DWS Group GmbH

Q2 2024 results with Investor & Analyst Conference Call

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Transcript

Speakers:

Dr Stefan Hoops

Dr Markus Kobler

Oliver Flade

Oliver Flade

Operator, thank you very much. And good morning to everybody from Frankfurt. This is Oliver Flade from IR and I would like to welcome everybody to our earnings call for the second quarter of 2024. Before we start, I would like to remind you that the Deutsche Bank analyst call outlines the asset management segment's results, which have a different parameter basis to the DWS results that we are presenting now.

I'm joined, as usual, by Stefan Hoops, our CEO, and Markus Kobler, our CFO. And Stefan will start with some opening remarks, and then Markus will take you through the presentation. And for the Q&A afterwards, please could you limit yourself to the two most important questions, so that we can give as many people a chance to participate as possible. And I would also like to remind you that the presentation may contain forward-looking statements, which may not develop as we currently expect. I therefore ask you to take note of the disclaimer and the precautionary warning on the forward-looking statements at the end of our materials. And with that, I will now pass on to Stefan.

Dr Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q2 2024 earnings call. Over the recent quarters, we try to describe our transformation journey by using imagery. We spoke about the ultimate super bear environment for DWS in 2022, talked about our steady climb up the mountain and called it a momentum shift last summer. We also aim to provide utmost transparency on challenges like the ESG related allegations in our massive IT project. Knowing that we are viewed as a show-me story, we categorised our businesses into reduce, value, growth, build, to explain where self-funding would come from, specifically where we would invest, and how we are steering the different asset classes.

While we will always remain disciplined on costs, tenaciously focussed on implementation, and will continue to strengthen governance and controls, we believe that our transformation journey is now complete. We feel that we've become a predictable company that is boring from a corporate news headlines perspective, and an exciting case study for disciplined organic growth. In other words, over the last few quarters we worked hard to give you enough reasons why you should not, not own our stock. We understand that going forward, we need to give you enough reasons why you should really want to own our stock.

With our special dividend payment in June, we showed that we deliver on what we say. The next round of promise keeping is due end of 2025, which is the target date for reaching our ambitious financial targets. In order to provide transparency into our key levers, to accomplish our 2025 targets and grow EPS beyond the current financial plan, going forward we will provide

in-depth insights into one specific aspect of our franchise per quarterly update. We will start with a deep dive into our client flow momentum today, which is a key component of our growing management fees. We will walk you through our global client franchise by client type, asset class, and region to describe current client dynamics and our respective outlook.

But before we get there, let me briefly summarise Q2, which Markus will go through in more detail. Overall, we are positive about today's numbers as they show continued progress on our path to deliver on our strategy. In a continuously challenging environment for the industry, we kept costs contained and increased our revenues. Our cost-income ratio stayed well within our guidance for the full year. We are particularly pleased with the composition of our revenues, as the increase is driven by higher management fees. For our active business, the beating heart of our franchise, we further improved our investment performance. The fee margin developed positively, driven by market impact.

We have to acknowledge that the flow picture looks mixed. As already mentioned during my speech at this year's AGM, we saw low double-digit billion outflows in the second quarter. Those were mainly driven by outflows in low margin areas, specifically in two large insurance and one advisory mandate. On the positive side, our Xtrackers and Active SQI businesses continue to deliver strong net new assets, which help to counter the outflows to some extent.

Lastly, profit before tax and net income displayed healthy gains, which makes us comfortable to increase our guidance for the full year 2024. All in all, we are convinced that 2024 will be a significant step forward towards reaching our 2025 targets. More on that later on. But for now, I will hand over to Markus to explain our Q2 results.

Dr Markus Kobler

Thank you, Stefan. Our second quarter 2024 results continued to underline the positive execution of our strategic plan with the quarterly increased adjusted profit before tax totalling €249 million. The adjusted cost-income ratio further improved to 63.2%, being well within our guidance for 2024. For our long-term assets, we are reporting net outflows of €6 billion, driven by two low margin insurance mandates. Our investment outperformance ratio for three and five years further improved to 75% and 81%, respectively. Thanks to outperformance in the first six months, we have improved our financial outlook for the full year 2024.

Moving on to the financial performance snapshot in the second quarter. Starting at the top left, total assets under management decreased by 1% quarter-on-quarter to €933 billion impacted by

outflows in low margin products. On the top right, adjusted revenues totalled €678 million, being up 4% quarter-on-quarter. On the bottom left, adjusted costs remained essentially flat quarter-on-quarter and totalled €428 million, resulting in an improved adjusted cost-income ratio of 63.2%. The adjusted profit before tax continued to benefit from a positive operating leverage and increased by 8% to €249 million.

Let's recap on the market environment. The stock market's performance in 2024 further advance, thanks to a continued optimistic market sentiment underlined by robust macro data and improved inflation data. In the second quarter, market tailwinds weakened as US economic growth slowed and global elections created headlines. Most asset classes moved sideways, with equity performance being dominated by a handful of technology companies. Sovereign yields remained at elevated levels, despite the first rate cut in June from the ECB. Overall, the market environment remained favourable for our AUM development, which I will now outline.

We reported €933 billion of total assets under management at the end of the second quarter, being essentially flat quarter-on-quarter. Our assets under management were supported by a positive impact from markets and forex movements totalling €11 billion. This impact was fully offset by 19 billion of total net outflows. The passive business continues to grow and stood at €290 billion, with contribution from UCITS, ETFs, mandates and 1940 Act. Our active asset classes benefited from continued market tailwinds in each product category, but were impacted by two large, fixed income insurance mandate outflows. This brought our assets under management to €433 billion. The market sentiment for alternatives continued to be challenging, with assets under management remaining essentially flat at €107 billion.

