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Third Quarter 2020 Results Presentation

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Transcript

Speakers:

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Asoka Wöhrmann, CEO

Claire Peel, CFO

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 third quarter of 2020. I hope you're keeping healthy and safe wherever you're based, and before we start, I would like to remind you that the upcoming Deutsche Bank Analysts Call will outline the asset management segment results, which have a different parameter basis to the DWS results that we're presenting today.

I'm joined, as always, by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO. And Asoka will start with some opening remarks, and Claire will then take it through the presentation. For the Q&A afterwards, please could you limit yourself to the two most important questions so that we can give as many people a chance to participate as possible.

And I would 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 Third Quarter 2020 Results for DWS. I hope you are all continuing to keep healthy and safe. Today, we are able to celebrate yet another excellent quarter of financial performance of DWS, proving the strength and the resilience of our firm, despite the unprecedented times we are all experiencing.

Our adjusted cost/income ratio improved to 64.3% for the first nine months of 2020, following a third quarter, during which we were able to continue our laser focus approach on cost-saving and client-centric fiduciary work. As a result of our efforts, we now expect to deliver our targeted adjusted cost/income ratio of below 65% for the full year 2020 one year earlier than planned.

In addition, our flow momentum continued to strengthen in the third quarter. We reported €10.5 billion of net inflows in quarter three, as well as €16.7 billion in the nine months of 2020, supported by our diversified product offering new launchers and strategic partnerships. In particular, ESG continues to contribute significantly to our inflows, accounting for more than one third of our total global net inflows so far this year. this reflects the unbroken importance of ESG for our broad client base, despite the ongoing pandemic.

Supporting our business with clients further, we were able to expand our strategic partnerships, extend them and start new ones. These strategic partnerships have always been an important cornerstone of DWS's long-term success. With the investment group, Zurich, we signed a long-term extension of our successful partnership in the unit link space until 2032. In that same line of business, we were just able to announce a new partnership with Eurovita in Italy. And finally, we agreed on a new partnership with Northwestern Mutual Capital in US, focusing on private markets.

During the third quarter, we also implemented the organisational changes we announced in June. Apart from unifying our entire investment platform across liquid and illiquid under one roof and creating one global client coverage organisation, we successfully establish, now, dedicated Product Division. Operational today, the Product Division completes our value chain as a fiduciary asset manager, focusing on our duty for our clients in delivering the right products and innovative solutions effectively and efficiently.

Additionally, the entire senior leadership of the firm has, in light of the organisational changes, also been redefined during the third quarter. The top tiers of our firm now follow a governance structure that is globally integrated, collaborative, and allows for holistic and strategic management of DWS.

Looking back on this year so far, we are extremely pleased with the financial and strategic progress we have made, despite a particularly challenging 2020, as we expect to reach our medium-term targets we set at the IPO a year early, including proposing a dividend for 2019 of €167 per share to our upcoming AGM in November. We have demonstrated our ability to deliver on our promises and to deliver results.

Now let me pass over to our CFO, Claire Peel to talk about our financial results in Quarter 3 in detail. Claire, please.

Claire Peel

Thank you, and welcome, everyone. I hope you're all keeping healthy and safe. Today, I will present the results and activities for the third quarter of 2020, starting with the key financial highlights. Adjusted profit before tax increased €215 million in Q3, up 14% quarter on quarter, supported by both lower costs and higher revenues.

Adjusted cost/income ratio improved to 61.4% in the third quarter, bringing us closer to our targeted ratio of below 65% earlier than planned. Net inflows were €10.5 billion in the third quarter, primarily driven by strong flow momentum in passive, together with inflows into cash, active fixed income and alternatives.

Moving onto our financial performance snapshot, starting at the top left, AUM increased to €759 billion in Q3, up 2% quarter on quarter, supported by market performance and stronger net inflows. On the top right, adjusted revenues were €550 million, up 1% from Q2, driven by higher management fees and other recurring revenues. On the bottom left, adjusted costs were down 5% quarter on quarter at €342 million as a result of lower compensation and benefits costs.

Adjusted cost/income ratio was 61.4% in Q3, down 4.4% from 65.7% in Q2. Adjusted profit before tax increased to €215 million, up 14% quarter on quarter, and up 27% year on year, reflecting significant cost efficiency. Let me recap on the market environment. At the start of Q3, markets sustained some of the positive momentum of Q2, but slowed down in September as Covid-19 cases started to rise again. Despite this, most asset classes performed well during Q3.

Central banks maintained their monetary policies, serving as a backstop for markets around the world, and despite the mixed news regarding the pandemic, stimulus packages, the US elections and Brexit, markets remained relatively stable with the US outperforming European equity markets in Q3. As with previous quarters this year, interest rates remain low, while monetary and fiscal support for corporates decreased credit spreads further. And during Q3, the US dollar continued to depreciate against the euro.

