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DWS Q1 2020 Investor & Analyst Conference Call

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Speaker Key:

Oliver Flade

Asoka Wöhrmann

Claire Peel

Oliver Flade

Yes, so thank you very much, and good morning, everybody, from Frankfurt. This is Oliver from investor relations, and I would like to welcome everybody to our earnings call for the first quarter of 2020. I hope you're all keeping healthy and safe wherever you are based. And before I start, I would like to remind you that the upcoming Deutsche Bank analyst call will outline the asset management segment's results, which have a different parameter basis to the DWS results we're presenting today.

I'm joined, as usual, 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?

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 Quarter 1 2020 results of DWS. Let me start by saying I hope you all are keeping healthy and safe. There's no doubt that we are living through a unique, unprecedented time. What started as a public health crisis quickly became a global economic crisis which, in turn, has brought a lot of disruption to the financial markets.

Before we look at our firm's results in the first quarter, allow me to show our gratitude for what is most important right now. I speak for all of DWS when I say that we are truly thankful to the doctors, nurses, caretakers, scientists and workers who are courageously saving lives. We have seen extraordinary actions from many, which will help us, collectively, to overcome this virus.

As CEO, I must say that I am also super-proud of our employees who have to remain resilient in the face of adversity. They have been quick to adapt to home office life, maintaining their professionalism as well as a unified attitude. This situation has been a real test of character, but it gives me confidence that DWS can pull through together. And this is not the first time we have been challenged.

With our robust business continuity management, led by our chief operating officer, Mark Cullen, we're able to respond quickly, decisively, responsibly to the pandemic, and ensure that the health and the safety of our employees was our top priority. This has temporarily challenged the say we work, but let me say it has not changed our fiduciary commitment to our clients. Other these past few weeks, we have embraced this new normal, to ensure we fulfil our responsibilities to them.

And while we can no longer operate as we once did, we are making the most of this time and technology to become even more efficient, connected and productive. Over 90% of DWS staff have been working from home for the better part of March and all of April, and even to this call is being conducted from different locations for the first time.

Over these two last months, we also learned a lot about efficiency and flexibility in our operating environment as a global organisation during this crisis, and when it ends too. We are thinking about the next normal for DWS and what this could look like for asset management more broadly.

We feel very comfortable that the megatrends we had identified and presented to you at our investor update last December are, and will remain, in place as we look ahead. And while our strategic view for the firm remains rather stable, one immediate consequence of the pandemic is that the supervisory board, along with the executive board of DWS, has decided to postpone the annual general meeting, from June 18th to another date in the fourth quarter of 2020.

This decision reflects our responsibility for the health and well-being of our shareholders, employees and service providers, and it also reflects the prevailing regulatory spirit we have seen in this environment.

Allow me to now lead you through our key achievements during quarter one. From as recent as 2018, we have learned that we cannot control the markets but we can control our costs, and this is exactly what we did during the first quarter of 2020, continuing our disciplined path we accelerated last year, which has positively impacted our costs this last quarter.

Our total adjusted costs fell by 18%, quarter on quarter, as we continued to implement our efficiency initiatives as planned. On the revenue side, our strong starting position into 2020, along with the supportive markets in January and, for the most part, in February, helped us sustain stable management fees and revenues in quarter one. As a result, we were able to achieve an adjusted cost-income ratio of 65.8%, keeping us on track to achieve our targeted ratio of below 65% in 2021.

We also saw the strong flow momentum of 2019 continue into the start of 2020. In January and February, we reported close to 9 billion euros of net inflows across active, passive and alternatives, and especially into our targeted growth areas, before COVID took full effect, impacting clients risk appetite and short-term liquidity needs.

But even during the massive market downturn in March, we were able to take advantage of our diversified business model, as inflows in active equity, and especially alternatives, helped to partially offset outflows. As we look forward, as we must do, we remain committed to our strategy, in which sustainability is a key cornerstone.

As a fiduciary, we must allocate capital and invest responsibly. One of the biggest lessons of this pandemic so far has been the importance of sustainability to the planet and to our societies, and at DWS, we are stepping up to play our part. We are not changing our ESG trajectory. We are advancing our stewardship practices. We are launching new products. We are continuing to educate ourselves and others with our research.

And let me say we are being recognised for our efforts, too. Morning Star has named us as the leader in ESG proxy voting in the US. And rating agencies tell us, as commented, our strength in ESG integration. These are great achievements that remind us of the great progress DWS has been making so far, and what we will continue to work on, regardless of the pandemic.

And there is no doubt that COVID-19 will continue to offer many challenges as we advance in the second quarter. And we are well positioned to deal with these challenges, with our strict cost discipline, our diversified product range, and our unwavering commitment to ESG and sustainability. With that, I will pass to our CFO, Claire Peel, to talk about our financial results in detail. Claire, please?

Claire Peel

Thank you, and welcome, everyone. And may I also wish you all health and well-being at this time. Today, I will present the results and activities for the first quarter of 2020, starting with the key financial highlights. Adjusted profit before tax was 179 million euros, supported by our cost initiatives as planned.

