DWS Group GmbH & Co KGaA

DWS Q2 2026 results with Investor & Analyst Conference Call

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Transcript

Speakers:

Stefan Hoops

Markus Kobler

Oliver Flade

Oliver Flade

Good morning to everybody from Frankfurt. This is Oliver Flade from Investor Relations, and I would like to welcome everybody to our earnings call for the second quarter of 2026.

Before we start, I would like to remind you that the upcoming Deutsche Bank analyst call will outline the Asset Management segment's results, which has a different perimeter basis to the DWS results we're presenting today.

I'm joined as usual by Stefan Hoops, our CEO; and Markus Kobler, our CFO. And Stefan will start with some opening as well as closing remarks, and Markus will take you through the main part of the presentation. For the Q&A afterwards, please could you limit yourself to the 2 most important questions so that we can give as many people a chance to participate as possible.

And I would also like to remind you that the presentation may contain forward-looking statements, which may not develop as we currently expect. I, therefore, ask you to take note of the disclaimer and the precautionary warning on the forward-looking statements at the end of our materials.

And with that, I will now pass on to Stefan.

Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q2 2026 earnings call. Let me start with the overall picture, and I'm going to borrow one from Formula 1 for this quarter. After the pit stop early in the year, we have reaccelerated and are showing very strong client momentum across the business.

Assets under management reached a new record high. Our flows improved significantly, and we delivered our best ever first half. As we discussed on the last quarterly earnings call, we like to take pain early. As such, we made fundamental changes to our front office at the start of our new 3-year strategic plan.

What we've completed since the beginning of the year is significant. Let's start with clients. We reorganized our coverage around our clients. Two global segments; private wealth, which serves individual investors and institutional, each spanning all asset classes and regions.

And under Dirk Goergen, our new Chief Commercial Officer, we've tied client insight, solutions, and revenue accountability together in one place. On the investment side, we brought our liquid and illiquid businesses under the single leadership of Vincenzo Vedda, our Chief Investment Officer, completing a transition we began last year. The result is clearer accountability, faster decisions, and a sharper investment focus.

We've set up the product division to differentiate between asset class expertise and a factory-like wrapping and product delivery function. And we combined various teams into one strategy and M&A function that encompasses strategy design, organic implementation and inorganic growth.

As you saw in our Q1 flow numbers, you cannot retool the car and set a personal best on the same lap, which we knew going in. However, significant front office reorganizations can paralyze the company for long periods of time, and our deliberate decision to do everything swiftly at once meant that we could fully focus on clients, markets and investing for most of Q2. You can see that momentum most clearly in our flows and AUM development.

In Q2, we gained almost EUR100 billion of AUM, taking us to a record of EUR1.19 trillion. This was not just a market story alone. Long-term net flows were significantly higher quarter-on-quarter, comparing favorably with our peers.

We are particularly pleased with our momentum in active equity, the heart of DWS, where we had our strongest active equity flows in 6 years. Our flagship funds, Top Dividende and Akkumula, led the way with strong investment performance leading to net inflows of more than EUR1 billion across the franchise.

Active SQI also continued to deliver, generating net flows of more than EUR1 billion this quarter. It also bears out what we said in Q1; volatile markets are fertile ground for active asset management, and that is exactly when clients value it most.

After a tough Q1, Xtrackers has regained momentum as our focused actions on client engagement, product innovation, and pricing take effect. We have sharpened our competitiveness in core exposures, stepped up client and sales activity and continue to expand into higher-value products and partnerships. This is now translating into stronger flows and an improved competitive position across key segments, particularly in UCITS.

On alternatives, infrastructure remains our strongest growth engine. Capital raising remains positive across the franchise in both equity and debt, and our flagship European private infrastructure fundraise is developing nicely. In private credit, several strategies are approaching first close. While alternatives reported net outflows during the quarter, these were influenced by capital distributions to clients, which are recorded as outflows despite reflecting value realization for investors.

While we do not disclose our net new revenues earned through client inflows, I'm pleased to say that this has been the best quarter since we started recording this number.

Financials in Q2 were solid. Earnings per share came in at EUR1.19, which brings us to EUR2.51 for the first half of the year. Revenues were EUR773 million, up 4% year-on-year, the net result of 2 counterbalancing effects.

Management fees grew strongly, up 13% year-on-year on the back of higher average assets under management. This was offset by much lower performance and transaction fees, which simply follow a different timing pattern in 2026 than in 2025, as we flagged last quarter with a large infrastructure performance fee recorded in Q1.

Total costs were EUR468 million, up 6% year-on-year, and our cost-income ratio was 60.5% for the quarter, which is an increase of 1.3 percentage points year-on-year. Let me address costs head on as I want to be precise about how we think about it.

Our controllable costs, which are the vast majority of our costs, were flat year-on-year, and we frankly do not see a reason for them to go up. However, the significant increase in AUM led to higher volume-driven costs, while our positive stock development increased share price-linked compensation. Combined, these 2 items amount to almost 30 million of costs, implying that our total cost in Q2 would have been lower than Q1, excluding these 2 items.

I hope you will agree that these are good costs. They come with growth, and they leave us on a good path towards our medium-term goal of a cost-income ratio below 55%. Step back from the quarter and the picture of the first half is one to be proud of. Revenues up, costs stable year-on-year, profit before tax up 16%, EPS up 21%, and record net flows. That is the best half in our history.

With that, let me hand over to Markus to take you through the financials.

Markus Kobler

Thank you, Stefan, and good morning, ladies and gentlemen. Before I take you through our financial performance, let me start by saying that I am very pleased and proud of the fundamental changes, which Stefan just outlined. They will help us to focus on clients and organic growth more than ever before.

What has been accomplished across the organization over the first half of the year has been significant. We undertook a comprehensive transformation of our front office, simplified structures, clarified accountability, adjusted financial steering and aligned the organization more closely around our clients and investment capabilities.