Overall, market conditions continue to be constructive in the third quarter, supporting positive AUM growth overall at DWS. Assets under management increased to €759 billion in Q3, up 2% quarter on quarter, and almost back to the levels reached at the end of 2019. Quarterly asset growth is attributed to the positive market performance and net inflows, which more than compensated for the negative impacts of FX movements during Q3.

Moving onto the flow performance, in Q3 2020, we reported €10.5 billion of net inflows, continuing the positive momentum from Q2 net inflows of €8.7 billion. ESG-dedicated funds remain a key flow driver, attracting more than 2 billion of net inflows in the quarter and accounting for a third of our total 16.7 billion of net inflows in the nine months of 2020. Once again, passive demand remains strong with 6.3 billion of net inflows in the third quarter, further strengthening our position in the market.

European-listed ETPs continue to account for the majority of quarterly passive inflows, helping us to rank number two by the nine-month 2020 net inflows in the region with 14% market share. This was further supported by stronger ETP inflows in the Americas, which trebled compared to Q2 levels amid ongoing demand for our US dollar high-yield corporate bond offering.

Meanwhile, the newly launched Xtrackers MSCI Kokusai Equity ETF attracted more than half a billion of net inflows from Asian clients in Q3, including a significant contribution from our strategic partner, Nippon Life. Active fixed income moved into positive flow territory with €2.5 billion of net inflows in Q3, mainly driven by institutional clients. This includes a significant mandate from our strategic partner, Zurich, underscoring the strong distribution relationship we extended together during Q3.

Cash attracted €4.3 billion of net inflows, making it third consecutive quarter of positive flow performance this year. Quarterly cash inflows were primarily driven by the Americas where we saw significant demand for the DWS Government Money Market Series Fund, particularly among banks and corporates. Alternative contributed 0.8 billion of inflows in Q3, mainly into liquid real assets and real estate, together with inflows into infrastructure and private equity.

Collectively, all of these asset classes more than compensated for the outflows reported in active equity, multi-asset and SQI. Most notably, active equity redemptions mark a reversal from Q2 inflows as several sectors including dividends and German equities fell out of favour. However, demand for our active ESG Equity offerings remains strong, as reflected by a third consecutive quarter of net inflows in Q3.

In general, ESG remains an important flow driver for DWS, especially as we continue to make sustainability a key feature of our investment portfolio, which I'll now discuss in more detail. At DWS, we recognise the importance of product innovation to fulfil our fiduciary responsibility to our clients and contribute to net flow momentum. We work closely with both clients and strategic partners to ensure that we are launching the right products to meet their changing investment needs.

This is reflected in our new product launch trend, as detailed on the left-hand side of this slide. Since Q2 2018, our new product launches have attracted 17.3 billion of cumulative net inflows with new ESG products accounting for approximately a third of these inflows over the period. Among these is the Xtrackers MSCI USA ESG Leaders equity UTF, which has grown significantly since its launch in

2019. This product is a great example of both innovation and collaboration, as it was launched together with one of our European institutional clients and was named the largest ESG Equity UTF product launch in the Americas.

With investors increasingly looking to switch into ESG equivalents, we have the right products to absorb this demand at DWS, particularly for ESG ETFs. In addition, our new alternative offerings continue to gain traction, accounting for more than a quarter of our cumulative net inflows from our product launches since Q2 2018.

Notably, we continue to see greater investor appetite for our pan-European infrastructure fund series from investors around the world. Given the level of interest we continue to see in the strategy, we remain on track to comfortably exceed the most recent infrastructure fund's target of €2.5 billion.

Overall, new product launches have contributed nicely to our 2020 inflows, accounting for almost half of our €16.7 billion of net inflows year to date. And as progress into the fourth quarter, we have a variety of new fund launches in the pipeline. These span both ESG and non-ESG funds as we continue to build out a diversified investment portfolio to fulfil the varied needs of our global client base.

Looking beyond 2020, product innovation remains high on our strategic agenda. Our Product Division will work closely with the new Group Sustainability Office to ensure strong alignment with our investment and client strategy, while also enabling a more agile setup to respond to client needs, particularly for sustainability-focused investment products. This is particularly important for us to capture new growth opportunities and continue our positive flow trajectory in the long term.

Moving onto revenues, total adjusted revenues grew to 558 million in Q3, up 1% quarter on quarter. Management fees and other recurring revenues were up 3% from Q2, driven by higher average AUM during the third quarter. Despite this, the management see margin decline slightly to 27.8 basis points in Q3. Performance and transaction fees remain stable quarter on quarter, despite ongoing market uncertainty while other revenues benefitted from a €15 million contribution from our Chinese investment harvest, resulting in a 46 million contribution year to date.

