DWS Beteiligungs GmbH

Q2 2021 Results Call

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Transcript

Speakers:

Asoka Wöhrmann

Claire Peel

Oliver Flade

Oliver Flade

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 second quarter of 2021. I hope everybody is still keeping healthy and safe wherever you are. Before we start, I would again like to remind you that the upcoming Deutsche Bank analyst call will outline the Asset Management segment result which has a different parameter basis to the DWS results that we're presenting today, so no change here.

I'm joined also, as always, by our CEO, Dr Asoka Wöhrmann and Claire Peel, our CFO. Asoka will start with some opening remarks and Claire will then take you through the presentation. For the Q&A afterwards also, as always, 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 and I therefore ask you take note of the disclaimer and precautionary warning on the forward-looking statements at the end of our materials. With that, I would like to pass over to Asoka.

Asoka Wöhrmann

Thank you, Oliver. Good morning, everyone, and thank you for dialling in today. I hope you are able to enjoy the summer and that you are staying healthy and safe. Today, I am pleased to report a very strong second quarter for DWS, making a successful end to the first half of the year and the start of phase two of our corporate journey which we kick off at the beginning of 2021.

As we had said during phase two, we will continue to transform our organisation and invest into growth, especially into our targeted areas of ESG, passive and high-margin strategies in order to become a truly leading asset manager in the competitive global market.

Our results during the second quarter and the first half of 2021 emphasise our commitment to making phase two as successful as the first phase following the IPO. They are also a testament to the organisational changes we made one year ago to ensure we remain client-centric, flexible, efficient, effective for the future.

Quarterly net inflows reached a record high of €19.7 billion and €20.7 billion for the half year. Excluding cash, inflows totalled almost €24 billion in the first six months of 2021. These net new assets were driven by positive inflows across all regions and all three pillars of our business, active, passive, alternatives.

Inflows also supported our assets under management, which grew at a record €859 billion in the second quarter. At the same time we have continued to invest into transformation and growth without compromising our adjusted cost/income ratio, which we now expect to stay well below the level originally planned for this full year, given our strong flow momentum and benign market environment.

As we work towards growing in areas where we believe we can take a leading position in the market, the second quarter has been a superb example of how we are capable of executing our strategy. Reinforcing our ability to meet growing client demand for sustainable investments, DWS ESG Solutions attracted €4.0 billion of net inflows in the second quarter and €8.0 billion in the first six months, representing more than a third of our total inflows.

Product innovation, innovations such as DWS Concept Blue Economy Fund, which we built together with the WWF, and DWS Invest Low Carbon Bond Fund were both well received in the market and underpinned our ESG credentials. In addition, successfully launched two DWS Xtrackers, Green Corporate Bond ETFs, in response to greater client interest for such offerings.

Our position in the passive market remains very strong. The flow momentum in all our three global regions enabled us to exceed €200 billion AUM for the first time. In our home market, Europe, we ranked second in net ETP flows, according to ETFGI with a flow share of 13% in the second quarter. At the same time, to support our top line revenue growth, we kept our focus on high-margin strategies, responding the first half of 2021 to growing institutional demand for infrastructure offerings.

This is evident in our third Pan-European Infrastructure Fund which achieved a final closing during the second quarter totalling over €3.0 billion, exceeding its €2.5 billion fund target.

We also launched the first ESG infrastructure debt fund in quarter two, further demonstrating our commitment to provide state-of-the-art ESG solutions in the alternative space. As demand for investment solutions continuously becomes more complex, we have intensified our collaboration with strategic partners to ensure we meet our clients' changing needs.

In the first quarter we launched an artificial intelligence fund with Arabesque AI, which has gained a lot of interest from a broad set of clients. In the second quarter we launched a new Secured Income Fund in conjunction with Tikehau Capital. This private and structured credit solution offers defined benefit pension plans, enhanced security of income, with diverse private credit assets combined into a single, easy-to-access, pooled fund.

Allow me to summarise. The first half of 2021 has been very successful for DWS. As we launched phase two of our corporate journey to transform our organisation, investing into targeted growth and aspire for leadership in the industry, we were able to execute on our strategy well. Combined with supportive markets, our firm has delivered a record quarter and half year to its shareholders, record net flows, record AUM and a cost/income ratio as very low levels.

With that, let me hand over to our CFO, Claire Peel, to represent our quarter two results in detail before we both give you our view on the road ahead. Claire, please.

