investment Products	Adjustments[1][2]	Total
Year ended December 31, 2010				
Total operating revenues	3,532.7	0.3	(45.3)	3,487.7
Total operating expenses	2,887.8	55.3	(45.3)	2,897.8
Operating income	644.9	(55.0)	—	589.9
Equity in earnings of unconsolidated affiliates	40.8	—	(0.6)	40.2
Interest and dividend income	10.4	246.0	(5.1)	251.3
Other investment income/(losses)	15.6	107.6	6.4	129.6
Interest expense	(58.6)	(123.7)	5.1	(177.2)
Income before income taxes	653.1	174.9	5.8	833.8
Income tax provision	(197.0)	—	—	(197.0)
Net income	456.1	174.9	5.8	636.8
(Gains)/losses attributable to noncontrolling interests in consolidated entities, net	(0.2)	(170.8)	(0.1)	(171.1)
Net income attributable to common shareholders	455.9	4.1	5.7	465.7

(1) The Before Consolidation column includes Invesco's equity interests in the investment products accounted for as equity method (private equity and real estate partnership funds) and available-for-sale investments (CLOs). Upon consolidation of the CLOs, the company's and the CLOs' accounting policies are effectively aligned, resulting in the reclassification of the company's gain for the year ended December 31, 2011 of $20.3 million (representing the increase in the market value of the company's holding in the consolidated CLOs) from other comprehensive income into other gains/losses (year ended December 31, 2010: $6.4 million). The company's gain on its investment in the CLOs (before consolidation) eliminates with the company's share of the offsetting loss on the CLOs' debt. The net income arising from consolidation of CLOs is therefore completely attributed to other investors in these CLOs, as the company's share has been eliminated through consolidation. The Before Consolidation column does not include any other adjustments related to non-GAAP financial measure presentation.

(2) Adjustments include the elimination of intercompany transactions between the company and its consolidated investment products, primarily the elimination of management fees expensed by the funds and recorded as operating revenues (before consolidation) by the company.

Operating Revenues and Net Revenues

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

$ in millions	2011	2010	$ Change	% Change
Investment management fees	3,138.5	2,720.9	417.6	15.3 %
Service and distribution fees	780.3	645.5	134.8	20.9 %
Performance fees	37.9	26.1	11.8	45.2 %
Other	135.5	95.2	40.3	42.3 %
Total operating revenues	4,092.2	3,487.7	604.5	17.3 %
Third-party distribution, service and advisory expenses	(1,282.5)	(1,053.8)	(228.7)	21.7 %
Proportional share of revenues, net of third-party distribution expenses, from joint venture investments	41.4	42.2	(0.8)	(1.9)%
Management fees earned from consolidated investment products	46.8	45.3	1.5	3.3 %

Performance fees earned from consolidated investment products	0.5	—	0.5	N/A
Other revenues recorded by consolidated investment products	—	(0.3)	0.3	(100.0)%
Net revenues	2,898.4	2,521.1	377.3	15.0%

Operating revenues increased by 17.3% in the year ended December 31, 2011 to $4,092.2 million (year ended December 31, 2010: $3,487.7 million). Net revenues increased by 15.0% in in the year ended December 31, 2011 to $2,898.4 million (year ended December 31, 2010: $2,521.1 million). Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus our proportional share of net revenues from joint venture arrangements, plus management and performance fees earned from, less other revenues recorded by, consolidated investment products. See “Schedule of Non-GAAP Information” for additional important disclosures regarding the use of net revenues. A significant portion of our business and managed AUM are based outside of the U.S. 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 impact of foreign exchange rate movements accounted for $74.9 million (12.4%) of the increase in operating revenues, and was 1.8% of total operating revenues, during the year ended December 31, 2011 when compared to the year ended December 31, 2010. Additionally, our revenues are directly influenced by the level and composition of our AUM as more fully discussed below. 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.

The company acquired Morgan Stanley's retail asset management business, including Van Kampen Investments (the “acquired business” or the “acquisition”) on June 1, 2010. The operating results for the year ended December 31, 2010 include the operating results of the acquired business from the purchase date of June 1, 2010 through December 31, 2010, while the operating results for the year ended December 31, 2011 include the results of the acquisition for the entire year. The integration of the acquired business was largely completed at the end of 2010; as such, accurate segregated revenue and expense information for the acquired business is not available, resulting in the inability of the company to quantify the impact of the acquisition on operating revenues and expenses in the detailed variance discussion that follows.

As part of the acquisition-related U.S. mutual fund product alignment, 70 of the 71 planned U.S. funds mergers are complete as of December 31, 2011. As a consequence of the alignment, certain 1 year and 2 year fee waivers were agreed between the company and the fund boards which will reduce the company’s annual management fees by approximately $30 million commencing June 1, 2011.

Investment Management Fees

Investment management fees are derived from providing professional services to manage client accounts and include fees earned from retail mutual funds, unit trusts, investment companies with variable capital (ICVCs), exchange-traded funds, investment trusts and institutional and private wealth management advisory contracts. Investment management fees for products offered in the retail distribution channel are generally calculated as a percentage of the daily average asset balances and therefore vary as the levels of AUM change resulting from inflows, outflows and market movements. Investment management fees for products offered in the institutional and private wealth management distribution channels are calculated in accordance with the underlying investment management contracts and also vary over contractually determined periods in relation to the level of client assets managed.

Investment management fees increased by $417.6 million (15.3%) in the year ended December 31, 2011, to $3,138.5 million (year ended December 31, 2010: $2,720.9 million). The increase compares to a 19.2% increase in average AUM and a 22.1% increase in average long-term AUM. As discussed above in the “Assets Under Management” section, the mix of our AUM asset classes changed partly due to the AUM acquired through acquisitions, and partly due to market value changes and investor flows such that the revenue yield on our average AUM was lower in 2011 when compared to 2010. The percentage increase in investment management fees is therefore lower than the percentage increase in average AUM and average long-term AUM. The lower yield also reflects the acquisition-related U.S. mutual fund fee waivers that commenced in June 2011. Foreign exchange rate movements accounted for $67.2 million (16.1%) of the increase in investment management fees during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Service and Distribution Fees

Service fees are generated through fees charged to cover several types of expenses, including fund accounting fees and other maintenance costs for mutual funds, unit trusts and ICVCs, and administrative fees earned from closed-ended funds. Service fees also include transfer agent fees, which are fees charged to cover the expense of processing client share purchases and redemptions, call center support and client reporting. U.S. distribution fees 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. Distribution fees typically vary in relation to the amount of client assets managed. 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.

In the year ended December 31, 2011, service and distribution fees increased by $134.8 million (20.9%) to $780.3 million (year ended December 31, 2010: $645.5 million) primarily due to the acquisition and due to the increase in average AUM during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

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Performance Fees

Performance fee revenues are generated on certain management contracts when performance hurdles are achieved. Such fee revenues are recorded in operating revenues as of the performance measurement date, when the contractual performance criteria have been met and when the outcome of the transaction can be measured reliably in accordance with Method 1 of ASC Topic 605-20-S99, "Revenue Recognition - Services - SEC Materials." Cash receipt of earned performance fees occurs after the measurement date. The performance measurement date is defined in each contract in which incentive and performance fee revenue agreements are in effect. We have performance fee arrangements that include monthly, quarterly and annual measurement dates. Given the uniqueness of each transaction, performance fee contracts are evaluated on an individual basis to determine if revenues can and should be recognized. Performance fees are not recorded if there are any future performance contingencies. If performance arrangements require repayment of the performance fee for failure to perform during the contractual period, then performance fee revenues are recognized no earlier than the expiration date of these terms. Performance fees 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. Of our $625.3 billion in AUM at December 31, 2011, approximately $48.0 billion or 7.7%, could potentially earn performance fees.

In the year ended December 31, 2011, performance fees increased by $11.8 million (45.2%) to $37.9 million (year ended December 31, 2010: $26.1 million). The performance fees generated in 2011 arose primarily due to products managed by the European Real Estate group ($11.9 million), Atlantic Trust ($11.9 million), Invesco Perpetual ($5.3 million) and the U.S. private equity business ($4.5 million). The performance fees generated in 2010 arose primarily due to products managed by the European Real Estate group ($4.3 million), Invesco Perpetual ($3.4 million), and Atlantic Trust ($11.8 million).

Other Revenues

Other revenues include fees derived from our UIT operations, transaction commissions earned upon the sale of new investments into certain of our funds, and fees earned upon the completion of transactions in our direct 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 our financial statements on the date when the transactions are legally closed. Other revenues also include the revenues of consolidated investment products.

Following the acquisition, the company is the sponsor of UITs. In its capacity as sponsor of UITs, the company earns other revenues related to transactional sales charges resulting from the sale of UIT products and from the difference between the purchase or bid and offer price of securities temporarily held to form new UIT products. These revenues are recorded as other revenues net of concessions to dealers who distribute UITs to investors.

