DWS Group GmbH & Co. KGaA

DWS Q4 2018 Investor & Analyst Conference Call

February 1st, 2019 | 10:30 a.m. CET

Transcript

Speakers:

Asoka Woehrmann

Claire Peel

Oliver Flade

Thank you very much, operator, and good morning, everybody, from Frankfurt. This is Oliver Flade from Investor Relations and I would like to welcome everybody to our fourth quarter and full year 2018 earnings call. Please, again, be reminded that the previous Deutsche Bank analyst call outlined the asset manager segment results, which have a different parameter basis to the DWS results we're presenting today.

I'm joined by Asoka Woehrmann, our CEO, and Claire Peel, our CFO, and Asoka will start today with some opening remarks, and then Claire will take you through the presentation. For the Q&A afterwards, I would ask everybody to limit themselves to the two most important questions, as always, so that we can give as many people a chance to participate in the Q&A session as possible.

Then finally, I would like to remind everybody 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. Now let me hand over to Asoka.

Asoka Woehrmann

Thank you, Oliver. Good morning and welcome, everybody. I am very happy to present our quarter four and full year results for DWS. It's great to be back at DWS where I've already spent 17 years of my career. It really feels like coming home. I am delighted to lead DWS in its new era as a listed company.

My first three months, I have travelled all over the world to meet people who make DWS what it is. Our clients, our partners, our colleagues. And in 2019, I'll look forward to engaging further with our shareholders, investors, and analysts. 2018 has been an inflection year for DWS as it moved from being a division of Deutsche Bank to a publicly listed asset manager.

It was a year marked by increasing headwinds for the broader asset management industry, as well as for us. In the second half of the year especially, we saw elevated levels of volatility in December, one of the worst months we have ever seen in the equity markets.

With these challenging conditions as a backdrop, our flow performance was disappointing last year in contrast to fourth quarters of inflows in 2017. However, we continue to report strong inflows to passive, especially to our European ETPs. And we had good inflows to the real estate and infrastructure areas.

But these were offset by outflows relating to one-off events, such as the US tax reform, low margin insurance mandates, and the implementation of MiFID II of many retail clients of ours. Given the difficult market conditions, cost control was an even more important level for DWS already in 2018.

Last year, we managed our costs well, lowering them faster than expected, exceeding our full year cost savings guidance. This way, we are able to ensure we will deliver shareholder value despite the challenging year we saw. So, I am very pleased to announce that the executive board of DWS has decided to propose to the annual general meeting a dividend of €137 per share in 2018 in line with our medium term guidance.

With that, let me hand over to our CFO, Claire Peel, to take you through our financials in more detail. Claire, please.

Claire Peel

Thank you, Asoka, and welcome, everyone. Today I will present our recent activities and results for the fourth quarter and for the full year of 2018. I would like to start with four key points. Adjusted profit before tax was 160 million in Q4 18, 9% higher year-on-year, but down 10% quarter-on-quarter, reflecting the decline in revenues as a result of market turbulence in Q4.

The management fee margin was consistent with our medium term guidance of 30 bases points and above, finishing at 30.3 bases points in Q4 and 30.6 bases points for the full year. Adjusted cost income ratio was 71% with lower expenses more than offset by lower revenues for the quarter. [Unclear 00:05:10] outflows of seven billion were primarily driven by low margin insurance outflows, as guided in Q3.

These more than offset strong passive inflows from mandate wins and continued ETP inflows in Europe, where we rank number two with 27% market share in Q4 and 17% market share for the full year. We also saw positive quarterly flows in our flagship funds, and further inflows into real estate. Let's move on to our financial performance snapshot for Q4.

Starting at the top left, AUM declined to 662 billion, down 4% quarter-on-quarter, as a result of negative market performance and net outflows. Moving to the top right, revenues of 549 million represent a 4% decline compared to Q3, impacted by weaker market environment and negative change in the fair value of guarantees in the quarter.

Management fee margin fell to 30.3 bases points, primarily due to the equity market declines, and with little evidence of pricing pressure within the asset classes. On the bottom left, adjusted costs were down 2% quarter-on-quarter to 389 million, the lowest quarter of 2018, with flat compensation and benefit costs and lower general and admin expenses.

This resulted in a cost income ratio of 70.9% for Q4. Adjusted profit before tax of 160 million was 10% lower than Q4 peak due to the index declines reducing management fees that also lower other revenues. However, given the continued downward trend in costs, profit exceeded that of Q4 17.

