DWS Group GmbH & Co. KGaA

DWS Q2 2020 Investor & Analyst Conference Call

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Speaker Key:

Oliver Flade

Asoka Wöhrmann

Claire Peel

Oliver Flade

Good morning, everybody, from Frankfurt. This is Oliver from investor relations, and I would like to welcome everybody to our earnings call for the second quarter of 2020. I hope everybody is keeping healthy and safe wherever you're based. And before we start I would like to remind you, as always, that the upcoming Deutsche Bank analysts call will outline the asset management segment results, which have a different parameter basis to the DWS results that we are presenting now.

I'm joined, as always, by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO, and Asoka will start with some opening remarks, and Claire will take you through the presentation. For the Q&A afterwards, 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?

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 Asoka.

Asoka Wöhrmann

Thank you, Oliver. Good morning, and welcome, everybody, to the second quarter results of 2020 for DWS. I hope you're all keeping healthy and safe as we continue to fight the pandemic. Today, we will explain how we were able to solidify delivery against our strategic plans as a firm, despite the challenges we're all facing.

As lockdown measures begin to ease across most of the industrial world, we saw equity markets recover more strongly than expected. However, uncertainties remain. We saw various situations where business models and corporate activities in different industries came under increased scrutiny, oftentimes rightfully so.

But while COVID-19 continues to impact our day-to-day operating environment, it is not stopping us from executing our strategic priorities as committed. Against this backdrop, we delivered an adjusted cost-income ratio of 65.7% in the second quarter, close to our medium-term target, ahead of schedule for the second quarter in a row.

This was made possible by our relentless and continuous focus on cost-efficiency measures, and we will continue on that track regardless of the pandemic-driven environment.

On the flows side, having a diversified business across all liquid and illiquid asset classes benefited us as we were able to meet changing client demands throughout the first half of 2020. We attracted 8.7 billion euros of net inflows in the second quarter.

This was driven by especially strong momentum in passive, and with sustained inflows in active equity.

In the first half of the year, we reported a total of 6.2 billion euros in net inflows, half which was driven by ESG fund flows. This not only indicates that increased client demand we are seeing for sustainability team products and solutions, but also reflects the strong outperformance of our ESG-dedicated funds and their ability to remain resilient compared to traditional funds in time of crisis.

To ensure we keep our intensified focus on sustainability in the long run, we have appointed Desiree Fixler, as our group sustainability officer. In this newly-created role, Desiree will be responsible for coordinating a sustainability strategy that is consistent across regions and that aligns perfectly with our duties as a fiduciary and as a corporate citizen.

And I am very pleased to say that we are already making meaningful progress on this front. During the second quarter, we enhanced the integration of ESG criteria in our investment platform through a sophisticated and pioneering process called Smart Integration.

This process enhanced our own stewardship practices, while also setting the bar higher for sustainability standards across the asset management industry. Through Smart Integration, we used robust research from our ESG engine to identify companies in our portfolios that either violate international norms or have high climate transition risk.

More importantly, it allows us to take the necessary actions to mitigate this ESG risk from our client portfolios, either through active management or by excluding them from our investment universe as a last resort. To us, this super-important as we aim to shield our clients and help them to invest more responsibly.

We are also continuing to execute our strategic plan. For the first time our firm's rich history, we introduced fully globally-integrated structures, removing silos, creating greater accountability and enhanced client-centricity. Our new structure allows us to prioritise our most important responsibilities as a fiduciary asset manager.

Our unified investment platform and its so-called in the future division will bring together our market expertise to help us achieve strong investment performance across all asset classes. Our coverage division will operate more efficiently and effectively to provide coverage locally where our clients need us.

Through our new and dedicated product division, we will strengthen time to market, innovation and lifecycle management of our product suite. And further advancing the establishment of

the state-of-the-art asset management framework, our infrastructure functions have been newly aligned into a globally-integrated structure.

With these changes we ensure that DWS remains client-centric, flexible, efficient and effective in the future. Ladies and gentlemen, the second quarter has been extremely progressive for DWS. We have continued to withstand, to overcome the biggest challenges of the pandemic so far, so demonstrated by our strong and resilient financial performance in quarter two and the entire first half of the year.

And we are not slowing down, dropping any of our strategic priorities we set before the pandemic. On the contrary, we are intensifying our focus on executing everything we have committed to consistently since late 2018. And we are delivering results. With that, I'm happy to hand over to Claire to look into the financial results.

Claire Peel

Thank you, and welcome, everyone. I hope you're all keeping healthy and safe. Today, I'll present the results and activities for the second quarter of 2020, starting with the key financial highlights.

Adjusted profit before tax increased to 189 million euros in Q2, up 5% quarter on quarter, driven by an increase in quarterly revenues. Adjusted cost-income ratio improved to 65.7% in Q2, and 65.8% in the first half of the year, reflecting the continued success of our efficiency initiatives, and keeping us on track to achieving our target of below 65% in 2021.