Adjusted cost-income ratio was 65.8% in Q1, slightly higher than the previous quarter as a result of lower revenues compared to Q4. Net outflows were 2.5 billion euros in Q1, with inflows in January and February offset by outflows in March, in line with the broader asset management trends.

Moving on to the financial performance snapshot in Q1, starting at the top-left, AUM decreased to 700 billion euros in Q1, down 9%, quarter on quarter, mainly driven by the steep decline in market performance. On the top-right, adjusted revenues fell to

524 million euros in Q1, down 24% from Q4, reflecting a negative change in fair value of guarantees, together with expected lower performance fees, quarter on quarter.

On the bottom-left, adjusted costs were down 18%, at 345 million euros, with sizeable decreases in compensation and benefits costs, and general admin expenses. And this supported an adjusted cost-income ratio of 65.8% in Q1. Adjusted profit before tax fell to 179 million euros, down 33%, quarter on quarter, as a result of lower Q1 revenues, but up 17%, year on year.

Let's recap on the market environment. In retrospect, it's now apparent that the global economic activity and corporate profitability peaked in 2019, while Coronavirus triggered a downturn and what will be a new economic cycle ahead. During the first quarter of 2020, we saw a 30% to 40% correction in equity markets. The bond market was also significantly impacted by the pandemic, as more countries turned to emergency monetary and fiscal packages in the first quarter.

Volatility spikes amplified to unprecedented levels, as liquidity was very thin, and, in addition, fixed income interest rates started to trend downwards, which had a negative impact on the fair value of guarantees. And while the pandemic has accelerated at different paces across the world, this created volatility in FX movements in Q1, with the US dollar appreciating against the euro by quarter-end, as investors sought safe havens in US dollar funds.

Overall, market conditions were undoubtedly more challenging in the second half of Q1, and we saw the implications on this on our AUM development, which I will now outline. After reporting a significant increase in assets under management in 2019, we saw assets decline to 700 billion euros by the end of Q1 2020.

The majority of the quarterly decrease is attributed to negative market performance, which resulted in a 51 billion euro decline in March alone. This more than offsets positive growth from favourable FX movements, and Q1 outflows also impacted our AUM, as traditional asset classes were affected by the steep market decline and subsequent weaker investor sentiment.

Moving on to net flows, at the end of Q1 2020, we reported our first quarterly net outflows since Q4 2018, of 2.5 billion euros. This number reflects the impact of COVID-19 across almost all of our asset classes, as investors responded to the pandemic by de-risking portfolios and reallocating assets into cash products.

This disrupted the strong flow momentum we had seen at the start of 2020. In the first two months of the year, we reported close to 9 billion euros of net inflows, despite seeing the first COVID-related outflows in late February. These included inflows across all pillars of active, passive and alternatives, across retail and institutional clients, and with particularly strong flows in the Americas as well as in Europe.

Some of these inflows were sustained until the end of the first quarter, such as active equity, which attracted 1.7 billion euros of net inflows in Q1. While this number is positive, it primarily reflects inflows into a significant retail mandate over the quarter, which more than compensated for outflows as equity markets deteriorated in March.

There were also positive developments in the asset class, as we saw inflows to a number of our ESG active equity funds. Alternatives also remained resilient, with 1.5 billion euros of inflows over the quarter. This was mainly driven by real estate, as our flagship Grundbesitz continued to see strong demand in the low-yield environment.

Given current market uncertainty, cash reported the strongest inflows of all of our asset classes in the first quarter, with 3.7 billion euros. While we had seen positive cash flows in every month of Q1, these inflows more than doubled in March, as investors de-risked their portfolios and corporates increased their cash liquidity holdings.

In this respect, DWS is well positioned to serve clients with high-volume turnover, thanks to robust liquidity management in our money market funds. In active multi-asset, inflows into our flagship Concept Kaldemorgen and Dynamic Opportunities funds, were more than offset by a reduction in a pension mandate, as one of our institutional clients restructured their underlying business during the quarter.

SQI also had a positive start to the year, reporting inflows in both January and February, but ending the quarter in outflows, due to market-driven reallocations. Passive shifted into negative territory for the first time in over a year, following record inflows in 2019.

Q1 net outflows of 2 billion euros were mainly due to ETF and ETP redemptions, as the broader market suffered its worth monthly withdrawals on record in March. March outflows more than offset 4 billion euros of total passive inflows recorded in January and February combined, and clients made asset allocation changes to de-risk their portfolios.

Meanwhile, active fixed income reported the largest outflows of all of our asset classes, with more than half of these driven by mutual funds, and investors reacted to the pandemic. This has implications on our flagship offerings DWS Floating Rate Note, and Asian Bond Fund, as short-term and emerging market bond sectors fell out of favour as the virus accelerated.

In contrast, we saw cash-light short duration funds attract inflows instead. In addition, Q1 fixed income outflows also account for a low margin mandate loss, reflecting the ongoing trend for insurers to in-source assets.

Given the current market conditions we find ourselves in, our diversified business model has been and will continue to serve us well. While we have seen outflows in passive, we have been able to counterbalance some of these with inflows into active equity and alternatives.