Moving on to our full year financial performance. Given the turbulent market conditions and unanticipated events, such as US tax reform, we have faced a challenging year as a newly listed asset manager. AUM declined 5% year-on-year, driven by a combination of negative market performance and net outflows, mainly from institutional fixed income and actively managed retail funds.

Adjusted revenues were down 8% 2.3 billion due to lower performance fees and management fees mainly reflecting net outflows. Management fee margin at 30.6 bases points remains consistent with our medium term target, but lower than 2017 margin, just a negative mix effect of net outflows.

Adjusted costs were down 4% due to higher cost savings and reduced Deutsche Bank Group charges, which accelerated more quickly than anticipated within the year. As expected, cost income ratio increased to 72.3% in 2018. Adjusted profit before tax was down 16% as a result of lower revenues and despite better than anticipated costs.

To note, reported net income reflected a 33% affected tax rate for the year, including some extraordinary non-deductible items that resulted in a 40% tax rate in Q4. Over the medium term, we expect an average affected tax rate of around 29% as extraordinary items do not repeat. Let's recap on the market environment in 2018.

Q4 was an extremely turbulent quarter, and concluded a challenging year for the asset management industry and the financial markets more broadly. All major equity indices declined significantly in the fourth quarter following elevated volatility and amid heightened geopolitical tensions, making it the worst Q4 performance since the financial crisis.

Negative investor sentiment continued to impact retail investor activity across the globe, and we have seen volatility in the new year, a trend that is likely to continue, given various political headwinds, but not to the same degree as 2018. We remain constructive on equity markets in 2019, driven by a robust global economy and better valuations.

Let's move on to AUM development. Assets under management decreased from 692 billion in Q3 to 662 billion in Q4 largely due to the sharp drop in markets, as well as net outflows. Weaker equity indices contributed to a 29 billion decline in AUM, accounting for almost all of the 30 billion decrease in assets at quarter end.

This is more than offsetting the four billion on positive FX movements. In the full year, AUM was down 38 billion from the end of 2017 with positive FX, more than offset by a combination of negative market performance and net outflows, which I will now explain in more detail.

Net outflows of seven billion in Q4 18 were primarily due to low margin insurance general account outflows, which I highlighted during Q3 earnings, retail fixed income outflows, and to a lesser extent, active equity and multi asset redemptions. Looking at the flows by asset class, we have seen some positive trends over the quarter.

Passive reported its strongest quarterly sales in 2018 with 3.9 billion of inflows in Q4. These were contributed by European listed ETPs, a market in which we retain a number two position and a 27% market share by net flows. We also won a 1.7 billion in passive mandates, including a one billion ESG mandate from a European pension fund, and with a further 0.5 billion expected in Q1.

In the US, we saw inflows in our China Asia's ETFs, high yield bond ETFs, and into recently ETFs in the region. This is the strongest result, given market volatility and the weaker flow environment, which has challenged the wider ETF industry and our peers, particularly in Europe.

Alternative flows were flat overall in Q4. We saw continued inflows into real estate and infrastructure funds, which were offset by liquid real asset redemptions. Excluding liquid real assets, illiquid alternative net inflows were 0.4 billion in Q4. In active, we saw further outflows this quarter, exacerbated by the broader industry turmoil.

Active equity withdrawals of one billion were retail driven, but have slowed substantially from the previous quarter, despite deteriorating retail flows in Europe. Our flagship fund top dividend reported Top Dividend reported net inflows, reversing outflows earlier in the year.

Active multi asset outflows of 1.2 billion were roughly split between institutional and retail. Institutional multi asset withdrawals reflected investor decisions to make asset allocation shifts, while retail redemptions partly reflect wider negative investor sentiment on commodities.

European retail demand continued to fall in Q4, with industry wide flows shifting from positive to negative territory quarter-on-quarter. This was in contrast to our flagship concept Kaldemorgen, which reported inflows in the period. In active fixed income, Q4 outflows of 7.1 billion were driven by insurance redemptions, which were larger than expected.

We also saw outflows in retail fixed income, particularly from US municipal bond funds. Encouragingly we saw continued inflows from Nippon Life, and no further redemptions from US tax reform in the quarter. Let's recap on annual flow performance and outlook for 2019.

