DWS Group GmbH & Co. KGaA

Q3 2022 results with Investor & Analyst Conference Call

26 October, 2022 | 10:00 AM CEST

Transcript

Speakers:

Dr. Stefan Hoops

Claire Peel

Oliver Flade

Oliver Flade

Good morning, everybody, from Frankfurt. This is Oliver Flade from investor relations and I would like to welcome everybody to our earnings call for the third quarter of 2022. As always, I hope you're keeping healthy and safe. And 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 parameter basis to the DWS results that we're presenting today. I'm joined by Stefan Hoops, our CEO, and Claire Peel, our CFO. Stefan will start with some opening remarks and Claire will take you through the financial presentation afterwards.

For the Q&A, please could you limit yourself to the two most important questions, so that we can give as many people a chance to participate as possible. As always, 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. With that, I will now hand over to Stefan.

Dr. Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen. Welcome to our Q3 2022 earnings call. Today Claire and I will highlight our key developments in the third quarter and we will provide some insights into what you can expect from us going forward. Before we get into the details, allow me quickly recap on Q3. Our strong franchise continued its focus on delivering profitable, disciplined growth, despite the adverse environment. Obviously, markets remain difficult for the assent management industry, as well as for DWS. Last quarter we called it a perfect storm, as we hoped this turbulent period would pass, like most storms do. However, there have been no signs of this happening, which reinforces our assumption that we're entering a new era, in which markets across asset classes will either turn sideways or continue to go down. Quite simply, we're entering a new beta world, where active asset managers will be tasked with creating alpha, creative sector ETFs will outperform broad index replication and private markets will continue to thrive.

In this context, DWS continues to progress forward and weather the current environment, reaffirming the strength of our firm. Our people franchise remains strong, without senior or key talent departures. Our coverage team is actively helping clients to navigate difficult markets and with success, as you can see in our flow performance, compared to the wider industry. This has been enabled by our strong investment performance, with 76% of our funds outperforming the benchmark on five-year basis. This stability is also reflected in our financial results. Obviously, our stable AuM has been helped by the strong US dollar in the third quarter and, yes, most of our quarterly net inflows have come from cash. However, inflows into high margin alternatives

have contributed to an increase in our management fee margin and we've generated stronger revenues in the quarter in year-to-date, enabling us to report a record adjusted profit before tax of €804 million in the first nine months of 2022, up 5% year-on-year. In addition, our year-to-date adjusted cost income ratio was 60.8%, in line with our expected ratio of around 60% for 2022.

This quarter we've also made strategic progress centred on our guiding principle of clients, markets and investing. Regarding the well-known ESG investigations, we are nearing the final stages of our internal investigation, and can confirm that we continue to stand by all of our financial disclosures and prospectuses. We do, of course, learn from our experience and continue working with the authorities to resolve the investigations as a top management priority. As part of these efforts, we announced a refined sustainability governance structure last week, including the introduction of our sustainability oversight office. As I said last quarter, our main goal is to restore our credibility in ESG and remain committed to being one of the flagbearers for ESG in Europe.

In addition, we made a number of organisational changes to ensure DWS is well positioned for future growth. We welcomed Karen Kuder and Angela Maragkopoulou to the DWS executive board, to help shape our future as a standalone asset manager. We announced that Dirk Goergen, our Global Head of Client Coverage, will relocate to the US, to lead our Americas business and oversee an ambitious growth plan for this key part of our franchise. We reconfigured our investment division to become more efficient, agile and scalable, including the promotion of Björn Jesch to Global CIO. We've established a digital products team as part of our ambitious plans for digital asset management. These efforts form part of our broader strategy, to ensure we are ready to capitalise on opportunities with continued discipline and to solidify DWS's position of strength, as we enter an era of no beta. I will outline more about how we plan to achieve this later, but for now, over to the one and only Claire, to explain our results.

Claire Peel

Thank you, and welcome, everyone. Today I'll present the results and activities for the third quarter of 2022, starting with the key financial highlights. Adjusted profit before tax stood at €252 million in Q3, supported by stable revenue growth, including strong management fees. Adjusted cost income ratio of 63.5% reflects higher costs due to inclusion of an extraordinary cost item in Q3. Net inflows totalled €7.7 billion in the third quarter, primarily driven by cash and further contributions from alternatives, ESG and new product launches.