Moving to our flow development. As Stefan will conclude today's results presentation with a deep dive on our client franchise and the underlying trends, I will do the groundwork and give you the status quo for the second quarter. A more detailed picture on our AUM and flow development can also be found on slide 17 in the results presentation.

In the second quarter, we reported total net outflows of €18.7 billion and €6 billion of long-term net outflows. Our strong client dynamic in the retail business was underlined by the six consecutive quarters of inflows in a row, which was mainly driven by our passive franchise. The total outflows were driven by three high volume, low margin mandates, two long-term fixed income insurance mandates, and one advisory mandate. All three items were accounting for around €23.5 billion of outflows and around €5 million of annualised revenues. Continued strong momentum

in Q2 for our passive business, which reported net inflows of €8.5 billion, driven by all businesses, UCITS ETFs, mandates and 1940 Act. In the first six months, our UCITS ETF business recorded inflows of €14.3 billion, almost double the amount compared to the first six months in 2023, and reached assets under management of above €200 billion. The strong inflows year-to-date are translating into a year-to-date flow share of around 15%, which puts us on the number two spot by year-to-date inflows in the European UCITS ETP market.

Our active business continue to be impacted by the shift towards passive and reported outflows of around €13 billion, which this quarter were mainly driven by the two fixed income insurance mandate outflows. However, excluding the two mandates, our fixed income business would have maintained the good flow momentum from the first quarter and reported net inflows. We reported inflows of €0.4 billion in our SQI business, as our systematic solutions are currently capturing the upward trending positive market environment. For the first six months, we reported inflows of €1.9 billion, with DWS Funds Invest ZukunftsStrategie being the key contributor. The market in Alternatives continues to be challenging, with €1.4 billion net outflows driven by LRA and real estate. On a positive note, we reported net inflows in infrastructure of around €0.2 billion, with positive inflows throughout all regions and client types.

Let us turn to our product launches. Our commitment to product innovations within the organisation remains high. Since our Capital Markets Day, the number of our above 1 billion funds grew by almost 20%, and recorded inflows of over €6 billion, mainly driven by inflows from our above 1 billion funds in Xtrackers. We continue to grow our inflows through new funds since the IPO to €62.6 billion, with ESG products accounting for 42% of the fund launches. In H1 2024, we attracted around €1.2 billion of ESG net inflows, which were mainly driven by the EMEA region, where the ESG demand remains strong, especially from retail clients. Article 8 and 9 products reported inflows of €2.7 billion.

Regarding our product launches, there are two highlights. In alternatives, we are continuing to build our product offering and can report ongoing successful fundraises in new vintages of our direct lending and European infrastructure funds. Furthermore, to enlarge and strengthen our digital offering and competencies, we have established a joint venture called AllUnity, together with Galaxy Digital and Flow Traders, which aims to launch the first BaFin regulated Euro stablecoin in 2025.

Moving on to revenues. Total adjusted revenues amounted to €678 million in Q2, being up 4% quarter-on-quarter. Our management fee stood at €613 million, up 4% quarter-on-

quarter, benefiting from a continued increase in our average total assets under management, which amounted to €934 billion. This quarter, we had a positive impact of 0.4 basis points on our management fee margin, which stood at 26.4 basis points. Performance and transaction fees stood at €10 million and remained at a low level. In this context, I would like to emphasise that we remain confident to reach our guided level for performance fees of 3 to 6% of adjusted revenues.

From an accounting perspective, we are booking our performance fees when they are realised on the recognition date and not at a pro rata basis. Next to the pipeline, we are building an alternative, for instance with our pan-European infrastructure fund offering. Our flagship multi-asset fund Concept Kaldemorgen, is a recurring source of revenues to our performance fee development. The Concept Kaldemorgen performance fees are normally booked in the fourth quarter. Assuming stable performance, we would expect a mid-double-digit contribution from Concept Kaldemorgen in 2024. Other the revenues increased quarter-on-quarter and stood at €54 million, including a €13 million contribution from our Chinese investment, Harvest. In this quarter, we have booked a positive adjustment of €18 million in other revenues due to an insurance recovery.

Moving to costs. Total adjusted costs stood at €428 million, being essentially flat quarter-on-quarter, resulting from lower adjusted compensation and benefits and higher adjusted general and administrative expenses. This development reflects our continued cost discipline and is in line with our last quarter guidance to keep the adjusted cost base flat, except volume based contribution, which is positively correlated to our AUM development.

For our cost components, adjusted compensation and benefits amounted to €215 million, being down 3% quarter-on-quarter, thanks to lower compensation costs, including lower retention costs. Adjusted general administrative expenses increased quarterly and amounted to €213 million. The increase is attributable to the growth in our passive business. On the one hand, we experienced increase in volume based service costs. On the other hand, we made further growth investments. Our adjusted cost-income ratio decreased compared to the first quarter to 63.2%. Based on this, we have updated our full-year guidance to a range of 62 to 64%.

Moving to our outlook. Based on our performance and the market development in the last six months, we have updated our outlook for 2024. Adjusted revenues are expected to be slightly higher in 2024. We project adjusted costs to be essentially flat versus 2023. Consequently, adjusted profit before tax is expected to be higher than 2023. We also foresee long-term

flows to be higher compared to 2023. Let me show you how this is feeding into our 2025 financial targets.

Last quarter, Stefan walked you through the three key components to reach our financial targets in 2025. Let me quickly explain how our second quarter results and updated outlook are demonstrating that we are on a steady path towards our 2025 targets. We are no longer predicting having a hockey stick effect during the last year of our strategic plan. On cost. We keep demonstrating strict cost control with an unchanged, flat outlook for adjusted costs. The one-off costs are expected to decrease on a year-on-year basis, thanks to lower litigation, severance and transformation costs.