Moving onto costs, total adjusted costs fell to €342 million in Q3, down 5% quarter on quarter and down 12% year on year. Adjusted compensation and benefits costs were down 13% from Q2, reflecting a decrease in value of formally granted deferred compensation and a decline in fixed compensation costs in the third quarter. Adjusted general and admin expense is slightly increased in Q2, following an uptick in technology and volume-related costs during the quarter.

Efficiency measures continue to contribute to our declining cost base and support our lower adjusted cost/income ratio of 61.4% in Q3 and 64.3% in the nine months of 2020. The year-to-date adjusted cost/income ratio result is 5.9 basis points lower than the same period last year.

To conclude, DWS reported another strong quarter of financial performance in Q3 2020. Adjusted profit before tax was up 14% in Q3 and up 15% in the year to date. We have maintained a disciplined focus on efficiency, enabling us to remain firmly on track to achieve our targeted 150 million of growth cost savings by 2021.

And with the year-to-date adjusted cost/income ratio of 64.3%, we are closer to reaching our target of below 65% earlier than planned. As we move forward with our low and sustainable cost base, we have a strong foundation in place to fully focus on growth and transformation initiatives. Our diversified business model, coupled with intense client engagement, is serving our clients' needs well, as demonstrated by our €16.7 billion of net inflows in the nine months, 2020.

We continue to deliver sustainability offerings to meet client needs with one third of our year-to-date net flows coming from ESG-dedicated funds. Looking forward, we will continue to strengthen our strategic partnerships and product innovation to support the net flow and revenue growth in the future. Thank you, and I will now hand over to Asoka for the strategic outlook.

Asoka Wöhrmann

Thank you, Claire. Again, allow me to say, we are extremely pleased with our achievements so far this year and during the third quarter. Our efforts have put us in a position that we are confident we will achieve our medium-term targets already in 2020, despite volatile markets and pandemic-induced environment we all have to operate in.

As we now look ahead, we will, of course, manage this extraordinary situation for our clients and our staff, keeping flexibility with regards to remote working arrangements while, at the same time, never compromising our duty to our clients. More strategically for DWS, we will now, after the original period following the IPO, initiate the next phase of our corporate journey.

Roughly 11 months ago at our investor update, we presented our assessment of the trends and developments we see pushing the asset management industry out of its comfort zone. None of these trends have changed. Instead, Covid has amplified some of them. Secular stagnation is manifesting itself in an environment where there is an even greater need for fiscal and monetary stimulus.

Zero interest rates or record low interest rates are here to stay. ESG is becoming licensed to operate for the industry at a more dynamic pace than ever before. A global world shift is continuing. The tech revolution is picking up even more steam. The sophistication of our clients and their solution needs continues, and margin compression remains a reality our entire industry has to face.

We are ready to meet these challenges, and we are ready to further transform our business in this next phase of our corporate journey to stay successful and take advantage of the many growth opportunities we see. As we become more and more standalone as a company, we will establish a framework and a core platform that is asset management-focused.

We will build on our expertise and experience as an investment powerhouse and reaching our product offering and investment processes with artificial intelligence. Artificial intelligence will be a game changer. We will meet the ever-increasing demand for ESG by continuously developing a market-leading ESG product suite, as Claire described, further rolling out and utilising our proprietary ESG engine and smart integration approach.

And with our new Group Sustainability Office, we now have expertise and dedicated resources to drive and advance our ESG efforts to the next level. We will invest in areas and segments of our business where we see potential for growth and the potential for DWS to take a leading position in our industry. And finally, we will assess new opportunities in APAC region, especially in China where we see a lot of room for growth.

While we embark on this next phase of our journey, we will remain committed to sustaining a competitive annual cost/income ratio at least at levels we have already achieved this year. Ladies and gentlemen, we at DWS have proven we are capable of delivering results, both on our cost base and on our flow turnaround. We have proven our ability to successfully operate in the most extraordinary times and adjust our business as needed.

Our firm is in a great position to build on what we already

	have achieved, especially over the last two years. We are excited about the future, and we look forward to discuss with you further how we will transform our business and grow DWS into a leading position in the asset management industry over the next couple of months. Thank you for listening, and please stay healthy and safe. Please, I will pass over to Oliver for Q&A.
Oliver Flade	Yes, thank you very much, Asoka. Operator, we are ready for Q&A now, and again, if I could remind everybody in the queue to limit themselves to two questions, that would be fantastic. Thank you.
Operator	Ladies and gentlemen, if you would like to ask a question, you may press star followed by one on your touchtone telephone. To withdraw your question, you may press star followed by two. Anyone who has a question may press star followed by one at this time. And one moment for the first question, please. First question comes from the line of Hubert Lam with Bank of America. Please go ahead.
Hubert Lam	Hi, good morning, and congratulations on achieving your target a year earlier than expected. Now that you've achieved this target, I guess, the question is, what's next? Will you set new flow and cost/income targets for next year? and also, related to that, can the cost/income actually do much better from here, say, towards 60%, or is that not a target for you?
	Second, in terms of investments, where, specifically, do you need/want to grow, and where do you want to invest? Will this require higher investment costs? And will this mean that the cost base next year will be higher than it is for this year? Thank you.
Asoka Wöhrmann	Claire will take the first question. I will come to the growth area, and I think, we will mix up together, please.
Claire Peel	Yes, good morning, Hubert. Thank you for the questions. So, the targets that we set for medium-term horizon, of course, the average net flow rate of between 3 and 5%, and the cost/income ratio of below 65%. We see ourselves being firmly on track to deliver against those this year, and that will be with a cost base this year that's, obviously, lower than the cost base that we had next year.
	We will be looking to have a sustainable cost base at these levels of cost/income ratio that we are achieving this year, and so, in its nature, that's a function of the revenues as well. So, your specific guidance on direction of cost will be anchored on a continued cost/income ratio sustainability measure. In terms of growth areas…