Net inflows of 8.7 billion euros in Q2 driven by strong flow momentum in passive and cash, further supported by active equity, and this helped us to achieve 6.2 billion euros of net inflows in the first half of 2020.

Moving on to our financial performance snapshot, and starting at the top-left, AUM increased to 745 billion euros in Q2, up 6% quarter on quarter, driven by the improvement in market performance and net inflows.

On the top-right, adjusted revenues were 551 million euros, up 5% from Q1, mainly reflecting the favourable change in fair value of guarantees during the second quarter.

On the bottom-left, adjusted costs were up 5% quarter on quarter, due to higher compensation costs linked to the DWS share price, but down 14% year on year, reflecting the desired impact of ongoing efficiency measures. This supported an adjusted cost-income ratio of 65.7%, and adjusted profit before tax increased to 189 million euros.

Let's recap on the market environment. Following one of the

sharpest market declines on record in Q1, we saw a stronger than expected recovery in Q2. Markets rallied in the second quarter as lockdowns began to ease, most notably in Europe.

And with central banks around the world confirming their easing bias, this provided reassurance that they would be ready and able to do more when needed. Together, this helped stabilise equity markets and reduce levels of volatility over the second quarter, while interest rates continued to operate at new lows.

However, as the pandemic continued to accelerate at different paces across the world, particularly in the US, there was still some volatility in FX movements, with the US dollar depreciating against the euro by quarter-end.

Overall, market conditions were more constructive in the second quarter, which had a positive impact on our AUM development, which I will now outline. Assets under management increased to 745 billion euros in Q2, up 6% quarter on quarter. Positive market performance helped recover two-thirds of the assets lost during the severe market downturn in Q1, and this more than offsets the negative impact of FX movements during Q2.

Net inflows also positively contributed to our AUM growth over the second quarter, which I will now explain in more detail. We reported 8.7 billion euros of net inflows in Q2 2020, marking a reversal from Q1 net outflows. Our positive flow performance is a testament to our diversified business model, which has enabled us to continue meeting clients' needs regardless of the market conditions in which we are operating.

After a challenging first quarter, passive gathered significant momentum in Q2, reporting 6.5 billion euros of net inflows. European listed ETFs and ETPs accounted for the majority of this quarterly performance, helping us to rank number two by Q2 flows in Europe, and number one by XT ETF inflows over the same period. We also recorded more than half a billion of inflows in the US, the majority of which went into our high yield bond offering.

Cash sustained strong flow momentum from Q1, attracting 6.3 billion euros of net inflows in the second quarter. Approximately half of the quarterly cash inflows went into our sterling fund, as corporates and local authorities stockpiled their cash to avoid a liquidity crisis in light of the lockdown.

Active equity also reported inflows for the second quarter in a row, with 1 billion euros in Q2. This was driven by improved retail flows, including contributions from our flagships, together with ESG equity funds, which remained positive inflow territory over the quarter.

Alternatives also sustained positive flows, albeit at a lower level

compared to Q1. This is mainly driven by real estate, as our flagship Grundbesitz continued to attract investor interest in the low-yield environment. Collectively, these inflows more than compensated for outflows in the remaining asset classes.

In active multi-asset, retail inflows into our flagships Concept Kaldemorgen and Dynamic Opportunity fund were more than offset by a redemption from one of our institutional clients. Active fixed income reported the largest outflows of all of our asset classes in Q2, mainly reflecting the strategic decisions made by three institutional clients to bring assets in-house.

However, there was also some positive developments in the fixed income asset class. In contrast to Q1, we reported net inflows in a number of our flagship retail funds, and we attracted positive fixed income flows from institutional clients in Asia.

Altogether, our strong Q2 flow performance helped us to achieve 6.2 billion euros of net inflows in the first half of 2020, almost in line with the level of inflows recorded in the same period last year. This includes contributions across all three pillars of active, passive and alternatives, and with inflow across retail and institutional clients.

And with ESG funds accounting for more than half of our half-one inflows, this once again reinforces the importance we place on ESG and sustainability as a growth strategy for DWS.

Moving on to product launches, during the second quarter we continued to launch new products demonstrating our commitment to continue meeting clients' needs in these demanding market conditions. This included launches across most of our asset classes, and with ESG continuing to be a prominent feature of our portfolio.

Our Q2 launches also include great examples of our product innovation, such as DWS Invest QI Global Climate Action Fund, and the DWS Invest ESG Next-generation Infrastructure Fund. Both of these funds are considered to be the first of their kind to directly deal with the challenges posed by climate change.

As we enter Q3, we plan to launch sustainability-themed products within our fixed income and passive offerings, and with our newly-created product division we will align all of our capabilities to ensure that product innovation and the full product lifecycle will remain a key focus for our business going forward.

Moving on to revenues, total adjusted revenues grew to 551 million euros in Q2, up 5% quarter on quarter. As anticipated, management fees and other recurring revenues were lower, as we started the quarter on a lower asset base as a result of the market downturn in Q1. This was also reflected in our management fee margin, which fell to 28 basis points in Q2.