With that, let me turn to our financial snapshot for the second quarter. Total assets under management increased by 18% year-on-year and 9% quarter-on-quarter to EUR1.190 trillion. Total revenues stood at EUR773 million, representing a 4% increase year-on-year and a 6% decrease quarter-on-quarter.

Our total costs increased 6% year-on-year and 5% quarter-on-quarter and totaled EUR468 million. This resulted in a reported cost-income ratio of 60.5% for the second quarter of 2026. Our net income increased by 11% year-on-year and decreased 10% quarter-on-quarter, reaching EUR237 million. That includes a positive tax effect of EUR25 million.

Moving to our client dynamics during Q2. Looking at client activity in the second quarter, we saw a clear improvement in momentum compared to the previous quarter. As market conditions stabilized and risk appetite gradually returned, clients became increasingly willing to deploy capital across a broader range of investment strategies. This resulted in total net flows of EUR24.8 billion and long-term net flows of EUR11.6 billion, representing a significant acceleration versus Q1.

Looking at our client segments. Our private wealth business, formerly reported as retail, delivered net flows of EUR18.9 billion, marking the strongest quarterly result since our IPO. Private wealth flows were supported by continued demand for ETFs as well as a recovery in active investment strategies.

Institutional flows amounted to EUR5.9 billion. The result was driven by selected mandate wins, particularly in APAC alternatives as well as positive U.S. flows into cash products. These inflows were partly offset by capital repayments from infrastructure products, reflecting value realization for fund investors.

To reiterate what Stefan outlined in his opening remarks, going forward, we will refer to the following 2 global client segments; private wealth on the one hand side and institutional on the other.

Turning to the regional picture. We generated positive net flows across all regions, reflecting the reacceleration in client activity we observed during the quarter. In the Americas, net flows amounted to EUR10.8 billion, reflecting strong institutional activity and positive flows into cash products. Our home market, Germany, delivered net flows of EUR10.5 billion, supported by continued client demand for our Xtrackers business.

EMEA, excluding Germany, generated EUR3.2 billion of net flows, continuing the positive momentum we have seen across the region.

APAC reported net flows of EUR0.3 billion. While overall flows were modest, client activity was supported by selected institutional mandate wins, particularly in alternatives. Overall, the second quarter was characterized by strong client activity, resulting in positive net flows across both client segments and all regions.

Moving to the quarterly highlights within our active business. The second quarter marked an important improvement for our active franchise with positive contributions from both active equity and SQI. Active assets under management increased to EUR489 billion, up 7% quarter-on-quarter, supported by positive market performance and net inflows across key parts of the platform.

Active equity returned to positive net flows of EUR1.1 billion. Improved fund performance and rising client risk appetite supported a meaningful turnaround in flows, particularly across our flagship global equity products.

Within SQI, momentum remains strong, generating net flows of EUR1.1 billion. This was mainly driven by successful product launches and continued demand from key distribution partners. Multi-asset reported broadly flat flows during the quarter.

Continued demand for DWS Concept Kaldemorgen and selected mandate wins were offset by 2 mandate losses. Fixed income reported net outflows of EUR1.6 billion, primarily driven by planned client redemptions. At the same time, we continue to see positive demand for selected strategies, including DWS Floating Rate Notes.

Product innovation remained an important contributor to our active franchise. Recent launches included our DWS Invest StepIn Global Equity High Conviction and DWS Invest Special Situations, further enhancing our product offering.

Moving to our Xtrackers business. The second quarter marked a clear improvement in flow momentum following the challenging environment, which we experienced towards the end of the first quarter.

We implemented a range of measures aimed at improving competitiveness and strengthening client engagement. These measures are now translating into stronger business activity across the platform. As a result, Passive, including Xtrackers, delivered net inflows of EUR11.7 billion during the quarter, further reinforcing its role as one of DWS key growth drivers.

Assets under management increased to EUR455 billion, up 15% quarter-on-quarter, reflecting both positive markets and strong net inflows during the quarter. Looking first at UCITS, net inflows amounted to EUR12.6 billion and were the key driver behind the improved flow picture. Flows were primarily directed towards core exposures, particularly S&P 500 and MSCI World strategies.

Our U.S. domiciled ETF business generated net inflows of EUR0.9 billion, supported by continued demand for fixed income ETF strategies. Mandates & Solutions reported net outflows of EUR1.7 billion, primarily reflecting a large redemption of a German corporate client.

Digital distribution remains an increasingly important growth channel for our Xtrackers platform. During the quarter, we have further expanded our access to retail investors and strengthened our positioning in selected European markets. These partnerships are becoming an increasingly recurring source of flows and help to diversify our distribution channels. The increase in our European ETP market share to 10.2% demonstrates that the measures implemented early this year are gaining traction.

Let me turn to our Q2 highlights for our alternatives platform. In Q2, assets under management stood at EUR105 billion, down 6% versus the previous quarter. Our alternatives business reported overall net outflows of EUR0.7 billion. This flow picture was largely shaped by capital returns of EUR1.3 billion following successful asset realizations within PEIF I and PEIF II, without which alternative net flows would have been positive.

Starting with liquid real assets, quarterly flows were broadly flat, reflecting continued reallocation by investors from listed real assets into private market strategies. Importantly, this was less of a question for product-specific demand and more a reflection of broader asset allocation decisions by clients.

Real estate reported net outflows of EUR0.3 billion as market conditions remain challenging, although we see a more constructive sentiment than in the previous quarter. In particular, transaction activity has started to recover gradually while investor engagement and fundraising discussions show first positive signs.

Infrastructure saw net outflows of EUR0.4 billion, which was primarily driven by EUR1.3 billion of capital returns, EUR1.3 billion of capital returns associated with PEIF I and PEIF II asset realizations.

As outlined in the previous quarter, capital repayments to fund holders are a normal part of our infrastructure business. In this case, they resulted from successful asset sales in Q1, which created value for our clients and performance fees for our shareholders. Excluding these capital returns, infrastructure would also have generated positive net flows.