In addition, ongoing efforts to focus on our strategic priorities is paying off. Over the first quarter, we continued to receive positive contributions from strategic partnerships, as well as into our ESG funds. Our new product launches are also gaining traction, reporting inflows in Q1 and reflecting the continued demands that we see for innovative offerings.

With that, let's move on to product launches. In these unprecedented times, we are committed, more committed than ever, to provide our clients with the products that they need to build their financial future, and at DWS we offer a broad range of products to serve these needs.

As we have reiterated, quarter over quarter, we are making ESG a key feature of our portfolio, and this has been seen across our product launches in Q1, and in the upcoming launches in Q2. We believe that this focus on ESG will become increasingly important, especially as the Coronavirus pandemic brings greater attention to the investments needed to make our economy, society and environment more sustainable and accessible to all.

In this respect, we are already well-positioned. In Q1, we continued to roll out ESG versions of existing fixed income and multi-asset funds, and in Q2 we are planning to launch sustainability-focused products across almost all of our asset classes, and targeting both retail and institutional clients.

Among them is the DWS Invest QI Global Climate Action Fund, which is the first offering of its kind, in response to growing client interest in ESG innovations, particularly around CO2 reduction strategies. This also forms part of our broader commitment to support the UN's sustainable development goals, as outlined in our 2019 sustainability report, which we had published during the quarter.

Moving on to revenues, total adjusted revenues were 524 million euros in Q1, while the overall management fee margin remains resilient, at 29.5 basis points. These reflect stable management fees and other recurring revenues, driven by positive revenue contribution from 2019 net inflows, and higher average AUM of

753 billion euros.

However, these asset-based revenues were offset by two key developments over the quarter, the negative impact of interest rates on other revenues, and lower performance fees. Starting with other revenues, we saw a significant decline, compared to Q4, mainly driven by the negative change in fair value of guarantees, as interest rates declined in the first quarter.

This more than compensated for the 15 million euros contribution from our Chinese equity investment, Harvest. And as anticipated, we reported performance in transaction fees, as the fourth quarter includes the recognition of a significant multi-asset performance fee.

Moving on to costs, as we have demonstrated, our disciplined cost focus enables us to remain efficient in challenging markets. In Q1, total adjusted costs fell by 18% from Q4, to 345 million euros. Adjusted general and admin expenses were down 19%, quarter on quarter, as we continued to implement efficiency measures and, as a result, a reduced volume-related cost.

The Q1 decline in adjusted compensation and benefits costs can be attributed to lower equity linked deferred compensation expenses, related to the DWS share price over the quarter. Altogether, this supported an adjusted cost-income ratio of 65.8% in Q1.

To conclude, our strategic progress and financial performance in 2019 has helped us to remain resilient in a challenging first quarter of 2020. In particular, our diversified business model has been, and continues to be, critical to support clients' needs in a fast-changing environment.

And while we cannot control what happens in the markets, our laser focus on costs enables us to remain flexible and efficient to adapt accordingly. This was evident in Q1, as costs continued to decline over the quarter, as we implemented efficiency initiatives as planned.

Additionally, we remain encouraged by our flow performance. Despite outflows overall, we saw resilience in our alternatives business, positive flows in active equity, and, before the pandemic, strong sustained momentum in passive and active multi-asset.

Looking ahead to the rest of the year, we realise that we are yet to see the full effect of COVID-19 on our financials. In particular, the negative impact of markets on Q1 AUM will reduce revenues as we start the second quarter on a lower asset base.

As a result, we expect our 2020 adjusted revenues to be lower compared to 2019. To compensate for this, we will maintain our strict efficiency focus, to achieve our 150 million euros of gross cost savings target by 2021, as committed. And we also have the capacity to achieve additional savings in 2020 if needed.

For these reasons, we expect our 2020 costs to be below those of 2019. And as we advance into Q2, we are seeing a return to positive flows in our retail and passive businesses, as well as strong momentum in cash flows. I thank you, and I will now hand over to Asoka for strategic outlook.

Asoka Wöhrmann

Thank you, Claire. There's no doubt that we are operating in unprecedented circumstances, and like the rest of the world, we are monitoring the markets closely to ensure that we are ready for whatever comes next. While it is still too early to say what may happen for the rest of 2020, two things are clear. There will be a global recession this year, but to what magnitude is unknown. And central banks and governments are going all-in to protect their economies around the globe.

Looking beyond COVID-19, we expect a number of developments to evolve and become the next normal. Equity markets will remain constructive in the long run, as the world tries to recover from the fallout of the pandemic. Interest rates will reach new lows. Even before the crisis hit, we are looking at the decade of no interest rates. That's now even more likely, driven by the buying programmes by the central banks and the economic downturn.

After the spread-widening, the credit market will attract greater demand, and the currency cycle will age. So yes, we can expect change and challenges for all industries, including of course the asset management industry, but DWS I well-positioned for these challenges, thanks to its diversified business model and a focused management approach.