On performance fees we confirm our guided range of 3 to 6% of adjusted revenues. The progress on asset sales and the realisation of performance fees from PEIF II is ongoing and in line with expectations. On management fees and other recurring revenues. We continue to show that we have a strong underlying client dynamic, especially in our retail business. Despite margin pressure and high outflows this quarter, we are on track to reach our management fee target, as average AUM continued to grow and fee margin development is in line with our guidance. The above development is leading to a higher EPS guidance for 2024 versus the €2.76 EPS we reported in 2023. With that said, I will now hand over to Stefan for the deep dive on our client franchise and the closing comments.

Dr Stefan Hoops

Thank you, Markus. Last quarter, we showed you a bridge displaying how we want to grow from our 2023 numbers to our financial targets for 2025. Going forward, we will provide further transparency on the pillars and key components of this bridge. Today, we start doing so with a deep dive into client momentum, which obviously drives management fees. This will not just be my normal conclusion for two minutes, but a proper deep dive. Markus provided a breakdown of the AUM and flow picture in recent quarters. Here's how we expect the next six or 12 months to shape up.

When we look at our clients, we differentiate broadly between retail or wholesale clients, on the one hand institutional clients on the other. On the following two slides, we want to show you what we observe as client trends, what we do to serve our various client segments, and how this ultimately informs our flow expectations for the different asset classes. Let me start by looking into retail or wholesale business, which contributes around 70% of our revenues. Retail products are our core strength and heritage since the foundation of DWS in 1956.

We now need to carry this strength into an environment that we think of as b2B2C, with a little b. The little b in the sub-headline

is on purpose, signalling the potential loss of relevance of the product provider in a business to business to client value chain. This is much more than just the shift to digital, but could really be a tectonic disruption for the industry. It implies that services you provide, being the first B in the b2B2C value chain, could be viewed as a commodity, hence, the little b. In this model, the power will sit with the aggregators who own the interface with retail clients.

While asset management has not yet seriously been disrupted, we can already see this environment in other parts of the financial industry. My personal paranoia regarding the topic stems from my previous experiences at Deutsche Bank's Corporate Bank, where in Germany, Amazon, and PayPal were our clients. In Germany, if you buy something on Amazon and pay with PayPal, there was a fair chance that DB processed both payments. You just don't notice it, and most likely, you also wouldn't care. The critical service of transferring money has become an invisible commodity, embedded in the front end that clients see. Imagine this for asset management. We can already see first signs of little b2B2C in our industry, with private banks actively selling their own discretionary portfolio management solutions to their clients, or the question of who will be on the shelf of neobanks and brokers.

The answer may not be driven by the actual performance of our products. Instead, better APIs, faster delivery of content, and ease of access will become key differentiators. We want to capitalise on this trend with a sense of urgency, and we try our utmost to prepare for it. For us, this means that we not only have to deal with key changes in the buying behaviour of retail clients, but we also have to react to the changing demands of our distribution partners. We are responding to the trends you see on the slide by addressing the specific needs of our partners.

For our distribution network with private banks and with independent advisors, we focus on performance and product innovation, to maintain our high margin business, which is mainly active products. At the same time, we work on enabling digital transformation, not only of our business, but equally importantly, also those of our distribution partners. We want to carry our strengths into the digital environment.

The shift into a little b2B2C is most pronounced for neobanks and brokers. We are fully embracing these non-traditional distribution channels and want to become their partner of choice. As outlined, one of the differentiators of the future will be how easily a product provider can be integrated into a sales platform from a technical perspective. We therefore aim to help grow these new partnerships with neobanks and brokers by providing attractive content on the one hand, but also, and more

importantly, easy to embed product offerings on the other. This is why we investing into building up asset management as a service with already observable positive effects. Year-to-date, one third of our Xtrackers net new assets was sold through digital channels.

When it comes to professional funds, which are services that we provide for other asset managers, the aim is to remain a strong component of the value chain. Offering passive solutions as part of the strategic asset allocation of these funds is one way. Another is to offer asset management as a service. In our unit linked insurance business, we team up with our insurance clients to provide solutions for their customers. We feel that we are well-positioned in our home market in Germany and can leverage this knowledge abroad. We can cater to our clients' needs with a full product offering, including attractive alternative solutions and structured products. This is one key driver of our active SQI business.

Overall, we advanced in some of these initiatives, such as further developing our value proposition to neobanks. On other topics, such as asset management as a service, there's still some way to go. Now, how will this translate into future flows? For the retail active business, we expect flows to be flat. Recognising the shift towards passive, we play the game with the ambition to maintain the value creating core of our business. It is our clear goal to secure the business, participate from market appreciation and, where possible, generate flows in a flaw less market environment. In Xtrackers, we expect a continued increase in flows, with a clear aim to gain further market share in UCITS ETFs, solidifying the current number two position in Europe in ETF sales. We also expect to continue our double-digit growth with digital distribution channels. For alternatives, we remain positive on the long term and continue to build out a retail offering for our products and capabilities, such as with our Infrastructure Europe, or with potential ELTIF products in the future. However, given the market environment for the time being, we only expect a flat flow momentum.

In a nutshell, concerning our retail clients, we aim to carry the strength of our franchise into the little b2B2C environment. Thanks to our strong active business and the support and resilience of our sales partners, especially in German retail, we have the resources to fund the necessary investments into our digital offering, as well as our growth areas in Xtrackers and alternatives.