Claire Peel

Thank you, Asoka, and welcome everyone. I hope you're all keeping well. Today, I'll present the results and activities for the second quarter of 2021, starting with the key financial highlights. Adjusted profit before tax was €247 million in Q2, reflecting strong AUM growth over the quarter.

Adjusted cost/income ratio remains below 65%, as committed, supported by strong half-year revenue development and disciplined cost management. Quarterly net inflows reached a record high of €19.7 billion and €14.2 billion, excluding cash with sustained inflows into our ESG products. This keeps us firmly on track to achieve our net flow target of greater than 4% on average in the medium-term.

Moving on to our financial performance snapshot in Q2. Starting at the top left, AUM increased to €859 billion in Q2, up 5% quarter-on-quarter, driven by stronger net inflows and market performance. On the top right, adjusted revenues were €625 million, driven by higher management fees and recurring revenues in the second quarter.

On the bottom left, adjusted costs reduced to €379 million as a result of lower compensation and benefits in the quarter. Together, with strong revenues, this supported an adjusted cost/income ratio of 60.6% in Q2. Adjusted profit before tax was €247 million in the second quarter and €496 million in the first half of 2021, up 35% from the first half of 2020. Net income also increased significantly, totalling €340 million in the first half of the year, representing a 40% increase year-on-year.

Let's recap on the market environment. All major equity indices continued to rally strongly in the second quarter, reflecting further progress made in vaccination campaigns worldwide. As a result, market volatility levels are lower compared to Q1, although market concerns remain over the delta variant of COVID-19. In currencies, the US dollar depreciated slightly against the euro in the second quarter, which had a minor impact on our AUM growth in Q2. Overall market momentum remains positive amid reduced concerns over inflation and interest rates.

Moving on to AUM development. Assets under management continued to grow in the second quarter, reaching a record €859 billion, up 5% from Q1 and up 15% year-on-year. Quarterly asset growth was driven by positive market performance and strong net inflows which more than offset unfavourable FX movements in Q2.

Looking more closely at net flows, in Q2 2021 we reported €19.7 billion of net inflows and €14.2 billion excluding cash, our highest quarterly inflows on record. This includes positive flows across all regions, retail and institutional, as well as all three pillars of active, passive and alternatives.

EMEA was the key driver of Q2 performance, attracting €14 billion of net inflows amid improved retail investor sentiment in the region. This is also testament to our strong three and five-year investment outperformance, at 76% and 83% respectively. Overall, we saw stronger net inflows across most asset classes in the second quarter.

Passive continues to prove its strategic importance, delivering €7.9 billion of net inflows in Q2 including sustained demand for ESG ETFs. European listed ETPs continue to account for the majority of our quarterly passive total, helping us to win greater market share in the region.

In the first half of the year, DWS accounted for 13.1% of total European ECP market inflows, higher than our AUM market share of 11.2%. In addition, we have attracted stronger flow momentum in Asia-Pacific and the Americas, with both regions recording passive inflows in the quarter and in the year-to-date and helping to grow our passive AUM beyond €200 billion.

Cash shifted into positive territory, reporting €5.4 billion of net inflows in Q2, driven by stronger institutional inflows in both EMEA and the Americas. Active Multi Asset attracted €2.0 billion of net inflows in Q2 marking a reversal from Q1 outflows. Broadly, Multi Asset inflows were driven, in part, by flagship Concept Kaldemorgen, together with institutional inflows in the asset class.

Alternative inflows improved to €1.8 billion in Q2, up from €1.0 billion of inflows in the first quarter. The DWS RREEF Real Assets Fund was a key contributor of our quarterly performance more than doubling its inflows from Q1 amidst stronger client interest in the product. In addition, we continue to see strong demand for our infrastructure offerings, including flagship PEIF III, which reached a final close of €3.0 billion in the second quarter.

Active fixed income inflows increased to €1.7 billion in Q2, driven by a significant institutional mandate in the Americas. Active SQI recorded €1.1 billion of net inflows in Q2, sustaining positive performance from Q1 amid continued growing European retail demand for such offerings.

Altogether, these inflows more than compensated for active equity outflows which primarily reflects a single institutional investor reallocation out of flagship top dividend and into a multi asset strategy. This masks the continued demand we see for our active ESG equity strategies in the second quarter.