Let me be clear. Our commitment to shareholders is unwavering. The executive board has decided to maintain its dividend proposal of 1.67 euros per share for the financial year 2019. Also, this is subject to the approval of our AGM, which is now due to take place later this year, following the decision of the supervisory board and the executive board of DWS.

In addition, we are reaffirming our medium-term target of an adjusted cost-income ratio of below 65% in 2021, assuming that markets do recover during the second half of this year. As Claire said, we continue to successfully implement efficiency initiatives in quarter one, and we have the ability to save more in 2020, if needed. So far, we are on track.

Looking ahead, we know that cost control will DWS's key strength to remain resilient in the next normal operating environment. To achieve this, we rely on globally-integrated structures, together with efficiency initiatives, to ensure operational readiness for whatever markets we may face.

In this respect, COVID-19 has also reinforced the megatrends we outlined at our investor update last year. For example, the ability to utilise the barbell in our distribution strategy will meet the client demand for efficient beta products, differentiating alternatives, as well as solutions across a multitude of asset classes.

Demand for ESG-focused investments and solutions will also rise significantly as we move beyond the immediacy of the public health crisis. From this crisis, we have also learned the collaboration is key to getting through this situation together, as we have seen in all corners of the world.

We have been fortunate that our strategic partners have been there to support DWS, as we have been there for them in these challenging times. In 2020, we will be sure to strengthen these relationships, particularly those in Asia-Pacific, as well as continuing to assess the market for new JVs or bolt-on acquisitions. We expect there will be more strategic opportunities as the megatrend consolidation in asset management will surely accelerate as we move to the next normal.

So while nothing is certain for now, I'm, confident of one thing. DWS will come out of this pandemic stronger and more resilient. We have the employees, the business model, the flexibility, and the willingness and ability of management to successfully navigate the COVID-19 crisis, always ensuring the best service and quality for our clients. Thank you for listening. Please stay healthy and safe. I will now pass over to Oliver for Q&A.

Oliver Flade

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

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 touchtone telephone. To withdraw your question, you may press star followed by two. If you're using speaker equipment today, please lift your 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. First question comes from the line of Hubert Lam from Bank of America. Please, go ahead.

Hubert Lam

Good morning, and thank you very much for taking my call. Just a couple of questions. Firstly, on the costs, you mentioned the cost base fell 18%, quarter on quarter, should we expect the cost base to continue to fall, quarter on quarter, regardless of market conditions, just given your cost-save programme coming through? That's the first question.

The second question is on fee margin. Fee margins are a little bit higher than what I expected. Can you explain why the fee margin went up in the quarter? Any one-off impact in that number? And what is also the exit fee margin we should think of, heading into Q2? Thank you.

Claire Peel

Hi, Hubert, thank you for the questions. I'll take both of those on costs and margins. On the first question, yes, we saw an 18% decline in costs in the first quarter, 345 million euros overall. I think, certainly as we look year on year, we absolutely expect our costs to decline in full-year 2020 compared to full-year 2019, and that will be as we recognise a good portion of the cost-efficiency savings that we've announced on a targeted basis, and also, incremental savings that we will see, given the environment that we're operating in at the moment.

To comment very specifically on quarter-on-quarter, in the first quarter we have seen a more significant drop in compensation and benefits costs, and that is linked to the variable compensation awards which are linked to DWS share price, so I wouldn't expect to see such a substantial decline on a continuing basis, and there's an element of one-offs that will revert back in the second quarter. But that said, I think overall, year on year, we'll see declining costs.

On the second comment, on management fee margin, we finished the quarter at 29.5 basis points, this was very resilient in the environment that we're operating in. We've always pointed to the fact that there is always some technical effects within the quarterly margin, and there's some degree of that. If I was to normalise for those, it would be very slightly lower, perhaps 29.3, but I think that demonstrates that we had strong and healthy inflows during 2019, which is supporting our management fees, and our management fee revenues are flat to slightly up, quarter on quarter.

Hubert Lam

So for the exit fee margin, should we think of the 29.3 or would it be lower than that at the end of March?

Claire Peel

If I was to look at the exit fee at the end of the year, I think we've said that we envisage an approximate 1 basis point of dilution in full-year 2020, compared to full-year 19. Of course, was we monitor the mix of asset classes throughout the year, we'll continue to revise that, but that's our outlook at this point in time.

Hubert Lam

Okay, thanks. Sorry, just some clarification on the one-off benefit from the share base awards. Can you quantify how much that was in the quarter?

Claire Peel

Unfortunately, I can't give you a specific number on that one.

There are so many factors that play into the variable compensation accounting that there's not one number I can point you to.

Hubert Lam: Okay, thank you.

Operator: Next question is from the line of Arnaud Giblat from Exane. Please, go ahead.

Arnaud Giblat: Good morning. Can I have a couple of questions, please? Firstly, can I ask about the other revenue line? I'm quite surprised to see the quantum of the fall in terms of the fair value of movement. Bond yields, at the end of the day, were only down 30 basis points, quarter on quarter, we saw much sharper movement last year without so much of a dramatic effect.