Performance and transaction fees remained stable quarter on quarter, despite the market turmoil, and other revenues reported a positive turnaround from Q1, due to a favourable change in the fair value of guarantees over the second quarter, in addition to a 16 million-euro contribution from our Chinese investment, Harvest.

Despite positive quarterly developments, total adjusted revenues decreased to 1.1 billion in the first half of 2020, down 7% compared to the first half of 2019. And as already guided last quarter, we do expect 2020 adjusted revenues to remain below those reported in 2019.

Moving on to costs, in Q2 total adjusted costs increased by 5% from Q1, to 362 million euros. The quarterly increase can be attributed to higher adjusted compensation and benefits costs, mainly driven by the increase in equity-linked deferred compensation expenses, relating to DWS share price in the second quarter.

It's more than offset the 4% decline in adjusted general administration expenses, quarter on quarter, which reflects ongoing efficiency initiatives and additional cost-saves from the pandemic, such as reduced travel expenses.

Together with higher quarterly revenues, this helped us to achieve an adjusted cost-income ratio of 65.7% in Q2. In the half-year 2020, we saw total adjusted costs fall by 12% year on year, with significant decreases in both general and admin costs and compensation and benefit expenses.

As committed, we have continued our focus on efficiency, keeping us on track to deliver our gross cost savings objective of 150 million euros, and to reach our targeted adjusted cost-income ratio of below 65% in 2021.

To conclude, DWS continued to show financial resilience in the second quarter of 2020, despite facing ongoing challenges in light of COVID-19. We have remained fully focused on delivering and executing on our strategic priorities.

Efforts to build out and enhance our global and diversified business model are proving to be successful. We reported significant inflows in Q2 and in the first half of the year, including positive flows across the three pillars of active, passive and alternatives, and also across retail and institutional client channels.

Cost-efficiency remains a key focus to ensure that we maximise shareholder value, and in the first half of 2020, we have seen our cost base fall 12% year on year, as we have continued to deliver our efficiency initiatives as committed. And with the half-one adjusted cost-income ratio of 65.8%, we are close to our

medium-term target.

Considering the unprecedented circumstances we have been working in, the strength of our Q2 and H1 results gives us confidence that DWS has the financial resilience to remain successful in the future. Thank you, and I will now hand to Asoka for the strategic outlook.

Asoka Wöhrmann

Thank you, Claire. With the first half of the year behind us, the historic disruption of markets and economies worldwide is clear. The unprecedented crisis was met with unprecedented action.

The health protection actions led to lockdowns, counterbalanced by swift monetary and fiscal policy decisions, which helped stabilise economies across the globe, but also leading to the biggest mismatch of the real economy and markets, especially equity markets, in modern history.

As we look ahead, the reality is that the road to recovery will be much longer than widely expected. It will take more stimuli and a lot of collective discipline. The pandemic itself also poses one of the greatest risks as we look ahead into the second half of the year.

The materialisation of the second wave might lead to a further economic downturn. Additionally, there are heightened geopolitical risks, including the US elections in November, along with ongoing international disputes centred around the trade, as the US continues to score off China and the European Union.

Despite the challenging and somewhat volatile market, I can reaffirm what I said last quarter. DWS is well-positioned to overcome the industry headwinds and deliver on its promises.

I'm pleased to note that the executive board of DWS has reiterated its proposed dividend of 1.67 euros per share for the financial year 2019 for approval at our AGM which will now take place virtually on 18th November this year.

We are also, as I mentioned, committed to achieve our adjusted sustained cost-income ratio target of below 65% as well as returning to our flow targets to the levels we had locked before the pandemic.

As outlined at the start of the call, we have significantly restructured our organisation to ensure that DWS is operationally ready to deliver on these goals and for the future in general.

Let me be clear, our organisational changes were not made in response to COVID-19. They formed part of our strategic priorities we have outlined consistently since late 2018, and which we reiterated again at our investor update in December 2019.

And let me say we are confident that this improved structure gives us a solid basis to focus on our most important responsibilities, strong investment performance, best-in-class clients services and product innovation. This will be especially important as we enter the next normal.

As we have said before, the megatrends we had identified last year are likely to accelerate in light of the pandemic. In particular, we expect the barbell between alternatives and passive to become more pronounced, driven by market liquidity and low interest rates.

We are already seeing this at DWS. Despite a muted second quarter, our alternatives business continues to thrive as investors look into increasingly invest in such products due to their long-term nature and ability to generate returns in a low-yield environment.

And as we saw very clearly in the second quarter, demand for passive remains very strong. We expect this trend to continue amid growing client interest in ESG and sustainability-focused passive products, especially in EMEA and in the US.

Also on our agenda, continue to develop existing relationships and exploring opportunities to build new ones. This is exemplified by the strategic partnership we recently formed with the private markets division of Northwestern Mutual Capital, where we will combine the strength of DWS global investment expertise, broad platform and client base with Northwestern's proven investment track record, to identify and develop private market opportunities.