Let's turn to the institutional business, which stands for roughly 30% of our revenue stream. Here we see a similar trend as in the retail business, where just managing assets is not enough anymore. For each client segment, we need to understand

regulation and provide the appropriate advice, understand their respective workflow, and ensure exceptional services and quality when it comes to hygiene factors along the value chain.

Starting with insurance companies. As mentioned, we saw outflows this quarter in very low margin insurance fixed income mandates. These flows are high in volume, but they have only very limited impact on our revenues. Nevertheless, the outflows show that standard fixed income products are becoming an add-on business, in conjunction with more holistic solutions. Already last year we restructured our fixed income team and are now able to provide specialised fixed income capabilities that complement our strong offering for our insurance clients.

We are very pleased with the development of the FI team, so the fixed income team, during recent months, and we continue to strengthen this franchise. While other competitors provide excellent but very specific value add services, such as outsourced CIO services, we chose a holistic solution approach. This includes the ambition to fully appreciate our clients' internal workflow and provide outstanding services for every part of this value chain.

Regarding pensions. Changing demographics provide a significant growth opportunity that we want to capture. Consider the reform of the German pension system, where we strategically position ourselves to be involved in the management of the envisaged "Generationenkapital", a capital market oriented portfolio within the first pillar of the pension system. We also actively addressed and increased relationships with pension consultants, leading to an increase of pension advisor ratings in the US from two prior to the IPO to 62 as of now.

Coming to our corporate clients, we feel that we are already in a strong position. Here, we can further build on Deutsche Bank's excellent corporate relationships, but also utilise other partners in our strong network. Providing pension solutions and building out our defined contribution offerings remain top priorities. When it comes to official institutions, and specifically sovereign wealth funds, you may remember that we laid out the ambition to be the gateway to Europe for global investors wanting to invest into the transformation of the European economy. Delivering on this ambition, we aim to regionally diversify our business with a specific focus on clients in the Middle East, where we plan to build a local presence.

Again, what does it mean from a flow outlook perspective? For the institutional active business, we continue to invest to strengthen our capabilities and maintain our position in fixed income. At the same time, defined contribution pension plans for

corporates also offer promising outlooks. We like to think of these models as an institutional saving plan. As in retail, the business is relatively profitable, and our teams are working hard to develop it further. This will take some time, though, which is why for the next six or 12 months, we expect flat flows.

For Xtrackers, we will further leverage our growth momentum with continued investments. At the same time, we aim to become the go-to partner for global corporates, offering bespoke passive mandate solutions. Against this background, the very encouraging flow momentum in our Xtrackers business should prevail. For alternatives, we expect a turnaround in flow momentum with a strong pipeline for the second half of the year. Ongoing successful fundraisers in new vintages of our direct lending and European infrastructure funds should create high margin flows towards the end of the year.

Let me conclude with a recap. The aim of this walkthrough was to give you confidence in our ability to continue on a strong and attractive organic growth path, with the aim of further increasing AUM and management fees. We continue to invest significantly into our client franchise. And ideally, we have given you a better sense of where we will invest. We accept the reality of a paradigm shift in client buying behaviour and address these trends with a healthy dose of paranoia. Obviously, you can be sure that we continue the everyday blocking and tackling of topics with a sense of urgency, and that we will not lose focus when it comes to constantly improving our processes. One signal for our own confidence is the fact that we increased our 2024 outlook in key metrics, such as adjusted revenues, adjusted pre-tax profit, and earnings per share.

This is a significant step towards achieving our financial targets for 2025 and to further build DWS for the long term. Thank you. And over to Oliver for Q&A.

Oliver Flade: Thank you very much, Stefan and Operator, we're ready for Q&A now. And if I may just remind everybody to limit yourself to the two most important questions, that would be very kind. Thank you very much.

Operator: Thank you. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone phone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Questioners on the phone are requested to use only handsets while asking a question. Anyone who has a question may press star and one at this time.

Our first question is from the line of Angeliki Bairaktari from JP Morgan. Please go ahead.

Angeliki Bairaktari

Good morning, and thank you for taking my questions. The first question on your flat cost guidance for this year. This implies that adjusted costs in the second half will be 5% lower year-on-year, and also 4% lower versus the first half of 2024. And we do see that H1 24 costs are actually up 5%. I was just wondering, how can we square the fact that the costs year-to-date are up 5% with the fact that you guide now for flat costs for the rest of the year? There should be some cost cuts or cost savings coming through in the second half. And if yes, from which area are they going to come?

And then with regards to the flows, you guide for long-term net flows to be higher than 2023. In 2023, long-term net flows were 16.5 billion. In the first half of this year, long-term net flows are only 2 billion. That implies a very big increase in net flows for the second half of the year. Which asset classes are expected to drive this increase in net inflows? And do you have any visibility on any specific mandates that are going to help you achieve that guidance? Thank you.

Dr Markus Kobler

Thank you, Angeliki, for the two questions. I would start with answering your first question, and Stefan afterwards addressing the flow question. When we provided guidance and mentioned that we are essentially flat with regard to our adjusted cost base, that does not mean that we are exactly flat in absolute euro numbers. It allows for a certain range, for which we cater for. I would just remind that we have volume linked expenses which increase when AUM go up. We have the variable part of the compensation, both discretionary as well as formulaic. We have also a range of projects which are addressing regulatory requirements this year. And there are always items which, like tax fees, audit fees and the like, which are also adding to contribution. However, when we look into the second half of the year, we expect that to be flat compared to the second half of the year last year.