Asoka Wöhrmann: Yes, thank you, Claire, and I think, Hubert, thank you for the nice words. Really appreciate it. I do think, as we now really reach, earlier than we were expecting, the targets earlier than we have talked to you over the three years, I do think we are now, and we felt also, in the environment of Covid, after the shock and after navigating the crisis, we felt, Covid is an accelerator for our industry. And I think, even more than we expected, and I think, we want to take the chance to transform our business, but also invest into growth areas, really where we are good on.

And I do think, like in segments, as well as areas, we felt, we have to, we can lead. We can be in the leading pack of asset managers. And I do think, all these investments will be, as Claire said, always designed in the way that we can keep our cost/income ratios, what we have achieved so far as long as the markets are behaving nicely to us.

So, I want to say that I don't want to give you a guidance that we are investing and not taking care of the cost/income ratio, and that we are free to invest as we like. No, we are taking this 65 somewhere as a ground, what we have reached, and we want to defend and we want to improve. And the long-term, I have to say, Hubert, it is always growth and transformation designed to bring the cost/income ratio strategically down. Important. But that's a time to invest and catch the opportunity to lead in this industry.

Hubert Lam: Great. Thank you very much.

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

Arnaud Giblat: Hi. Yes, good morning. I've got two question, please. Firstly, in your closing remarks, you talked about new opportunities in APAC, especially in China. Does this mean launching new joint ventures? Could you, perhaps, flesh out more your plan in China and how far along you are in establishing new joint ventures if that's the case?

And my second question is on alternatives. Clearly, there are a number of trends that you've done well on, and going into alternatives is one of them. I'm just wondering what the pipeline is looking like. I think, Claire alluded to some up data on the pipeline in her opening remarks. I was just wondering if you could expand on that and how this new partnership with Northwestern Mutual Capital will look like in terms of flow, perhaps in the coming years. Thank you.

Asoka Wöhrmann: Arnaud, thank you, and I'm happy to give you, a little bit, the outlook, what we are looking in Asia. Again, the Covid has created a really strange situation at the beginning of the year, as you know. We want to really build up our strategic partnerships, as well as JV partnerships. In Asia, Covid has really created more difficulties for us on this topic, but I think, we are now, as a firm, preparing, really build up our footprint in Asia, more decisively, because we felt, after the Covid, this area will see the highest growth rates.

And for this reason, we are going two ways. First of all, our strategic partner, and especially our JV partner, Harvest, is doing greatly in this environment, and we want to build up a stronger partnership beyond only a JV partnership. That's one thing, what I can give you as, a little bit, as a trend. And the second part is, we are looking for real strategic partnerships in Asia.

We are missing it beyond Nippon Life at the moment. Nippon Life was a very great partnership for us in the last three years that has been not only as a client, but it is as a real partner, and also developing products together as we have shown in Kokusai ETF, as Claire outlined. And we want to build these partnerships, and we have a lot of asks from Asian partners to build these bridges. And I do think, that is now our real focus there, to build.

This is, a little bit, the view of Asia, and also the strategic build. And, Claire, please, if you go into the second area, what Arnaud has asked?

Claire Peel

Yes, happy to, Arnaud. Thank you for the questions. Just on alternatives, specifically, as we stand at the moment at Q3, we have 92 billion of assets under management. That comprises of 12% of our total asset base. We have seen flows contributing positively in the illiquid space throughout 2020, and we have a positive outlook in our pipeline, as you point to.

One specific area I've guided on is our infrastructure series, the Pan-European Infrastructure series. A third of those that was launched at the end of last year and continues to bring in further closes, and we will see that in our forward pipeline. We also have a very healthy portfolio of dry powder, which we will continue to invest in the alternative and the illiquid space. And we have a pipeline of other products and fund launches, including in the private equity areas, and in sustainable products that we will continue to launch in alternatives in the future.