And of course, we want to shape how the post-pandemic work environment will look like in the asset management industry. So we are exploring how our business becomes more digitalised, our offering and our workplace is more flexible, and our client coverage is more interactive, through various virtual formats which are adding to in-person engagement.

And we want to lead the movement into the next normal, not merely follow the herd. Thank you for listening. Please stay healthy and safe. And with that, I will pass over to Oliver.

Oliver Flade

Thank you very much, Asoka. Operator, we are ready for Q&A now. And again, if I could remind everybody in the queue to limit themselves to two questions, thank you.

Operator

Ladies and gentlemen, if you'd like to ask a question, please press star followed by one. To withdraw your question, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections.

Anyone who has a question may press star followed by one at

this time. One moment for the first question, please. The first question comes from the line of Hubert Lam with Bank of America. Please, go ahead.

Hubert Lam Hi, good morning. I've got a couple of questions. Firstly on costs, you've made really good progress on G&A costs coming down every quarter, should we expect the same type of progress over the next several quarters, where it continues to come down? Also related to this, how much of the decline in G&A in the quarter was due to Covid-related savings that may come back, eventually?

The second question is on fee margin. The fee margin fell about 1.5 basis points quarter on quarter. How much of that would you say is due to fee margin pressure and how much of that is due to mix? And also, if you could give us some colour by asset classes, as to where most of the fee margin pressure is being felt? Thanks.

Claire Peel Hi, Hubert. Good morning, and thank you for the questions. I'll take both of those on cost and margin. On the cost run rate, indeed we expect this to be a sustainable level of cost we are operating in. Certainly on the adjusted general and admin expenses, which is taking into account the initiatives that are reflected there, we would expect to operate at that level that we see at the moment in Q2.

On the compensation and benefits line, that is similar and consistent in terms of what we expect going forward, with the exception of any volatility that we may see in the share price.

But with the share price being equal as it stands at the moment, we would expect to see a stable level, with of course the normal movement that we may see in comp and benefit at the end of the year. But otherwise, we're very much focusing on the cost-income ratio target of below 65%, and that will be our guide.

On your question around incremental cost savings around Covid, for T&E and marketing expenses, those have declined in this half-year compared to last half-year by 11 million, and I would attribute that decline to the Covid environment that we're operating in.

On the fee margin question, Q2 we see 28.1 basis points, so quite a step down of course from the first quarter, and I would break that into three parts. Around 0.5 basis points of the movement is coming from the market downturn and the spill-over effect that we see in Q2 versus Q1.

We provide, on the revenue slide the average AUM levels compared to the spot, and of course the average in Q2 is much lower than it was in Q1, which hadn't seen the full effect of the market decline.

The flow mix effect is also around 0.5 basis points, and then the balance is normalisation effects that we see between quarter one and quarter two. We would expect to be operating at this kind of margin level in our outlook.

Hubert Lam: Sorry, on costs, I just wanted to clarify, you're saying that the 170 million G&A costs, you're saying it's going to be stable going forward on that number? Or do you mean that that can come down further?

Claire Peel: I would say that that would be more stable. Obviously, it can fluctuate, I can't give a precise prediction, but I would expect it to fluctuate around that level.

Hubert Lam: Okay, thank you.

Operator: The next question comes from the line of Haley Tam with Credit Suisse. Please, go ahead.

Haley Tam: Morning, everyone. Two questions from me, please. First of all, just to follow up on the management fee margin question that Hubert gave, the 28.1 basis points in Q2, I think you've said that should be now a level that you would expect to operate at in terms of your outlook.

Could you help us understand why that actually shouldn't go up, given the market recovery in Q2 and perhaps a positive flow mix, with most of the outflows in Q1 apparently from institutional mandates?

And then a second question, in terms of this barbell of flows that you've spoken about, can you help us understand how to think about the alternatives side of that for you, from here? I guess in particular liquidity alternatives, how much AUM there is there, what's been driving the net outflows, and perhaps some idea of the scale and timing of the opportunities you outlined with Northwestern and the other joint ventures? Thank you.

Claire Peel: Good morning, Haley. I'll comment first on the basis point around the fee margin, and the hand over to Asoka for some comments on alternatives. So the 28.1 has effectively factored in what we've seen in the market downturn, and the average AUM level that we see for Q2 is 728 billion compared to the spot of 745.

So I think it's reasonable to say that we've obviously seen that [unclear 00:32:39] in the 28 basis points, but we've also had a shift in the flow mix in the asset classes that we've seen driving our flows. And I think from what we see at the moment at least, in this environment, we see that as driving the margin at this kind of level. So I think that's the basis of the 28 basis point outlook that I was pointing to. And on the alternatives side, I'll hand over.

Asoka Wöhrmann: I think your comment on alts is quite right. I think the second

quarter we have seen some very muted flow there. I think it's understandable people took some pause into the flow story, but I think there are two angles to see.

I think more and more people are also not realising that the pandemic will lead us to a lower call rate in the world, and that is going to happen, and it will stay there. So therefore, I think the demand for this kind of assets will increase further, not only this year but also beyond that.