Dr Stefan Hoops

Angeliki, let me answer the second one, and thank you for pointing out that, as you said, last year we had long-term inflows of 16.5, we’re now at two. How can we have confidence that we'll get to above 16.5 for the year, which obviously means we have some path ahead of us for Q3 and Q4. Now, a couple of comments, because you asked about specific mandates. To some extent, people always say that timing is everything in insurance, fixed income, that's a pretty volatile market. And we have always a couple of potential large inflows, potential large outflows.

And, coincidentally, with a significant inflow this Monday, so two days ago, of 8 billion, which was pretty much in line with a very large outflow which we had end of Q2. And Markus and I, when we joked about timing is everything, just imagine, we would have

had the inflow in Q2 and the outflow in Q3. In that case, we would have had long-term inflows of 10 billion instead of outflows of six, but the company would be the same. To some extent, it's a little bit of timing. Now, take that out, because those one-offs, they help, but we will get to higher long-term inflows than last year, even without these one-offs.

Let me just walk you through the asset classes. When you look at Xtrackers, that business is humming nicely. We have 8, 9 billion, even if it's a little bit lower in Q3, Q4. But that inflow should be 6 to 9 billion every quarter, so that will add 12, 13, 14 billion for the next couple of quarters. When it comes to alternatives, I can no longer speak about specific funds, because we're now in active fundraising and we've had a couple of first closes, so I cannot be specific. But you know which ones are currently in active fundraising, so we expect alternatives to contribute net inflows in Q3 and Q4.

When it comes to active, SQI is continuing to do really well. And, as you know, the average flow margin, this is very profitable business. We walked through where this comes from, in some cases pension, in some cases retail, but that's high margin inflows and that we continue, so we expect that to continue. And then multi-asset and equities, obviously we aim for flat. Could they be up a little bit? Potentially, performance has been strong, but that's probably not a significant ingredient. Fixed income, we are more positive for Q3 and Q4.

Markus already gave the update in the script that if you take out the two big insurance mandates, we actually had decent flows. In European retail we had 2 billion of inflows in fixed income in the first half. We expect fixed income to contribute positively in Q3, Q4. From two to above 16 will be Xtrackers six, seven, eight a quarter, positive contribution from alternatives expected, positive contribution from fixed income, which obviously I can say with confidence, given the massive inflow this week. And then for equity, multi-asset and SQI, that may be a wash, but obviously we aim for also positive contribution from there.

Angeliki Bairaktari

Thank you. That's very clear. Sorry, if I can just follow up on the costs, then. Excuse me, when I see essentially flat, I understand flat. And I think that's what most people understand, but just to be clear, you expect the H2 24 cost to be flattish versus H2 23 overall, given that the H1 24 costs are 5% higher, the cost base should be somewhat higher in 2024 relative to 2023. I think consensus has around 4%, so we're probably talking around those levels where consensus is already at.

Dr Stefan Hoops

That's correct. And again, it is using the wording of essentially flat that falls within our guidance, what we meant by essentially flat.

Angeliki Bairaktari — Thank you.

Dr Stefan Hoops — And allow me to just add one point, which I'm sure some of you have spotted. When you look at the difference between adjusted cost-income ratio and reported, that has compressed nicely. Your question was essentially on adjusted cost, but obviously shareholders care about what is ultimately paid to them. What you will have seen is that in the first half of 23, there was still a 6 percentage point difference between adjusted and reported, which is now compressed to 3%. When you look at total cost, including the below the line, that will look quite positive, quite favourable in 24 versus 23.

Operator — Thank you. The next question is from the line of Jacques-Henri Gaulard from Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard — Good morning, everyone. Usually analysts congratulate you about results, but here I really feel like congratulating you about the outlook, Stefan. But joke aside, I wanted to know roughly how much excess capital you have following the 800 million spec dividend that you paid to shareholders? And now you having, as you said, DWS in really nice marching order, at least by next year now, we're seeing consolidation again. You're still at a 930 billion AUM, which is good, but which one could argue could be bigger than that. Are you going to be in a situation now, considering that the company is really well structured, to be able to actually go into some of the big movements that we're starting to see in the industry? Thank you very much.

Dr Markus Kobler — I can give you the CFO answer on the capital. And afterwards, Stefan, you may add then more the strategic perspective. We do not disclose excess capital, but we are well capitalised, even after a total payment of 1.2 billion in June for ordinary and extraordinary dividends. One figure I may share is that our liquidity position at the end of June was at 2.6 billion, and that is also adding quite nicely on to other revenues. More than that, we do not disclose at this stage.

Dr Stefan Hoops — And Jacques-Henri, thank you for your comment at the beginning, but just to add to that. When you think about, and I guess your question was focussed on ability to potentially do M&A. In addition to excess capital and our Moody's rating, which we could always use for debt, and our ability to have a share increase, that puts us in a position to do M&A if we found it sensible. Now, also to your point, we actually like our organic growth path in the West. Broadly speaking, in the West, we are satisfied. We flirt here and there and speak to people and see what's happening, but overall, we're not in a desperate position where we need something inorganic to deliver on our strong ambitions in the West.

Now, when it comes to the East, last time, the last couple of

earnings calls, we talked about the ambition to be in the top five. I think Markus and I have also been travelling to India, to China in Q2, and we continue to do that in Q3. There we are still actively seeking to increase our position in those amazing, very interesting growth markets, India and China.

Jacques-Henri Gaulard: Thank you.

Dr Stefan Hoops: Thanks, Jacques-Henri.

Operator: Thank you. The next question is from the line of Hubert Lam from Bank of America. Please go ahead.

Hubert Lam: Hi. Good morning. Thank you for taking my questions. I've got two of them. Firstly, on costs again. I get that you're guiding for essentially flat or slightly up adjusted cost for 2024, but how should we think about 2025? Should we also think about adjusted cost to be essentially flat year-on-year for 2025? That's the first question.