I understand that we're beyond zero, so small impacts will have big impacts, but is there anything else to look at, rather than just the fall between the beginning and the end of the year? And maybe could you talk a bit about the sensitivity from here on to falling bond yields on fair value movements? Also, on the other revenue line, Harvest is giving a bigger contribution of 15 million. Are there any one-offs?

And my second questions is to follow on revenue margins. At constant mix, so clearly if I assume constant mix, it looks as though your average revenue margin per category went up by about 1 basis point. From the description you had during your presentation, it sounded like a lot of that come from the fixed income and the multi-asset categories, which benefited from a positive mix shift. Is that right? Are there any other categories that benefited on the revenue margin side? Thank you.

Claire Peel: Hi, thank you, I will take those questions in order. Firstly, on the other revenues, we reported, overall in the first quarter, minus 46 million of negative revenues, and the primary driver of that, as you say, was related to the fair value of our guaranteed portfolio.

I think we of course have to acknowledge that we saw huge dislocation in long-term interest rates in the first quarter, and extreme volatility, more extreme I think than we've seen in a long, long while, and that volatility and that extreme decline is having an impact on how we fair value these products.

So within the first quarter, we saw minus 45 million of revenues attached to the fair value of guaranteed products, and that compared to a full-year equivalent last year, full-year in 2019, of below 30 million. So I think that just demonstrates that the dislocation that we've seen in the first quarter has driven that result, and the volatility is based more on the long-term rates, where we've been seeing those enormous swings, if you compare year-end, intra-quarter and quarter-end.

On the sensitivity, we do indeed disclose that, and the rule of thumb that we give is that if long-term interest rates fall by 50 basis points, the reserve on the shortfall is expected to increase by 14 million euros, but that's a linear relationship, so of course in an extreme dislocation, which we've just experienced, that linear relationship isn't precisely playing out.

If I move onto Harvest, the first quarter we recognised revenues of 15 million. The underlying profit of Harvest was strong in the first quarter, and we realised the benefit attached to that. I wouldn't expect that to repeat to that magnitude every quarter, and we would still guide to around full-year revenues of approximately 45 million.

And finally, on the revenue margin, 29.5 basis points, we are not disclosing the asset class mix of that, given the volatility that we see, particularly in a quarter like this, but I think the first quarter has been more resilient, given the jump-off point that we had at year-end, the net inflows and the very positive mix that we saw of inflows during 2019. And of course, we haven't yet seen a full quarter of the lower AUM and revenue levels which we've seen in the first quarter of 2020.

Arnaud Giblat — Okay, thank you very much.

Operator — Next question comes from the line of Haley Tam from Credit Suisse. Please, go ahead.

Haley Tam — Moring, everyone. Two questions from me, please. First of all, on the flows, I just wondered if you would quantify for us some of the specific movements you actually highlighted in the quarter, so the large active equity retail mandate, the ESG flows, the pension mandate redemption from Kaldemorgen for example. And maybe just comment whether there was any contribution from partnerships to flows in Q1 as well.

And then secondly, on costs, just a simple one. Given the very strong guidance you've given us on less than 65% cost-income ratio for 2021, I just wondered if you were able to make any comments about your anticipated cost-income ratio this year? And I guess related to that, maybe you could tell us how much of your reduction in general admin expenses was permanent, i.e. due to renegotiated agreement versus perhaps temporary, due to lower volumes? Thank you.

Claire Peel — Good morning, Haley. I will take those questions in order. On the flow composition, perhaps starting with active equity, we did see a strong performance overall, with net 1.7 billion of inflows, and we benefited from a retail mandate with a wealth manager, that we won during the quarter, which supported some outflows that we saw, of course, later on in the quarter, driven by the general environment that we were operating in.

On the other asset classes, I think you pointed to strategic partnerships, we again saw positive inflows from all of our strategic partners, and also through the channel of ESG, so both of those strategic aspects that we have been focusing on during 2019 have provided us with resilience during the first quarter as well, contributing to positive flows.

And I would also point to alternatives. I would say that that's, again, been a very resilient asset class, with no disruption to flows that we would specifically point to, a more steady trend, and continued inflows into our real estate Grundbesitz portfolio.

On the cost side, we are continuing to guide in 2021 to our target of below 65% cost-income ratio. We're not guiding to the near-term cost-income ratio within 2020. Obviously, there's huge volatility that we are experiencing in this near-term horizon, but rest assured that we are delivering on the initiatives that we announced in December of last year. They're very much on track in the first quarter. You can see that in the results.

And we do have an ability to contribute additional cost savings if required. Some of those are just generally volume-related. We all know that some expenses are around travel, etc., and Q2 will be muted, but other parts of our cost base we are monitoring very carefully, to ensure that we can flexible in the environment.

On the G&A decline, we saw a significant decline in the first quarter, and that really is reflecting the aspects of the cost-efficiency measures that we've outlined around vendors and also premises.

Haley Tam: Thank you.

Operator: Next question is from the line of Stuart Graham from Autonomous Research. Please, go ahead.