Moving on to the financial performance snapshot for the third quarter. Starting at the top left, AuM remained stable at €833

billion, supported by favourable FX movements and positive net inflows in the third quarter. On the top right, adjusted revenues grew to €689 million, up 3% quarter-on-quarter and 4% year-on-year, with increases reported across all revenue categories. On the bottom left, adjusted costs increased to €437 million, including higher carried interest compensation related to future performance fees. This resulted in an adjusted cost income ratio of 63.5% in Q3 and am adjusted profit before tax of €252 million in the third quarter and €804 million year-to-date, a 5% uptick year-on-year. Let's recap on the market environment.

After a turbulent first half of the year, we saw volatility levels come down at the start of Q3, amid better than expected economic growth, together with lower oil prices and reduced levels of inflation in the US. However, volatility began to increase again in mid-August, as central banks confirmed their resolve to fight inflation, even in the face of recession. This led to even larger declines across all major indices in the third quarter, while the US dollar continued to strengthen against the euro. At the same time, interest rates continued to rise in Q3, leading to sharper increases in European and US government bond yields. Altogether, all of these developments had a wider impact on the asset management industry, as well as DWS, as reflected in our AuM, which I will now outline.

Despite the challenging market environment, assets under management remains stable at €833 billion in Q3. Ongoing industry pressures, such as higher interest rates and volatility in global equity markets, continue to have a negative impact on market performance, but we were able to compensate for this through favourable FX movements and quarterly net inflows, which I will now highlight.

In the third quarter we continued to see investors respond to the ongoing economic uncertainty by making asset allocation changes to de-risk their portfolios. This behaviour is reflected in our quarterly flow performance of €7.7 billion of total net inflows in Q3, marking a reversal from Q2 net outflows. As previously outlined, there are a number of ongoing industry pressures that continue to weaken investor sentiment, which we see across both retail and institutional client types. This can be seen in both active equity and active fixed income, as we have observed at DWS. The exception this quarter was cash, which reported €17.6 billion of Q3 net inflows, mainly from US institutional clients, but with continued volatility. In addition, our strong focus on investment outperformance continues to pay off, enabling us to report net inflows into our active retail flagship funds in Q3, mainly in EMEA, which we reported inflows into our multi asset offering Concept Kaldemorgen and our top dividend equity fund.

Overall, our global and diversified business model is serving us

well in the current market, with sustained inflows into higher margin products in the third quarter. Notably, alternatives continues to attract strong client interest, recording €1 billion net inflows in Q3 as investors increasingly turn to such strategies to diversify their portfolios and generate higher returns in response to inflationary pressures. In the third quarter our alternative net inflows were driven by both flows into liquid assets and real estate funds across all three regions. This helped us to offset quarterly net outflows in passive, as investor appetite for ETF remains weak, in line with the continued decline of ETF flows industry wide. However, our passive ESG offerings continue to attract positive net inflows, reaffirming the sustained investor demand we see for ESG ETFs, enabling us to report differentiated growth in the asset class. Overall, ESG products are still performing well and reported €1.4 billion of net inflows in the third quarter and we continue to receive further flow contributions from our new product launches, which I will now explain in more detail.

Since our IPO in 2018, new product launches have attracted €48.7 billion of cumulative net inflows as an overall management fee margin of 36 basis points. This includes €2.5 billion net inflows from new fund launches in the third quarter, primarily from ESG funds. The success of our new product launches is a testament to the commitment we had at the start of this year to identify new opportunities that meet our clients' investment needs and we're pleased to say that we're progressing well on this front. Over the past nine months we have launched several somatic funds across all asset classes, with a particular focus on climate. Our alternatives business continues to build on its strengths, as we expand and enrich our range of offerings in line with clients and market demand. In Q4 we plan to launch the DWS Invest ESG Real Assets fund as part of the broader strategy to offer higher returning solutions to retail investors.

We've also continued to accelerate our ETF product launches to further scale our passive business, all of which now have stronger focus on sustainability. This includes our planned ESG ETF launches in the fourth quarter, helping us to remain on track to double our ETF offerings by the end of 2022, as targeted. Overall, new product innovation is extremely important for DWS to sustain positive flow momentum and support top line revenue growth. As we look to 2023, we remain committed to innovate new product offerings that meet our clients' ever-changing investment needs, as we enter a new era for the asset management industry.

Moving on to revenues. In Q3 we reported stronger total adjusted revenues of €689 million, up 3% quarter-on-quarter and up 4% year-on-year, with increases reported across all revenue categories. Management fees and other recurring revenues

were up 7 million in the third quarter, driven by sustained client demand for high margin alternatives and further supported by favourable FX impacts and an additional calendar day within Q3. Performance and transaction fees increased by 19% from Q2 due to recognition of stronger real estate performance fees in Q3. And other revenues were also up in the third quarter, supported by a number of factors, and also include €13 million contribution from our Chinese investment, Harvest. The management fee margin remained resilient in Q3, growing to 29 basis points, up from 28.4 basis points in Q2. By year-end we expect the management fee margin to remain broadly flat year-on-year.