Overall, ESG products contributed €3.8 billion of total net inflows in Q2 and €8.1 billion in the year-to-date representing more than a third of our €20.7 billion of net inflows in the first half of 2021. ESG products also account for more than a third of cumulative net inflows into our new product launches, which I'll now explain in more detail.

Since Q2 2018, new product launches have attracted €33.1 billion of cumulative net inflows and reported an overall management fee margin of 41 basis points. This includes a €6.8 billion contribution to our Q2 2021 net inflows, bringing the year-to-date total to €11.4 billion of net inflows. This represents more than half of our total €20.7 billion of net inflows in the first half of the year.

Strong flow momentum into our new fund launches is a testament to the organisational changes we made last summer to ensure that DWS is developing and delivering investment solutions in line with client demand and market trends.

In Q2 we launched the DWS Invest Low Carbon Bond Fund, strengthening our ESG portfolio with a fixed income strategy that meets growing client demand for investments that align with the climate goals of the Paris Agreement. This fund complements the launch of the DWS Concept ESG Blue Economy Fund, which we pioneered as part of an ongoing commitment to proactively address water risks in our investment portfolio.

Looking ahead, ESG will remain a key feature of our new product launches in the third quarter. We are planning to launch the DWS Invest ESG Healthy Living Fund, which was designed in accordance with Article 8 of the EU SFDR Regulation and the Xtrackers Emerging Markets Carbon Reduction and Climate Improvers ETF, which has been developed in response to growing investor interest in ESG ETFs.

In addition, we are continuing to expand our range of illiquid investments to help strengthen the breadth of our diversified business model and target high-margin growth. As committed, we already launched a junior private debt fund and a European real estate debt fund in the second quarter. In Q3, we are planning to launch a German Retail Outlet Fund and the

European Property Fund, which we expect to attract strong client interest.

Moving on to revenues. Adjusted revenues totalled €625 million in the second quarter and €1.3 billion in the first half of the year, up 17% from the first half of 2020. Management fees and other recurring revenues in Q2 increased by 7% from Q1, driven by higher average AUM of €835 billion with stronger net inflows and positive market performance in the second quarter.

This supported a stable management fee margin of 28.1 basis points in Q2, including a positive effect from the final close of our infrastructure fund. Performance and transaction fees were down quarter-on-quarter as Q1 benefitted from a non-recurring real estate performance fee.

Other revenues were also lower compared to Q1 due to an unfavourable change in the fair value of guarantees but supported by a strong €22 million contribution from our Chinese investment Harvest and positive investment income.

Moving on to costs. In the second quarter we continued to invest in growth while sustaining our operational efficiency. This is reflected in our adjusted cost/income ratio of 60.6% in Q2, which was supported by strong revenues and a 2% decline in our total adjusted costs quarter-on-quarter.

Adjusted compensation and benefits costs were down 5% in Q1, mainly due to lower variable compensation and other seasonal effects in the first quarter. This more than offset the slight increase in adjusted general and admin expenses in Q2 due to the ongoing investments into growth projects as well as higher service costs as a result of increasing AUM. As a reminder, the adjusted cost base excludes €7.0 million of investments into our infrastructure platform transformation in Q2 and €13 million in the first half of the year.

To conclude, DWS sustained its positive performance in Q2, building on from a strong Q1 and concluding a successful end to the first half of the year. As a result, we saw the adjusted profit before tax increase to €496 million in the first half of 2021, up 35% year-on-year. This was supported by our highest quarterly net inflows on record in Q2, demonstrating our ability to meet the diverse needs of our global client base.

This is evident in our three and five-year investment outperformance of 76% and 83% respectively and in our diversified product portfolio, especially ESG, passive and high-margin strategies, which continue to attract strong client demand. This keeps us firmly on track to generate net flows of greater than 4% in 2021.

As committed, we are continuing to invest in growth and transformation projects without compromising our cost/income ratio and this will remain a key focus for the second half of the year. Assuming benign markets, we expect adjusted cost/income ratio to remain in the low 60% level, supported by full-year 2021 adjusted revenues, which are expected to be higher year-on-year, driven by stronger net inflows and the current market environment. Thank you. I will now hand over to Asoka for closing comments.