Stuart Graham: Hi, thanks for taking my questions. I have two, please. You say you've got more cost-saves in the back pocket if you need them. Could you say how big that is, can you quantify what that extra buffer could be, please? And then, the second question is you have a meaningful Italian business, could you give us some colour on what you saw in that business in the first quarter in terms of flows and anything else that's relevant, please? Thank you.

Claire Peel: Hi. If I just comment, first, on your cost-save question, we have announced the saves over 2020 and 2021, which we have clearly defined and have those on track, 150 million over a two-year period, weighted into 2020, around two-thirds within 2020.

On additional cost-saves, we've obviously seen an example in the first quarter of the reduction that we've seen in compensation and benefits costs, acknowledging that that is linked to variable compensation, so will not continue at that kind of degree. In terms of incremental cost-saves, we're not going to put a number on that at this point in time, because I think we want to monitor how the environment proceeds.

Some of those, as I say, are volume-related. Obvious example is travel. There are other elements that are linked to AUM, so where we consume vendor expenses that are linked to AUM levels, we get a natural decline when we see a decline in AUM. And there are other actions which we are looking at to curtail expenses during the year, if we need to do so. But no specific number on that at this point in time. And for Italy, the question specifically on flows within the quarter, I will maybe have to come back to that one during the call.

Stuart Graham — Okay. Claire, on the costs, the fact that you feel confident in calling out an additional buffer, to put words in your mouth, you kind of wouldn't say that if it was 10 or 15 million euros, it has to be a meaningful number on top of the 150. Is that a fair statement.

Claire Peel — That's a fair statement, yes.

Stuart Graham — Thank you.

Operator — Next question is from the line of Bruce Hamilton of Morgan Stanley. Please, go ahead. Mr Hamilton, can you unmute your microphone, please?

Bruce Hamilton — Sorry, yes, unmuted now. Can you hear me?

Claire Peel — Yes, we can hear you.

Bruce Hamilton — Perfect, sorry. So on the flows, that was very useful colour. Just in Q2 so far, and I know it's early days, are you seeing continued flows into active equity, or did you say it was more reverting to passive rebound? And then, within fixed income, would you expect the challenging environment continues? And it sounds like you're expecting a shift towards credit, where the returns look better?

And then, on the flows topic, on ESG, can you give us a number for what level of inflows ESG product accounted for in Q1? And then, finally, just on calibrating the variable comp, how should we think about that? If this share price has been flat in the first quarter, for example, how different would the compensation costs have looked? Just to give us a sense of how we might normalise that for Q2, or looking forward.

Claire Peel — Maybe if I take the question first on ESG. We can give you the number of ESG flows, which was around 2.6 billion of inflows on ESG funds during the quarter. So that continues to be a very positive trend that we continue to observe, and linked to the product innovations that we've had, quarter on quarter.

On the comp and ben, just to come back to that one again, there's clearly a lot of interest in that one, and that's understandable. We have reported 162 million of comp and ben in the first quarter, compared to 197 in the prior quarter, so that's a decline of 35 million. Certainly, a good portion of that is attributed to the variable compensation.

We had, within the quarter, an all-time high and an all-time low on the share price, and that demonstrates the magnitude of change that we've seen in that period, so we wouldn't expect to see comp and ben operating at that low point but, equally, it's certainly not going up to the levels that we saw in Q4. I'm afraid I can't quantify exactly the mark-to-market movement on that, because there are so many other factors that needed to be taken into account.

And, sorry, had a question on flows, I think, as well. The point on passive was more linked to equity ETFs, where we saw, in March, a shift more so out of equity ETFs and into more fixed income ETFs, and cash or similar products.

Asoka Wöhrmann

Bruce, if I may add to what Claire has already outlined, I think it's, as with all crisis moods, more and more people, after the first reaction of panic is looking to park their money in liquidity as well as, I do think, with the easing of the risk mood of the markets, the panic risk mood, I think more and more people are allocating again their assets through ETFs. That is what we can see already in the market in general and, I think, we are also taking advantage of that liquidity.

And ETF flows are taking momentum, but not the same momentum like what we have seen at the very beginning of the year. And I do think I'm expecting still, in the second quarter, we will see more liquidity-driven flows and ETF-type.

As Claire said, the outflow out of ETFs, equity ETFs, that is coming gradually back, and this depends really on the risk mood in the markets. And I do think this is exactly what we're seeing, and I think, as Claire said, alts, it's, more or less, the momentum that we are seeing since one and a half, two years, and this is going forward, and I think that is not completely dried up.

And I do think the credit question is very interesting to see. I think the first reaction is, in credit assets, people are hurt, but I do think there's also looking now some attractiveness in the credit segments and, I'm sure, for the long-term portfolios, people are looking to enter into these fields, especially institutional clients.

And I do think also even in the retail area people are looking to overcome the negative rate in the very short, and might lead to investments in these areas more in a risk-managed approach. And I am expecting, during the course of the year, that we are coming back to credit segments, back the flows, and therefore we felt we have to look exactly into this field.

That's only an additional point. What we are seeing from the strategic perspective, what we have seen passive and multi-asset and alts, we can see this year, later in the year, more credit flows.