Moving on to costs. Total adjusted costs increased to €437 million in Q3, up 10% quarter-on-quarter and 11% year-on-year, resulting in a higher adjusted cost income ratio of 63.5%. This increase is mainly due to higher adjusted compensation and benefits cost in the third quarter. Similar to the first quarter of 2022, we accounted for approximately €25 million of carried interest in Q3 related to future performance fee recognition. Excluding carried interest, our adjusted compensation and benefits cost would be in line with Q2 and our adjusted cost income ratio would be approximately 60%. As a result, we are in the process of restructuring the fund vehicle to enable us to better align the recognition of mismatched carried interest and performance fees going forward, and we expect to see a credit to costs in Q4 as a result.

In addition, we saw a slight increase in adjusted general and admin expenses in the third quarter, as we continue to invest into growth. Taking all of this into consideration, our nine-month total adjusted costs are up year-on-year, but with an adjusted cost income ratio of 60.8% year-to-date, supported by stronger revenues and in line with our expected ratio of approximately 60% for 2022. As a reminder, the total adjusted cost base excludes €19 million of investments into our infrastructure platform transformation in Q3, in addition to other non-recurring expenses.

To conclude, despite continued difficult conditions, DWS successfully weathered market volatility, as reflected by the stability of our financial performance in Q3. Adjusted revenues continued to grow in the third quarter and in the year to date, supported by strong management fees. And although flow performance is mixed, we remain encouraged by continued client demand for high margin alternatives and active retail flagship funds, enabling us to generate top line revenue growth. This is all testament to our global and diversified business model, as well as our strong three and five investment outperformance of 74% and 76%, respectively. Looking forward, we know that we must retain a disciplined focus on cost control,

whilst continuing to help our clients through this period of uncertainty. We remain committed to delivering profitable, disciplined growth and continue to expect an adjusted cost income ratio of around 60% in 2022. Thank you, and I'll now hand over to Stefan for closing comments.

Dr. Stefan Hoops

Thank you, Claire. Our solid Q3 performance clearly reinforces our position of strength as we enter a new era for the asset management industry. As explained earlier, we strongly believe that we are shifting into a world in which markets will either turn sideways, or will continue to go down. Therefore, we have to assume that we will not see positive market beta for the foreseeable future, neither for our clients on the performance side, nor for our shareholders and us on the revenue side.

So, what is the winning strategy for asset managers in such an environment? To help us find the answers, we have been assessing our franchise through a variety of lenses across client types, products, asset classes and regions. And we've been asking ourselves two key questions. Who trusts us? For which capabilities? Where in the world? And where are our competitive strengths? Assuming that only the top quarter of asset managers will create alpha in terms of performance for clients, inflows, scale, and has a compelling cost income ratio, which all helps to create shareholder value.

The outcome of this review taught us some valuable insights. Firstly, our global and diversified business model is serving us very well, enabling us to remain stable for our clients, even when markets are not. Secondly, we still have a lot of potential to unlock if we harness our capabilities and capitalise on our strengths. Thirdly, and quite honestly, there are parts of our platform where we’re not as competitive as we would like. In some cases because we lack scale, in others because of the mediocre track record. This obviously provides self-funding opportunities without a tangible impact on our clients.

Looking ahead, we will continue to build on our strong franchise, while positioning DWS for the future. It goes without saying, clients obviously come first. Our fiduciary responsibility is more important than ever, to help both retail and institution clients navigate a no-beta environment while seeking alpha. We feel we understand retail buying behaviour very well. As an example, we're seeing a greater drive towards embedded distribution channels. This is one area where Angela and our new digital team will be impactful. In this new era, we expect a lot of alpha generating opportunities in private markets. One example I already mentioned in Q2 is providing risk capital for the European transformation. In addition, we recognise that there's an ongoing shift away from global beta, making local market expertise even more relevant.

While we have a large global footprint, we understand that we can't be everything to everyone. Instead, we need to capitalise on our strength and focus on what really matters to our clients, investing with fiduciary care and with strong investment outperformance. This will be particularly important for the expected renaissance of active asset management, which requires a strong performance culture. Furthermore, we will reinforce our leading position in bespoke passive solutions with our Xtrackers brand. More detail will follow at our Capital Markets Day in December. Of course, we will continue to listen to your valuable feedback on how to make our stock more attractive. Our investor relations team continue to share your suggestions on how we might achieve this. Without going into too much detail, some refer to providing more detailed disclosures, others to our relationship with the biggest shareholder. We are listening to you and we're working on ideas to show that we, as a management team, are confident in the DWS stock and has skin in the game.