We have seen already strong inflows in Germany, for example, in Grundbesitz family, the open real estate funds, all the three categories, Germany, Europe and global, and I do think for us it's important that you see this as… The first quarter was strong inflows, second quarter still continued in inflows but not in the same momentum, it dried up.

And I do think also the infrastructure inflows, infrastructure equity funds, in my opinion, in the third and fourth quarter we will see more momentum, especially in the fourth quarter, and we are expecting also the liquid real assets area, with positive momentum of the market, coming up.

And the B3 [? 00:34:45], I am not allowed to talk precisely into that but I do think the third and the fourth quarter we can see a next [? 00:34:53] closing, and I do think with that we will be back on track again on the flows in alts, and that is exactly the barbell that we are looking for.

Passive, and now at the moment, in the second quarter, liquidity, flows coming in, and some equity funds, people are seeing a change in very low index levels getting into this strategy, but now, the second half of the year, we are seeing more momentum in alts.

Hayley Tam: Thank you.

Operator: The next question comes from the line of Mike Werner with UBS. Please, go ahead.

Mike Werner: Thank you. Two questions from me, please. First, have you seen any fallout in terms of flow momentum on the equity side from the Wirecard exposure that you had across some of the funds? And I was just wondering and thinking about how we should think about that as we go through Q3?

And then second, you noted in the press release this morning that the management team is committed to identifying and realising further cost savings if the revenue situation should allow that or should make that necessary, and I was just wondering about these incremental cost savings.

Are these cost savings that will only be implemented upon should the revenue environment weaken? Are these core to the

business, or if the revenue environment, the markets, continue to perform, are these potential cost savings that could come at a later point, in addition to the 150 million that you've already targeted? Thank you.

Asoka Wöhrmann

I'll take the first question, and I think the second part Claire will go into, especially the cost programme, what we have initiated already at the beginning of the year and end of last year.

Let me say on the Wirecard topic, it is a big event in Germany and also in Europe, but we do not see any direct short-term impact on our flows. Although we cannot predict the medium and the long term, but I do think, ironically, we have seen in German equities in the second quarter inflows, but it might be a mixture of a great performance of the DAX German stock index and people might be seeing a chance after clearing these positions from our side.

But again, we are not seeing any negative impact on Wirecard, but we are coping with all the reputational risks that the organisation is looking for, and therefore, at the moment, also the relative underperformance through Wirecard of our German equity funds are very, very muted. And therefore, I am not seeing a bit topic out of that. And happy to hand over now on your revenue and cost topic to Claire.

Claire Peel

Good morning, Mike. Just to pick up on the question around the cost savings, to recap we committed to a gross cost savings plan of 150 million euros for this year and next. That's weighted towards year 2020 and we're very much on track to deliver against that.

And I think that's quite evident, particularly looking at the half-year G&A number, when you look at half-year one versus last year, on G&A, that's down 45 million over that period. So we're very much on track with those initiatives and we can see the benefits of those coming through.

On your question of the additional cost savings, we've already realised some of those Covid-related savings, as mentioned on the marketing and T&E line, that's 11 million down in the first half, and we would anticipate that saving to continue, given what we're seeing in Q3 and possible Q4 for this year.

So I think we will certainly see those additional Covid-related savings, but in terms of the go-forward, we're very much focusing on the cost-income ratio target. And obviously if we need to continue incremental cost savings, we will do so. But it's all anchored on a cost-income ratio target.

Mike Werner

Thank you. That's helpful, thanks.

Operator

The next question comes from the line of Jacques-Henri Gaulard

with Kepler Cheuvreux. Please, go ahead.

Jacques-Henri Gaulard: Good morning, everyone. Two quick questions. You mentioned in your press release that you're combining your passive and SQI units, and I was wondering what would that mean in terms of disclosure, if you would still keep SQI and passive separate, and whether that was actually a source of cost reduction as well, and if you can maybe quantify that if it is at all relevant? And maybe a view about the excess capital of the firm and whether you're seeing the current situation as lending itself to consolidation or not? Thank you.

Asoka Wöhrmann: Let me take the SQI, and excess capital, Claire will briefly go into that. Again, SQI is, for us, and I think I explained at maybe one of the former analysts meetings, a more [unclear 00:40:25], and combining passive and the quant area together, we want to create a platform, and based on this platform we want to set our aspirations, especially for this area, ETFs and the quant area, much stronger in the future.

Because as I outlined before, I think the passive and the quant-related strategies will be requested from our clients much more in the future. And there is an efficiency aspect, there is an efficiency aspect, and I think we are never disclosing this in a separate way, but I want to say this is playing out into all the efficiency measures that we have outlined, and the programme was clearly always outlined.

But at the same time, I can see much more revenue potential and AUM potential for DWS. This is why we are doing it and we have this aspiration. And also, our new organisational set up, we already executed the Six Plus One strategy, as we called it, in our transformation of our platform into this area, so we have already announced SQI and passive coming together in a systematic investment platform.