In the year ended December 31, 2011, other revenues increased by $40.3 million (42.3%) to $135.5 million (year ended December 31, 2010: $95.2 million). Other revenues included an increase of $15.3 million in UIT revenues reflecting a full year of the acquisition, higher real estate acquisition and disposition fees of $11.5 million, due to increased real estate fund property activity, an $11.3 million increase in transaction commissions generated by our private equity group, and an increase in mutual funds front end fees of $1.3 million, offset by a $0.7 million decline in other revenues during the year ended December 31, 2011 as compared to the year ended December 31, 2010. The impact of foreign exchange rate movements accounted for $1.4 million (3.5%) of the increase in other revenues during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Third-Party Distribution, Service and Advisory Expenses

Third-party distribution, service and advisory expenses include periodic “renewal” commissions paid to brokers and independent financial advisors for their 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. 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 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. Third-party distribution, service and advisory expenses may increase or decrease at a rate different from the rate of change in service and distribution fee revenues due to the inclusion of distribution, service and advisory expenses for the U.K. and Canada, where the related revenues are recorded as investment management fee revenues, as noted above.

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Third-party distribution, service and advisory expenses increased by $228.7 million (21.7%) in the year ended December 31, 2011 to $1,282.5 million (year ended December 31, 2010: $1,053.8 million), which is consistent with the increase in investment management and service and distribution fee revenues, reflecting the impact of the acquired business. Foreign exchange rate movements accounted for $24.7 million (10.8%) of the increase in third-party distribution, service and advisory expenses during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Proportional share of revenues, net of third-party distribution expenses, from joint venture investments

Management believes that the addition of our proportional share of revenues, net of third-party distribution expenses, from joint venture arrangements should be added to operating revenues to arrive at net revenues, as it is important to evaluate the contribution to the business that our joint venture arrangements are making. See “Schedule of Non-GAAP Information” for additional disclosures regarding the use of net revenues. 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).

The 1.9% decrease in our proportional share of revenues, net of third-party distribution expenses, from joint venture investments to $41.4 million in 2011 (year ended December 31, 2010: $42.2 million), is driven by the decline in average AUM of the Invesco Great Wall joint venture. Our share of the Invesco Great Wall joint venture's average AUM for the year ended December 31, 2011, was $3.3 billion, a 8.3% decline in average AUM from $3.6 billion for the year ended December 31, 2010.

Management and performance fees earned from consolidated investment products

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 consolidated investment products 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.

Management and performance fees earned from consolidated investment products increased by $2.0 million to $47.3 million in the year ended December 31, 2011 (year ended December 31, 2010: $45.3 million). The increase reflects the management fees from real estate products consolidated as of December 31, 2010 in connection with the acquisition of AIG Asia Real Estate.

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Operating Expenses

The main categories of operating expenses are as follows:

$ in millions	2011	2010	$ Change	% Change
Employee compensation	1,246.2	1,114.9	131.3	11.8 %
Third-party distribution, service and advisory	1,282.5	1,053.8	228.7	21.7 %
Marketing	86.0	78.5	7.5	9.6 %
Property, office and technology	254.6	238.4	16.2	6.8 %
General and administrative	295.4	262.2	33.2	12.7 %
Transaction and integration	29.4	150.0	(120.6)	(80.4)%
Total operating expenses	3,194.1	2,897.8	296.3	10.2 %

The table below sets 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.

$ in millions	2011	% of Total Operating Expenses	% of Operating Revenues	2010	% of Total Operating Expenses	% of Operating Revenues
Employee compensation	1,246.2	39.0 %	30.5 %	1,114.9	38.5 %	32.0 %
Third-party distribution, service and advisory	1,282.5	40.2 %	31.3 %	1,053.8	36.4 %	30.2 %
Marketing	86.0	2.7 %	2.1 %	78.5	2.7 %	2.3 %
Property, office and technology	254.6	8.0 %	6.2 %	238.4	8.2 %	6.8 %
General and administrative	295.4	9.2 %	7.2 %	262.2	9.0 %	7.5 %
Transaction and integration	29.4	0.9 %	0.7 %	150.0	5.2 %	4.3 %
Total operating expenses	3,194.1	100.0 %	78.0 %	2,897.8	100.0 %	83.1 %

During the year ended December 31, 2011, operating expenses increased by $296.3 million (10.2%) to $3,194.1 million (year ended December 31, 2010: $2,897.8 million). As discussed above, the acquisition occurred on June 1, 2010, which increased expenses across all categories, except transaction and integration expenses, which have decreased during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

In addition to the acquired business, foreign exchange differences have an impact on our reported expense variances. The impact of foreign exchange rate movements accounted for $61.8 million (20.9%) of the increase in operating expenses, and was 1.9% of total operating expenses, during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Employee Compensation

Employee compensation includes salary, cash bonuses and share-based payment plans designed to attract and retain the highest caliber employees. Employee staff benefit plan costs and payroll taxes are also included in employee compensation.

Employee compensation increased $131.3 million (11.8%) to $1,246.2 million in the year ended December 31, 2011 (year ended December 31, 2010: $1,114.9 million). The compensation increase includes the incremental impact of the acquisition. Base salaries and variable compensation increased $94.2 million. Staff related costs, principally payroll taxes and termination costs, increased $15.0 million. Staff benefits expense decreased by $2.5 million due to a $5.0 million reduction in the prepaid compensation amortization expenses in the year ended December 31, 2011 when compared to the year ended December 31, 2010 related to the 2006 acquisition of W.L. Ross & Co. This prepaid compensation was fully amortized as of September 30, 2011. Also included in compensation expenses during the year ended December 31, 2011 are share-based costs which decreased $1.9 million during the year ended December 31, 2011 as compared to the year ended December 31, 2010. The impact of foreign exchange rate movements accounted for $26.5 million (20.2%) of the increase in employee compensation expenses the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Headcount at December 31, 2011 was 6,162 (year ended December 31, 2010: 5,617). The 2011 increase is primarily driven by the insourcing of our Hyderabad, India, facility, which commenced in late 2010 with the hiring of 83 employees and continued into early 2011 with the hiring of an additional 474 individuals by late February 2011.

Third-Party Distribution, Service and Advisory Expenses

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

Marketing

Marketing expenses include the cost of direct advertising of our products through trade publications, television and other media, and public relations costs, such as the marketing of the company's products through conferences or other sponsorships, and the cost of marketing-related employee travel.

Marketing expenses increased by $7.5 million (9.6%) in the year ended December 31, 2011 to $86.0 million (year ended December 31, 2010: $78.5 million). The increase in marketing includes the impact of the acquisition. Additionally, the increase during the year ended December 31, 2011 includes an increase in advertising expense of $15.1 million as our U.S. retail business launched an advertising program focusing on re-branding after the acquisition. The full year expense in 2011 of the acquisition-related additional sales force resulted in an increase in travel expense of $3.2 million and increase in other marketing costs of $2.5 million. These increases were partly offset by a decrease in marketing expense of $13.4 million due to the reversal of a cumulative deferred credit, as well as a reduction in recurring costs, from the termination of our sponsorship and naming rights commitments related to a sports stadium in Denver, Colorado, a decrease in client event costs of $0.9 million, and a decrease in sales literature and research of $0.9 million, as compared to the year ended December 31, 2010. The impact of foreign exchange rate movements accounted for $2.1 million (28.0%) of the increase in marking expense during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Property, Office and Technology

Property, office and technology expenses include rent and utilities for our various leased facilities, depreciation of company-owned property and capitalized computer equipment costs, minor non-capitalized computer equipment and software purchases and related maintenance payments, and costs related to externally provided operations, technology, and other back office management services.

Property, office and technology costs increased by $16.2 million (6.8%) to $254.6 million in the year ended December 31, 2011 (year ended December 31, 2010: $238.4 million). Property and office expenses increased $14.8 million over the comparable 2010 period, due to an increase of $11.5 million in property management fees, service charges and rent expense related to new properties associated with business acquisitions, and increases of $2.1 million in depreciation expense and $1.2 million in other property costs. Technology and communications expenses decreased $3.5 million due to decreases in outsourced administration expenses, partly due to the Hyderabad internalization, of $12.9 million, a decrease in telephone and communication line expenses of $1.8 million and a decrease in programming and consulting expenses of $1.0 million, offset by increases in depreciation and maintenance expenses of $11.7 million and hardware and software purchases of $0.5 million, during the year ended December 31, 2011 as compared to the year ended December 31, 2010. The impact of foreign exchange rate movements accounted for $4.9 million (30.2%) of the increase in property, office and technology expenses during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

General and Administrative

General and administrative expenses include professional services costs, such as information service subscriptions, consulting fees, professional insurance costs, audit, tax and legal fees, non-marketing related employee travel expenditures, recruitment and training costs, and the amortization of certain intangible assets.