I am personally convinced that our capabilities should drive higher AuM over time. Some may even say that we've punched below our weight and that the organisation is able to deliver more. You will see us address this and implement elements of our gameplan with a sense of urgency. With our competitive cost income ratio and available capital, we want to capitalise on the current turmoil in the markets. At the same time, we will remain laser focussed on costs, just like we've demonstrated over the last few years. We look forward to updating you on December 7th. In the meantime, we will continue to do what we do best, focus on clients, markets, and investing, while creating shareholder value. Thank you. I will now pass over to Oliver for Q&A.

Oliver Flade: Thank you, Stefan. Operator, we're ready for Q&A now.

Operator: Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touch-tone telephone. To withdraw your question, you may press star followed by two. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question is from the line of Arnaud Giblat from BNP Paribas Exane. Please go ahead.

Arnaud Giblat: Good morning. My two questions are going to focus on costs, please. Firstly, I'd like to look at the adjustments in costs. You've had a big step-up over the past two quarters. I'm just wondering if you could outline for us, give us a bit more detail, on the nature of these costs and the quantum to be expected in the future. Broadly, should we expect these adjustments to eventually turn towards zero? My second question is on the cost-to-income ratio

target, so 60% in 2022 makes sense, I'm just wondering whether that's a target that still stands for 2024? Notably, with your assumption of a no-beta world, how can you get there? Essentially, if there is a bit of fee pressure, inflation in the cost base, it looks a bit challenging. What sort of leverage can you action to get to a 60% cost-to-income ratio, please?

Claire Peel

Thank you for the question, Arnaud, I'm happy to take both. On the first question, regarding the cost items outside of the adjusted cost, there's three items that I would point to there. One is the transformational charges, which is related to the IT transformation project. We saw 90 million in the third quarter, which indeed, has been the highest of the quarterly spend, we've had against that project and demonstrates that it's very much in its execution phase. So, we would expect to see those costs continuing as we go through next year, and we will give some more information on that, of course, at the Capital Markets Day.

Secondly, we have severance and restructuring, which is to some degree an ongoing business activity, but can have ups and downs. We did discuss the need to sell fund activities as we go into 2023, so I think severance and restructuring is a continued expense that we would expect to see. The other cost item, this one relates to litigation charges, of which we've had one expense predominantly provided for in Q2. And we also have the legal expenses associated with the ESG matter. We've seen those expenses peak in the nine-month period in 2022. We expect a decline in those costs in Q4, but some amount of cost going into 2023. That addresses the adjusted costs.

On the second question around cost income ratio, we do continue to guide to a cost income ratio target of around 60% for this year, for 2022. We have good visibility of that at this point in the year, so I think, assuming that we can complete our effort on the fund vehicle restructure, which I referred to, which we're confident we can do so, then we would expect the 60% cost income ratio for 2022. Then, moving into the medium-term horizon, we continue to be focussed on a sustainable cost income ratio target of 60%, but we've indicated in the past that we do consider that to be nonlinear. In the current outlook and environment that we're going into in 2023, there is a likelihood that the cost income ratio can increase before it decreases in that medium-term window.

Dr. Stefan Hoops

Allow me to just add two points because I suspect that not just you, but also your colleagues, are very focussed on cost. The first, and I think Claire is too nice to mention it, but I as a German can say that we have a lot of our infrastructure functions in Germany and you correctly pointed to inflation on labour expenses. But I think that it's more prevalent in New York and the UK. I think one advantage we have built in, inherently, is that

a huge chunk of our cost base is in Germany, where I think the labour market is simply less hot than what we see in the US and UK.

I think second point, because I'm assuming that all of you pay attention to whether it's just the CFO talking about cost or also the CEO, what I did over the last couple of years is not dissimilar to today. In the corporate banking we definitely had revenues go down massively and we, essentially, had inflation in the sense of a lot of fintechs competing in the tech space, so we had to invest more on tech that maybe otherwise we would have. I can tell you, and you can look at the cost development of the Corporate Bank of Deutsche Bank, that we simply took many, many hard and tough decision. That doesn't make me a favourite in our executive board, but you would definitely see us make tough choices. And when I eluded to self-funding opportunities, that's what we're trying to get across.

Arnaud Giblat — That's great, thank you.