Within private credit, the focus remains firmly on fundraising and platform execution. Several products continue to progress towards first closing milestones in the next 6 months, moving then to the next phase of capital deployment for this important strategic initiative.

Recent product highlights included the launch of DWS Invest Essential Materials Producers Fund, as well as the successful final close of our second vintage U.S. infrastructure debt fund.

Let me now move on to our Q2 revenue development. Total revenues reached EUR773 million, up 4% year-on-year and down 6% compared to the first quarter. Management fees increased to EUR709 million, representing a 5% increase quarter-on-quarter and a 13% increase year-on-year.

The increase was primarily driven by higher average assets under management, supported by strong net inflows and positive market development during the quarter. Performance and transaction fees totaled EUR11 million. As expected, performance fees were significantly lower than in the previous quarter, following the infrastructure-related performance fee contribution of EUR104 million recorded in Q1.

The quarterly development is, therefore, fully in-line with the timing of the performance fee recognition we have communicated throughout the year. Despite the lower performance fees this quarter, we still expect our performance and transaction fees to be at the upper end of the guidance range of 4% to 8% of total revenues in 2026. In 2027, we expect performance and transaction fees to be in the lower half of that respective guidance range.

Let me move on to our cost development. In Q2, total costs stood at EUR468 million, up 5% quarter-on-quarter and 6%

year-on-year. Compensation & benefits decreased to EUR232 million, down 3% versus the previous quarter, mainly reflecting lower performance-related costs.

General and administrative expenses totaled EUR236 million, a 15% increase quarter-on-quarter. The increase can partially be explained by positive one-off effects in Q1, which did not reoccur in Q2. In addition, approximately EUR30 million of so-called good or volume-based costs can be attributed to our share price appreciation and volume-driven banking services costs.

Share price-related compensation costs amounted to EUR16 million which are hedged and reflected in other revenues. Whereas there is no impact on our pre-tax profit, movement in our share price do affect our cost-income ratio and also our cost base. For additional transparency, the cost and revenue sensitivity for each EUR1 of share price movement stands at roughly EUR1 million to EUR1.5 million.

Our cost-income ratio stood at 60.5%, which is an increase of 1.3 percentage points year-on-year. Despite a higher cost base in the second quarter, we remain confident and firmly on-track for flat costs and a cost-income ratio between 55% and 57% in 2026.

With that, let me hand over back to Stefan.

Stefan Hoops

Thank you, Markus. I would like to spend a few minutes on something we believe will be one of the most significant structural growth opportunities for DWS in the coming years, the reform of the German pension system.

Let me briefly set out the starting point. The German state pension is pay-as-you-go. Today's workers directly finance retirees and nothing is invested along the way. That model works while the workforce is growing, and it breaks down when it isn't.

With an aging population and even fewer workers supporting ever more retirees, the numbers simply no longer hold. The government's answer is the most far-reaching pension reform in a generation, the introduction towards funded capital markets-based retirement provision across all 3 pillars of the system.

In plain terms, more of Germany's retirement savings will be invested in capital markets. We believe no asset manager is better positioned to provide the expertise this reform will require than DWS. We are Germany's number 1 asset manager with deep local expertise and long-standing client relationships. And our connection with Deutsche Bank gives us distribution reach into precisely the clients this reform will activate.

Let me take the 3 pillars in turn. Pillar 1 is the state pension, the mandatory scheme covering almost all employees with approximately EUR400 billion flowing through it every year. Here, the government's pension commission has recommended adding a mandatory funded component for the first time.

Under this model, additional contributions of income may be invested in capital markets with a state fund as a default and an opt-out into certified private funds. The government aims to complete the legislative process by the end of 2026. For DWS, this is about positioning ourselves for the additional capital that will need to be managed. That could mean asset management mandates or offering certified private alternatives to those who opt out.

And the potential is significant. Assuming an increase of 2 percentage points of contributions, it would mean around EUR34 billion of recurring annual inflows into capital markets. The final volume will, of course, depend on how the legislation is designed, but the direction of travel is clear.

Pillar 2 is occupational pensions, the voluntary workplace schemes. This is a substantial market. We estimate more than EUR770 billion of assets and a revenue pool of around EUR1.1 billion for asset managers in Germany today with further growth to come from the reforms.

The reform aims for near universal participation in the longer term with key measures expected by the end of 2026, focused on SMEs and lower-income employees where coverage today is thin. Within Pillar 2, DWS starts from a position of strength. We already manage close to EUR100 billion of assets across the German institutional pension market.

One structural point worth understanding. German occupational pensions have historically been defined benefit where the employer promises the pension and carries the risk. Much of that obligation remains unfunded as it sits on employers' balance sheets rather than being invested.

At the same time, schemes are now shifting to defined contribution where outcomes depend on invested contributions as is already common in the U.S. and the UK. On the defined benefit side, we are already serving existing commitments, including our pension joint venture with Zurich.

And while pension risk transfer is still at an early stage in Germany, it is a trend we are closely monitoring and are building capabilities for. For the future of defined contribution, we see 2 distinct opportunities. With multinationals and large corporates, we intend to build on our existing relationships and expand our offering of tailored advice and individualized investment solutions.

For German mid-sized companies, the opportunity is different. We are building a scalable defined contribution solution, combining Deutsche Bank's distribution with our lifecycle-based investment expertise. In this pillar, our relationship with Deutsche Bank is especially valuable because it gives us access to corporate clients across every segment.

And finally, Pillar 3, private retirement savings. This is where the reform is furthest advanced. The center piece is the Altersvorsorgedepot, or retirement savings account. Think of it as Germany's answer to the ISA or the IRA. It has already been adopted and goes live on January 1, 2027.

It comes with significantly increased government subsidies and extends eligibility to around 4 million self-employed citizens. Importantly, it also opens the door to products without a capital guarantee, so savers are no longer confined to expensive, low-returning products.