General and administrative expenses increased by $33.2 million (12.7%) to $295.4 million in the year ended December 31, 2011 (year ended December 31, 2010: $262.2 million). Increases in general and administrative expenses include the impact of the acquisition. Professional services expenses increased $8.3 million during the year ended December 31, 2011 as compared to the year ended December 31, 2010 due to increases in consultant fees of $9.2 million, contractor and recruitment fees of $5.6 million, information services of $4.5 million, legal fees of $3.1 million (including legal fees associated with settlement litigation arising from the 2007 departure of certain investment professionals to a competitor of $3.6 million), and other professional services of $1.2 million. Travel expenses increased $11.1 million, driven by higher levels of business activity, and mutual fund expenses increased $7.0 million during the year ended December 31, 2011 as compared to the year ended December 31, 2010. Expenditure related tax increases, including U.K. value added tax (VAT), resulted in an additional $4.5 million of irrecoverable VAT expense during the year ended December 31, 2011 as compared to the year ended December 31, 2010, as VAT rates increased in the U.K. These increases are offset by reduced regulatory fees of $13.3 million relating to a levy from the U.K. Financial Services Compensation Scheme in 2010 of $15.3 million to cover claims resulting from failures of non-affiliated investment firms, professional insurance costs of $1.0 million, accounting services of $0.6 million and directors fees and expenses of $0.4 million. Included in general and administrative expenses for the year ended December 31, 2010 was $8.9 million representing fund

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reimbursement costs from the correction of historical foreign exchange allocations. Other net decreases of $2.1 million in general and administrative expenses consist of a reduction in acquisition-related contingent consideration payable, gains on disposal of property, plant and equipment and fund reimbursement costs on trade corrections, offset by an increase in intangible amortization expense due to the acquisitions and that includes a write down of certain management contract intangibles. The impact of foreign exchange rate movements accounted for $3.6 million (10.8%) of the increase in general and administrative costs during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Transaction and integration

Transaction and integration expenses include acquisition-related charges incurred during the period to effect a business combination, including legal, regulatory, advisory, valuation, integration-related employee incentive awards and other professional or consulting fees, general and administrative costs, including travel costs related to the transaction and the costs of temporary staff involved in executing the transaction, and post-closing costs of integrating the acquired business into the company's existing operations. Additionally, transaction and integration expenses include legal costs related to the defense of auction rate preferred securities complaints raised in the pre-acquisition period with respect to various closed-end funds included in the acquisition. See Item 8, Financial Statements and Supplementary Data - Note 19, "Commitments and Contingencies" for additional information.

Transaction and integration charges were $29.4 million in the year ended December 31, 2011 (year ended December 31, 2010:$150.0 million) related to the integration of acquired businesses. Transaction and integration expenses during the year ended December 31, 2011 include $19.9 million of professional services and other costs, principally legal, proxy solicitation, consultancy and insurance, $4.9 million of property and office, $2.8 million of employee compensation costs, $1.4 million of technology and communication costs and $0.4 million of marketing and client services. Transaction and integration expenses for the year ended December 31, 2010 include $39.1 million of staff costs, $53.4 million of technology contractor and related costs, and $57.5 million of professional services, principally legal, proxy solicitation, consultancy and insurance.

Operating Income, Adjusted Operating Income, Operating Margin and Adjusted Operating Margin
Operating income increased by $308.2 million (52.2%) to $898.1 million in the year ended December 31, 2011 (year ended December 31, 2010: $589.9 million). Operating margin (operating income divided by operating revenues), increased from 16.9% in the year ended December 31, 2010 to 21.9% in the year ended December 31, 2011. The increase in operating income and margin resulted from a greater relative increase in operating revenues (17.3%) than in operating expenses (10.2%) during the period. Adjusted operating income, increased by $171.2 million (19.1%) to $1,068.9 million in the year ended December 31, 2011 from $897.7 million in the year ended December 31, 2010. Adjusted operating margin increased to 36.9% in the year ended December 31, 2011 from 35.6% in the year ended December 31, 2010. See "Schedule of Non-GAAP Information" for a reconciliation of operating revenues to net revenues, a reconciliation of operating income to adjusted operating income and additional important disclosures regarding net revenues, adjusted operating income and adjusted operating margin.

Other Income and Expenses

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

	Year ended December 31,			
$ in millions	2011	2010	$ Change	% Change
Equity in earnings of unconsolidated affiliates	30.5	40.2	(9.7)	(24.1)%

Interest and dividend income	11.0	10.4	0.6	5.8 %
Interest income of consolidated investment products	307.2	240.9	66.3	27.5 %
Gains/(losses) of consolidated investment products, net	(138.9)	114.0	(252.9)	N/A
Interest expense	(61.8)	(58.6)	(3.2)	5.5 %
Interest expense of consolidated investment products	(187.0)	(118.6)	(68.4)	57.7 %
Other gains and losses, net	49.0	15.6	33.4	214.1 %
Total other income and expenses	10.0	243.9	(233.9)	(95.9)%

Equity in earnings of unconsolidated affiliates

Equity in earnings of unconsolidated affiliates decreased by $9.7 million (24.1%) to $30.5 million in the year ended December 31, 2011 (year ended December 31, 2010: $40.2 million). Included in equity in earnings from affiliates is our share of the income from our joint ventures in China, which declined by $2.4 million to $21.5 million in the year ended December 31, 2011 from $23.9 million earned during the year ended December 31, 2010. Declines in equity in earnings from our joint ventures are due to declines

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in revenues that are in turn attributable to lower average AUM in those entities during the year. Earnings from our affiliate in Poland increased by $0.2 million to $1.3 million in year ended December 31, 2011 from $1.1 million earned in the year ended December 31, 2010. The remainder of the variance is due to our share of the market-driven valuation changes in the underlying holdings of certain partnership investments which decreased by $7.4 million to $7.7 million earned in the year ended December 31, 2011 from $15.1 million earned during the year ended December 31, 2010.

Interest and dividend income and interest expense

Interest and dividend income increased by $0.6 million (5.8%) to $11.0 million in the year ended December 31, 2011 (year ended December 31, 2010: $10.4 million). The year ended December 31, 2011 includes dividend income of $4.9 million on investments held to hedge economically deferred compensation plans (December 31, 2010: $2.7 million). This dividend income is passed through to employee participants in the deferred compensation plans. See “Schedule of Non-GAAP Information” for additional details. The increase in dividend income of $2.2 million is offset by the decreases in investment income and interest earned on cash and cash equivalents of $1.6 million resulting from lower average cash and cash equivalent balances during the year ended December 31, 2011. Interest expense increased by $3.2 million (5.5%) to $61.8 million in the year ended December 31, 2011 (year ended December 31, 2010: $58.6 million). Higher average debt balances were partly offset by lower average cost of debt during the year ended December 31, 2011.

Interest income and interest expense of consolidated investment products

Interest income of consolidated investment products results from interest generated by the collateral assets held by consolidated CLOs, which is used to satisfy the interest expenses of the notes issued by the consolidated CLOs and other CLO operating expense requirements, including the payment of the management and performance fees to the company as investment manager. See Part II, Item 8, Financial Statements and Supplementary Data - Note 20, “Consolidated Investment Products,” for additional details.

In the year ended December 31, 2011, interest income of consolidated investment products increased by $66.3 million (27.5%) to $307.2 million (year ended December 31, 2010: $240.9 million) reflecting the acquisition and higher interest rates on variable rate asset collateral held by the CLOs. Interest expense of consolidated investment products increased by $68.4 million (57.7%) to $187.0 million (year ended December 31, 2010: $118.6 million) reflecting the acquisition and higher variable interest rates on outstanding principal balances of CLO notes in 2011.

Gains and losses of consolidated investment products, net income impact of consolidated investment products, and noncontrolling interests in consolidated entities

Included in other income and expenses are gains and losses of consolidated investment products, net, which are driven by realized and unrealized gains and losses of underlying investments held by consolidated investment products. In the year ended December 31, 2011 other gains and losses of consolidated investment products were a net loss of $138.9 million, as compared to a net gain of $114.0 million in the year ended December 31, 2010. The net loss in the 2011 period is primarily due to losses in CLO investments and long-term debt which more than offset gains in the market value of investments held by consolidated private equity funds. The net gain in the 2010 period is primarily due to changes in market values of investments held by consolidated private equity funds.

As illustrated in the Condensed Consolidating Statements of Income at the beginning of this Results of Operations section, the consolidation of investment products during the year ended December 31, 2011 resulted in a decrease to net income of $87.4 million before attribution to noncontrolling interests. Invesco invests in only a portion of these products, and as a result this net loss is offset by noncontrolling interests of $107.6 million, resulting in a net increase in net income of the company of $20.2 million. The consolidation of investment products during the year ended December 31, 2010 resulted in an increase to net income of $180.7 million before attribution to noncontrolling interests. This net income is offset by noncontrolling interests of $170.9 million, resulting in a net increase in net income of the company of $9.8 million.

Noncontrolling interests in consolidated entities represent the profit or loss amounts attributed to third party investors in consolidated investment products. Movements in amounts attributable to noncontrolling interests in consolidated entities on the company's Consolidated Statements of Income generally offset the gains and losses, interest income and interest expense of consolidated investment products.