And we will see, in 12 months, where we are, and I think this is our aspiration and thinking. Claire, briefly if you can outline excess capital, that would be great. Thanks.

Claire Peel: Thank you, Asoka, and good morning, Jacques-Henri. I think on the point of capital, I would just reiterate that we are very well capitalised, we have a CET1 ratio of 30% for the second quarter, which is well above the regulatory minimum on a pillar one standpoint.

On excess capital, we don't disclose that. We did announce at a point in time that we had excess capital at the point of the IPO, but it's not something that we measure or disclose on a go-forward basis.

But I think more important, when it comes to M&A activity we certainly will continue to scan the environment and to monitor

opportunities and consider those that make economical sense at DWS. So we will be active in monitoring the opportunities that are in front of us.

Jacques-Henri Gaulard | Thank you.

Operator | The next question comes from the line of Stuart Graham from Autonomous Research. Please, go ahead.

Stuart Graham | Hi, thank you for taking my questions. I have two, please. On the additional cost savings that you talk about, I'm a bit confused. If you know you can deliver them already, I don't understand why you're not formally targeting them already rather than only invoking them if revenues falter. So that's my first question.

And then the second question is on ESG. Your own governance set up, the KGAA structure is obviously relatively suboptimal from a governance perspective. I know that was chosen by your parent, not by you, but are there any discussion of changing this structure to give your outside shareholders normal shareholder rights? Thank you.

Asoka Wöhrmann | Let me say, Stuart, thank you. I think let me answer the last one first. The KGAA structure is given, as I became CEO of DWS, that was well-known, and also as we went into the IPO, so therefore I think we can't change the structure. I know all the ESG perspective on the KGAA and shareholder perspective on that, but again that's something that is out of the scope of the management of DWS executive board.

But all other people can engage on that, and I think this is exactly given that we are still completely confident that the ESG is the right DNA change that we need for DWS itself, and might be, in a forward-following step, maybe we are going to address that.

But first of all, we are going to change, and as you have seen, Stuart, we are changing to our smart integration of investment processes, we are delivering on all innovating ESG products in passive or in active areas, all the solutions, and in all these kinds of product suites for our clients, and we are taking, as a corporate, all our duties in this area very seriously, as I said at the last AGM, and we are continuing to put all the right governance, given the structure that you alluded to.

The first one, smart question, and I think again you can see we are delivering, quarter on quarter, our targets. Again, Covid was not completely unexpected by us, even that we are trying to deliver. And that is why I think from the first day on, what we are doing since late 2018, we are managing our costs really diligently. This is the disciplinary action that we have introduced to delivering our targets. But I think, Claire, you want to also give some comments on that. With that, I will hand over to Claire.

Claire Peel Thank you. Yes, I would just briefly add on the cost side I think the 150 million cost-saving programme that we have initiated, we've done that regardless of revenue environment, and we will put those savings in place to drive efficiencies across our platform. The incremental savings are really in support of the volatility that we have seen and could see in the revenue environment in the future.

Asoka Wöhrmann And, Stuart, also, the market scenario is still, as I presented at the very end, quite volatile. We can see a second wave, we can see uprising markets and our activities are going back to very normal. All that has some impact, as Claire outlined, so therefore I think to deliver, quarter by quarter, and to deliver into 2021 our targets, especially medium term, and medium term is not medium term for us, it's always shifting the three-year periods in front of us.

We have committed and we are delivering, and if things are coming earlier, we are all happy, but we are working to that, and I think there is also market perspective and client perspective, and we have to be, there, also cautious and not interpolating the things that we have reached, we are all proud on that, into the next quarters because the uncertainty at the moment we should not underestimate.

Operator Your next question comes from the line of Arnaud Giblat with Exane. Please, go ahead.

Arnaud Giblat Good morning. Firstly, could I ask on Harvest, that's had some nice progress, the contribution to profit of 55% year on year in H1. Could you maybe go through some of the drivers that are driving that growth in terms of progression flows, revenue margins, operating margins? That could be quite helpful. And specifically, are there any plans to further develop that joint venture.

And secondly, I'd like to ask on your fund platform, IKS, what sort of contribution it makes to the group. The reason why I'm asking is obviously there's been some stories going around where the platform may be up for sale. So any comments on that would be appreciated.

Clearly, Deutsche Börse has done well out of accelerating growth of the platform that they've acquired, so perhaps you could partake by retaining a minority? But I'd really appreciate some thoughts on that. Thank you.

Claire Peel Hi, Arnaud, good morning and thank you for the questions. I'll start with the question on Harvest. So yes, indeed in the second quarter we've recognised 16 million of revenues from Harvest, and that's compared to 15 million in Q1. So 31 million for the first half of the year, and that compared to a full-year recognition last

year of 45 million.

So certainly operating at a higher run rate from a very solid return that we see from Harvest, and that's been supported on the Harvest side by some good inflows in the first quarter, and obviously a market recovery in the second quarter, and then some underlying product and performance factors that Harvest has seen within its own area. So that has had a knock-on effect to us, and gives us the opportunity to beat the run rate that we had on the full-year basis in 2019.