And this is the part I would emphasize. With the subsidies and tax benefits on offer, the government is creating a compelling incentive to participate. So this is not a narrow product aimed at a narrow segment. It should appeal to approximately 50 million private individuals who are eligible, more than half of Germany's population.

We will launch our own retirement savings solution with a DWS product offering, including a standard product and differentiated propositions beyond it. Deutsche Bank will be a key distribution partner, giving us reach into private clients, the self-employed and SMEs.

A dedicated project team is driving all of this towards the January 2027 start. Alongside it, the government has also set out plans for the Frühstart-Rente or early start pension, which will see capital market savings for children from age 6. This has the potential to foster a new generation of investors from the beginning of their savings journey, and we will monitor developments closely.

The long-term potential is enormous. Millions of Germans have not yet made any meaningful retirement provisions. And as that changes, we see a substantial opportunity over the years ahead. So step back and the strategic fit is obvious. This is bullish Germany in action.

A once-in-a-generation shift of German retirement plans are being channeled into capital markets at scale. As Germany's number 1 asset manager, it plays to every strength we have. We bring a large German client base, trusted relationships, access to Deutsche Bank's distribution reach and the product breadth to serve all 3 pillars.

So let me close where I began. We took pain early. We have reaccelerated, and we intend to keep that momentum. The pension reform is one of several opportunities ahead of us alongside our growth in alternatives, our strength in Xtrackers and the momentum in Active, and we intend to make the most of every one of them. That is what gives us confidence in our targets of 10% to 15% annual EPS growth for this year and on our path to 2028.

Thank you, and back to Oliver for Q&A.

Oliver Flade

Thank you very much, Stefan. Operator, we're ready for Q&A now. If I just remind everybody to limit yourself to the 2 most important questions that would be very kind. Thank you very much.

Operator

We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue you may press star and two.

Questioners on the phone are requested to disable the loudspeaker mode and eventually turn off the volume of the webcast while asking a question. Anyone who has a question may press star and one at this time.

Our first question comes from Hubert Lam from Bank of America. Please go ahead.

Hubert Lam

Hi, morning. Thanks for taking my questions. I got 2 of them. Firstly, Stefan, thank you very much for the overview of the German pension reform. Can you talk a bit more about Pillar 3? What flows would you expect from this, size of opportunity? And how long do you think it will take for clients -- for individuals to kind of ramp up on this? That's the first question.

The second question is about your EPS target. I know you reconfirmed the 10% to 15% EPS growth. For 2026, it seems like consensus have bought into this. But for 2027, it feels like consensus is below this. Maybe if you can talk a bit about what the building blocks to get there for 2027 and how much of that is dependent on performance fees again? Thank you.

Stefan Hoops

Thank you, Hubert. I suspect that many of your colleagues will now need to think of different questions to ask because I suspect that those 2 would have been on probably everyone's list. So let's start with pension reform. And you asked about Pillar 3, although I would emphasize that I think that for us over the long-term, Pillar 2 will actually be even more exciting, but maybe that's a follow-up question from somebody else.

So Pillar 3, this will go live on Jan 1, '27. That is done. That's announced. You will see lots of discussions in Germany, lots of distribution partners are preparing themselves. I think it's going to be a combination of some distribution partners where the products are based on advisory and essentially sold.

I think those clients, in many cases, will be the ones being advised by branches or IFAs and so on. I think in that case, there will be inflows into a combination of some ETF, lots of active, some alternatives. In terms of size, it's somewhat difficult to say, and I really don't want to be the one putting gigantic numbers out there.

But when you think about the reasonably unattractive current Riester product that has somewhere between EUR200 billion and EUR300 billion of invested capital across multiple providers. With the pension reform, that should go up a lot.

So I think most Germans that you would know, Hubert, so your colleagues wouldn't have Riester Rente because it just wasn't appealing because it had to be capital guaranteed, so they wouldn't have invested in it. I think going forward, it will be illogical to not participate because there's going to be subsidies and tax benefits. So I would imagine every logically thinking German will participate.

So I think there should be lots more inflows than into Riester. Now on the other side, you will see very low-margin ETF-based products being provided through neo-brokers, platforms and so on. I don't know what will be greater over time. I think the beginning would likely be balanced in terms of flows.

Obviously, the first component I spoke about is going to be higher margin than the second. Now that applies to the industry, when you think about DWS, we are the only German asset manager with an ETF platform.

So we will be the go-to partner for some of those neo-brokers and platforms. So we definitely intend to benefit from inflows in ETF. But at the same time, through Deutsche Bank, through DVAG and other partners, we also want to be front and center of those German investors that will require advice as they invest for long-term pension.

Some of the numbers you see in the market are gigantic. I don't want to quote them. I just would want to remind people, it's not all going to be into actively managed funds. It will be a combination of actively managed and ETF. But again, all of that, and I will now like to switch over to the second part, all of that will come on top of our current growth rate.

So, when we spoke about 10% a while ago, this was before any of those reforms materialized. And when we upgraded to 10% to 15%, we were saying, well, there are a bunch of things that we now have going for us, the German pension reform being the most significant one, and that should lead to additional growth above the 10% that we had anticipated so far.

Now more specifically, and our wonderful Head of Investor Relations, Oliver Flade, told me to never refer to consensus. But given that you brought up the term, I'm just now sort of responding to your questions and sort of violating the advice that Oliver has given me.

Having grown up on the trading floor, let me first emphasize that the market is always right. Our stock price depends on consensus. Some of you didn't like our numbers in Q2 because it came in below consensus in profit before tax.

However, I think when you look at the composition, I think we've hopefully made it clear that on the cost side, our cost in Q2 would have been below Q1 if it hadn't been for higher AUM and a higher stock price, right? Needless to say, I sort of like people to buy our stock. I like our salespeople to get in more flows. I like markets going up. So those are good costs. They're also PBT neutral, essentially pass-through items. So, the miss in PBT is entirely due to performance fees, right?