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Other gains and losses, net

Other gains and losses, net were a net gain of $49.0 million in the year ended December 31, 2011 as compared to a net gain of $15.6 million in the year ended December 31, 2010. Included within other gains and losses in the year ended December 31, 2011 is a credit of $45.0 million related to the settlement of litigation arising from the 2007 departure of certain investment professionals to a competitor. Also included in other gains and losses is a net loss of $2.6 million as a result of the deprecation of assets held for our deferred compensation plans (year ended December 31, 2010: a net gain of $14.2 million), together with $8.1 million of net realized gains from seed investments (year ended December 31, 2010: $9.2 million net realized gains). The 2011 other gains and losses also included $0.9 million in other-than-temporary impairment charges related to other seed money in affiliated funds (year ended December 31, 2010: $6.6 million). In the year ended December 31, 2011, we incurred $0.6 million in net foreign exchange losses (year ended December 31, 2010: $0.2 million in net foreign exchange losses) on the revaluation of intercompany foreign currency denominated loans into the various functional currencies of our subsidiaries.

Income Tax Expense

Our effective tax rate, excluding noncontrolling interests in consolidated entities, for 2011 was 28.2%, down from 29.7% for 2010. The rate decrease was primarily due to changes in the mix of pre-tax income and favorable adjustments to reconcile our tax provisions to reflect actual tax returns filed, partially offset by a smaller benefit from the release of provisions for uncertain tax positions in 2011 versus 2010. 2010 also included non-deductible transaction and integration costs related to the acquired business.

The inclusion of income from noncontrolling interests in consolidated entities increased our effective tax rate to 31.5% in 2011 and decreased it to 23.6% in 2010. The 2011 rate was higher than 2010 due to a larger impact from losses in non-controlling interests in 2011.

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Results of Operations for the Year Ended December 31, 2010, compared with the Year Ended December 31, 2009

Condensed Consolidating Statements of Income

$ in millions	Before Consolidation[1]	Consolidated Investment Products[2]	Adjustments[1][3]	Total
Year ended December 31, 2010				
Total operating revenues	3,532.7	0.3	(45.3)	3,487.7
Total operating expenses	2,887.8	55.3	(45.3)	2,897.8
Operating income	644.9	(55.0)	—	589.9
Equity in earnings of unconsolidated affiliates	40.8	—	(0.6)	40.2
Interest and dividend income	10.4	246.0	(5.1)	251.3
Other investment income/(losses)	15.6	107.6	6.4	129.6
Interest expense	(58.6)	(123.7)	5.1	(177.2)
Income before income taxes	653.1	174.9	5.8	833.8
Income tax provision	(197.0)	—	—	(197.0)
Net income	456.1	174.9	5.8	636.8
(Gains)/losses attributable to noncontrolling interests in consolidated entities, net	(0.2)	(170.8)	(0.1)	(171.1)
Net income attributable to common shareholders	455.9	4.1	5.7	465.7

$ in millions	Before Consolidation	Consolidated Investment Products[2]	Adjustments[3]	Total
Year ended December 31, 2009				
Total operating revenues	2,633.3	1.9	(7.9)	2,627.3
Total operating expenses	(2,139.5)	(11.4)	7.9	(2,143.0)
Operating income	493.8	(9.5)	—	484.3
Equity in earnings of unconsolidated affiliates	24.5	—	2.5	27.0
Interest and dividend income	9.8	—	—	9.8
Other investment income/(losses)	7.8	(106.9)	—	(99.1)
Interest expense	(64.5)	—	—	(64.5)
Income before income taxes	471.4	(116.4)	2.5	357.5
Income tax provision	(148.2)	—	—	(148.2)
Net income	323.2	(116.4)	2.5	209.3
(Gains)/losses attributable to noncontrolling interests in consolidated entities, net	(0.7)	113.9	—	113.2
Net income attributable to common shareholders	322.5	(2.5)	2.5	322.5

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(1) The Before Consolidation column includes Invesco's equity interests in the investment products accounted for as equity method (private equity and real estate partnership funds) and available-for-sale investments (CLOs). Upon consolidation of the CLOs, the company's and the CLOs' accounting policies are effectively aligned, resulting in the reclassification of the company's gain for the year ended December 31, 2010 of $6.4 million (representing the increase in the market value of the company's holding in the consolidated CLOs) from other comprehensive income into other gains/losses. The company's gain on its investment in the CLOs (before consolidation) eliminates with the company's share of the offsetting loss on the CLOs' debt. The net income arising from consolidation of CLOs is therefore completely attributed to other investors in these CLOs, as the company's share has been

eliminated through consolidation. The Before Consolidation column does not include any other adjustments related to non-GAAP financial measure presentation.

(2) The company adopted guidance now encompassed in ASC Topic 810 on January 1, 2010 resulting in the consolidation of certain CLOs. In accordance with the standard, prior periods have not been restated to reflect the consolidation of these CLOs. Prior to January 1, 2010, the company was not deemed to be the primary beneficiary of these CLOs.

(3) Adjustments include the elimination of intercompany transactions between the company and its consolidated investment products, primarily the elimination of management fees expensed by the funds and recorded as operating revenues (before consolidation) by the company.

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Operating Revenues and Net Revenues

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

$ in millions	2010	2009	$ Change	% Change
Investment management fees	2,720.9	2,120.2	600.7	28.3 %
Service and distribution fees	645.5	412.6	232.9	56.4 %
Performance fees	26.1	30.0	(3.9)	(13.0)%
Other	95.2	64.5	30.7	47.6 %
Total operating revenues	3,487.7	2,627.3	860.4	32.7 %
Third-party distribution, service and advisory expenses	(1,053.8)	(737.0)	(316.8)	43.0 %
Proportional share of revenues, net of third-party distribution expenses, from joint venture investments	42.2	44.7	(2.5)	(5.6)%
Management fees earned from consolidated investment products	45.3	8.0	37.3	N/A
Other revenues recorded by consolidated investment products	(0.3)	(2.0)	1.7	85.0 %
Net revenues	2,521.1	1,941.0	580.1	29.9 %

Operating revenues increased by 32.7% in 2010 to $3,487.7 million (year ended December 31, 2009: $2,627.3 million). Net revenues increased by 29.9% in 2010 to $2,521.1 million (year ended December 31, 2009: $1,941.0 million). Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus our proportional share of net revenues from joint venture arrangements. See “Schedule of Non-GAAP Information” for additional important disclosures regarding the use of net revenues. The impact of foreign exchange rate movements accounted for $18.0 million (2.1%) of the increase in operating revenues, and was 0.5% of total operating revenues, during the year ended December 31, 2010 when compared to the year ended December 31, 2009.

As discussed above, the company acquired Morgan Stanley's retail asset management business, including Van Kampen Investments (the “acquired business” or the “acquisition”) on June 1, 2010. The acquisition had a significant impact on our results for the 2010 period. The operating results for the year ended December 31, 2010 include the operating results of the acquired business from the purchase date of June 1, 2010 through December 31, 2010. The integration of the acquired business was largely completed at the end of 2010; as such, accurate segregated expense information for the acquired business was not available to include in the detailed variance discussion that follows. Prior to any significant product mergers, revenues associated with the acquired business could be separately identified, and as a result, the impact was estimated. Operating revenues of the acquired business for the year ended December 31, 2010 were approximately $468 million, which represented the incremental impact of the acquired business and does not represent the stand-alone results of the acquired business.

Investment Management Fees

Investment management fees increased by $600.7 million (28.3%) in the year ended December 31, 2010, to $2,720.9 million (year ended December 31, 2009: $2,120.2 million) due to the acquisition, increases in average AUM, primarily retail AUM, changes in the mix of AUM between asset classes and foreign exchange rate movement. The acquisition contributed to the increase in investment management fees with an estimated $257 million in these fees during the year ended December 31, 2010. Average long-term AUM, which generally earn higher fee rates than money market AUM, increased 41.0% to $463.5 billion for the year ended December 31, 2010 from $328.8 billion for the year ended December 31, 2009, while average institutional money market AUM decreased 20.9% to $68.8 billion for the year ended December 31, 2010 from $87.0 billion for the year ended December 31, 2009. The increase in average long-term AUM includes the impact of the acquired business. See the company's disclosures regarding the changes in AUM during the year ended December 31, 2010 in the “Assets Under Management” section above for additional information regarding the movements in AUM. Foreign exchange rate movements led to an increase in investment management fees of $17.0 million (2.8%) during the year ended December 31, 2010 as compared to the year ended December 31, 2009.

Additionally, the change in investment management fee revenues reflects the adoption of guidance now encompassed in ASC Topic 810 on January 1, 2010. As part of the consolidation, management fees earned from consolidated CLOs and other products of $45.3 million were eliminated from the company's operating revenues for the year ended December 31, 2010. In accordance with the standard, prior periods have not been restated to reflect the consolidation of these CLOs.

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Service and Distribution Fees

In 2010, service and distribution fees increased by $232.9 million (56.4%) to $645.5 million (year ended December 31, 2009: $412.6 million). The acquisition contributed an estimated $172 million of the increase in service and distribution fees in the year ended December 31, 2010. The remaining increase is largely attributable to the increase in average AUM during the year.