Looking back to 2018, total net outflows of 22.3 billion were due to the following main drivers. US tax reform, insurance general account outflows, and active equity and multi asset redemptions. Together, these accounted for 31billion of annual net outflows.

Following four quarters of inflows in 2017, these headwinds, especially US tax reform, had a greater impact on our business than we had anticipated at the start of 2018. We were further challenged by retail market demand amid geopolitical tensions, particularly in Europe, as well as by flagship equity and multi asset funds under performing, and not delivering inflows as they had done in 2017.

Looking forward to 2019, we do not anticipate further redemptions from US tax reform. And with insurance, we have made progress to address our flow challenges by enhancing our capabilities in house, expanding distribution, and targeting new clients. In Q4, we also saw inflows at two of our flagship retail funds, while the wider European industry was in outflows.

Having successfully navigated such conditions in the most challenging quarter of 2018, we are confident that these funds will perform well, if volatility continues in 2019. We are also aiming to capitalise on demand in our targeted growth areas. In passive, we reported eight billion of net inflows in 2018, and excluding the single US tax reform redemption, inflows would have been 13 billion, outpacing 2017 inflows.

European listed ETPs were the key drivers of 2018 inflows, accounting for 17% of total net inflows, while having 11% AUM market share. Our best flow share since 2010. Our fixed income ETPs reported particularly strong growth, with 21% flow share in the full year, despite representing just 9% of total market assets.

We also saw record passive institutional inflows comprising of both new and top-up mandate wins, reflecting successful efforts to diversify our client base. Alternative inflows of 0.7 billion were driven by real estate, which accumulated three billion of inflows over the year, more than compensating for liquid real asset outflows that are forecast as slow in 2019.

Retail demand has been strong for our open end real estate fund family, [Unclear 00:16:40], which saw its AUM exceed ten billion in the second half of 2018. We will continue to focus on these product areas as part of our growth initiatives, in conjunction with our ESG and digital capabilities, which we have advanced this year, further supported by product launches, both in 2018 and in 2019.

As mentioned last quarter, product innovation remains key for DWS to deliver on its strategic priorities. And given the prospect of continued volatility in 2019 a diverse product offering is essential to meet client needs in the fast changing market environment.

In Q4, we expanded our offering through traditional and alternative fund launches, many of which had an ESG focus reflecting the growing demand we have seen for such strategies over the year, and an area we will continue to focus on in 2019. In addition, we are aiming to diversify our products and solutions through innovation.

We have a number of fund launches planned for Q1 2019, subject to demand assessments and approvals, with somatic equities remaining a key feature of our portfolio. Moving on to revenues. Adjusted revenues were down 4% this quarter at 549 million. Management fees fell by 2% quarter-on-quarter, and 5% in the full year, primarily driven by declining equity markets and net outflows.

I will discuss the asset classes shortly. First, in other revenues, our Chinese investment Harvest Fund Management contributed 11 million in Q4 and 43 million in the full year. However, these were more than offset by the negative change in fair value of guarantees over the quarter, but with a negligible impact over the full year, due to the positive fair value adjustments in the first half of the year.

Performance and transaction fees increased by three million in Q4, with higher transaction fees offsetting lower performance fees quarter-on-quarter. In the full year, performance and transaction fees were down, due, in part, to lower alternative and retail feels.

Performance and transaction fees continued to represent 4% of total adjusted revenues in 2018, in line with our 3% to 5% medium term guidance. Looking ahead, revenues will be negatively impacted by lower equity market levels and lower average AUM at the start of 2019, but are expected to remain broadly flat over the full year.

Moving to margin breakdowns by asset class. Overall, our Q4 management fee margin of 30.3 bases points has declined since Q3, but is consistent with medium term targets of 30 bases points or above. The quarterly decline is almost entirely driven by the market impact with smaller offsetting effects from outflows.

We expect the December market impact to be fully realised in Q1 management fees. In the full year 2018, the management fee margin was 30.6 bases points. Equity management fees were down over the quarter, driven by the sharp market decline. The quarterly margin decrease is due to the Q3 margin, including a positive one off effect from an Asia entity transfer.

But for the full year, equity margin has remained stable at 76 bases points, despite lower management fees. Multi asset margin and fees have declined quarter-on-quarter, and for the full year, diluted by weaker retail performance and higher distribution fees.