In terms of incremental opportunities with Harvest, we are indeed looking to further build on the relationship that we have there and to collaborate on further projects, and we'll have more details to give on that.

If I move on to IKS, as we've said, or as I said earlier at least, we will continue to scan the environment for any opportunities that we have around strategic partnerships, and that's without exception, but I will pass to Asoka to add some more comments.

Asoka Wöhrmann — Claire, thank you very much. Let me say on Harvest but also a comment on what we have done previously commented already, we are looking for strategic relationships. You are seeing in Northwestern Mutual something which is enriching our organisation, with all our capabilities combined with external strategic partnerships, the best we've done.

And as I said before, I have really big aspirations in Asian, and we are working also beyond Harvest on strategic relationships, and I do think also that is ongoing and this is something we want to reiterate again.

The second thing, regarding the IKS, it is more than the IKS topic for us. The market is, in some way, in sales platform building, in the asset management industry, a peripheral area, but the highest dynamic in M&A activities and partnerships is going in this field, in the platform-building and the sales platform building environment.

And I do think in this subsector we want to be active. We have, with IKS, a fantastic position, as Claire said, and I do think we are really evaluating and thinking what are our strategic options to build our fund platform into the next era, attach the next momentum in the market in this environment? And that is exactly what we are doing.

There are some rumours, but I wasn't to say that DWS executive board was very much engaged also in the last 12 months to think about this topic, because this is a fast-growing area.

Arnaud Giblat — That's helpful, thank you.

Operator — The next question comes from the line of Bruce Hamilton with

Morgan Stanley. Please, go ahead.

Bruce Hamilton

Hi, thanks for taking my questions. Maybe firstly, just to go back to the costs question, just to clarify, on the Covid impact, I think, Claire, you said 11 million euros worth of saving in Q2, and you expected similar for Q3 and Q4, just to check?

And then secondly, given the experience of Covid, it feels like most of your peers have found that they can operate pretty effectively and actually improve efficiency, decision-making, etc., etc., less travel going forward. Some of these savings should be sustainable into the future, or is that not how you view it?

And then secondly, just a little more colour on the strategic partnership with Northwestern Mutual. What product strengths do they bring? Can you give just a little more colour on what they bring in terms of enhancing your existing capabilities? Thank you.

Claire Peel

Good morning, Bruce, and thanks for the questions. You're correct in the way you defined the Covid-related marketing and T&E savings that we've seen in the first half, so that was 11 million which I commented on, and we would expect the same kind of level in the second half of the year, based on activity that we're seeing at the moment.

Do we expect that to be sustainable in the future? I think the way we work is clearly going to change in the future, and I think that's under evaluation with us and everywhere, but equally we would expect to see some of that expense-saving this year come back as we normalise to a certain degree in the way that we operate some of our travel and marketing events and so on.

So some of it will come back, but I'm sure not to the scale that we've spent perhaps in the past is something that we're very much assessing. And I will hand over to Asoka on the second question.

Asoka Wöhrmann

Thank you. And I think Northwestern Mutual is a topic for us. We worked for some time to build our excellent position in the US, what we have in various areas in alts, and I do think we are now looking for the partnership that we are building, especially our private equity, newly-formed private equity division, are looking to partnering up with the excellent investment capabilities of Northwestern.

And I do think what we are aiming for with this action is broadening the product range, strengthening the distribution reach, also with the new product range, and also go faster complimenting other capabilities in our organisation. Because there is some complementary projects that we don't have to build up at the moment in this cycle, it takes time. And these are the

capabilities that we are looking for, these three things. Broadening our product range, strengthening our distribution reach and complementing our capabilities. These are the main thoughts behind this strategic partnership.

Bruce Hamilton | Great, thank you.

Operator | The next question comes from the line of Nicholas Herman with Citigroup. please, go ahead.

Nicolas Herman | Good morning, thanks for taking my questions. I appreciate the broad colour you've provided on group margin trends. Could I just push you for some more detail on margin trends by product, please? And as part of that on the passive side, is that coming off to a great extent than other products?

I saw in particular, for example, that BlackRock cut several of their passive fees in Q2, so some commentary around the passive competitive environment would be helpful, please.

Second question, just on growth, inorganic growth, I guess with the strong market rebound has that basically limited now M&A optionality, and therefore it makes it much more like that any inorganic growth, so to speak, is going to be done through strategic partnerships? And I think you said before that your preferred region there is Asia and alternatives. Thank you.

Claire Peel | Hi, thank you for the question. I will take the first question on the margin, and specifically you're asking about asset classes there, and I think I heard where is the decline most pronounced. We've always guided to the fact that we would expect to see margin compression in the passive asset classes of up to 2 basis points per annum, and that's certainly what we saw last year and that's what we would expect to see this year.

And it is indeed a contributing factor in what we see in the second quarter. We're not disclosing the quarter-on-quarter fee margins per asset class, just because of some of the volatility that we see there, but certainly passive is a driver.