The second question is on slides 12 and 13. I really appreciate those slides. You talk about how you're targeting different clients and what you're doing around distribution. I assume a lot of these things you've already done previously, so where do you see the biggest changes you need to make internally to address these different client bases? Does it require additional hiring or additional reorganisation? Just maybe some colour on what's happening in the inside. Thank you.

Dr Markus Kobler: Thank you, Hubert, for the question. With regard to 2025, the guidance is that the adjusted cost base remains essentially flat, except volume linked and volume based expenses.

Dr Stefan Hoops: For your second question, Hubert, there would be a longer discussion on the various client types. All of you provided feedback on what would you like to see more of going forward. And therefore, we will do a deep dive every quarter. And I think those two slides are pretty intense, so very, very detailed. I think high level, what we need is more investments in technology, but in that case, it's very specific people. Our new head of IT and operations, Rafael Otero, he is essentially a private, like a retail payments person who has set up a bunch of fintechs and then ran technology for the corporate bank. And he brought over a few people that are focussed on data. I'm trying to refrain from the buzzword AI, but that are really focussed on data. A couple of people that are very, very good in embedded value chains, so APIs and so on. And again, that's not hundreds of people you need, you just need the couple of right people who have seen the picture before and know what to do. And a couple of people that just allow our different businesses to just operate more efficiently, so that when we actually have APIs, essentially connectors to platforms, that we can also deliver the different

services swiftly.

Now, that's for the retail side. I think the retail space, if you think about the cost space, it may not go up, actually. Obviously Markus commented on the intent, the ambition, the goal to stay flattish on cost. But I think we will probably invest a little bit less in brand. For all the salespeople out there, love you, but in some cases, we probably need fewer salespeople because we deal with platforms. But therefore, more investments in technology, but that's essentially fungible.

Now, when you look at institutional clients, we will need more people in alternative sales, because the demand for alternatives is going up. We now have the product capability, so now we need salespeople. In that case, there's no point in hiring sales before you have the product capability, so we obviously needed to hire for private credit, which is now broadly complete, and real estate debt US, which is now also broadly complete. And now we can add the coverage folks. Then when you look at the value chain for institutional clients, it does remind me of what I've seen in cash management in the corporate bank. When you think about you being a cash management provider for a large corporate, the service of actually holding cash safely or getting money from A to B, that's irrelevant. That's essentially an add-on, a commodity. But then the ability to do salary payments in Indonesia, that's differentiating.

Now, when you think about what it means for insurance clients or pension fund clients, is the ability to manage fixed income and be the benchmark. That's nice, but many can do that. But then to really understand how the CIO likes to look at data, how they have mandates across different countries, how they're doing M&A, and just add whatever, India, and therefore, they need those capabilities and all of that connected, that would be differentiating. That's why, again, the comment on asset management in itself may not be enough anymore. You really need to appreciate the way that clients like to consume products, and then again, the buying behaviour of them.

Dr Markus Kobler — Thank you, Hubert. I would like just to add, Hubert, to my answer before, because you were referring your question to the adjusted cost base 2025, which in finance lingo is above the line. I would then also for the total cost base, again refer to page 11, where we explain the path to the financial targets 2025, where we talk about also the below the line items like severance, like litigation, and like transformation costs. And these costs in total were 172 million in 2023, on which we expect in 2025 an upside potential of around 125 million. It's important, really, to be precise what we talk about. Thank you.

Operator — Thank you. The next question is from the line of Arnaud Giblat

from BNP Paribas Exane. Please go ahead.

Arnaud Giblat

Good morning. I've got to two quick questions, please. Firstly, could you talk a bit about the outlook for real estate on the flow side in terms of gross inflows and gross outflows. If I understand well, it does take a while for a redemption request to be fulfilled. Perhaps you got a bit of visibility in terms of the outflows that are likely to come through. And also, given the recent one year performance, that made me think that perhaps it's challenging to fund inflows. If you could give us a bit of an update on the outlook for real estate specifically, that'd be great.

And secondly, in terms of the performance fee guidance, is the 100 million uplift in performance fees for 2025 entirely coming from PEIF II? Thank you.

Dr Stefan Hoops

Hey, Arnaud. Very happy to answer both questions. And then Markus may support me on the second one. On real estate, and just to recap, in the roughly 110 billion we have, we have about 70%, which are linked to real estate. Therefore, when we talk about real estate now, I will just refer to the equity portion, which is about 30 billion in the US, about 40 billion in Europe. But then we also have, within liquid real assets, we have REIT strategies, which is another roughly 10 billion.

When you look at the quarter in real estate, I'm just looking at the numbers, we had inflows of 500, outflows of a billion. Therefore, we had roughly 500 million of net outflows. But there are inflows, but obviously overshadowed by the outflows. Now, you asked about essentially the redemption queue, The German retail funds have gotten some special coverage over the last couple of months, not DWS related, but more market related. In that case, you have a one-year notice period, so we see it coming with essentially a year's heads-up and have to manage liquidity accordingly.

The outflows that we currently see, we've obviously therefore known for a year, and the notices have gone down substantially. Now, the outflows today essentially, those folks that decided 12 months ago to leave, to sell. But I can tell you that from here on, the outflows will reduce substantially, simply because we see notices having gone down substantially. What we do not yet see in retail in Europe is people really coming in. But we see institutional is coming in. Therefore, when it comes to real estate Europe, I would expect continued, but smaller outflows from retail, based on the notices we see. And we have always been managing liquidity appropriately, so I don't expect any hiccups. But that being balanced out by net inflows from institutions.