AUM is higher, management fees are higher. It's entirely performance fees. And I would just emphasize what we said in Q1 that if you look at the monetizations of PEIF II assets for the first half, we're looking strong. We simply monetized much more in Q1 than we had anticipated, which is why performance fees were 100 million in Q1 and almost nil in Q2, but that was simply because of more monetization in Q1, not because of any deviation from plan.

When you look at consensus for 2026, it's sort of in line with what we are expecting. Now when it comes to 2027, I think it's slightly more interesting. I'm in no position to agree or disagree with the consensus. I mean, again, the market is always right. But I think on cost, you believe what Markus and I are saying.

You do think that costs will go up a little bit in '27. I think we will be more disciplined, but I think there, we are broadly in line. I think the biggest deviation is the composition of revenues in 2027. I think that, frankly, the market so far has been underestimating our AUM growth.

And when you look at consensus at 1,180 for 2026 at end of the year, given that we're now at 1,190, I would imagine that we'll try not to lose AUM between now and end of the year. So it should be higher at the end of the year, which also should translate to higher average AUM in 2027.

When you look at our average margin, that is keeping a lot more stable than in prior years. That's because of inflows in active equity, SQI doing well and a bunch of other things. But therefore, when you then simply do the math, I think that I see management fees, frankly, higher than what's currently reflected. But at the same time, I would caution a bit on performance fees.

So, the way we look at the performance fees is that, for this year, we continue to believe that it's going to be at the upper end of our range of 4% to 8%. However, for next year, we would expect it to be at the lower to mid part of the range of 4% to 8%. If you break down performance fee expectations for next year, then the one remaining asset in PEIF II, I would expect to be monetized in '27.

So that's a nice chunk of performance fees coming in next year. We have some performance fees in private credit, some performance fees in real estate. We have Concept Kaldemorgen and so on. So, I'm confident that we'll be at the low to mid part of the range in 2027.

But therefore, again, I don't want to criticize challenge or anything the consensus, but I think it's on the conservative end of what Markus and I want to get to with a composition where I think it's going to be more geared towards a skew towards management fees and a bit lower on the performance fee side.

Hubert Lam: Great, thank you, very comprehensive. Thank you.

Operator: Next question comes from Jacques-Henri Gaulard from Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard: Good morning, gents. Stefan, you talked about the pension. You could have talked about the investment super cycle, the fact that obviously, we need to have much more investment coming to get to this defense-to-GDP ratio to 3.5%, not to mention the grid, not to mention Ukraine, not to mention all things like that.

It looks on the back of what we're having on the stock price that financials shares are going to go up. That means that your cost base is probably going to go up as well on the back of growth. That's the good cost. Wouldn't you be better off to be able to actually do this 10% to 15% or confirm than to just drop the cost-income ratio target?

And if Markus could very kindly give the sensitivity again, I would be very grateful because I didn't put it down very well. Thank you

Stefan Hoops: Jacques-Henri, sorry, we're just debating for 3 seconds of how to best answer it. So, I think for the record, and I look into Markus' very serious face, we will not drop the cost-income ratio target. We're not advocating for it. But we continue to think that you need to be disciplined.

And I also continue to believe that very interesting inorganic opportunities will arise for DWS if markets ever wobble simply because we have so much more cushion on profitability than some peers operating at a much higher cost-income ratio.

Now at the same time, custody cost and higher share price, they are passed through. And they are essentially slightly dilutive for cost-income ratio, right, because for example, those 2 items that are almost 30 million in Q2, they were also obviously higher revenues, so PBT neutral, but increasing our cost-income ratio.

So that's sort of bad, but all of you are obviously smart enough to see through that. Now what I also want to say is that we do see plenty of interesting investment opportunities, right? So please, nobody should think that we are just saying no to every investment. We are investing a lot, for example, in the Pillar 3.

So, the way that you need to think about our solution for pension reform is that we will have a full product offering where we will have service staff, we'll have call centers. So this is a real investment that we are making, investing in alternatives, investing growing in Middle East and a bunch of other things. So, within a flat controllable cost base, we're making significant growth investments, right?

And then again, those good costs, hopefully, we'll have more of that. But I think that all of you will be able to like isolate that. We stand by our cost-income ratio target of below 55% by next year, and we feel that we are on a good path there.

Jacques-Henri Gaulard: Okay. Thank you.

Stefan Hoops: Thank you.

Operator: The next question comes from Arnaud Giblat from BNP Paribas. Please go ahead.

Arnaud Giblat: Good morning and thanks for talking more about base fee growth, I think that's a really important KPI, and looking to having a bit more disclosure in the future around the base fee growth.

My two questions are first on pensions and second, on the potential mandate that's been announced, I think, mandate win. So, on pensions, if I could just take Hubert's question and apply it to Pillar 2 there. I'm just wondering what the addressable market looks like and over what time frame does it grow to?

How do you think of the distribution fragmented; I suppose a lot of the distribution will be tied to Deutsche Bank? So, what sort of market share do they have or potentially can they get? That's sort of, like, just trying to frame the flow opportunity over a certain time frame.

And secondly, there was, I think, a piece of news flow that the federal government and the state of Hesse and Baden-Württemberg would have potentially be allocating you a 3 billion to 6 billion mandate for pension reserves. Could you comment on that? Thank you.

Stefan Hoops: Thank you, Arnaud. I will take them in reverse order. So, the second one is pretty straightforward to answer. There are some state-level pension funds, and in those specific cases, those assets are managed by Bundesbank.

So, in Germany, you don't really have a sovereign wealth fund or any like specific sovereign fund, except for Bundesbank managing assets and then the fund for the nuclear fund, what we call the nuclear fund that is also managing essentially German assets.

And in that case, those state pension assets are managed by Bundesbank. They are outsourcing some mandates. We won a very large one. We're proud of that large mandate. It is reasonably low margin. So don't think that this is 6 billion of active equity. It's reasonably low margin.

What we like about it is when you think about Pillar 1, we think that those assets will likely be managed either by some newly established fund or Bundesbank or the nuclear fund. And by us being a primary partner to them and being allowed to advise them here and there, that should position us nicely.