Asoka Wöhrmann

Thank you, Claire. Without doubt, DWS has advanced its strategy significantly in the first half of the year. The launch of phase two of our corporate journey was successful. This phase two sees delivering shareholder value while transforming our organisation and investing into both organic and inorganic growth wherever it adds value to our company.

The management of DWS is committed, more than ever, to deliver on its aspirations set for this second phase even if some targets might have a non-liner trajectory. We are pleased with our results in the first six months of 2021, but we also know that we have a long road ahead of us to request full attention and energy of the management team and the entire organisation.

We will keep pushing to transform our firm into a truly standalone asset manager. We will invest more in order to grow in the markets and businesses where we believe we can lead our industry and we will do so while focusing on achieving the financial targets we defined for this second phase. We look forward to this journey. Thank you for your attention. I will pass now over to Oliver for Q&A. Oliver, please.

Oliver Flade

Thank you very much, Asoka. Operator, we're ready for Q&A now. Again, I would like to remind everybody in the queue to limit yourself to two questions, please. That would be fantastic. Thank you.

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press * followed by 1 on their touchtone telephone. To withdraw your question, you may press * followed by 2. If you're using speaker equipment today, please lift the handset before making your selections. Anyone who has question may press * followed by 1 at this time. One moment for the first question, please. The first question is from the line of Nicholas Herman, from Citigroup. Please, go ahead.

Nicholas Herman

Good morning. Thank you for taking my questions. Hopefully, you can hear me all right. Two questions from my side, please. One on M&A, that's the first one. I know that you are open to potential deals. I'm just curious. Would you, in theory, be interested in deals that also involve significant cost restructuring or is that not something that would be of interest to you? Are you more interested in higher growth product areas? Just interested in your thoughts on some of the qualitative criteria for deals beyond quantitative criteria.

The second question is just a clarification, please, on margin. Were there any notable moves on product margins in the quarter? I know you referenced in the past an improved alternatives margin helped by fund closures but where there any others, maybe in fixed income or multi asset or otherwise? That would be helpful. Thank you.

Asoka Wöhrmann

Nicholas, thank you very much for your questions. I will take the M&A question and Claire will go to the product margin questions. Again, we can't and we never comment on M&A topics but one thing is very clear. We want to be part of the consolidation that is going to happen in Europe and very clear for us, it must pay out along our phase two strategy and it must pay to our narrative we have placed very clearly and it must also pay out to our culture we have in the organisation.

You asked in the last part of your M&A question what kind of non-financial targets we are looking for. I think the culture piece we always highlighted many times. We have to check this box beside the other three criteria we said.

The first criteria was always it must enrich our platform. That means some complementary approach to the existing capabilities, local footprint and new customer base. I think the culture topic was important. At the end of the day, we said everything.

Also, in the second phase, as I highlighted, the shareholder value is one important topic and that also has to pay out into the shareholder value. That is how we're looking. It might be boring, my answer, but always it will be the same and I think, therefore, there is a very clear guidance to you all. Thank you, Nicholas. I will hand over to Claire.

Claire Peel

Hi, Nicholas. Thank you for your questions. On the fee margin, yes, in Q2 we stand at 28.1 basis points. That compares to 27.9 basis points in Q1, so it looks reasonably stable. As I said, in Q2 we had one effect from the final closing of our Pan-European Infrastructure Fund, which did give a one-off effect in the second quarter and we'd expect that to normalise in the third quarter.

In terms of the overall guidance, we still maintain the annual shift of approximately one basis point of margin fee deterioration each year, so that is still the overall guidance for the full year and across the quarters we will see some of this volatility.

Nicholas Herman

That's helpful. If I can just follow-up on the second question. Can I read from that, that apart from the alternatives which again you reiterated, there were no other notable movements? Is that a fair