I think the US is probably six months ahead, meaning that the trough we had seen probably six months ago in the US, we've already seen a couple of people that had cancelled or

terminated, come back saying I just want to stay with you. Therefore, in that case, we didn't really have… In the US it's almost even at this stage.

Liquid real assets is continuing to suffer from outflows. Our performance has picked up nicely. Relative to our competitors, we've done very well year-to-date. Versus benchmark it's always difficult, because you have an all equities benchmark, and overall, liquid assets haven't done great, but relatively, we're doing fine. In liquid real assets, we've also seen a reduction in net outflows. If there's more questions then tell us now.

Second question, on performance fees, we have a variety of contributors. We have transaction fees that, as you would imagine, there were fewer real estate transaction fees than in the past. When you look at performance fees, we have typically real estate, we have Concept Kaldemorgen, we have infrastructure, and a couple of other bits and pieces. Now, real estate, I would expect 25 to pick up over 24, maybe be in line with 23. 23 was actually a good year for real estate. In Q2 last year we had, if memory serves me, I think 38 million of performance fees in US real estate, which was a very good quarter. As you would imagine, there was little performance generated in real estate over the last 12 months, which is why this is substantially lower. But I would imagine this picking up in 25.

You're right, that PEIF II, that is the private equity infrastructure fund that has sold the majority of its assets. There we expect the performance fee to kick in between end of 24, 25, 26. Obviously, the exact timing depends on when we sell the assets. And for the record, we sell the assets whenever it's in the best interest of the LPs and not any carry considerations for DWS. But best guess is that in 25 we will have an extra 100 million from that.

I think the point that Markus made on Concept Kaldemorgen, I think is sometimes overlooked. When you look at Concept Kaldemorgen, we have about 14 billion of AUM, of which roughly 11 billion of Concept Kaldemorgen are eligible for performance fees. Now, the performance fees is 15% of performance over the high water mark and over zero, so it's essentially stuck at zero. Now, when you look at the history, and I'll come to the forward in a second, but when you look at the history, in ten out of the last 13 years, there was performance fee from Concept Kaldemorgen. But we always book it on December 31st, to the point Markus made, so you don't see it throughout the year. Now we didn't have that in 18, 20 and 22. 15 and 23, we had, I think, 80 and 21, so this can be significant. Now, we had reached the high water mark as of Jan 1, so this year we have been accruing. The best way to think about it is that every percentage point of investment yield basically gets us 15 basis points off 11 billion.

This could be significant, whatever assumption you make on markets. Year-to-date, they had 4 to 5% investment performance, so that probably helps with the math, but then depends on your outlook. And now knowing that, whatever assumption you make for market performance and investment performance in 25 will also help you understand what you can expect from Kaldemorgen going forward.

Arnaud Giblat

That's great. Thanks for the transparency. Much appreciate it.

Operator

Thank you. The next question is from the line of Bruce Hamilton from Morgan Stanley. Please go ahead. The line for Bruce has been dropped, so we'll move on to the next question. The next question is from the line of Chedeville from CIC. Please go ahead.

Chedeville

Good morning. Thank you for taking my question. First of all, you mentioned that in H1 the difference between the cost income ratio and the adjusted income ratio was reducing to three points. And I wanted to know if you think that this gap of three points between the two types of cost income, if I may say, will be maintained in 2024? And how do you see evolve it in 2025? Because I think that all analysts, one day we will not have anymore this discrepancy, which is quite not good to analyse.

And my second question relates to two very interesting slides. As my colleague said, regarding your business, and particularly on the Xtrackers. We know that in US there is a huge development of what they call active passive management, which could seem contrarian, but it's really something which is developing well. And I wanted to know where you stand regarding this development, and what do you think of this type of products? Thank you very much.

Dr Markus Kobler

Thank you, and happy to take your first question. In fact, it's something we have also elaborated and observed that over the past quarters, the gap between the adjusted cost-income ratio and the reported cost-income ratio keeps converging. And that we see as another indication to what Stefan mentioned, that we see ourselves becoming a more predictable company, and that's the normalisation of DWS. We also mentioned that in Q2, we had one item which we adjusted under our revenues, which was 18 million of insurance recovery. However, we believe that trend to continue, in particular towards 2025. And when we set the target of our EPS target for next year of €4.50, that is not an adjusted EPS, it is the EPS. We expect also more and more the normal normalisation and less one-offs.

Dr Stefan Hoops

And just one addition to the first question, then I come to your second, Pierre. The way that Markus and I see the company is we never think about adjusted. We hate waste, dislike cost, like investments, but whether it's above the line or below the line, it

pains us the same. We dislike litigation, we dislike severance, dislike transformation charges, and therefore, we're really managing the company based on earnings per share. And that's why that's the target for next year. And to the point Markus made, that's not an adjusted, it's basically what you see is what you get. But we dislike all waste, and therefore this will further compress.

Now, on your Xtrackers question, and then specifically the active ETF, I think, and hopefully it doesn't sound too pedantic or scientific, but I think the way we define ETF is actually more wrapper, essentially a structure. Therefore, certain capabilities you need to have, and typically, you've used it for passive, just for indices, for example, or certain thematic. But obviously, you can use this wrapper also for active strategies. And therefore, this idea of active ETF is reasonably straightforward. You just need to decide which strategies you want to use and then wrap as an ETF.

Now, I think a couple of observations. Firstly, ETF is definitely the instrument of choice of retail investors. And while we will work very hard to maintain active funds and so on, ETF is what people buy at neobanks and brokers and so on, so ETF as a wrapper is the way to go in the future. Now, we are working hard on adding active ETFs, but you also want to be smart about doing it, because some of your incredibly well-performing active strategies, they're fine the way they are structured, there's probably no point in wrapping them in ETFs. But we take new things like in the US and natural resources ETF, which is essentially a joint venture between our liquid real assets business, so the PM sitting there, and then our Xtrackers business who provide the wrapping.