SQI management fees and margin increased over the quarter and in 2018, benefitting from favourable distribution fees, and to a lesser extent, higher fee income. For passive, both management fees and margin declined quarter-on-quarter, reflecting the lower margin product mix, and other effects, such as fee payments I the period.

In the full year, passive management fees increased 10% from 2017 as a result of continued AUM growth supported by ETP and mandate inflows. In alternatives, margin and fees were up in Q4, but down in the full year. Quarterly growth was driven by consolidation by an alternative business entity, while the annual decline reflects the mix effect of liquid real asset outflows, offsetting incremental real estate and infrastructure revenues.

Moving on to costs. Total adjusted costs were down 2% in Q4 and down 4% in the full year, exceeding our expectations for 2018, and despite continued investment in growth initiatives. We expect this downward trend to continue in 2019. Let's start with compensation and benefit costs.

In Q4 18, adjusted compensation and benefit costs were flat quarter-on-quarter at 177 million, and down 8% in the full year, despite transferring DWS dedicated staff from Deutsche Bank Group. Total adjusted general and admin expenses were down 4% in the quarter and 2% in the full year.

We saw a significant decline in Deutsche Bank Group charges in Q4, as the charge was right size to the services consumed, following internalisation efforts. We anticipate a normalised run rate to be approximately 35 million per quarter for Deutsche Bank charges. This decline more than compensated for higher non-compensation direct costs, and flat charges for the DWF functions in DB entities in Q4, which were expected to continue at a run rate of approximately 40 million for the full year 2019.

Let's recap on the cost glide path. In February 2018, we communicated the project glide path to achieve our cost income ratio target of below 65% in the medium term. I'm pleased to say that we have exceeded our full year cost objective in 2018 with efficiencies of approximately 65 million contributing 40% of our medium term growth savings, while investing approximately 40% of our 90 million budget in growth initiatives.

This reflects the strong cost discipline we maintained during a challenging year, and a lever that will become increasingly important looking forwards. In 2018, we faced cost headwinds as expected. To recap, we paid 40 million for research costs relating to MiFID II, and will continue to do so in our run rate going forward.

The synergy costs associated with the company set-up were also in line with expectations, but back costs were higher than expected post IPO, but are now embedded into the 2019 run rate. Encouragingly, Deutsche Bank Group charges declined quickly this year, realising absolute savings of approximately 100 million as we continue to optimise consumption, insource services, and transfer headcounts into DWS entities.

For the full year 2019, we anticipate a lower normalised annual run rate of 140 million for Deutsche Bank Group charges. Additionally, we will continue investing in growth initiatives this year. Given expected industry headwinds, we will accelerate efficiency measures to achieve our remaining growth savings by year end, delivering on our targeted objective of 150 million of savings, ahead of schedule.

Let's look at our capital position in 2018. In the full year 2018, we saw our common equity tier one capital increase to 2.7 billion, up from 2.5 billion, at the end of 2017. This increase was mainly from recognition of half one 18 profits, and smaller other impacts, including FX.

Half two 18 profits are not yet reflected in CET1 capital, as this requires prior regulatory approval, which we will seek to obtain in due course. The impact from half two 18 profits on CET1 is limited as these will be recognised net of dividend accruals.

Our pillar one requirements moderately increased in the year with 9.2 billion of RWA, compared to 8.5 billion at the end of 2017, mainly as a result of market movements. Our CET1 ratio stood at 29% at year end, remaining very comfortably above requirements. I will now pass back to Asoka for concluding comments.

Asoka Woehrmann

Thank you, Claire. Before we take your questions, allow me to summarise quickly and give an outlook for what we expect for 2019. Looking back, the market headwind to asset managers increased during the year 2018 as the markets became more and more difficult over the year, culminating in a tough fourth quarter.

This makes our IPO target even more ambitious. We acknowledge that our flows under delivered in 2018, but we are addressing this by targeting growth areas, launching new products, and expanding distribution partnerships. In both the fourth quarter and in the full year, the management fee margin was consistent with the medium term target.

But while we are constructive on equity markets, we also see that it could be challenged further after one of the worst equity performances ever, December 2018. In the challenging market conditions, our diligent focus on other cost efficiency measures paid off in 2018, as we exceeded our cost savings guidance for the full year.

I am pleased to propose a dividend in line with the guidance. As we look ahead, we expect the market environment to remain challenging. While it is too early to make full year predictions, we are determined to weather proof our business from the prospect of continued volatility further market challenges in 2019. We are confident that we are able to achieve a turnaround of flows in 2019.