	read of what you just said?
Claire Peel	Yes, that is right. The only one-off effect, if you like, in the second quarter is around the alternatives fund.
Operator	Mr Herman, are you finished with your questions?
Nicholas Herman	I am, yes. Thank you.
Operator	Next question is from Hubert Lam, from Bank of America. Please, go ahead.
Hubert Lam	Hi, guys. Good morning. Firstly, very good results. A couple of questions, firstly on costs. Your G&A costs averaged around about €180 million per quarter in the first half. Should we expect this run rate to continue for the rest of the year? Any reason why it should go up in H2? Perhaps, the first half benefited from cost savings from the COVID environment and maybe increased investments in the second half. The second question is about flows. Flows were very good in the second quarter, coming pretty much across the board. I know it is early days but just wondering how the momentum is shaping so far in July and in the coming quarter. Any notable changes you've seen so far? Thank you.
Claire Peel	Good morning, Hubert. Thank you for the questions. I'll start with those. On the cost expectation for the second half of the year, we see that the run rate for the first half of the year has no exceptional one-off events, so we think that is a reasonable run rate. Obviously, there is always some volatility on the specific events that we've mentioned around the DWS share price, for example, but we're maintaining that similar kind of run rate and a guidance on the cost/income ratio for year 2021 to remain in the low 60%. On the second question of flows, we are guiding that we do expect to meet our guidance of greater than 4% of net flows for the year of 2021 in line with what we've guided to on average over the period up to 2024. The pipeline that we see for the second half of the year does remain positive. We had an exceptionally strong Q2 across all of our asset classes and ESG, of course, is featuring strongly in that as well but we expect that we will continue to see a strong pipeline of flows in the second half.
Hubert Lam	Great. Thank you.
Operator	Next question is from the line of Arnaud Giblat, from Exane BNP. Please, go ahead.
Arnaud Giblat	Good morning. I've got two questions, please, Firstly, on Harvest, first a comment. I was wondering, going forwards, if you could give a bit more disclosure, given that is 11% of the 2020

	profit. It is quite a big contributor. It would be nice to have a little bit more detail.
	My question is pertaining to that. Could you discuss a bit what is happening at Harvest in terms of flows, in terms of profitability, just a bit more colour? Is €22 million a good level of run rate quarterly profitability from here? Secondly, since we're talking about M&A, could you give us an update on surplus capital, please?
Asoka Wöhrmann	Arnaud, thank you for both questions. Claire will go into the financial details but one thing is also clear. Harvest we are not showing fully, as many of our peers. We are bringing only the dividend approach into our numbers and therefore I think unfortunately what you guys are not seeing is really the top performance of Harvest in flows and so on. Therefore, I will hand over to Claire. Claire, please.
Claire Peel	Hi. Thank you for the questions. On Harvest, we've certainly seen a strong first half return in terms of the 30% share that we have. We've seen €22 million of profits in Q2 and for the first half of the year that €49 million, and that compares to what we had in full year 2020 of €65 million. So, certainly, we see a strong performance from Harvest overall.
	Within the Harvest composition, as you know, we don't include the AUM or flows in our numbers but they have seen a strong growth and strong performance in their respective AUM levels, which are up 25% year-on-year and also in their net flows. So, the participation from our partnership with Harvest is performing very strongly.
	In the second half of the year, we wouldn't expect it to be quite to the level that we've seen in the first half of the year. We would see some normalisation effects but still strong and significantly higher than what we saw in 2020.
	On the question of excess capital, as you know, we don't disclose a specific number there but we have grown and developed the levels of excess capital that we carry. At the point of IPO, we announced that we had €0.2 billion of excess capital and we've continued to grow on that position from accumulated profits after our dividend payments that we've made. So, retained earnings have developed through to our excess capital position.
Hubert Lam	Thank you. That's very clear.
Operator	Next question is from the line of Haley Tam, from Credit Suisse. Please, go ahead.
Haley Tam	Good morning, everyone. Can I ask a couple of questions as well, please? The first one on ESG fund flows. On slide seven