Bruce Hamilton

Brilliant, that's very helpful, thank you.

Operator

Next question is from the line of Gurjit Kambo from J.P. Morgan. Please, go ahead.

Gurjit Kambo

Thank you for the presentation. Just two questions. So firstly, on partnerships, you said you want to further cement your existing partnerships and also enter into some new JVs. Could you perhaps explain what you're talking about when you're talking about referring to new partnerships? What sort of regions would be interesting to you? And also, just cementing existing, is that taking bigger stakes?

And then, second question, on the ESG flows, have these largely been into passive ESG funds, or are you also seeing some of the more active ESG funds seeing inflows?

Asoka Wöhrmann

Again, let me start, Gurjit. I think with the JV part, I do think we were also, prior to the COVID-19 crisis, really on track to strengthen our JV partnerships further in Asia, but also in other areas. You have seen we've done some stake with Arabesque, to bring also more collaboration and bring more of an AI approach into the investment platform, but also the whole organisation.

But we are talking about the JVs now in the context also of Asia. As I said, always that is, for us, a strategic region, and we want to collaborate there. It is a big region, there is huge growth. I think also, post-COVID-19, this growth will be outperforming and outpacing the developed world.

And I do think therefore we are looking for JVs, and also in connect with Harvest, the longest JV that we had, and I do think, in this context, we are looking in Asia for some JV opportunities. We were in conversations prior to the COVID-19, but I want to strengthen the view, also for you guys, that we are not getting stopped by COVID-19, and we want to strengthen the Asian access especially, of our business, and that is exactly what we have framed through this statement. I think, Claire, if you could take the ESG part, it would be great. Thank you, Gurjit.

Claire Peel

Yes. Thank you. On the ESG inflow question for the first quarter, we had around 2.6 billion of inflows. They were certainly more heavily weighted towards our fixed income and money market ESG funds, but we did also see very healthy inflows into equity

	and into passive. I'd say it went in the order of fixed income money markets, followed by equities, followed by passive, and a small amount of alternatives as well.
Operator	The next question is from the line of Nicholas Herman of Citi Group. Please, go ahead.
Nicholas Herman	Good morning. Can you hear me?
Operator	Yes, loud and clear.
Nicholas Herman	Great. Thank you for taking my questions. Two questions left for me, please. Beyond your cost savings that you've announced, how should we generally think about the cost flex that DWS has? Obviously, FY19 benefited from strong performance fees, but would you be able to give us a variable compensation ratio for last year, and then, how that compared to a more normal level? That'd be really helpful. And then, the second question is as a large ETF-provider in Europe, have you had to make any changes to the way that you deal with liquidity across your passive product range, or even across the broader range of products? That would be interesting, thank you.
Claire Peel	I will take the first question on costs. As opposed to giving you different kinds of ratios, which I'll leave you to take a look at, what we very much manage ourselves against is the cost-income ratio. And as we reaffirmed, we are looking to continue to achieve our target of below 65% by the end of 2021. We're obviously around that level at this point in time, but we acknowledge that we will see some challenges in the forward… particularly in Q2, and we will ensure that we can manage our cost base accordingly. I won't add any further ratios beyond that. We'll continue to manage to our cost-income ratio target. And I'll hand over…
Asoka Wöhrmann	Regarding the second question on the ETFs and liquidity, I think we have been lucky, our strength in the ETF market is more due to the equity market. We know that the very unprecedented market dislocations that we have seen is always adjusted by price, and I think we have really proven, also through the much volatility and dislocations, that we can keep our promises to our clients. And I think we have no problem in this field. And I do think, especially fixed income, we are not very super-positioned in Europe. In fixed income, we have no high yield type funds where the liquidity can be somewhere problematic, so, therefore, I think especially the areas in equities we had no real topics, and our physical gold ETF… very much enjoyed. So I do think in Europe we are well-positioned in some way for

this dislocation in the market, with some bottlenecks in the liquidity, but I do think this is more due to other peers than to us.

Nicholas Herman: Okay, thanks.

Operator: As a reminder, if you would like to ask a question, please press star followed by one on your touchtone telephone. The next question is from the line of Mike Werner from UBS. Please, go ahead.

Mike Werner: Thank you. Congrats on the results. During the prepared remarks, you talked about potential consolidation within the asset management industry in response to the current crisis. I was wondering how DWS is positioned. Could you give us an update with regards to, A, your excess capital position and then, B…

During your investor day last year you indicated that you're still in the process of migrating from using Deutsche Bank's platforms to your own independent platform, at which case you'll certainly be more suitable to be an acquirer of other firms. I was just wondering, in terms of the timing or the progress on that, has there been any delays as a result of recent events, or are you still on track for that to be, I believe, completed by year-end this year? Is that correct? Thank you.

Asoka Wöhrmann: Mike, thank you. And thank you for the question. M&A has been a topic the whole of 19, we discussed that also with you in one-on-ones, but I do think what I alluded to is COVID-19 is creating a heightened focus of management in the asset management industry, also in all companies, on cost management.