In this respect, our investment excellence and diversified business model across active passive alternatives, and our rank among the top 15 in AUM in each of these pillars will help us to grow in this changeable market. Additionally, we do not anticipate the same one of outflows of 2018.

Given the environment, cost efficiency will remain an important focus for us. That is why we have decided to accelerate our cost savings to achieve the full year €150 million this year, which represents the top end of our medium term savings guidance, ensuring we are lean and prepared.

As we enter the late phase of the cycle, we will also review our priorities initiatives to ensure that we are flexible and adaptable to the fast changing environment we see in the market today.

	We will provide further details of this during the next quarter. In the meanwhile, we will ensure and continue to manage our business tightly to deliver our first priority, value to our shareholders.
	As an asset manager based on investment excellence, great products and services for our clients and efficient operational set-up. Thank you for your attention, and I will hand over now 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 please remind everybody in the queue to limit themselves to two questions.
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 the handset before making your selection.
	Anyone who has a question may press star, followed by one at this time. In the interest of time, please limit yourself to two questions only. And the first question is from Jacques-Henri Gaulard with Kepler Chevreux.
Jacques-Henri Gaulard	Good morning. Jacques-Henri here from Kepler Chevreux. Sorry, I have three questions, but the third one should be short. The first one, Herr Woehrmann, you were mentioning your first three months on the job, your first 100 days. Could you share with us one of the main challenges you're identifying for the firm, maybe a little bit how the morale is overall, and a little bit on the state of the union for DWS as you're starting your mandate. That's question one.
	Question two, also hearing you at the end of your presentation, I feel that you're very concerned on some targets. On the pay-out ratio, in particular, you have demonstrated that, on the cost initiative, but maybe less on the fee margin. So, my question is, how committed are you to your financial targets as a whole?
	And the last question would be for Claire. In Q4, Claire, would it be possible to have granularity of how we get from 160 million of adjusted profit before tax to 80 million, particularly the tax rate and the weight of below the line items? It would be very helpful. Thank you very much.
Asoka Woehrmann	Thank you very much for your three questions. I will take the two you addressed to me. The first 100 days, it was really, as I said, coming home, but nevertheless, there are the challenges of what is going on in the industry. As I initially said in my first

mail to our staff internally, we are entering in the market in the asset management industry into a challenging market environment, and I think that there's macro background there, therefore, I think we are in a late cycle.

So, this is very important to know, and I think, also, to embed these things into the strategy. And that's one of the challenges that I'm now dealing with. The second thing is, I think, we have now the right team in the first 100 days we put together to execute the strategy. And I think I am very pleased to say the team is really great now, working closely together.

And also, adopting the needs of the market changes to the strategy piece, and I'm very happy on that. And I do think that the first 100 days, I really, and I spent the first 17 years of my career at DWS, I have to say the three product pillar we had is a big asset.

And this is very important, because I think the market is changing in the sense that people need much more advice and also, different kinds of product categories. And I'm very pleased to say that DWS is one of the less asset managers in the top ranks that we have the three pillars, active, passive, and alternatives. That's really great.

And at the end of the day, for me, also the 100 days, and also, beyond that, it's all about, and also, I'm a little bit going to your second question, it's all about shareholder value and shareholder return. And this is the top thing. It doesn't matter what kind of targets.

We even have all the targets and ambitious targets there, and I think they were the right targets at this time, to come up, and also, put us on our list. But one thing is very clear, we are in a global company with different asset classes, and I do think the three and the four targets, NNA [?] margin, cost income ratio, and also the guidance on the dividend, is something I do think we are well on the way.

NNA we really, clearly, miss, and Claire and myself, we are really openly talking about that. But as we said and described to you, we have seen a good start to the year 2019. I have to say that we are talking about the turnaround, and I have to also say the that's something that's going away, and all the accelerated cost measures will pay out into our medium term target of 65 on the cost income ratio.

I think we are very proud that we have started as one of the first asset managers in the industry the costs topic, and I do think we lead that. And we are pleased that we can continue because we know what we have to do. And margin wise, you know I spent many, many years in this industry, it's quite in a controllable part, and [sound slips] and a part that you can't control.

But the margin resilience is something we have shown already in 2018, one of the toughest markets for the risk assets, and especially nearly 14% test [?] pack [?] in the risk market and equity market, even though we manage to show the resilience.