Operator — The next question is from the line of Hubert Lam from Bank of America. Please go ahead.

Hubert Lam — Good morning. I've got two questions. Firstly, on the fee margin, what drove the big uptick in the fee margin? I know Claire mentioned alternatives helping, but any technical factor that drove it higher and what would you say is a sustainable rate or the exit rate going forward? Second question is for Stefan on the ESG greenwashing investigation. I know he's probably bored of answering this question, but I'm focussing on the external one, not internal. Any update on possible timing or type of resolution, or just generally, your interaction with authorities? I also saw there was another recent lawsuit that was made in the news, anything you can say about that, as well. Thank you.

Claire Peel — Thank you for the questions, Hubert. I'll take the first one on the fee margin. Yes, in the third quarter we saw an uptick in our management fee margin to 29 basis points, that compared to the Q2 results of 28.4. You're right that there is a technical effect in the third quarter. We often see smallish technical effects in the calculation, which smooths out over full year, but the third quarter, that was more notable, given the volatility that we saw in the average AuM over the period. I would say that that technical effect is about 0.4. So, on a normalised basis, it would still be slightly higher than the second quarter because of the positive effect on the alternative side, but 0.4 is what we'd expect to normalise. That's why for the full year, I would 0.2, a flattish management fee margin, compared to the previous year, which would be around 28 basis points.

Dr. Stefan Hoops — Hubert, thank you for your second question. You're right, I mean I don't get tired of it, but I do get the question quite a bit,

obviously. Past, present and future of ESG, obviously we'd love to talk about the future, but your question was past and present. We cannot really comment on the ongoing investigation, so therefore, I cannot really give you a timeline by when we'll have resolved the ongoing investigations. So, a taker of time, as opposed to being able to really drive the timelines. However, I think what you probably noticed between Q2 and Q3, we've now confirmed that we have nearly finished our internal investigations, and last quarter we said that we stand by all of our disclosures. This time we also emphases that we stand by all of our financial disclosures and prospectuses. I think that should probably indicate that we have progressed and feel confident about that statement.

When it comes to the past, you mentioned the lawsuit which was launched, conveniently, a couple of days before our quarterly earnings. In that case, it's not really about disclosure, but about what they would call colourful marketing. In that case, and obviously we take those consumer protection groups very, very seriously, I think they do a very important job, task, for the overall market. They have had these sorts of discussions with a variety of our competitors and, in that case, it's really about getting us to maybe tone it down a bit. I think that's their intention, as opposed to filing a complaint or a lawsuit on disclosures or prospectuses.

I think, last point, when it comes to the present, obviously as I also said in the little intro, that we learn. We're continuously reviewing our processes, procedures. And the announcement that we made last week about essentially organising ourselves in three parts, I think also shows, you can call it, lessons learned. We have that strategy for ESC remains under the CEO, that we give a lot more accountability to the businesses, so they really have to drive the ESC delivery, but also own the controls. And then we introduced a sustainability oversight office, which reports up to Claire, which is really a line of defence control function because we obviously had control functions involved before, legal compliance, and so on. But now we have a dedicated sustainability oversight office focussed on that. Thank you, Hubert.

Hubert Lam

Thank you.

Operator

The next question if from the line of Mike Werner from UBS. Please go ahead.

Mike Werner

Thank you very much. Two questions. First, it appears that your employee base grew by about 6% in the quarter. I was just wondering if you could let us know if there's anything inorganic there and what we should think about in terms of the headcount growth, as we look out over the next couple of quarters. Then,

second, going back to the fee margin. I know you guys have quite a large cash and money market business, as well as a fixed income business. Given the rising yields in the world of fixed income, do you see any latitude or any room to increase some of your pricing on some of your products within fixed income and cash? Thank you.

Claire Peel — Thank you for the question, Mike. I'll take the first one on the FTE number, or the headcount number. We did have a technical effect in our third quarter, whereby we're progressing on insourcing a lot of activity, also from entities that sit outside of our DWS entity perimeter. This included in the third quarter 130 people from our Philippines platform. These people are very important to the franchise, they've always been part of our cost base, but the headcount is now a reported headcount, as opposed to an external headcount. So, it really is very much a technical effect on the headcount. Obviously outside of that number, which is approximately 130 people, there is a second effect, just in terms of general growth. Which is also continued insourcing attached to our IT transformation projects and investment into growth areas.