	you have set out €12.9 billion of flows into new ESG products since IPO. I just wondered if you could also tell us what the figures are including existing funds rather than just new fund launches in ESG. That would be great. The €4.0 billion per quarter level of ESG flows that you've seen in the first half, should we consider that now a sustainable level or is there still scope for that to get bigger from here? The second question, management fee margin. You've said there was a benefit from PEIF III final close that is one-off. Could you quantify that for us, please? Then, in terms of the cost/income ratio outlook, can you clarify whether you think about that simply referring to the revenue and market dynamics rather than an anticipated increase in the rate of cost of investment? Thank you.
Claire Peel	Hi, Haley. Thank you for the questions. I'll take those, starting with the ESG flows. To clarify, the first half ESG inflows that we've seen across all of our funds are €8.0 billion. That's not just on new product launches, that is on all of our funds and that also spans all asset classes. So, a strong first half that we have seen on ESG inflows. We would expect to maintain a similar moment in the second half year without giving precise guidance on a number but certainly the momentum level that we would expect on ESG flows in the second half would continue. On the question on fee margin, we have, as I say, 28.1 basis points in the second quarter. Approximately 0.3 basis points would be attributed to the one-off effect that I referred to in the infrastructure fund closing and so we would expect that to normalise in the third quarter. On the cost/income ratio and the cost guidance, yes, we are investing in to growth in the second half of the year as we have indeed done in the first half, so we do see growth expenses in the first half but we will continue to develop on that. So, we will see that this year and going forward into the following year in 2022 but we're still considering for this year given the strong market moment but also the strong revenue generation that we see from the strong net inflow position, that we would expect for this year the cost/income ratio to remain in the low 60s percent.
Haley Tam	Thank you.
Operator	The next question is from the line of JH Gaulard, from Kepler Cheuvreux. Please, go ahead.
Jacques-Henri Gaulard	Yes, good morning, everybody. I have one question left, which is on the fair value of guarantee. If I remember well, Claire, last quarter you seemed to be saying that the impact would be slightly less yo-yo, I would say, than it was in the past. Is it what happened this quarter or are you a little bit disappointed about

	the evolution? Anyway, can we have a view about to which extent is it going to pollute the overall other income line? Thank you.
Claire Peel	Hi. Thanks for the question. I think in the first quarter we saw the most material shift in the long-term interest rate, which had an impact on the positive effects that we saw in our revenues from the fair value of guarantee, so that was all baked into the first quarter. In the second quarter, that is more normalised and there are other features, of course, that are reflected in the movement that we see in the fair value of guarantee in addition to just the long-term interest rate, which is many other modelled effects.
	We've seen a small effect from that in the second quarter, nothing material and nothing that we would make specific in our forward guidance. We saw a slight effect compared to Q1, which we wanted to point out.
Jacques-Henri Gaulard	That's great. Thank you, Claire.
Operator	The next question is from the line of Angeliki Bairaktari, from Autonomous. Please, go ahead.
Angeliki Bairaktari	Good morning. Thanks for taking my questions. First question, we would expect that the current market conditions, which are quite positive and also the fact that you have strong ESG flows would help generate inflows in active equities but that has not really been the case in the first half, at least not material ones.
	I hear your point about the specific institutional clients shifting into multi asset but, nevertheless, could you give us some colour on what are your expectations for active equity flows in the rest of the year and also in 2022 and 2023?
	A second question on Harvest. Would you consider increasing your stake and do you think there would be any appetite from the local owners down the line to sell part of their stake to you? Thank you.
Asoka Wöhrmann	Angeliki, thank you very much for the two questions. First of all, even again too boring. I can't comment on any M&A activities but we are glad to have a 30% stake with Harvest. It is an important market and, as Claire outlines, delivering great results to our bottom line. So, that is to note there.
	Yes, you're right. I think the first quarter was a great quarter and the cash number was one of the strongest quarters we have had, over €9.0 billion inflows to non-cash. We have suffered in the US money market funds through outflows and that has diminished our overall flow number in the first quarter. But, as I outlined also in my part and Claire, we had in total in this first half of the year €24 ex cash. That is a very, very strong number. This is a record number.

That is interesting in my opinion. We have seen all the client segments have contributed, institutional, retail and also insurance-type clients. We are glad to see it but at the same time we have to say all our targeted areas as we outlined, ESG has delivered one third and constantly over both quarters and also the passive flows are going well.

Active equity ESG, we have seen over €1.5 billion inflows in the first half of the year and I think it is important. In the active equity space, we are seeing that people are crowding out from the traditional type of funds in to ESG active equity funds. That is exactly what we experienced in the first half of the year and nicely contributed.

That means also our traditional equity funds have seen outflows but, at the same time, we have seen exactly these inflows going into our ESG solutions in our active equity space and that is really great to see. This is exactly the transformation we are seeing also in the industry. Thank you.

Angeliki Bairaktari — That's very clear. Thank you.

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

Bruce Hamilton — Thank you, morning, and congratulations on the results. Two questions from me. One, just on the pipeline for alternatives. You obviously had the good Infra close in the quarter. There is a lot of demand out there for private market assets. Can you give us a sense of any significant products that could impact the second half and into next year?

Then, secondly, just going back to the point on M&A, the market often worries about scale deals where there isn't a compelling story around top line growth. How do you think about that in the context of larger deals and the impact that can have on the organic growth profile of the group?