And I am quite confident ongoing that we look forward to in 2019, in the course of the whole of 19, that we can really keep this high margin approach into our business. And I think, again, all medium term targets that we have put, and I think we are happy to keep the targets as I mention. And the dividend is something we are very proud one.

And the fourth one, I think we have put, for the circumstances, a very attractive dividend on the shelf and therefore, I would say we are running into a good 19. I will hand over to Claire to answer the third question.

Claire Peel: Hello, Jacques-Henri, thank you for your question. I think I interpreted two parts. One was around the tax rate, I believe, in the fourth quarter, which was 40% with the full year affected tax rate being 33%. To comment on the Q4 affected tax rate, it was higher than the average for the full year, and that was due to extraordinary events that won't repeat.

One being the initial recognition of a deferred tax liability on future dividend repatriations, which hence, wouldn't roll forward into future periods. And also, some other extraordinary events that featured into the fourth quarter. The average for the full year affected tax rate was 33%, that's the one to look at.

And in the medium term, we guide that becoming an average of 29% as some of those extraordinary effects go away. The 29% will have a glide path around it, so it's not exactly that every year, but that's the good average. I think I also heard a question about the profit before tax of 160, which is adjusted, compared to a reported.

And the only adjustments that we make for between the two is around severance restructuring and litigation matters.

Operator: The next question is from the line of Arnold [?] Giblar [?] with XN [? 00:39:14].

Arnold Giblar: Good morning. I've got two questions, please. Firstly, coming back to your strategic remarks. From where I sit, the US asset management market looks most challenged globally, I'm wondering if you share that view and how you may consider strategic options for the US.

You commented about doing more M&A proactively as a strategy, which specific areas are you targeting, in terms of product distribution or cost based acquisitions, if I may say it that way? And what levels of surplus capital do you think you have to execute on these bolt-ons? That's my first question, with two subsets.

And secondly, on MiFID, we observe that constant mix that there hasn't been much pricing pressure on a category by category basis. Could you perhaps comment on what impact MiFID has had on distribution? Should we expect any further pricing pressure from increased disclosure on fees from the client level?

Claire Peel

Hi. Thank you for the questions. I'll take the first one around the excess capital point and the M&A question. We have in the region of 0.3 billion of excess capital, and as we have always said, we will look to grow our business on an organic basis. But in the event that we see opportunistic opportunities that allow us to grow inorganically through the method of bolt-on acquisitions, we would always look at those.

So, we have grown our excess capital, we are in a position to deploy that, and we would only do that in the event that it was complementary to our business and didn't cause any disruption.

Asoka Woehrmann

Again, I agree with your first statement. After nine years, very well running market and asset management industry. We can see, and we are seeing already, the challenging market has started, and I think most of the asset managers are now facing these kinds of challenges. And that's why I think we are very confident with our measures and our strategy. We are well positioned there. And I think regarding the M&A question, I think Claire has already answered.

Arnold Giblar

And on MiFID?

Asoka Woehrmann

MiFID, sorry, I am quite an expert on MiFID, because my three years in a private bank, I can hold a long speech on that. MiFID is one of the most challenging, and I think that's one of the most seismographic changes in the retail area in Europe. And I think the implementation of MiFID that has been different degrees in Europe, especially, and has impacted other retail channels very much, but also, the asset management industry very much.

Because you must invest now really double digit numbers, a very high number, as Claire already mentioned, to buy the research and manufacture the research yourself. So, this is a very big change, but to other clients, and I think we are always looking from the client perspective.

I think 2018 was, for retail channels, and especially in Germany, it was a very tough time. And that's why we have also seen some outflows in our flagship funds. I think now because of 18, all the channels and advisors learnt to live with that, that take always 18 months, and we are very confident with all the flow picture we can see, with also, the performance is coming back.

That we are seeing inflows to these flagships in the retail area, we had the MiFID distorted market segments, and I do think that's a great sign. But also, the impact to our organisation, our P&L, is substantial, but I do think one thing we have to know, MiFID will not go away. It's not a rain shower, and the next day will be sunshine. It will stay, and we have to deal with that, and we are ready to deal with that.

Operator — The next question is from the line of Stuart Graham of Autonomous Research. Please go ahead.