Performance Fees

In the year ended December 31, 2010, performance fees decreased by $3.9 million (13.0%) to $26.1 million (year ended December 31, 2009: $30.0 million). The performance fees generated in 2010 arose primarily due to products managed by the European Real Estate group ($4.3 million), Invesco Perpetual ($3.4 million), and Atlantic Trust ($11.8 million). The performance fees generated in 2009 arose primarily due to products managed by the Invesco Global Strategies group ($2.4 million), Invesco Perpetual ($13.4 million), and Atlantic Trust ($5.7 million). Of our $616.5 billion in AUM at December 31, 2010, only approximately $36.8 billion, or 5.9%, could potentially earn performance fees. Of the $114.6 billion AUM acquired on June 1, 2010 through the acquisition, $2.7 billion, or 2.4%, are eligible to earn performance fees.

Other Revenues

In the year ended December 31, 2010, other revenues increased by $30.7 million (47.6%) to $95.2 million (year ended December 31, 2009: $64.5 million). Increases in other revenues included $38.9 million in UIT revenues during the year, a result of the acquired business, and higher real estate acquisition and disposition fees of $2.4 million which were offset by a $5.2 million decline in transaction commissions.

Third-Party Distribution, Service and Advisory Expenses

Third-party distribution, service and advisory expenses increased by $316.8 million (43.0%) in the year ended December 31, 2010 to $1,053.8 million (year ended December 31, 2009: $737.0 million), which is consistent with the increase in investment management and service and distribution fee revenues. Foreign exchange rate movements increased third-party distribution, service and advisory expenses by $5.3 million (1.9%) during the year ended December 31, 2010 as compared to the year ended December 31, 2009.

Proportional share of revenues, net of third-party distribution expenses, from joint venture investments

The 5.6% decrease in our proportional share of revenues, net of third-party distribution expenses, to $42.2 million in 2010 (year ended December 31, 2009: $44.7 million), is driven by the decline in average AUM of the Invesco Great Wall joint venture. Our share of the Invesco Great Wall joint venture's average AUM for the year ended December 31, 2010, was $3.6 billion, a 2.7% decline in average AUM from $3.7 billion for the year ended December 31, 2009.

Management fees earned from consolidated investment products

Management fees earned from consolidated investment products increased by $37.3 million to $45.3 million in the year ended December 31, 2010 (year ended December 31, 2009: $8.0 million). The increase reflects the adoption of guidance now encompassed in ASC Topic 810 on January 1, 2010. CLO management fees of $35.4 million were eliminated from the company's operating revenues for the year ended December 31, 2010. In accordance with the standard, prior periods have not been restated to reflect the consolidation of these CLOs.

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Operating Expenses

The main categories of operating expenses are as follows:

$ in millions	2010	2009	$ Change	% Change
Employee compensation	1,114.9	950.8	164.1	17.3 %
Third-party distribution, service and advisory	1,053.8	737.0	316.8	43.0 %
Marketing	78.5	65.3	13.2	20.2 %
Property, office and technology	238.4	212.3	26.1	12.3 %
General and administrative	262.2	166.8	95.4	57.2 %
Transaction and integration	150.0	10.8	139.2	N/A
Total operating expenses	2,897.8	2,143.0	754.8	35.2 %

The table below sets 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.

$ in millions	2010	% of Total Operating Expenses	% of Operating Revenues	2009	% of Total Operating Expenses	% of Operating Revenues
Employee compensation	1,114.9	38.5 %	32.0 %	950.8	44.4 %	36.2 %
Third-party distribution, service and advisory	1,053.8	36.4 %	30.2 %	737.0	34.4 %	28.0 %
Marketing	78.5	2.7 %	2.3 %	65.3	3.0 %	2.5 %
Property, office and technology	238.4	8.2 %	6.8 %	212.3	9.9 %	8.1 %
General and administrative	262.2	9.0 %	7.5 %	166.8	7.8 %	6.3 %
Transaction and integration	150.0	5.2 %	4.3 %	10.8	0.5 %	0.4 %
Total operating expenses	2,897.8	100.0 %	83.1 %	2,143.0	100.0 %	81.5 %

During 2010, operating expenses increased by $754.8 million (35.2%) to $2,897.8 million (year ended December 31, 2009: $2,143.0 million), reflecting increases in all cost categories from 2009 expense levels. As discussed above, the Morgan Stanley acquisition took place on June 1, 2010, which increased expenses across all categories. As the integration of the acquired business was largely completed at end of 2010, segregated expense data is not available. The impact of foreign exchange rate movements accounted for $13.2 million (1.7%) of the increase in operating expenses, and was 0.5% of total operating expenses, during the year ended December 31, 2010.

Employee Compensation

Employee compensation increased $164.1 million (17.3%) to $1,114.9 million in the year ended December 31, 2010 (year ended December 31, 2009: $950.8 million). Base salaries and variable compensation increased $114.3 million during the year ended December 31, 2010 from the year ended December 31, 2009 due to incremental costs associated with the acquisition, the impact of annual merit increases, and the increase in variable compensation accruals to reflect the overall earnings growth of the company, including improving operating results and sales. Included in compensation expenses during the year ended December 31, 2010 are share-based costs of $114.1 million compared to $90.8 million during the year ended December 31, 2009, also due to the incremental impact of the acquisition and to the additional amortization of share awards granted February 28, 2010 as part of the company's annual share award cycle. Foreign exchange rate movement led to an increase in employee compensation expenses of $6.3 million (3.9%) in the year ended December 31, 2010 compared to the year ended December 31, 2009. Additionally, employee compensation costs for the year ended December 31, 2010 and 2009 included $20.0 million of prepaid compensation amortization expenses related to the 2006 acquisition of W.L. Ross & Co.

Headcount at December 31, 2010 was 5,617 (year ended December 31, 2009: 4,890). The acquisition added 580 employees at June 1, 2010. Formal hiring of staff in our Hyderabad, India, facility commenced with 83 individuals becoming our employees in late 2010, and more thereafter.

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Third-Party Distribution, Service and Advisory Expenses

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

Marketing

Marketing expenses increased by $13.2 million (20.2%) in 2010 to $78.5 million (year ended December 31, 2009: $65.3 million) due primarily to travel/client events and sales literature/research expenses increased $11.3 million and $4.3 million, respectively, during the year ended December 31, 2010 from the year ended December 31, 2009, offset by a decrease in advertising expenses of $3.2 million during the year ended December 31, 2010 as compared to the year ended December 31, 2009.

Property, Office and Technology

Property, office and technology costs increased by $26.1 million (12.3%) to $238.4 million in 2010 from $212.3 million in 2009. Increases in property, office and technology costs include increases in outsourced administration expense and depreciation expense of $14.7 million and $7.1 million, respectively, along with other additional costs resulting from the acquisition.

General and Administrative

General and administrative expenses increased by $95.4 million (57.2%) to $262.2 million in 2010 from $166.8 million in 2009, due to several factors, including an increase in amortization of certain intangible assets related to the acquisition of $18.0 million, a charge recorded in the three months ended December 31, 2010, relating to a levy from the U.K. Financial Services Compensation Scheme of $15.3 million to cover claims resulting from failures of non-affiliated investment firms, a charge representing reimbursement costs from the correction of historical foreign exchange allocations in the fund accounting process that impacted the reporting of fund performance of certain funds of $8.9 million, an increase in non-marketing travel and entertainment costs of $10.4 million and an increase in market information services of $10.1 million for increased services across the business. Additionally, general and administrative expenses increased in 2010 from 2009 due to an insurance recovery received in 2009 related to legal costs associated with the market-timing regulatory settlement which offset 2009 expenses by $9.5 million.

Transaction and integration

Transaction and integration charges were $150.0 million in 2010, as compared to $10.8 million in 2009 ($26.7 million of these costs were recorded in the three months ended December 31, 2010) and relate primarily to the acquisition of Morgan Stanley's retail asset management business, including Van Kampen Investments. The acquisition was announced in October 2009 and closed on June 1, 2010. Transaction and integration charges incurred during the year ended December 31, 2010 include $39.1 million of staff costs, $53.4 million of technology contractor and related costs, and $57.5 million of professional services, principally legal, proxy solicitation, consultancy and insurance.

Operating Income, Adjusted Operating Income, Operating Margin and Adjusted Operating Margin

Operating income increased 21.8% to $589.9 million in 2010 from $484.3 million in 2009, driven by the increase in operating revenues from increased AUM. Operating margin (operating income divided by operating revenues) was 16.9% in 2010, down from 18.4% in 2009. Adjusted operating margin increased to 35.6% in 2010 from 29.1% in 2009. See “Schedule of Non-GAAP Information” for a reconciliation of operating revenues to net revenues, a reconciliation of operating income to adjusted operating income and additional important disclosures regarding net revenues, adjusted operating income and adjusted operating margin.