And also influencing is the active equity asset class, where the movement in the markets and the mix of the assets is also contributing to the average fee margin. So those would be the two main areas of margin effects that I would point to. And I will hand over to Asoka.

Claire Peel | Thank you, Claire. And I think your question between strategic partnerships and M&A activities, I do think also we can show you that we're managing DWS with the clear priority and this is generating organic growth and improving our efficiency.

And that will strengthen our market position, and we want to become a leading asset manager in this industry. And this is exactly why we are strengthening the ESG effort, that is why we

are enriching our product suite with the three-product layer asset manager, and we want to strengthen our regional footprint, and that is why we are looking for strategic relationships.

And I do think in the Covid crisis, you have all experienced it yourself, executing M&A activities during this unknown period of Covid is a big challenge for many organisations that have done M&A activities. I am happy to say, also with my executive board, that we are not engaged with M&A executions. But the possibility at the end of this Covid cycle, I'm sure that there are a lot of possibilities.

We are looking for, we are screening, these things, but we are also strengthening our competitive position and building our leading position in this industry. This will help us to make much better, in later stages, M&A activities than today. I want to confirm to you we are working on our own position, want to grow organically and become a more efficient and leading organisation.

Nicolas Herman: That's very clear, thank you. And just to clarify, despite the very strong market rebound, you still expect to see a lot of possibilities in the market as a result of this Covid cycle?

Asoka Wöhrmann: Yes, let me say that many, many players, they have not worked for some time on cost. If you work on cost, and Claire and myself know, and the executive board, how long that takes, these things kicking in… And I do think now is all about run your costs in a diligent way and build up an efficient organisation. And it is to build an efficient organisation in Covid is difficult for many, many leaders and management people.

And I do think, from this perspective, the revenue side is now recovering markets is a good sign, but we lost more or less four months this year, good markets we have to say. This is the part that you are missing on your revenue side. If you're not counterbalanced with cost, you can never deliver what we have promised at the very beginning of the year.

So from this perspective, I am sure that many companies have to look for partnerships, M&A activities. And also I think this industry is fast-moving, and as I said it quite depends on the duration of Covid. The longer duration of Covid impacts the industry, the life of people, and I do think also the economies, there is more pressure on the market to consolidate, and we are ready also for looking to this strength, as I said already before.

Nicolas Herman: Interesting, thank you.

Operator: The next question comes from the line of Thomas Hallett with KBW. Please, go ahead.

Thomas Hallett: Hi, guys. So I guess most of my questions have been answered,

but maybe just a quick one on the dividend and a follow-up on the excess capital. On dividend, you reiterated the proposal for the 2019 dividend at the November AGM. But recent ECB commentary has effectively told banks they'll have to wait until 2021.

I guess given your previous commentary on staying within the regulatory spirit, I'd just like to get your thoughts on your ability to diverge from that ECB view, and whether any discussions took place with the regulators?

And then maybe just a follow-up to the question on excess capital. I appreciate the challenges and not providing too much detail on this, but given the general reduction in capital requirements across Europe, can you at least tell us whether DWS has been a beneficiary of this, or at least do you broadly expect the capital requirement to fall over time? And if so, is there any potential timeline on this? Thank you.

Asoka Wöhrmann

Again, let me thank you for the question, and I think there are questions and Claire will do the first part, I will answer your question regarding dividend and regulators.

I think we are a financial holding company and we are regulated as a financial holding company, and the ECB, for example, what they are discussing does not apply to us.

And I do think we have very carefully looked into that from various perspectives, but also all the sub-entities, everything, we looking very in detail. I think Claire's department have done a fantastic job on that, and I do think that is why we are reiterating our proposal of 1.67 euros to the AGM this year, 18th November.

That is why we came to this statement, also looking into the regulator's views and how that will impact us. So up to now, we can't see this can be against the regulator's view of the financial holding companies.

The second thing is I do think also our commitment to 1.67 we proposed at the beginning of the year to our investors, we always kept to that. Also, at the last analysts meeting we said we want to have the chance to have a physical AGM versus virtual.

I think now we know that the pandemic is taking longer than we expected we are going to the more or less clear view to virtual, but we want to do it and we want to keep our promise on the dividend, the proposal that we outlined. And I think that has very much based on our committed to you guys, our investors. Claire, if I can hand over the excess capital, what you already briefly answered? Thank you.

Claire Peel

Yes, thank you for the question. Nothing to add specifically on the quantification of excess capital, but I think on your comment

around the revised European prudential framework for investment firms and the review that's underway at the moment, we do expect for the publication of regulation, that these will come in to be applicable around the middle of next year.

And our understanding is that the aim of the new regime for investment firms is to introduce rules that are adapted to the risk profile and the business model of investment firms. And of course we generally welcome that, and we'll be monitoring that progression very closely over the coming months.

Thomas Hallett — Great, thank you.

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

Oliver Flade — Thank you very much. And thank you, everyone, for dialling in today. For any follow-up questions, please feel free to contact the IR team. Otherwise, we wish you a great day. Bye-bye.

01:07:30