Stuart Graham — Hello. Thank you for taking my questions. I have two. The 7.1 billion of fixed income outflows in Q4, maybe I missed it, how much of that was insurance and what is your insurance AUM now? That's the first question. Then the second, and again, maybe I'm missing it, where is the 3% to 5% net new money target? Is that still a target or has that been retired?

Claire Peel — Hi, Stuart, thank you for your questions. On the fixed income outflows in Q4 of 7.1 billion, the majority of that was coming from insurance. It was almost five billion of that. And that is at low margin, around five bases points for that average over that area. There was also an element of US muni outflows in the period, as well, US muni fund bond in that period.

In terms of the flow rate going forward, we've pointed out the 22 billion of outflows that we saw in 2018, and the extraordinary drivers that we don't expect to repeat, being the US tax reform and the insurance, which accounts for 21 billion. And we see a turnaround in some of the European retail flows. So, we continue to be very constructive in our expectations around flows on the go forward.

We see very positive trends in passive, we see positive trends in alternatives. And so, again, the diversification of those asset classes will be really important for us to be able to generate the 3% to 5% of net flows.

Stuart Graham — So, the 3% to 5% is still a formal target.

Asoka Woehrmann — I would like to take the question. I think 3% to 5% target in an A target is not retired, but we have to always calibrate the things to the market environment and the challenges in the industry. But nevertheless, we clearly missed last year, 2018, and we are very confident that we have a turnaround in the flows.

But nevertheless, I think, as the 3% to 5% is ambitious, we always have to look at all the targets how that is going to fit and to be calibrated the market environment, as I said.

Stuart Graham: Sorry, I'm a bit confused. Is it a target or isn't it a target? It sounds like it is a target, but it's not a near term target. Is that a fair summary?

Asoka Woehrmann: Near term target depends on the market environment, and I think last year, as I said, we are not expecting the one-offs are going to repeat. Therefore, I think the targets are intact medium term, but near term, it very much depends on the markets.

Stuart Graham: Thank you. And back to Claire, do you have a figure for the stock of insurance AUM in your total now at the end of the fourth quarter?

Claire Peel: Apologies, I missed that one. For the insurance assets alone, it's 140 billion.

Operator: And the next question is from the line of Mike Werner with UBS.

Mike Werner: Thank you. Two questions from me. You talked about accelerating the cost savings now to year end 2019. Looking at the organisation for the first time in a couple of years, do you see opportunities for incremental cost savings on top of the current guidance, as we look out potentially beyond 2019?

And then second, we've heard a lot of talk about potential M&A at your parent company. I was just wondering if any of those scenarios would position DWS well from a distribution perspective. Thank you.

Claire Peel: Hi. Thanks for the questions. I'll take the first one on cost measures. First, I do have to say that we are very proud of the cost reduction measures that we've achieved this year, in terms of exceeding the guidance that we gave. And showing a good decline year-on-year in our cost base, despite originally expecting increases in the cost base year-on-year.

I think that demonstrates our focus on cost discipline and the need for that in this market environment, hence our decision to continue those assets into 2019 and meet the top end of our guidance in year. You specifically asked if we can do more than that.

We will continue, always, to review our priorities and ensure that we are flexible to a changing market environment, so we will always look at our portfolio and our initiatives and recalibrate that as required. So, if there's a requirement to do more, we always have those options and flexibilities around us. But in the meantime, we're focusing on the cost programme that we have underway.

Asoka Woehrmann

Regarding M&A, first of all, we are really looking for organic growth, and I think Claire described it very clearly. But there is a consolidation in the market going on in the asset management industry, and for all organic moves, it must be out into our long-term targets, and it must create shareholder value.

Therefore, I think return on investment is one of the most important drivers for all our investors, and therefore, at the moment, we are really concentrating on us and our organic growth.

Operator

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

Hubert Lam

Good morning. I've got two questions. Firstly, if you could give us a progress update on your partnerships with Nippon Life, Generali, and TKO. I think Claire mentioned that Nippon Life was really contributing to some inflows in the quarter, but I'm just wondering what your targets for flows from these partners that you expect over the next year or so. That's the first question.

The second question is also a question on the US business. The US is still a pretty big part of your assets under management. I know last year was affected negatively by some of the US tax reform. I'm just wondering, without that, how you expect to grow your US business?

Is there anything that you wanted to strategically change, to try to improve the flows in the US? Anything to do with distribution. And obviously, Deutsche Bank, your parent, continues to have negative headlines. Is that still an impact on the US side of the business? Thank you.