Dr. Stefan Hoops — The second question, and maybe we can team up on it, Claire and I, I think when it comes to fee margin and it potentially increasing because of higher yields, that would be nice. A little bit wishful thinking, a little bit speculation. Arguably, if yields are at 4, 5% rather than at 1, maybe paying an extra basis point wouldn't hurt as much. Unfortunately, we don't really see that yet, so right now, and Claire can confirm, we're still planning for a margin compression over time, even though we feel that one basis point is probably conservative at this stage. I think what you can say is, if we assume for a second that this thesis of a no-beta world is the way that the world pans out and that you can find alpha in the [unclear 00:34:57] passive. So, not broad index replication, but sector segments, algorithm based indices and so on, or that active asset management experiences a renaissance. I think in that case, those would be higher margin products for asset managers to offer. Again, it's speculation and probably wishful thinking on my part, but I do believe that if people seek alpha, they will be willing to pay for it.

Mike Werner — Thank you, Stefan.

Claire Peel — If I could just add, on the management fee margin for fixed income and cash. On fixed income, it's actually been very resilient over the years and including this year, fluctuating between 11.5, 12.5 basis points. And cash, obviously low margins fluctuating between 3 and 4, and it can move above and below that, depending on where the yields are sitting on the cash funds. They are portfolios that sit below the average of the management fee margin at DWS, overall, and that's why the flow

effect and the mix effect for the third quarter is also having a positive effect.

Dr. Stefan Hoops: Thank you, Claire.

Mike Werner: Thanks.

Operator: The next question is from the line of Bruce Hamilton from Morgan Stanley. Please go ahead.

Bruce Hamilton: Morning and thanks for taking my questions. Maybe just looking at the organic net new asset growth outlook. Two questions. One, on the nearer term, obviously you mentioned de-risking, which has been an industry phenomena, particularly through September. I just wondered whether you have any comments you can give on how Q4 is going. Then perhaps more importantly, looking forward, your comments on a no-beta environment, I think very interesting. In terms of the alternative space, you called out energy transition, but how do you think across some of the other areas, private equity, for example, in a world where there's no beta, but high funding cost. Do you think those areas will still see sufficient appetite from clients and deliver alpha? Then on the active side, the challenge that we've always seen is that the industry hasn't, on any consistent basis, performed above benchmark or below 50%, and I see your one-year performance has slipped a bit. Which areas within active, for your business, are you more confident that they can see growth going forward? Thank you.

Claire Peel: Thank you. I can take the first question, just on the net new asset outlook. As we've indicated, and I think as we've seen across the results so far for the third quarter, there is certainly a de-risking of client attitudes in terms of where investments are being placed and much more discretionary. In the early stages of Q4, difficult to give too much outlook, but it's been a little bit more muted, I would say, from the first couple of weeks of October, of what we've seen. Certainly in the ETF side, we continue to see a risk of outflow performance in ETFs, but again, as mentioned earlier, when you look within the composition of ETFs within some of the ESG funds, there's continued interest in that area. So, overall, in Q4 quite muted so far, but I think closing Q4 at the end of the year, we'd expect it to be a much cautious client reaction to flows.

Dr. Stefan Hoops: And Bruce, really two questions, right? One, on private markets, there I would have a more general observation. And then on active asset management I will be quite specific to DWS. I think the convenient thing about talking about no beta, is that you can define it in very, very different ways. No beta, there could be no global economy beta, no asset prices going up beta, obviously beta would have different definitions. I think the one thing we can probably agree on is over the last couple of years, because you

had a positive beta, you could become complacent. And certain things that are really dependent on financial engineering kind of play out fine, as long as markets are trending nicely upwardly. When it comes to private market, I am concerned, with probably many of you that are following those markets, about what could happen to private markets overall. If you see public markets be down 20%, why wouldn't private markets also move? I'm definitely worried about P/E, it's easy for me to say, given that we're not in P/E, but again, in many cases it simply depends on financial engineering. And with interest rates being much higher, I think that will be tough going forward. I am probably a little concerned about direct lending or private debt originated in 19, 20, 21 because those were eras in which everybody had a ton of dry powder and probably an incentive to lend. Given that a lot of private debt went into private equity owned companies, I think it does beg the question of everybody's incentive to put on leverage, maybe there's too much leverage, so that's a general market comment.

I think where I see opportunities going forward, again high-level market and then I can quickly comment on DWs. What I call European transformation is actually broader than energy transition. The reason why we call it transformation, because yes, it does include a transition to a greener environment, greener economy, but it also includes components like fortifying or diversifying your supply chains, maybe depending less on far-away countries in Asia and producing more in Eastern Europe. It definitely features much more R&D expenses. You see mid-cap companies with access to the equity markets wanting to invest and they need private debt, they need funding.