I would also just point out the guidance that we gave on new product launches that we've made over the last number of quarters back to Q2 2018, and 29% of flows are coming from alternative fund launches, and that pipeline, we expect to continue forwards.

Arnaud Giblat	And Northwestern Mutual Capital?
Asoka Wöhrmann	Can you repeat, Hubert?
Arnaud Giblat	Oh, sorry, if you could describe a bit the nature of the Northwestern Mutual Capital private markets business and how this can perhaps contribute to flows in the future?
Asoka Wöhrmann	Again, we are now officially set up, this partnership, and I do think, they are very much keen, also to build our products into their offerings. And I do think, this is the partnership we are expecting to grow, and I think, we are happy to come back quarter on quarter in a set, what we are discussing as a strategic partnership and flows. And I think, I am very confident, this is a great partnership for us, especially in alternatives area, and that they are really specialists in this area. And I think, not only that we can bridge the product expertise. We can really have a better client base in the US to bring these offerings forward. And I do think that will help, especially what Claire also outlined. Today, the 29% of the product innovations, what we have distributed in the flow, what we have. I do think, this is what we want to build out. It is important, in a zero interest rate environment, also the record low interest rates in the US, the demand for these products will be much higher. And so, therefore, we are looking for more partnerships also in this field.
Arnaud Giblat	Great. Thank you very much.
Operator	The next question comes from the line of Haley Tam with Credit Suisse. Please go ahead.
Haley Tam	Morning, Asoka. Morning, Claire. Can I have one question on slide 11, and then there's actually a couple of follow-ups on the previous questions, if that's okay? With slide 11, the five core growth opportunities you set out on the right-hand side, with a view to your plans to invest, could you remind us, perhaps, of your regulatory capital position and how much surplus you currently have? And, I guess, with respect to that first growth opportunity to establish an asset management-focused core platform, is there anything you can say here about the news reports last month on a possible sale of IKS? That would be great. In terms of follow-up questions, just on the cost/income ratio, can I just confirm, the long-term target to keep it at or below the achieved levels, should we consider that with respect to the 64% you've done year to date, or the 61 that you've done in Q3? And then on the Pan-European Infrastructure Fund series,

the €2.5 billion that you mentioned, Claire, as a target that you will now exceed, can I just confirm whether that was a target just for the next close, or whether that was a total target from the beginning? Thank you.

Claire Peel

Good morning, Haley. Thank you for the questions. I'll take a few of those, and then hand over to Asoka. Firstly, on the capital question, at the mid-year, we had common equity Tier 1 capital of 2.9 billion with a CET1 ratio of 30%. We're broadly in line with that. The CET1 ratio is now at 29%. It's really in the roundings, so well capitalised on that Pillar 1 level. I'm afraid, we don't disclose the excess capital number, but in terms of the Pillar 1 capitalisation, that is very healthy.

On the question around the cost/income ratio, our medium-term target that we set for ourselves was below 65% over the horizon up to 2021. Obviously, we're very focused on concluding this year, concluding 2020, and seeing where we come out at for the full year. we stand at 64.3% for the nine months, but we remain very diligent. We have two months to go of this year. We're not going to lose sight of that, and where we close this year is where we look to have a sustainable level as we move forward into the future and look at growth and transformation.

On the question on the Pan-European Infrastructure series, the third of those offerings had a target level of €2.5 billion in total. The fund is looking to exceed that. That's not a forward projection, because we have already committed some of that capital to date, but there's more to come in subsequent closes.

Asoka Wöhrmann

Thank you, Claire, and, Haley, I think, you put in two questions, five topics, but I'm happy to address, because I can remember very well our conversation last time. And I do think, IKS, again, I want to put a clear view on. I think, that client platforms in the asset management industry is really most dynamic area that is getting more consolidation, what we can see and what we have seen already, and we will see more.

And I do think, this is also on tech play, and I do think, in the retail area, especially a lot of platforms, they need really state-of-the-art investments and really on a broader scale. And that is exactly happening, especially in Europe, and the IKS is something, what we are looking for to partnering up. And we are in this process, and that is what might be right, and I do think, to look to a better future to address this topic in the industry.