More specifically, the market also seems to often take the view that insurance assets are low margin, vanilla, rather unexciting but obviously you run quite a lot of insurance money, so would you take a different view or highlight anything that perhaps people often miss? Thank you.

Claire Peel — Hi, Bruce. Good morning. Thank you for the questions. I'll take the first question on the pipeline for flows in the second half and particularly around alternatives. We are quite confident with our greater than 4% net flow rate for the full year and that does include active, passive and alternatives and alternatives continues to contribute very strongly to that.

I would say that in terms of what we see in pipeline across our real estate assets, across our liquid real assets, we'll continue to see a pipeline in those areas for the second half of the year. We've done a final close on the PEIF III Fund in Q2 but infrastructure, more broadly, continues to attract attention but for the second half we would expect real estate and liquid real assets to be the key focus. But, a solid pipeline I would say across the board in the second half.

Asoka Wöhrmann — Bruce, thank you for both questions. I will take the M&A question. Again, you are right. Overall, all these transactions have to deliver as we also mentioned shareholder value creation. If that's not the case, I do think it make no sense top or bottom line to the cost efficiencies or about revenue synergies. It doesn't matter. At the end of the day they'd have to pay out.

I think it's important that we have to look with the lens of ESG and how high-margin strategies can be a part of these M&A views. This is very important but, again, I am fully with you. Pure size is not, as we always said, not the only view we are putting for M&A.

Bruce Hamilton — Great. Very helpful. Thank you.

Operator — The next question is from Mike Werner, of UBS. Please, go ahead.

Michael Werner — Thank you. Just one question from me. With regards to the strong passive inflows that you've reported over the past couple of quarters in particular, I was just wondering where the demand, from an asset class perspective, within those passives is coming from and maybe how that has shifted over the past maybe one or two years. Thank you.

Claire Peel — Good morning, Mike. Thank you for the question. Yes, on passive flows, we've certainly seen the flow rate continue to increase quite strongly and, indeed, for the first half of the year market share is increasing, so our share of net flows is greater than our absolute market share.

In terms of where we see the interest, equity ETFs continue to be predominant in the net flow rate that we see and also ESG funds, so those would be the two areas that I would point out. I think on the ESG flows, they contribute in the first half of the year, of the €8.0 billion, a good portion of that is coming from passive but all other asset classes as well, so equity ETFs and thematic ESG funds are supporting the passive flows.

Michael Werner — Thank you.

Operator — Next question is from Gurjit Kambo, from JP Morgan. Please, go ahead.

Gurjit Kambo — Hi. Good morning. Just two quick questions. Firstly, on the flow side, it looks like in Asia-Pacific you saw a slight slowdown there in terms of flows around €0.2 billion. I think you were running at about €1.3 billion the quarter earlier. So, just anything around the Asian flows.

Then, secondly, on the performance within the active retail equity I think you saw a drop from 70% outperformance to about 41%. Are there any specific funds that drove that weaker one-year performance?

Claire Peel — Hi. Thank you for the question. On the flow performance in Asia-Pacific for the second quarter the overall result of flows across Asia-Pacific is positive. We have net inflows of €0.2 billion. We do have, in the Asia region, a specific institutional outflow on the fixed income side which has contributed to a slightly lower result than we saw in Q1. We do tend to see some of those larger institutional movements taking place in Asia and that is the point that we see there.

Gurjit Kambo — Thanks. And, just on the performance, on the one-year retail equity performance?

Asoka Wöhrmann — Thank you also for both questions. I do think our four and five star performance as well as benchmark outperformance are still very, very strong also during the COVID period, one-year, three-year and five-year. In equity, one-year the figures are 41%. Recently we have seen a drop because of the very strong bull markets but I think three and five years are very solid it the equity area, over 70% and 86%. So, therefore, let me say that our three and five years is a very, very constant number. The 2% change is a little bit due to the market environment, as we said. The very, very strong bull market let us drop the outperformance ratio in the last four months, so that is the frame for equity.

But, overall, and we have to say five-year and three-year over all asset classes we have five-year 83% outperformance ratio, at three-year 76% percent and overall 67% in one year.

Gurjit Kambo — Great. Thank you very much.

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 and thanks for the great questions, as always. For any follow-up topics, please refer to the IR Department, as always. Have a good time and good day. Bye-bye.