Now Pillar 2, and this is a topic that has kept me busy for the last probably 12 years in various roles I had at DB Group. So, I'm quite passionate about it. You need to basically look at it -- I'm simplifying a little bit -- think, firstly, about promises made in the past and secondly, about future promises.

When you think about promises made in the past, a lot of promises to German pensioners were defined benefit but unfunded. This is completely different to, I think, any major country in the world. It means that mid-caps 40 years ago told people work hard, and then when you're 65, you'll get a nice pension of x because it was defined benefit.

However, that money was never set aside. It's essentially an obligation, a provision on the balance sheet on the passive side. But it obviously becomes cash flow relevant once those people actually want to have their pension.

And that is, now, when you think about when those big cohorts born in the '50s and '60s, when they are retiring, that's sort of now, that's a big problem for Germany that's now being addressed, and there will be significant pension risk transfer solutions to be provided and so on and so forth.

That's essentially unfunded defined benefits from the past. Again, that market is just sort of getting real because now people see the cash flow necessity. The government is actively weighing in. And I think there's going to be reforms, in many cases, making it mandatory to fund those.

Secondly, when you look at future promises, which mostly will be defined contribution, I would differentiate between large corporates and the many, many sort of hundreds of thousands, millions of small-cap companies. I think for the large ones, you will have specific solution advice, tailor-made and so on.

For the mid-caps, you will, and that's what I refer to as scalable defined contribution, you will need to have certain products which are simple to administer, simple for companies to sign up for. And again, something not tailor-made or scalable. For the very small, let's say, 10-employees companies, I would imagine them to actually lean heavily into the third pillar and use that.

Now all of it is quite complicated. And when you ask the question about which financial institution is best positioned for it, I would say that this is Deutsche Bank, given the access to all of those corporates, plus having an asset management company. So when you think about the competitors to Deutsche Bank in the corporate space, those are German banks that actually don't have their own asset managers. So we feel that Deutsche Bank is pretty well positioned.

At the Deutsche Bank Board, I'm the one tasked to coordinate Deutsche Bank's response to the pension reform across all pillars. I'm quite involved. But I think that for DWS, that presents a unique opportunity in many cases, for alternatives because those long-dated liabilities should be invested into illiquid, higher-yielding asset classes similar to what you see in the U.S. and U.K. But that will take years to play out. But as we said, we're starting from a good base, already managing more than EUR100 billion of money for Pillar 2 pension funds.

Arnaud Giblat

Thank you.

Operator

The next question comes from Oliver Carruthers from Goldman Sachs. Please go ahead.

Oliver Carruthers

Hi there, morning. It's Oliver Carruthers from Goldman Sachs. Thanks very much for the presentation and for taking my question. I've just got one. I guess, Stefan, would you be able to share your perspective on how you're thinking about the durability of the improvement in flows that you've seen in your active equities business?

I think I basically counted three, I guess, positive tailwinds. I think you're talking to the recent improvement in risk appetite, calling out this improvement in fund performance that we've seen. And then I guess, this more long-dated tailwind of the German pension reform, I guess, offset against the long-term active to passive shift the industry is facing.

But a little bit of a crystal ball question, but just we're obviously watching this nice improvement in the inflows in Q2, but just how are you thinking about the durability of that? Thank you.

Stefan Hoops

Thank you, Oliver. So firstly, and absolutely most importantly, flows follow performance. So if you recall, and most of you have been our partners for quite some time, two years ago, one of you challenged us on this call on the declining outperformance in active equity. And you were right. Like at that time, we had significantly below 50% of our funds beating the benchmark.

And that makes it very difficult to say now. At that time, we were also not very strong relative to some competitors. And when you look at the flows in '23 when we had 5 billion of outflows, '24, '25 getting better. But to some extent, the poor flow performance during those times was because of, well, not very appealing performance. That has changed significantly.

So when you look at the fact that now 82% of our equity AUM that has a benchmark beats its benchmark, then you can see that the changes we've made more than 12 months ago where we brought in a new Head of Equities, who is an exceptional people leader, but equally importantly, had our prior two cohorts of equities do what they enjoy most, meaning managed funds because they are managing our two largest funds, then it just worked out perfectly.

When you look at Andre Köttner performance in Akkumula and VBI, he's more than 10 percentage points above benchmark over the last 12 months, right? So that's significant, and that has led to nice inflows in his funds.

And Top Dividende has had one of the best flow pictures over the last 12 months, more than -- actually not more, 400 million of inflows just in Q2 in Top Dividende. So those inflows in active equity came into our largest flagship funds that had really, really strong performance.

I think risk appetite has obviously looked better in Q2 than in March. There's no question about it. But when you look at our relative benefiting from increasing risk appetite, it's really due to performance. I think longer term, yes, the pension reform will be additional tailwind for sure. But most importantly, we need to keep performance up.

Markus Kobler

I mean if I add, Oliver, it is about, again, what we have communicated in terms of guidance over the next three years that we have about 160 billion of total long-term flows -- if you break that down, it's about 50 billion and 12 billion to 13 billion per quarter.

The robustness of DWS goes back to our diversified business model, but also on the other hand, that over the years, we're working on focus topics, which we internally call our growth agenda. And we spoke about that at the beginning of the year.

And I just would like to highlight in addition to what Stefan said with regard to Gateway to Europe and being bullish on Germany. I mean, passive, where we expand now into

Europe and beyond is on digital platforms, it's on active ETF, and it's on the white labeling and building of solutions.

We're going to see next year -- from next year onwards on the alternative side, flows, which we're then going to report hopefully on a continuous base on the private credit side, if that strategy now moves, as we said, from fundraising into capital deployment.

And again, if you take that all together, having -- I mean, like last quarter, we have been positive on all asset classes. I mean, that's the main pillars. We have also been positive with regards to the client segments and the regions, but certain regions and certain strategies have performed better.