When you look at European transformation, basically every day some government programme is announced or you see certain needs where you would want to invest. The role that we feel that we can play, as DWS, is to bridge that. We feel that we can raise risk capital for Europe and we feel that, in collaboration with our majority shareholders at the Deutsche Bank, we can actually deploy it. Because sourcing risk is quite tough. It's incredibly dispersed, many, many companies, so sourcing risk through the Corporate Bank or the Investment Bank of Deutsche Bank would give DWS an advantage. Obviously we would remain the fiduciary asset manager, to actually manage that. That's where I see upside in both infrastructure and probably direct lending. Overall, I think real estate debt could be interesting, if you understand real estate equity, which we feel we do. Because if you provide debt financing to real estate companies, you need to lend to potentially own, so you might as well understand how it would feel to own the equity in real estate. Happy to go into more detail, but I'll just leave it at that.

Now on active performance, I think your comment is quite fair.

Yes, we have a strong outperformance versus the benchmark in three and five years. I think one-year basis, it's slightly more mixed. I am confident about our ability in equities multi asset, in certain products like liquid real assets, to continue to outperform. I think it's fair to say that we have not done as well as we would like in fixed income and that's something that we're looking at. Thank you, Bruce.

Bruce Hamilton: Very helpful. That's great, thanks.

Operator: The next question is from the line of Haley Tam from Credit Suisse Financial Services. Please go ahead.

Haley Tam: Morning. Thank you for taking my questions. I have a couple of quick follow-ups on costs and then one question on flows. Just on costs, can I confirm that the headcount increase that was referenced in a previous question, should we have expected, therefore, to have seen a fall in the run rate general administration cost, as you've moved that Philippine headcount from outsourced headcount into internal or is that something still to come through in the future? Then secondly, in terms of the carried interest credit for Q4, given you saw I think €55 million of exceptional carried interest costs in Q1 and Q3, combined, is that the scale of the credit we should look for in Q4?

Then on flows, you've talked a number of times about the re-invigoration of active management and your confidence in multi asset, in particular. You are still seeing institutional outflows from the area and I wondered if you could help us think about whether that's just asset reallocation that should come to an end soon or if there's something more fundamental going on there, in terms of your institutions rebalancing what they're holding? Thank you.

Claire Peel: Thanks for the question, Haley. On the first question around headcount, yes, it's correct that expenses previously in the general and admin costs now will get charged through comp and ben costs. So, you will see that movement going forward, but it's not a material movement. On your second question on carried interest, yes, the two exceptional items that we've seen in Q1 and Q3 were 30 million and 20 million respectively, so subject to the technicalities and details of the fund structure, that would be the indicator of what we would expect as a credit in Q4.

On the flow performance, the question specifically around institutional, I think we've certainly had in the fixed income space some mandates that have come to the termination period. And of course in the environment that we have seen in fixed income, those haven't always been renewed or reallocated within fixed income from those institutional clients. So, we've certainly seen some more material sized mandates from the institutional side of that category.

Haley Tam	Thank you. And is that related to multi asset? Because I think you said in the statement there were outflows there, as well, from institutions.
Claire Peel	Multi asset is smaller in quantum, so with multi asset we've seen in the third quarter inflows in retail and some outflows in institutional. But again, I can't give too many specifics on the institutional, but I think it's asset reallocations that we're seeing.
Haley Tam	Thank you.
Dr. Stefan Hoops	Thanks, Haley.
Operator	The next question is from the line of Stuart Graham from Autonomous Research LLP. Please go ahead.
Stuart Graham	Hi there. Thank you for taking my questions, I have two, please. The first one is quite big-picture. The housing boom in Germany is over and we're likely going to see a lot of mortgage holders now saddled with negative equity. How do you think that the bursting of the German house price bubble impacts the outlook for your retail new money flows, please? That's the first question. Then a second question is on Concept Kaldemorgen. I know it's a bit naïve, but Klaus has obviously done a great job delivering his average return of I think almost 5% in an ultra-low rate world. But investors can now get 4% on a US 10-year, ECB's going to raise rates to 3%, so why won't his product now lose its appeal with investors, especially given these relatively high fees? Thank you.
Dr. Stefan Hoops	Hey, Stuart. Obviously honoured to have you on our call. Thank you for your questions. Let me take the first and try the second, then maybe Claire will have additional comments on the second. I think when it comes to the perceived net worth of retail and then their preference for investing their money, that's obviously something which we are following. Speaking globally, and then I will come back to Germany, that is obviously a concern we have. When you look at the US, for example, where you have not seen retail selling equities, really, I am worried that at some point you reach a tipping point where the perceived net worth, because of my equity and housing, is going down, my mortgage costs are going up, my cost of living goes up. And at some point, I'm worried about if the S&P 500 goes to X, that could become tricky, so let me just sell now. So, that's definitely something which we are following. We haven't really seen that in the US, but it's definitely a risk, so, you're right. When it comes to Germany, I don't think that the house price appreciation over the last couple of years was quite as extreme as we have seen in other countries. I think people usually have fixed-rate mortgages, meaning there's no real necessity or forced recognition of potential losses right now. I don't think