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Other Income and Expenses

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

	Year ended December 31,			
$ in millions	2010	2009	$ Change	% Change
Equity in earnings of unconsolidated affiliates	40.2	27.0	13.2	48.9 %
Interest and dividend income	10.4	9.8	0.6	6.1 %
Interest income of consolidated investment products	240.9	—	240.9	N/A
Gains/(losses) of consolidated investment products, net	114.0	(106.9)	220.9	N/A
Interest expense	(58.6)	(64.5)	5.9	9.1 %
Interest expense of consolidated investment products	(118.6)	—	(118.6)	N/A
Other gains and losses, net	15.6	7.8	7.8	100 %
Total other income and expenses	243.9	(126.8)	370.7	N/A

Equity in earnings of unconsolidated affiliates

Equity in earnings of unconsolidated affiliates increased by $13.2 million (48.9%) to $40.2 million in the year ended December 31, 2010 (year ended December 31, 2009: $27.0 million). Included in equity in earnings from affiliates is our share of the income from our joint ventures in China, which declined by $5.5 million to $23.9 million in the year ended December 31, 2010 from $29.4 million earned during the year ended December 31, 2009. Declines in equity in earnings from our joint ventures are due to declines in average AUM in those entities during the year. Earnings from our affiliate in Poland also decreased by $1.1 million to $1.1 million in year ended December 31, 2010 from $2.2 million earned in the year ended December 31, 2009. These declines were more than offset by our share of the market-driven valuation changes in the underlying holdings of certain partnership investments which increased by $19.6 million to $15.1 million earned in the year ended December 31, 2010 from $4.5 million of losses during the year ended December 31, 2009.

Interest and dividend income and interest expense

Interest and dividend income increased by $0.6 million (6.1%) to $10.4 million in the year ended December 31, 2010 (year ended December 31, 2009: $9.8 million). The year ended December 31, 2010 includes dividend income of $2.7 million on investments held to hedge economically deferred compensation plans. This dividend income is passed through to employee participants in the deferred compensation plans. See “Schedule of Non-GAAP Information” for additional details. Higher yields during the year ended December 31, 2010 offset lower average cash and cash equivalent balances. Interest expense decreased by $5.9 million (9.1%) to $58.6 million in the year ended December 31, 2010 (year ended December 31, 2009: $64.5 million). Higher average debt balances were more than offset by lower average cost of debt during the year ended December 31, 2010 following the restructuring of our debt versus the comparative period.

Interest income and interest expense of consolidated investment products

In the year ended December 31, 2010, interest income and interest expense of consolidated investment products were $240.9 million and $118.6 million, respectively. The balances reflect the adoption of guidance now encompassed in ASC Topic 810 on January 1, 2010. In accordance with the standard, prior periods have not been restated to reflect the consolidation.

Gains and losses of consolidated investment products, net income impact of consolidated investment products, and noncontrolling interests in consolidated entities

Included in other income and expenses are gains and losses of consolidated investment products, net, which are driven by realized and unrealized gains and losses of underlying investments held by consolidated investment products. In the year ended December 31, 2010 other gains and losses of consolidated investment products were a net gain of $114.0 million, as compared to a net loss of $106.9 million in the year ended December 31, 2009. The net gain in the period is primarily due to changes in market values of investments held by consolidated private equity funds.

As illustrated in the Condensed Consolidating Statements of Income for the year ended December 31, 2010 and 2009 at the beginning of this Results of Operations section, the consolidation of investment products during the year ended December 31, 2010 resulted in an increase to net income of $180.7 million before attribution to noncontrolling interests. Invesco invests in only

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a portion of these products, and as a result this net gain is offset by noncontrolling interests of $170.9 million, resulting in a net increase in net income of the company of $9.8 million. Consolidated investment products had no material net income impact to the company for the year ended December 31, 2009.

Noncontrolling interests in consolidated entities represent the profit or loss amounts attributed to third party investors in consolidated investment products. Movements in amounts attributable to noncontrolling interests in consolidated entities on the company's Consolidated Statements of Income generally offset the gains and losses, interest income and interest expense of consolidated investment products.

Other gains and losses, net

Other gains and losses, net were a net gain of $15.6 million in the year ended December 31, 2010 as compared to a net gain of $7.8 million in the year ended December 31, 2009. Included in other gains and losses is a net gain of $14.2 million as a result of the appreciation of assets held for our deferred compensation plans (year ended December 31, 2009: none), together with $9.2 million of net realized gains from seed investments (year ended December 31, 2009: $3.7 million net realized gains). The 2010 other gains and losses also included $6.6 million in other-than-temporary impairment charges related to other seed money in affiliated funds (year ended December 31, 2009: $3.0 million) and $0.4 million in other-than-temporary impairment charges related to the valuations of investments in certain of our CLO products (year ended December 31, 2009: $5.2 million). In the year ended December 31, 2010, we incurred $0.2 million in net foreign exchange losses (year ended December 31, 2009: $8.4 million in net foreign exchange gains) on the revaluation of intercompany foreign currency denominated loans into the various functional currencies of our subsidiaries. In addition, included in the 2009 net gain is a gross gain generated upon a debt tender offer of $4.3 million ($3.3 million net of related expenses).

Income Tax Expense

Our effective tax rate, excluding noncontrolling interests in consolidated entities, for 2010 was 29.7%, down from 31.5% for 2009. The rate decrease was primarily due to the mix of pre-tax income and favorable adjustments to reconcile our tax provisions to reflect actual tax returns filed. The rate decrease was partially offset by non-deductible transaction and integration costs related to the acquired business and a smaller benefit from the release of provisions for uncertain tax positions in 2010 versus 2009.

The inclusion of income from noncontrolling interests in consolidated entities decreased our effective tax rate to 23.6% in 2010 and increased it to 41.5% in 2009. The 2010 rate was lower than 2009 due to a lower impact from losses in non-controlling interests.

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Schedule of Non-GAAP Information

Beginning with the presentation of the company's results for the three months ended March 31, 2010, the company expanded its use of non-GAAP measures to include reconciling items primarily relating to guidance now encompassed in the Accounting Standards Codification Topic 810 (discussed in Part II, Item 8, Financial Statements and Supplementary Data - Note 1, “Accounting Policies”) and the acquisition of Morgan Stanley's retail asset management business, including Van Kampen Investments (the “acquired business” or the “acquisition”). We are presenting the following non-GAAP measures: net revenue (and by calculation, net revenue yield on AUM), adjusted operating income (and by calculation, adjusted operating margin), adjusted net income (and by calculation, adjusted earnings per share (EPS)). We believe these non-GAAP measures provide greater transparency into our business and allow more appropriate comparisons with industry peers. Management uses these performance measures to evaluate the business, and they are consistent with internal management reporting. The most directly comparable U.S. GAAP measures are operating revenues (and by calculation, gross revenue yield on AUM), operating income (and by calculation, operating margin), net income (and by calculation, diluted EPS). Each of these measures is discussed more fully below.

These non-GAAP measures should not be considered as substitutes for any measures derived in accordance with U.S. GAAP 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.

Also beginning with the presentation of the company's results for the three months ended March 31, 2010, the net revenue measure has been redefined from that previously used to adjust for the impact of consolidating certain investment products.

The presentation of net revenue in this Report for the years ended December 31, 2010, 2009, 2008 and 2007 have been restated to conform the calculation to the current period's methodology. See Part II, Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations - Reclassifications," for additional information.

The following are reconciliations of operating revenues, operating income (and by calculation, operating margin), and net income (and by calculation, diluted EPS) on a U.S. GAAP basis to net revenues, adjusted operating income (and by calculation, adjusted operating margin), and adjusted net income attributable to common shareholders (and by calculation, adjusted diluted EPS):

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$ in millions, except per share data	2011	2010	2009	2008	2007
Operating revenues, U.S. GAAP basis	4,092.2	3,487.7	2,627.3	3,307.6	3,878.9
Third-party distribution, service and advisory expenses(1)	(1,282.5)	(1,053.8)	(737.0)	(927.8)	(1,109.7)
Proportional share of net revenues from joint venture arrangements(2)	41.4	42.2	44.7	57.3	60.6
Management fees earned from consolidated investment products eliminated upon consolidation(3)	46.8	45.3	8.0	6.2	8.7
Performance fees earned from consolidated investment products eliminated upon consolidation(3)	0.5	—	—	—	—
Other revenues recorded by consolidated investment products(3)	—	(0.3)	(2.0)	(5.4)	(15.2)
Net revenues	2,898.4	2,521.1	1,941.0	2,437.9	2,823.3
Operating income, U.S. GAAP basis	898.1	589.9	484.3	747.8	994.3
Proportional share of operating income from joint venture investments(2)	19.2	22.9	28.4	39.7	45.5
Transaction and integration charges(4)	29.4	150.0	10.8	—	—
Amortization of acquisition-related prepaid compensation(4)	15.0	20.0	20.0	20.0	25.0
Amortization of other intangibles(4)	42.2	30.3	12.6	13.3	12.0
Change in contingent consideration estimates	(13.2)	(3.8)	—	—	—
Compensation expense related to market valuation changes in deferred compensation plans(5)	5.8	9.3	—	—	—
Consolidation of investment products(3)	60.3	54.9	9.5	5.3	1.8
European infrastructure(6)	18.8	—	—	—	—
Other reconciling items(7)	(6.7)	24.2	—	—	—
Adjusted operating income	1,068.9	897.7	565.6	826.1	1,078.6
Operating margin*	21.9 %	16.9 %	18.4 %	22.6 %	25.6 %
Adjusted operating margin**	36.9 %	35.6 %	29.1 %	33.9 %	38.2 %
Net income attributable to common shareholders, U.S. GAAP basis	729.7	465.7	322.5	481.7	673.6
Transaction and integration charges, net of tax(4)	18.2	103.1	8.9	—	—
Amortization of acquisition-related prepaid compensation(4)	15.0	20.0	20.0	20.0	25.0
Amortization of other intangibles, net of tax(4)	37.8	27.4	12.3	13.0	11.7
Change in contingent consideration estimates(4)	(13.2)	(2.5)	—	—	—
Deferred compensation plan market valuation changes and dividend income less compensation expense, net of tax(5)	2.5	(5.3)	—	—	—
Deferred income taxes on intangible assets(4)	27.0	21.1	14.4	12.4	7.9
Consolidation of investment products(3)	(20.2)	(6.8)	—	—	—
European infrastructure, net of tax(6)	16.9	—	—	—	—
Other reconciling items(7)	(32.1)	17.0	—	—	—
Adjusted net income attributable to common shareholders	781.6	639.7	378.1	527.1	718.2
Average shares outstanding - diluted	464.7	463.2	423.6	399.1	411.9
Diluted EPS	$1.57	$1.01	$0.76	$1.21	$1.64
Adjusted diluted EPS***	$1.68	$1.38	$0.89	$1.32	$1.74