But over the quarters, we're confident that we're going to see us delivering according to whatever, around 50 billion to 55 billion of long-term flows, especially towards the end of the year and then '27, '28.

Stefan Hoops: Actually, one last thing, Oliver, on active equities. So you would have seen that our AUM in active equities went up almost 20 billion in Q2, right, so significant. Now 1 billion, a little bit more than 1 billion is flows. The vast majority we count as markets. Now what the equity PMs have been saying, I'm sort of looking at Markus as I speak because the CFO would need to sign off on it.

They're saying, well, not all of it is markets, it's not beta. There was actually a large alpha component. Again, if you just look at the two funds managed by André Köttner, he created by 10 percentage points outperformance that created 3 billion of additional managed AUM just because of the outperformance of 20 million in management fees. So the equity folks are asking that we sort of reflect that in their compensation, probably something for us to discuss at some point…

Markus Kobler: But not openly here.

Stefan Hoops: But 20 billion of extra AUM in equities, probably the strongest part of the Q2 numbers.

Oliver Carruthers: Very helpful. Thanks for additional color, much appreciated.

Operator: The next question comes from Nicholas Herman from Citi. Please go ahead.

Nicholas Herman: Morning, gents. Thanks for taking my questions. Two for me, please. On Xtrackers, Markus, you referenced some measures that were implemented to improve the performance. Could you just go into that? And I guess, does that include pricing? And I guess just more broadly, I think in the past, you said that you were going for more higher-margin business in passive. Are you now pushing more into lower-margin business, too? That's the first one.

And then, on alternatives, I don't disagree with you on the pension opportunities, particularly in Pillar 2 and 3. On Pillar 1 specifically and winning in private markets, clearly, DWS is strong in real estate, but it seems to me at least that there is increasing preference from European investors for value-add and core plus relative to core, where I think that's where my understanding is where you have traditionally been strong.

And also in infrastructure, where, I guess, do you have that capacity as a middle-market manager? I'm just wondering about your right to win versus larger and more diversified peers? Thank you.

Stefan Hoops

Thank you, Nicholas. I'm going to start. So on Xtrackers, look, it will always be a combination of things that are planned and properly implemented, but you also need luck here and there. Just if we start with the numbers. So Q1 quite poor. While we have a market share of 10.2%, our flow share was around 5% in Q1. It was sort of 11 point, probably 4%, 5% in Q2, and it looks like we are at about 14% flow share in July so far, right? So significant improvement in flow share.

Pricing measures had a small impact. But we kind of improved or whatever, cut pricing on about 5% of our Xtrackers AUM. So not significant. But here and there, we obviously saw increased competition had to address it. I think mostly, it's simply a combination of campaigns that maybe were somewhat unfortunate in Q1. It worked out much better in Q2, staying very close to our digital distribution partners and things like that.

But again, you also need luck here and there. But I think it's the pricing part or the cutting margins part was only a small component, and we are not particularly focused on lower margin parts of that world, which you can see because our average margin in Xtrackers remained reasonably stable over the last couple of quarters.

Now your question on real estate and infrastructure. Infrastructure is pretty easy to answer. So infrastructure, the market is hot. It's specifically hot in mid-cap, and that is where we compete. So the right to win, I think it's easily or easiest answered by saying you simply have a large-cap market where we do not compete and the mid-cap market where we compete very, very well.

Now the interesting part of it is most of our former competitors in mid-cap at some point wanted to have larger funds because average fund size in mid-cap is EUR4 billion to EUR5 billion for us. That's what we're targeting now. Large cap is EUR10 billion plus. So obviously, that looks a lot more attractive. But therefore, a lot of our former competitors are now the ones buying assets from us.

So as we develop something from mid-cap to being larger, one of the outlets, one of the exits is into large-cap funds. So we feel that we have less competition in mid-cap and at the same time, more buyers for our assets. So we feel very well positioned and do not intend to move into large cap. We feel very comfortable with the mid-cap space.

Real estate, more complicated to answer because you're exactly right, Nicholas, that there is much less demand for core than for core plus or value-add. And that is, frankly, capability that we have, but at the margin. So we have some competent people in core plus. We are currently actively fundraising in core plus, but we are better known for core, for European real estate.

That is probably an area in which we would seek to inorganically expand, because if I have the option to hire people, but then have to build a track record or being able to compete for the playoffs from day 1 because we buy somebody with an existing track record, then the latter is certainly favored. So you're completely right. This is where there's a lot of demand and also an area in which we have to simply acquire capabilities.

Nicholas Herman

That's really interesting. Thank you. If I could just have 2 quick follow-ups, and I'm sure Oliver will scold me afterwards on that. But so, you said you're looking to inorganically expand. Is that something that's kind of actively? It sounds like a clear focus area in terms of M&A on value-add real estate.

And the second one I had was just within alternatives. I appreciate there was EUR1.3 billion outflow from capital return, but there was still EUR6 billion drawdown in alternatives AUM. How much of that was LRA? And just could you provide some of the moving parts there, please? Thank you.

Stefan Hoops

Very happy. So I will answer one and a half and then maybe Markus is going to give more content on that big reduction in AUM in alternatives. So yes, specifically for real estate value-add, that is something which we don't possess at scale, need to acquire. It's very difficult to retrain people.

You can hire people, but you don't have a track record. So it's easiest to simply inorganically acquire.

Now that would be for core European -- sorry, when I say core, what I mean by Continental European, right? I don't think that the world needs another U.S. value-add or core plus real estate manager. We're actually quite good in core plus in the U.S. But we would only inorganically grow with its capabilities where you would frankly say, this is something DWS should have already built in the past, right?

So things that you wouldn't find random and especially German or Continental European real estate value-add capabilities, something we should have built in the past, and didn't is what it is. But therefore, that's where we would inorganically add that. On your second question, this is not LRA. It's simply repaying funding in infrastructure, but Markus can give more color if you like.