To IKS, this is to say, and I do think, what you have, your

	first part of the question, the in-focus core platform is to address, I think, the needs for the flexibility on our technological side to compete with the market, especially in the asset management industry. So, we need a less heavy IT platform, and we need, really, an asset management-focused platform.
	We are really in the process, as we outlined for 11 months ago, to create a real standalone asset management-focused platform and framework. This is super-relevant to ensure growth, and this transformation is needed. Haley, is all your five complexes, we answered?
Haley Tam	Thank you very much. Apologies for stretching the [41:17 overtalking ?].
Asoka Wöhrmann	No problem, thank you.
Operator	The next question comes from the line of Nicholas Herman with Citigroup. Please go ahead.
Nicholas Herman	Yes, good morning. Thank you for taking my questions. Two questions from me, please. I'm just curious about flicking to the Americas, please. Strong flows there, but mostly cash, as you noted. If we exclude cash, just could you provide some detail on what the underlying trends in flows in the Americas are, please? And more broadly, I think, you had a leadership reorganisation in the Americas early this year.
	Are you seeing any change in underlying trends in the region, or is it still too early to say? Second question, it sounds like delivering the cost/income early has given you additional capacity to invest, which you perhaps hadn't expected. Is that fair to say? And you mentioned ESG. Are there any other particular products you'll be directing this additional investment into, or is it just going to be a benefit for all products? Thank you.
Asoka Wöhrmann	Nicholas, thank you very much, and I will start, and Claire will come back to the flow numbers. Again, we have to say, we changed the leadership in the US, but as you know, the Covid is creating some difficulties at the moment. But I think, we've done a great, in my opinion, sentiment change in the US under the new leadership of Mark Cullen and all the global heads. As I said, the global head of distribution is now running the US platform with the regional sales head.
	And I think, also, as you know, the global investment, the global CIO is managing with the regional team, the products in the US. So, this is, a little bit, the frame that has changed, as I said. And again, we are really a true global company now, and I do think, we are happy to see, even in the Covid, and all the difficulties, what we have experienced, and the

changes, that clients are still confident to give even in cash.

And I think, US is in a more serious situation, as you know, in the Covid. And I think, people are looking with the companies, that they have some good positions, brands, or they have a confidence into the organisation. I do think, even cash, we are confident that is a good sign for our organisation that we get these flows, because we missed, in the past, quite, these flows.

And I do think, under the leadership of [43:58 unclear ?], and also the regional management, regional sales forces, I am quite confident we can turn around and create a great turnaround story in the US. That, the first signs. I think, Claire will go into the numbers, and, yes…

Claire Peel

Yes, just specifically, on the US flows, I can confirm, in the quarter, that we're positive in flows in the US with cash, but also excluding cash, and we're seeing the flows being contributed across areas including fixed income. We have suffered from outflows in the past in fixed income, but we're seeing those as positive in the quarter, in passive, again, where we trebled our flows in the US, compared to the prior quarter, and also in alternatives where, amongst others, liquid real assets is particularly in favour currently.

And we also have strong real estate offerings in the US as well. So, all of those areas are contributing to positive flows in the US in the third quarter.

Operator

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

Mike Werner

Thank you very much, and congrats on the results. I just want to confirm that with the Annual General Meeting scheduled for next month that you are still expected to pay out the 2019 dividend, and I was just wondering, assuming a positive shareholder vote, when the timing of that payment would be. And then, second, on slide seven, you noted how new product development has been key to inflows over the past couple of quarters/years.

One of the things we're hearing from some of your competitors is that the lockdown environment has impeded the ability to develop new products. I was just wondering if that is something that you're seeing as well, or if not, what makes DWS different? Thank you.

Asoka Wöhrmann

I take the first question, Claire, if you don't mind. I think, Annual General Meeting 2020, as you know, we postponed from June to November, and I think, unfortunately, we had the thought at the time, as we decide to shift, that we can help it physically, because we thought, at a second AGM, we should go more in the interactive, let me say, approach to our investors, because we want to leave this culture, investor culture. But unfortunately, we will hold that in a virtual format, on the 18th. The decision, as we mentioned now many times, really made in light of the pandemic, and also to protect the health of our shareholders' employers and service providers.

And I do think, now, the 167, we will propose, and I think, we will see what the shareholders will decide. They have to definitely decide, and I think, that will… I'm confident about this vote, and to go with our proposal. Regarding the flows, I think, I will hand over to Claire.

Claire Peel

Hi. Yes, just to respond on the question about product launches and product innovations, I think, quite right, that it is a really important feature of contributing to net flow growth over time, which is why we put a spotlight on that, and also, we give good insights into what's in our pipeline. To the question of has the environment slowed down our ability to launch products, couple of things I'd point to there.

One is that the pipeline is a long-term pipeline that we put a lot of effort and focus into establishing, so I think, the fact that these are being developed over time means that we have sufficient time to bring them to market. We have announced earlier in the year that we have a new Product Division, newly established for exactly that reason, to enable us to be more proficient and agile in our delivery, bringing new products to market, bringing the entire value chain together, and ensuring that we can match that speed.

So, I think, we recognise the environment that we operate in. We recognise the need for product to be an absolute central focus, hence the reorganisation earlier in the year. but again, this is a pipeline and a process. It's not something that we do instantaneously.

Asoka Wöhrmann

Mike, I think, your point, and I can imagine where you're coming from, because as Claire said, at the very beginning of her presentation, at the beginning of the year, we had a fantastic run, the firsts two months, and the shock of the Covid in March wiped out. I do think the lockdown, and I just talked to some press people earlier, even the lockdown, what we are experiencing in Europe now, I don't think that we will see a wipe-out of the flows like what we have seen in March.