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

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

*** Adjusted diluted EPS is equal to adjusted net income divided by the weighted average shares outstanding amount used in the calculation of diluted EPS.

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(1) Third-party distribution, service and advisory expenses

Third-party distribution, service and advisory expenses include renewal commissions, management fee rebates and distribution costs (12b-1 and marketing support) paid to brokers and independent financial advisors. See Item 8, Financial Statements and Supplementary Data - Note 1, "Accounting Policies, Revenue Recognition" for additional details. While the terms used for these types of expense 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 in the computation of net revenues (and by calculation, net revenue yield on AUM) and the related computation of adjusted operating income (and by calculation, adjusted operating margin) appropriately reflects the nature of these expenses as revenue-sharing activities, as these costs are 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.

(2) Proportional share of net revenues and operating income from joint venture investments

The company has two joint venture investments in China. The Invesco Great Wall joint venture is one of the largest Sino-foreign managers of equity products in China, with AUM of approximately $6.7 billion as of December 31, 2011. The company has a 49.0% interest in Invesco Great Wall. The company also has a 50% joint venture with Huaneng Capital Services to assess private equity investment opportunities in power generation in China through Huaneng Invesco WLR Investment Consulting Company Ltd. Enhancing our operations in China is one effort that we believe could improve our competitive position over time. Accordingly, we believe that it is appropriate to evaluate the contribution of our joint venture investments to the operations of the business.

Management believes that the addition of our proportional share of revenues, net of distribution expenses, from joint venture investments in the computation of net revenues and the addition of our proportional share of operating income in the related computations of adjusted operating income and adjusted operating margin also provide useful information to investors and other users of the company's financial statements, as management considers it appropriate to evaluate the contribution of its joint ventures to the operations of the business. It is also consistent with the presentation of AUM and net flows (where our proportional share of the ending balances and related activity are reflected) and therefore provides a more meaningful calculation of net revenue yield on AUM.

(3) Consolidated investment products

See Part II, Item 8, Financial Statements and Supplementary Data, Note 20 - "Consolidated Investment Products" for a detailed analysis of the impact to the company's Condensed Consolidated Financial Statements from the consolidation of investment products. 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 operating margin for the impact of consolidated investment products in calculating the respective net revenues, adjusted operating income and adjusted operating margin. The reconciling items add back the management and performance fees earned by Invesco from the consolidated products and remove the operating and non-operating income and expenses recorded by the consolidated products that have been included in the U.S. GAAP Consolidated Statements of Income.

(4) Acquisition-related reconciling items

Acquisition-related adjustments include transaction and integration expenses and intangible asset amortization related to acquired assets, amortization of prepaid compensation related to the 2006 acquisition of W.L. Ross & Co., and tax cash flow benefits resulting from tax amortization of goodwill and indefinite-lived intangible assets. These charges reflect the legal, regulatory, advisory, valuation, integration-related employee incentive awards and other professional or consulting fees, general and administrative costs, including travel costs related to the transaction 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. Transaction and integration expenses include legal costs related to the defense of auction rate preferred securities complaints raised in the pre-acquisition period with respect to various closed-end funds included in the acquisition. See Part II, Item 8, Financial Statements and Supplementary Data, Note 19 - "Commitments and Contingencies" for additional information. Additionally, acquisition-related reconciling items include changes in estimates of acquisition earn-out liabilities booked from prior acquisitions, which is offset in the period by increased amortization related to the write-off of related management contract intangible assets. The U.S. GAAP to non-GAAP reconciling items also include acquisition-related amortization charges related to previous business combinations. The tax benefit is recorded on a portion of the intangible amortization expense that does not generate a cash tax benefit.

Management believes it is useful to investors and other users of our financial statements to adjust for the transaction and integration charges and the amortization expenses in arriving at adjusted operating income, adjusted operating margin and adjusted EPS, as this will aid comparability of our results period to period, and aid comparability with peer companies that may not have similar acquisition-related charges.

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 cash flows (in the form of reduced taxes payable) represent tax benefits that are not included in the Consolidated Statements of Income absent an impairment charge or the disposal of the related business. We believe it is useful to include these tax cash flow benefits in arriving at the adjusted EPS measure. The company receives these cash flow benefits but does not anticipate a sale or impairment of these assets in the foreseeable future, and therefore the deferred tax liability recognized under U.S. GAAP is 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 by holding these investments on its balance sheet. U.S. GAAP requires the appreciation (depreciation) in the compensation liability to be expensed over the award vesting period in proportion to the vested amount of the award as part of compensation expense. The full value of the investment appreciation (depreciation) is immediately recorded below operating income in other gains and losses. This creates a timing difference between the recognition of the compensation expense and the investment gain or loss impacting net income attributable to common shareholders and diluted EPS which will reverse over the life of the award and net to zero at the end of the multi-year vesting period. During periods of high market volatility these timing differences impact compensation expense, operating income and operating margin in a manner which, over the life of the award, will ultimately be offset by gains and losses recorded below operating income on the Consolidated Statements of Income. The non-GAAP measures exclude the mismatch created by differing U.S. GAAP treatments of the market movement on the liability and the investments.

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 (and by calculation, adjusted EPS), to produce results that will be more comparable period to period. The related fund shares will have been purchased on or around the date of grant, eliminating any ultimate cash impact from market movements that occur over the vesting period. The non-GAAP measures therefore exclude the mismatch created by differing U.S. GAAP treatments of the market movement on the liability and the investments.

Additionally, dividend income from investments held to hedge economically deferred compensation plans is recorded as dividend income and as compensation expense on the company's Consolidated Statements of Income on the record dates. This dividend income is passed through to the employee participants in the plan and is not retained by the company. The non-GAAP measures exclude this dividend income and related compensation expense.

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(6) European infrastructure expenses

Expenses related to the company's European infrastructure alignment efforts represent primarily severance and consulting costs associated with the company's fund rationalization and distribution efforts in Europe. For the year ended December 31, 2011, this adjustment includes $7.6 million in compensation expenses, primarily due to severance costs ; $5.3 million in general and administrative costs, primarily related to consulting services; and $5.9 million of property and technology costs. The company's income tax provision included tax benefits of $1.9 million in the the year ended December 31, 2011.

Management does not include these costs in internal reporting, and these costs do not form part of the overall evaluation of the business. Management therefore believes that the exclusion of these costs, due to their incremental nature and projected magnitude, from total operating expenses provides useful information to investors, as this view is consistent with how management evaluates the performance of the business. Exclusion of these costs will aid in comparability of our results from periods to period and the comparability of our results with those of peer investment managers.

(7) Other reconciling items

Included within other gains and losses in the fourth quarter and year ended December 31, 2011 is a credit of $45.0 million related to the settlement of litigation arising from the 2007 departure of certain investment professionals to a competitor. Included within general and administrative expenses are legal fees associated with this litigation of $3.6 million. The company's income tax provision included a taxation charge of $15.6 million related to the settlement credit, net of legal fees.

Included within marketing expenses in the year ended December 31, 2011 is a credit of $10.4 million related to the termination of naming rights to the Denver Broncos stadium. The company's income tax provision included a taxation charge of $4.0 million in the year ended December 31, 2011 relating to the credit.

Included within general and administrative expenses in the year ended December 31, 2010 was a charge of $15.3 million relating to a levy from the U.K. Financial Services Compensation Scheme.The company's tax provision included tax benefits of $4.3 million relating to this charge. An additional $0.4 million charge was recorded in the year ended December 31, 2011 reflecting revised estimates of the levy. The company's tax provision included tax benefits of $0.1 million relating to this revision.