Markus Kobler

Yes. So happy to quickly answer that one. And again, the driver behind was triggered by a sale of an asset, the asset sale in the first quarter, which is related to infrastructure. And it's a EUR5.7 billion leverage paydown, which we made in the first quarter. That is not reported as flows, but under other assets.

Nicholas Herman

Understood. Thank you.

Operator

The last question for today comes from Pierre Chédeville from CIC. Please go ahead.

Pierre Chédeville

Yes. Good morning. Thank you for taking my question. Most of them have been asked, to be honest. Maybe a question regarding, it's a marginal point, but I think it's interesting for the future.

Regarding Asia, we have the impression that your participation, your partnership with Harvest is something a little bit sleepy. And I was interested to know if you have really a strategy so far in Asia or if it's just a result of the past, your presence there and you stay there because you have a foot in the door, but no particular ambition in the short to medium term there.

My second question is linked to the fact that you said that flows follow performance, of course. But more generally speaking, we see, of course, a consolidation in the business. We see also a lot of players watching carefully and focusing on Germany, French, Italy competitors. And I was wondering if you were, I would say, a new CEO and you look coldly at DWS today, would you say that the most important thing to improve, if it's the case, would be

	distribution or innovation in order to keep your rank in this competition?
	And maybe as it seems that I have the last question there, could you say a word regarding where you stand regarding ESG products and ESG strategy, because it's been a long time since you didn't talk about that. Thank you very much.
Stefan Hoops	Thank you, Pierre. If I'm not mistaken, I think you asked 3 questions, but it's okay.
Stefan Hoops	I think it would be odd if I drop.
Stefan Hoops	No, no, I am just joking. It would be odd if I didn't answer the ESG question because I said there was like the one excess question that I choose not to answer. So Asia, sort of distribution versus innovation, specifically in Germany and then ESG.
	So we do have an Asia strategy. It's part of our top 5 and top 5, so being amongst the top 5 foreign asset managers in the top 5 economies of the world. And obviously, Asia is home to India, China and Japan, so 3 of those 5 countries.
	Now I think you will find that very few people have an Asia or even APAC strategy in the sense of one strategy for the region, given that the markets are so incredibly different. I mean, Australia and Japan are obviously very different to ASEAN, very different to Korea, other markets that really depend on large sovereign players.
	So in Asia Pacific, you need to have maybe with the exception of ASEAN, where you can be more a little bit treating like a region that in many cases, in our case, we cover from Singapore. But for the rest, you need to have country-specific targets.
	Now in China, that is through Harvest. When you look at the performance of Harvest, actually, since I handed over the Board mandate to Markus, he is now our Board representative on the Harvest board. The Harvest performance improved massively. I think their net income is up, what, 40% in the first half?
Markus Kobler	No, that's second quarter.
Stefan Hoops	Yes. Thank you for pointing that out. So the first quarter when I was still on the Board was okay. Second quarter when Markus was on the Board much better. So CFO adding Alpha. That is China and India. We obviously have our alternatives joint venture with Nippon India, where we are progressing nicely. This will close imminently.

So therefore, that is something where I would expect inflows starting in 2027. As our India strategy and the partnership with Nippon India goes much further, where we also have distribution agreements for global products into India will be our products. Indian products distributed globally will be their products that we distribute. So that is sort of India.

For the other markets, we have country-specific plans, but that's more distribution. Even in Japan, where we'd like to be bigger, that is where as interest in Europe goes up, where people rotate from just dollar assets into European assets, that will be benefiting. But that is just a recent story. We call it Gateway to Europe, and that is going to lead to us being better positioned in other markets in Asia.

You're right. Plenty of competition. Germany, and as a German, I'm sort of biased in saying that this is a great country. But it is a great country and a country that many competitors also like to play a larger role in. The pension reform isn't a secret. Everyone thinks that this is going to be interesting opportunity. It is also complicated. So it will take some time for some of the competitors to have the same comprehension that, frankly, we feel we have.

But I think that distribution will continue to be the most important aspect other than performance, having standard products for an asset manager. Now the distribution itself, and you may accuse me of being cute with words, but the distribution itself will need to be quite innovative.

So when you think about our focus on digital distribution channels, that is sort of an innovation, but a new means of distributing. And none of you have asked an AI question, I'm not going to just wobble about it for the next 10 minutes. But when you think about an increase in transparency, a reduction in friction, a reduction in barriers to entry, all of that is going to have a massive impact on distribution channels. So you need to be quite innovative.

So therefore, I think my answer would be you need to be innovative in distribution. I don't think that you need to innovate completely new products. I don't think that that's as relevant. Now ESG remains absolutely core to us.

As many of you know, as an Executive Board, one of our KPIs is to offer a certain percentage of new products as ESG products. So therefore, we are launching a certain minimum percentage. Just about half of our new product launches are ESG products. And then we simply let our clients choose what they want to have.

	Now what you could see is that there is interest in ESG, but maybe less than in the past. As a fiduciary asset manager, this is not our choice. We can only offer compelling products and then we'll let clients decide.
Markus Kobler	Can I add to the ESG question? And again, what is really important is that we are only 1 of only 2 asset managers. I'm not talking about ESG as an investment theme, but it's also DWS as a company, and we take the topic extremely seriously.
	I mean, we are 1 of 2 asset managers that is issuing a sustainability statement, which is quite comprehensive, which is part of our annual report. And that gives probably more transparency than any other asset manager is providing.
	And secondly, internally, we also track ESG flows. And it's an important -- even if it's not en vogue apparently on a global level, but there's a part of investors who are interested in ESG as a topic, and we continue to report strong flows there.
Pierre Chédeville	Thank you very much. Very clear.
Stefan Hoops	Thank you, Pierre.
Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Oliver Flade for any closing remarks.
Oliver Flade	Thank you very much, everybody, for listening in and your great questions as usual. The IR team stands ready in case there are any open questions left that you might have. And otherwise, we wish you all a fantastic summer day and talk to you very soon. Thank you, and bye-bye.
Markus Kobler	Thank you. Thank you very much. Bye-bye.