we've really seen people invest in markets because of perceived equity in the housing. That is something we're following. We definitely expect cost for mortgages to go up, we obviously expect also cost for living to go up. Meaning, if you have less disposable income, less money to invest, and that would probably not be helpful for flows. But at this stage, when you think about the type of clients we have in Deutsche Bank's Private Bank, therefore, our clients, I think it tends to be the people that are slightly wealthier than the average, so I don't expect massive impact from that going forward.

I think the second question, on why invest in multi asset if you can get 4% in [unclear 00:48:38], I think the same question you can ask about hedge funds. What historically you will have seen is that most people in multi asset macro, whatever, have a multiple of the market beta plus some alpha. It's probably also the ambition that Klaus and his team have set for themselves. I think they've done very well this year, where some of their early views, bets on the market have played out quite nicely. And I would have confidence in an environment in which you simply do not benefit quite as much from beta. But yes, you have higher yields, whether they will continue to see opportunities, mispricings, relative value opportunities, that A, delivers proper returns for their clients and, therefore, justifies higher fees.

Stuart Graham — Thank you for taking my questions.

Dr. Stefan Hoops — Thanks, Stuart.

Operator — The next question is from the line of Jacques-Henri Gaulard from Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard — Good morning. Two question for me. The first one is you've emphasised a lot the cooperation with your parent company, does it mean that in the Investor Day we're going to see increased leverage and synergy with Deutsche Bank, still a priority of your mandate? And B, might as well actually put that question to its end, suggesting and considering the very dark portrait you've put of the asset management industry in the course of the call, would you consider taking the company private? Why not. Thank you.

Dr. Stefan Hoops — The second one, I don't think Claire and I have saved enough money to really buy out Deutsche Bank, so if you feel that taking private means buying the 80% from Deutsche, that's looking fair [?]. Your comment was would Deutsche potentially buy back 20%?

Jacques-Henri Gaulard — Yes.

Dr. Stefan Hoops — I have no idea. It's probably a question for them to ask. I think it would be pretty tricky because you have one large shareholder with Nippon Life, which is well known. I think the other 15% are

pretty dispersed. I think even if Deutsche wanted that, which I wouldn't actually know, I think it would be reasonable tricky to do. I think the experience that Deutsche had with squeeze outs, when you look at what happened to Postbank, I don't think that they would love going through the same.

When it comes to the first question, meaning have we nurtured, have we leveraged all of the potential benefits of working with our majority shareholder, that is something that we will go into detail on December 7th. To the point you made, I just want to reemphasise the point you made, we are fully focussed on becoming independent and that's what Karen will focus on when it comes to policies. Because we want to have the policies, the com framework of an independent asset management company and what Angela will focus on, when it comes to technology operations and so on. So, we are fully focussed on truly becoming independent. I think at the same time, we have a great relationship with the private bank and the international private bank, so Wealth Management of Deutsche Bank.

I think our leverage or our interaction with the Corporate Bank and the Investment Bank is spotty. Meaning, I think we have good interaction where people know each other, but it's not really at an institutionalised, coordinated level. And it's something which we'll focus on, which I think particularly when it comes to sourcing private assets, will feature on December 7th. One thing to think about, the Investment Bank of Deutsche Bank, if you look at their private debt in their credit trading, they would be one of the largest private debt managers globally, if there was an asset manager, and it's something which we haven't really leveraged. We had one partnership with the Investment Bank on direct lending, but there's definitely a lot more scope for interacting with them, again, as a fiduciary, and them leveraging their sourcing ability.

Jacques-Henri Gaulard — Thank you very much.

Dr. Stefan Hoops — Thanks, Jacques-Henri.

Operator — There are no further questions at this time and I hand back to Oliver Flade for closing comments.

Oliver Flade — Thank you, everyone, for your questions and dialling in today. As always, if there are any follow-up questions, then please feel free to contact the IR team. Otherwise, I wish you a great day and a healthy time. All the best. Bye-bye.

Claire Peel — Thank you.