Asoka Woehrmann

Thank you very much. I will take the first question on the partnership area. I am very pleased, being back, to see the long-term and strategic partnerships that we have built up. Nippon Life, I think the biggest insurer in Japan that we have as a shareholder, but also, as a very strategic partner of DWS.

We can be really proud at being, last week, in Japan, and I have to say, the commitment to other business, to other expertise and also, of other businesses are so high. I think, as we said, it's a strategic relationship, and we started well into the year, but also the last three quarters. I think this is a partnership I'm very proud of and it will really pay out very nicely in the future.

And that will also create a stability to our company. And the second, the partnership with TKO, I think is very important, because we want to grow in the alts. They have a deep expertise and an alternative assets area. I think this partnership will also really, really play out.

Also, from the long-term perspective, we really intend to launch a joint product leveraging alternative asset management expertise and platforms. And I think a new product is expected to be launched in 2019 together. So, there's a mutual interest from both sides.

And I do think that, like other strategic relationships to Deutsche Bank, one of our strongest, and this is one of the greatest and strongest relationships that we have. It's really strongly recovering, and the DVAG, in Germany, one of the biggest sales channels in Germany, which we are also proud on that.

But in the same time of the partnership we are looking for with Generali, and I think we have the distribution agreements assigned last year, and we are now kicking into this partnership. And we're very keen to strengthen our insurer unit link business, because DWS has a very strong unit link business, and we can have a great partnership there.

We're looking forward to building that up, and in the course of the year, I think we can report where we're standing to you in these meetings.

Claire Peel

To comment on your question on the US, we, of course, have a global footprint. We have almost 180 billion of assets under management in the US. So, it's a core part of our footprint. We are profitable in the region, as we are in all regions. And as much as it's been very challenged through US tax reform events affecting its flow environment in 2018, it continues to be a very constructive part of our platform.

Spanning all of the asset classes, including insurance and alternatives, and to a smaller degree, passive. We've had a good start to 2019. Obviously, that's not a signal for a full year, but we're very happy with how we've started in the US this year.

Operator

If you would like to ask a question, please press star, followed by one. The next question is from Anil Sharma at Morgan Stanley.

Anil Sharma

Morning. Just two questions, please; they're both follow-ups. The first one on America. Claire, even if you adjust for the 11 billion of outflows on the tax form, are the remaining outflows linked to the active to passive shift that's going on in America? Or is there something else very specific to DWS' business going on there? I'm curious as to what sort of action can be taken to try and improve the business.

And then secondly, more strategically, Asoka, just to follow up. You mentioned that you now have the right team in place. So, I'm curious as to whether you felt the previous growth objectives were the wrong ones, and whether this new team has a mandate to review that.

Or do you think it was more of a case of the execution of these growth initiatives can be improved, and that's why you've put a different team in? Thank you.

Claire Peel

On the follow-up on the US, I can only reiterate what we've seen, that we have been challenged last year from US tax reform, in particular, and also, insurance, I would add to that, as well. So, when you take away those two headwinds, we expect to have a constructive position in flows in the US this year. Those really are the two most significant events.

And I would remind that they are very low single digit margin that we've seen in those outflows that we've seen during 2018.

Asoka Woehrmann

Thank you for the question, and I think the target discussion, you know what we had, at the end of the day, these three targets that have been set last year are still there. And I think we will refine, to the market environment, what we are going to face. I think that is the ongoing duty of every senior manager, to look at where we're standing, and the markets are not determined.

Our clients are not set forever. So, therefore, I think these are the things we have add up and address, and that's why I think… Also, at the IPO time, people put that in medium term. But again, as we said, every target must be into a shareholder value. As an investor for many years, nothing more important than the shareholder value.

And I think all of our targets, all our strategy, and all our refinement of our goal strategy and cost measures, must pay to the shareholder. And this is my new team, the new team set-up has to deliver, and that is our expectation to you. The targets set ahead of IPO, I felt, were appropriate for the market condition at the time, but things have changed, as the industry realised that.

And we are looking into that, and we will come back as soon as possible, if we have to do something in this area. Thank you.

Operator

In the interest of time, we will stop the Q&A session now and hand back to Oliver Flade.

Oliver Flade

Thank you very much, and thank you, everyone, for dialling in today. For any follow-up questions, please feel free, as always, to contact the investor relations team. Otherwise, I wish you a good day. Goodbye.