Included within general and administrative expenses in the year ended December 31, 2010 is a charge of $8.9 million representing reimbursement costs from the correction of historical foreign exchange allocations in the fund accounting process that impacted the reporting of fund performance in certain funds. The company’s income tax provision includes tax benefits of $2.9 million relating to this charge. A $0.3 million credit was recorded in the year ended December 31, 2011 reflecting the final amount reimbursed, together with an associated $0.1 million tax charge.

Management does not include these items in internal reporting and these items do not form part of the overall evaluation of the business. Management therefore believes that the exclusion of these items, due to their unique character and magnitude, from net income provides useful information to investors, as this view is consistent with how management evaluates the performance of the business. Exclusion of these items will aid in comparability of our results from period to period and the comparability of our results with those of peer investment managers.

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Balance Sheet Discussion

Condensed Consolidating Balance Sheets are presented below and reflect the consolidation of investment products, including the adoption of guidance now encompassed in ASC Topic 810 on January 1, 2010. The majority of the company's consolidated investment products balances were CLO related as of December 31, 2011 and 2010. 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 fees generated from, 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. Additionally, 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.

Condensed Consolidating Balance Sheets

$ in millions	Before Consolidation[1]	Consolidated Investment Products	Adjustments[2]	Total
As of December 31, 2011				
Current assets	3,352.7	511.3	(29.9)	3,834.1
Non-current assets	8,976.5	6,628.9	(92.5)	15,512.9
Total assets	12,329.2	7,140.2	(122.4)	19,347.0
Current liabilities	2,818.9	185.4	(29.9)	2,974.4
Long-term debt of consolidated investment products	—	5,563.3	(50.4)	5,512.9
Other non-current liabilities	1,722.1	—	—	1,722.1
Total liabilities	4,541.0	5,748.7	(80.3)	10,209.4
Retained earnings appropriated for investors in consolidated investment products	—	334.3	—	334.3
Other equity attributable to common shareholders	7,783.7	43.2	(42.1)	7,784.8
Equity attributable to noncontrolling interests in consolidated entities	4.5	1,014.0	—	1,018.5
Total liabilities and equity	12,329.2	7,140.2	(122.4)	19,347.0

$ in millions	Before Consolidation[1]	Consolidated Investment Products	Adjustments[2]	Total
As of December 31, 2010				
Current assets	3,480.0	816.8	(22.3)	4,274.5
Non-current assets	9,025.1	7,205.5	(61.0)	16,169.6
Total assets	12,505.1	8,022.3	(83.3)	20,444.1
Current liabilities	2,777.9	508.9	(22.3)	3,264.5
Long-term debt of consolidated investment products	—	5,888.2	(22.8)	5,865.4
Other non-current liabilities	1,953.3	—	—	1,953.3
Total liabilities	4,731.2	6,397.1	(45.1)	11,083.2
Retained earnings appropriated for investors in consolidated investment products	—	495.5	—	495.5
Other equity attributable to common shareholders	7,769.1	38.2	(38.2)	7,769.1
Equity attributable to noncontrolling interests in consolidated entities	4.8	1,091.5	—	1,096.3
Total liabilities and equity	12,505.1	8,022.3	(83.3)	20,444.1

(1) The Before Consolidation column includes Invesco's equity interest in the investment products, accounted for as equity method and available-for-sale investments and does not include any other adjustments related to non-GAAP financial measure presentation.

(2) Adjustments include the elimination of intercompany transactions between the company and its consolidated investment products and the elimination of the company’s equity at risk recorded as investments by the company (before consolidation) against either the equity (private equity and real estate partnership funds) or debt (CLOs) of the consolidated investment products.

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The company’s Condensed Consolidated Statement of Changes in Equity in Part II, Item 8, Financial Statements and Supplementary Data, contains a detailed analysis of the changes in balance sheet equity line items. The following table presents a comparative analysis of significant detailed balance sheet assets and liabilities:

$ in millions	2011	2010	$ Change	% Change
Cash and cash equivalents	727.4	740.5	(13.1)	(1.8)%
Unsettled fund receivables	444.4	513.4	(69.0)	(13.4)%
Current investments	283.7	308.8	(25.1)	(8.1)%
Assets held for policyholders	1,243.5	1,295.4	(51.9)	(4.0)%
Non-current investments	200.8	164.4	36.4	22.1%
Investments of consolidated investment products	6,629.0	7,206.0	(577.0)	(8.0)%
Intangible assets, net	1,322.8	1,337.2	(14.4)	(1.1)%
Goodwill	6,907.9	6,980.2	(72.3)	(1.0)%
Unsettled fund payables	439.6	504.8	(65.2)	(12.9)%
Policyholder payables	1,243.5	1,295.4	(51.9)	(4.0)%
Current maturities of total debt	215.1	—	215.1	N/A
Long-term debt	1,069.6	1,315.7	(246.1)	(18.7)%
Long-term debt of consolidated investment products	5,512.9	5,865.4	(352.5)	(6.0)%

Cash and cash equivalents

Cash and cash equivalents decreased by $13.1 million from $740.5 million at December 31, 2010 to $727.4 million at December 31, 2011. See “Cash Flows” in the following section within this Management's Discussion and Analysis for additional discussion regarding the movements in cash flows during the periods. See Item 8, Financial Statements and Supplementary Data - Note 1, “Accounting Policies - Cash and Cash Equivalents,” regarding requirements to mandate the retention of liquid resources in certain jurisdictions.

Unsettled fund receivables and payables

Unsettled fund receivables decreased by $69.0 million from $513.4 million at December 31, 2010 to $444.4 million at December 31, 2011, due primarily to lower transaction activity between funds and investors in late December 2011 when compared to late December 2010 in our offshore funds. 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. In our U.K. and offshore activities, unsettled fund receivables are created by the normal settlement periods on transactions initiated by certain clients. The presentation of the unsettled fund receivables and substantially offsetting payables ($439.6 million at December 31, 2011 down from $504.8 million at December 31, 2010) at trade date reflects the legal relationship between the underlying investor and the company.

Investments (current and non-current)

As of December 31, 2011 we had $484.5 million in investments, of which $283.7 million were current investments and $200.8 million were non-current investments. Included in current investments are $63.5 million of seed money investments in affiliated funds used to seed funds as we launch new products, and $184.4 million of investments related to assets held for deferred compensation plans, which are also held primarily in affiliated funds. Seed investments decreased by $35.9 million during the year ended December 31, 2011, due primarily to market decreases and net disposals of seed money investments. Investments held to hedge deferred compensation awards increased by $18.9 million during the year, primarily due to additional investments in affiliated funds to hedge economically new employee plan awards. Included in non-current investments are $193.1 million in equity method investments in our Chinese joint ventures and in certain of the company’s private equity partnerships, real estate partnerships and other investments (December 31, 2010: $156.9 million). The increase of $36.2 million in equity method investments includes an increase of $32.1 million in partnership investments due to a $40.2 million co-investment in new European and Asian real estate funds, other capital calls and valuation improvements offset by distributions and capital returns during the period. The value of the joint venture investments and other non-controlling equity method investments increased by $4.1 million during the year as a result of current year earnings of $17.2 million, foreign exchange rate movements which added $2.8 million to the value and capital injections of $1.6 million, offset by annual dividends paid of $17.5 million to the company.

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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 $1,295.4 million at December 31, 2010, to $1,243.5 million at December 31, 2011, was the result of a decline due to foreign exchange movements and a third party transfer of administration contracts to another provider, offset by the increase in the market values of these assets and liabilities.

Investments of consolidated investment products

As of December 31, 2011, investments of consolidated investment products totaled $6,629.0 million (December 31, 2010: $7,206.0 million). These investments are offset primarily in long-term debt of consolidated investment products, noncontrolling interests in consolidated entities, and retained earnings appropriated for investors in consolidated investment products on the Consolidated Balance Sheets, as the company's equity investment in these structures is not significant. The decrease from December 31, 2010, primarily reflects sales of investments to fund paydowns of CLO long-term debt by CLOs in their amortization period.

Goodwill

Goodwill decreased from $6,980.2 million at December 31, 2010, to $6,907.9 million at December 31, 2011. See Item 8, Financial Statements and Supplementary Data - Note 7, "Goodwill," for an analysis of the change in goodwill balances between periods. The company's annual goodwill impairment review is performed as of October 1 of each year. As a result of that analysis, the company determined that no impairment existed at that date. See “Critical Accounting Policies - Goodwill” for additional details of the company's goodwill impairment analysis process.

Current Portion of total debt

The balance increased from December 31, 2010 as a result of the reclassification out of long-term and into current of the $215.1 million 5.625% senior notes that mature on April 17, 2012.

Long-term debt

The non-current portion of our total debt, excluding long-term debt of consolidated investment products, decreased from $1,315.7 million at December 31, 2010, to $1,069.6 million at December 31, 2011, due primarily to the reclassification out of long-term into current of the $215.1 million 5.625% senior notes that mature on April 17, 2012. The company also made net repayments on the credit facility of $31.0 million, further decreasing the balance. As of December 31, 2011 there was