So, as Claire said, our pipeline is quite healthy and very much, we challenge also by our teams, but I do think, also, our clients are willing to invest in this environment. They have to invest. They have to take care of the refills on their portfolios, so therefore, Mike, we are quite confident, even in a light or full shutdown in Europe, will not impact as we have seen in March.

Mike Werner — Thank you. Appreciate that, yes.

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

Bruce Hamilton — Hi, morning, Asoka. Morning, Claire. Just a quick one, just going back to this consolidation topic. Obviously, you've delivered very well to your plans. You've got decent scale in the business now, decent efficiency and some momentum in netting you money. But then it also sounds as though you've got, probably conservatively, excess capital of 1.5 billion. I think, in the past, getting the IT infrastructure properly in place was one hindrance to being more aggressive on deals.

So, how should we think about the possibility of deals, going forward? Would you be focused on more pushing with partnerships in Asia, as you said earlier? Or Could you conceive of bolt-ons in certain growth product areas? And when you think about the optimal scale for the business, would you participate in bigger deals? And how much of a hindrance is the Deutsche relationship in that? Or now that you have your own sort of IT, is that a more plausible scenario? Just interested on thoughts there. Thank you.

Asoka Wöhrmann — Yes. Bruce, thank you again. I do think, you are referring to two topics that are very core to us for the future corporate journey. As we said always, the infrastructure platform must create the efficiency that we can keep our cost/income ratios on levels we are targeting and trending down mid and long term. And I do think, this is why we are looking for a standalone IT platform that is fitting for asset managers. And I do think, this is in cost plans embedded. I do think, there is not too much magic behind.

And I think, also in Jan, we will come back in detail on these topics. Regarding, and I think, consolidation in the industry, and I have seen in the US, [52:30 unclear ?] all that, saying, for us, it's important. After we delivered the IPO matrix, we must work on the transformation of our business. That means creating efficiency, using new technologies and really disrupt ourselves, not get disrupted. Allow to disrupt us, but to disrupt ourselves with technologies like artificial intelligence.

But also, transform means, also, Bruce, for us to really, asset management-friendly organisation. As you know, we are redeeming the titles, and we are going to a functional framework. We are going to pay for performance. This is more, really a broad transformation of DWS. And the second area is growth. Growth is needed. Because of the margin erosion, we have to grow in areas of passive areas, because we have a leading position in Europe, and I think, as Claire outlined, our flow rate in Europe, in year to date, we are number two in this area, so we want to build on these things. We want to invest in these areas.

That is also underpinning our strategic growth path, but also investing, as we're talking, as a barbell, to invest in the high-margin areas like in illiquid premia, [54:11 unclear ?] hunting areas where we have the DNA, we have the expertise, we have, now, the chance to bring, as we brought the investment platforms together, illiquid and liquid. And we have the right medicine to fight against the zero interest rates. This is super-important.

That is the client needs, what we have to address, and that will stay a decade long. And that is where we want to position, and the same time, looking to strategic partnerships in getting distribution channels right, and addressing the right growth regions, because, I think, we don't want to miss the train in these areas. Thank you, Bruce, for the question. Hopefully, we answered, in the length, your question.

Bruce Hamilton: Thanks.

Operator: Next question comes from the line of Angeliki Bairaktari with Autonomous Research. Go ahead.

Angeliki Bairaktari: Good morning. Thanks for taking my questions. First of all, just a clarification on the definition of excess capital. At the time of the IPO, you had defined your excess capital as a difference between your CET1 and your Pillar 2 requirement, which was 2.4 billion. This 2.4 billion translates into a CET1 ratio of 25%, which is much higher than the regulatory minimum requirement of 10.5% that you have.

So, I was wondering, if you were to engage in M&A, could you use all capital in excess of 10.5% of RWA, or would you stick to the much higher Pillar 2 threshold that you had set at the IPO? That's my first question, and then my second question is, you mentioned that compensation and benefits declined, thanks to lower fixed compensation on top of the lower value of disparate calm. So, could you, please, provide a bit more detail on what drove the decline in fixed compensation, and whether this is sustainable, going forward? Thank you.

Claire Peel: Hi. Thank you for the questions. I will take both of those. So, firstly, on the excess capital, the excess capital is calculated based on the Pillar 2 excess, as opposed to the Pillar 1 excess. Pillar 1 is determined by the 10.5% CET1 ratio hurdle, which we are exceeding, currently, at 29%. But the excess is measured by Pillar 2, which is established, based on incremental risks that we see that we accommodate capital for in our business model.

Now, the regulation on that is evolving and changing as we go into 2021, as we move into the Investment Firm Regulation/Directive. So, I think, the Pillar 2 definition continues to evolve, and we're monitoring that very closely as we go into next year. On the question of compensation and benefits costs, we've certainly seen a decline in the quarter and a decline in the year. And we're seeing that decline in compensation and benefits costs across all aspects, both variable and fixed.