I think more and more people will see how difficult it is to respond by cost. We are happy that we started already at the end of 18 and continued the whole of 19 with restructuring vendor costs reductions, real estate footprint, in many ways. And that will pay out this year very much.

And I do think, to that, I can see that the industry will go to a stronger speed to consolidation, because we even talked last year about consolidation of the asset management industry. We have not seen very much consolidation. There was one or two big deals, transformations, as well as small bolt-ons, and I do think that will be more a necessity for management to think about.

And I do think, as we said, we want to be a consolidator in this industry, we want to play a key role, and I do think these opportunities will come and emerge in the next one and a half years more than ever. And I do think that COVID-19 is a catalyst, from my view, for the industry to think more about consolidation.

And from this regard, we have been open for M&A in every type, a bolt-on to transformational, if the things fit with us, our clients, our shareholders, but we want to play a predominant role, and I do think that nothing has changed, Mike, in our view. The only view that we want to phrase here, COVID-19 has created more speed into this segment than ever. And I do think, Claire, any…?

Claire Peel — Yes. Maybe I'll just pick up on your question, Mike, around the infrastructure programmes. And of course, in our business as usual we continue to manage and improve our technology and digital applications, and have shown extreme resilience, in fact, in this first quarter, having in excess of 90% of our staff working from home.

But specifically on the infrastructure project to separate our infrastructure from DB, that's not something that will be completed this year. That's a multi-year project, so it's very much in design at this point in time.

Mike Werner — Thank you.

Operator — Next question is from the line of Christoph Blieffert from Commerzbank. Please, go ahead.

Christoph Blieffert — Good morning. First of all on your AGM, I would like to understand what holds you back to invite shareholders to a virtual AGM and pay your dividend in June as scheduled. Secondly, you mentioned that a market recovery is needed to achieve your cost-income ratio in 2021. Given that European markets have already recovered 50% of their losses since March, what market levels are needed to bring your cost-income ratio close to your targeted level?

And as a last question, I missed your 3% to 5% net new money target in the presentation, and just want to check whether this is still valid or whether that has been cancelled. Thank you.

Asoka Wöhrmann — Again, let me start, and Claire can go into the last two questions. But I am also happy to phrase that all. Let me say, regarding the AGM, the shift of the AGM to autumn in the fourth quarter, with our decision we are responding to near-term challenges because of COVID-19, and also the regulatory spirit and the prudence.

But I think we have not given up the view to have a physical AGM because we prefer to have face-to-face communication, and also, I think conversations with our shareholders, all of our shareholders. And I think that is why we are not going to say physical AGM is impossible. But I do think that we want to do the visual one also, if that's not possible.

So I do think that both options are possible, and I think this is a very clear view. We want to do, in autumn, a virtual or physical AGM, as we discussed, and it depends on the circumstances, where we're standing. I think, Claire, if you can take…

And let me say, Claire, 3% to 5%, and I do think we set that always, our first priority is cost-income ratio, and I think that is very important for us. That is why we also prioritise the KPIs in the way… The cost-income ratio is absolutely showing the operational strength of the organisation, but also we are sticking to 3% to 5%.

And I do think, for us, it's very much dependent on the market. If the sentiment of the markets will stay where we are, it might be difficult to come. But as you've seen, last year, many of you might question our 3 to 5 and, at the very beginning of the year, we struggled to show 3 to 5, and then we really came with the market sentiment back, and I do think ended nearly, ex-cash, 4.7.

And I think we are committed, also, to that. I have not rephrased it because I think it depends on the market. If the market's coming back, we are expecting the target growth areas will bring us back into this range. And I think, Claire, back to you.

Claire Peel

Thank you. Yes, just to reiterate that we remain committed to our cost-income ratio target next year of below 65%. Yes, we need to see some recovery this year, and I think we're seeing some signs of that, but it's way, way too early. But of course, that is a criteria that I think we all require. And likewise, our net flow target, very much still committed to that.

Christoph Blieffert

On follow-up question on the dividend, please. Is there any pressure from the regulator not to pay it now?

Asoka Wöhrmann

In my opinion, no one has put any pressure on it. This is the regulatory spirit we felt. As you know the regulatory environment, Christoph, I'm sure there is a BaFin view, there's an ECB view, there's an Opia view, there is an ABA view. There is a spirit that management should look to manage the organisation through this crisis, because no one in the market knows how long this crisis will take.

But again, for us, as I said, we are sticking to 1.67 euros, and this is due to the AGM decision, and the AGM will come in late autumn, and I do think, then, we will decide. Again, we have no pressure, not from the regulators and not from any other side. We are very, very confident that hopefully the crisis will go over and we will become more resilient and stronger, and I think we can stick to our proposal as we've done at the last analyst's meeting.

Christoph Blieffert

Thanks a lot.

Operator

There are no further questions at this time, and I would like to hand back to Oliver Flade for closing comments. Please, go ahead.

Oliver Flade: Thank you very much, everybody. And as usual, if there are any remaining questions, then please contact the IR department. Thank you very much, have a good day, and stay healthy.