The absolute headcount levels that we see for the point this year, compared to same point last year is down, and that contributes to the decline in the fixed salaries and the fixed cost base that we see on fixed compensation. But also, we have a revaluation on formally granted deferred compensation, which also has an effect on the compensation costs.

Angeliki Bairaktari

Thank you very much. If I may just follow up on my first question, so in the case of M&A, it would be wrong to look at your excess capital as anything that is in excess of 10.5% of RWA? You wouldn't be willing to operate within your Pillar 2, in the case of a combination with another player?

Claire Peel

Yes, so in terms of the excess capital, we would anchor that on the Pillar 2 where we establish what we consider to be capital requirements that we carry for the risks within the organisation, so the excess capital we would consider on that Pillar 2 level.

Angeliki Bairaktari

Thank you very much.

Operator

The next question comes from the line of Jacques-Henri Gaulard with Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard

Yes, good morning, everyone. Two questions. It seems that the one certainty we have on the next presidential election in the US is going to be the fact that the US dollar is going to remain quite low, and probably depreciated around the euro. So, can you tell us a little bit the way you think about this, and whether you're going to hedge your exposure or if you've planned that in your budget? So, any sort of detail you could give us would be great.

And then, Asoka, you've talked enthusiastically about the outlook for quite a while, which is good in a market, which is as bad as it is currently. So, maybe following up on the last line of your press release about the 2030 outlook, how do you see DWS in ten years' time, probably not so much in terms of new products, the way you've developed it, but more geographically, versus what it is now? Would be helpful, thank you.

Claire Peel

Hi, hello. Thank you for the questions. Just on the dollar movement, as you comment on, indeed, from that movement in the third quarter, we've seen a negative shift in your AUM, so 13 billion of decline within the quarter from the dollar movement against the euro. We do look at the sensitivity around that, which we've shared in the past, which is, for about a 1% movement in the dollar, we would see about a 3 billion movement in AUM, and about an 8 million annualised impact in management fees.

So, we certainly monitor that very closely, and take that into account in our outlook, but not something that we would specifically hedge against.

Asoka Wöhrmann

Jacques, thank you for the last part. I would like to answer your last part of your question. Again, love that you put this question on the table. I do think, the only guy who has a problem is Oliver, because he knew, now I'm going to talk 15 minutes about this topic [01:00:34 overtalking ?].

Jacques-Henri Gaulard

That'll teach him.

Asoka Wöhrmann

But I do think, it is really, we are going to outline, and now we are in the design process, and we are in the finalisation, in a programme, what we called DWS TGL programme, Transform, Grow and Lead, and this is a programme for the next three to five years. But I do think, 2030's so relevant for us. We felt, beside all the trends, there is really a change for the asset management industry in place. As we talk about the decade of zero interest rates, decade of sustainability and decade of algorithms, how that's going to disrupt other societies, other industry, and especially the asset management industry specifically.

And I do think, we are addressing that. We have also, and I'd love to outline in a longer meeting a vision, DWS 2030. We have presented to the Supervisory Board of DWS the offside, this vision, 2030. That is not super-certain, but how I am seeing is, DWS will get 50% and more revenues outside Europe. I do think, this is a global organisation we want to build. We want to lead in areas like in passive in Europe, very much clear, our destination there.

Might be very difficult to catch up with the top two players in

	the US, but we want to be the player in Europe in this area. 2030, I do think, ten years is a very long time period with a lot of changes, what we can see. And in the third area, this, for me, is absolutely important. And this is what we are saying, that we want to change our DNA, is the ESG. We want to become the leading ESG asset manager in the next ten years in Europe.
	It is needed, because, I think, we have to address, I'm very confident, end of 2030, the humans have to answer the question how we want to live next 50 years beyond 2030. So, I do think that ESG will become a dominant team, and that is beyond licence to operate for me. In this decade, we have to be involved as asset manager, but the second topic is, for me, the question, what's the place of humans in a very technological world, very much algorithm-driven world, and also, that we want to answer.
	We have a very clear view. 2030, there will be AI with humans. We'll create the best superior performance for our clients. So, that is, a little bit, the lighthouses I would like to outline in the short term, because I think, Oliver still looks happy, but I do think, I have to finish here. But Jacques, I am happy to have, really, an outlining session to Vision 2030, and also the way forward in the next three to five years.
Jacques-Henri Gaulard	Thanks a lot for your passion, Asoka. Great, thank you.
Operator	And there are no further questions on the line. I would like to hand back to Oliver Flade for closing remarks.
Oliver Flade	Yes, thank you very much, and thank you, everyone, for dialling in today. For any follow-up questions, please feel free to contact the IR team. Otherwise, we wish you a fantastic day. Bye-bye.