Now, Pierre, we feel that, especially in the US, it fits very nicely in our approach to focus on thematics. And thematics can be big data AI, which has been going very well this year, but it could also be a certain specific, actively managed strategies that we then wrap as an ETF. It's definitely very important, because clients simply like ETFs, but then again, you need to be smart in which strategies you want to wrap.

Chedeville: Thank you very much.

Dr Stefan Hoops: Thanks, Pierre.

Operator: Thank you. The next question is from the line of Michael Werner from UBS. Please go ahead.

Michael Werner: Thank you very much. Just one question from me, please. I was just wondering if you could provide a little bit more colour on the cost side. I think you indicated that now second half costs will be flat or in line with last year's levels. You've had 5% cost growth year-to-date. What's driving that slowdown? And ultimately, are

these one-offs, getting travel and stuff like that, that will come back on in 25? Or should we think about this as a better sustainable run rate, the second half figures?

Dr Markus Kobler

Thank you, Michael, for the question. Again, when you look at the different components and we just disclosed compensation and benefit costs and general administrative costs, again, what stands out, as we mentioned, is that banking services costs, which are related to the to the assets under management, to the volume, they keep increasing when assets under management go up. Besides that, you can also look then at the compensation and benefit costs for which the number of FTE is a good indicator. There again you see, when you look over the last six months, we have been pretty stable. And the outlook again towards the second half of the year is pretty much the same.

And then again, on the other components of general and administrative expenses, there are always items which add up a bit, but again, within the range of being essentially flat.

Michael Werner

Thank you.

Operator

Thank you. The next question is from the line of Nicholas Herman from Citi. Please go ahead.

Nicholas Herman

Good morning. Thanks for the presentation and for taking my questions. Most of my questions have been answered. I'd just like to dig in on the infrastructure side, please. Just PEIF II, my understanding is that you've crossed the hurdle rates of the future performance fees will be generated by future sales. I think you provided those numbers before. Just curious, how many assets are left in that fund? And how many of those do you have sale processes currently in process?

And then secondly, on infrastructure fundraising. Presumably, you're still confident in the 4 to 5 billion target size. How do you think about the phasing of that over the next couple of years? And I guess a part of that, how reliant do you see fundraising on a recovery in industry distributions? Thank you.

Dr Stefan Hoops

Hey, Nicholas, as you ask the question, I just looked at our head of legal, just to see what I can say and not say. For PEIF II, I will try to be as specific as I'm allowed to. Let's think of PEIF II as having had, let's call it, a dozen assets. What we do, we buy, our focus is mid-market private equity, so it will be utilities, and so on and so forth. We have sought, to the point you've made, enough assets to cover the return to clients and their preferred returns. Meaning, for lack of a better term, we’re now at the money. We have a couple of assets left. Let's define a couple assets, three to four. And we know that the next couple of sales essentially are paying the catch-up performance that is ours.

Now, again, just for the record, I don't want to get into any

difficulty. There's zero pressure on the team to sell. We will sell when the market is right. We were always trying to optimise those assets and sell when it's optimal for the LPs, therefore, we are theoretically in the market with all three to four assets and will sell when it's in the best interest of the LPs. Again, best guess is that they will happen sometime between now and mid, end 26 at the worst case. And therefore the performance fees, again Markus explained, how we account for it. So incredibly conservatively, only when we can really book it, so that will happen over that period of time. The total performance fee that we expect is a little over 200. And therefore, best guess is 125, 126.

When it comes to the current fund raising, I'm not allowed to talk about specifics once we're actively fundraising. Now, what I can confirm is that for P4, we are targeting 4 to 5 billion in line with what we've said in the past. I would expect that money to come in between recently and maybe the next 12 months. Typically you have a series of clauses about the structure that people that come in later still have to pay management fees as if they had been there from the beginning. But that should start to contribute management fees in 24, and then will be relevant in 25.

Now, within infrastructure, we also have a variety of other structures, so we should in infrastructure CLO in Q2. There are a variety of things which we do, but again, we are very conservative with how we account for it. For example, when we raise a CLO, we typically only account for it in AUM once we've deployed the dry powder and not once we've raised it. That's more conservative than in some other instances. And therefore, we have confidence when we say that we expect positive alternatives contribution to flows in Q3 and Q4.

Nicholas Herman: That's really helpful. And hopefully, the money does indeed fly in. Just on the CLOs, could you just remind us, how many CLOs you expect to issue per year, please. Thank you.

Dr Stefan Hoops: We issue CLOs in two parts of our structure, in US infrastructure, and then we aim to issue CLOs in private credit Europe. For private credit Europe, we've now hired the team. We have mandated the arranger for the first two CLOs. It was a long, drawn-out process to decide on the name of our CLO shelf, and we will go with Rivers, but we won't disclose what the first one is going to be called. This warehouse should open end of July, early August, meaning imminently. Just going through the last processes. I think in private credit Europe, we would expect to launch the first CLO this year and then have two to three a year for the foreseeable future.

Nicholas Herman: Very helpful. Thank you very much.

Dr Stefan Hoops: Thanks, Nicholas.

Operator	Thank you. The next question is from the line of Bruce Hamilton from Morgan Stanley. Please go ahead.
Bruce Hamilton	Hi there, morning. Hopefully you can hear me.
Dr Stefan Hoops	Hey, Bruce, we can. Good morning.
Bruce Hamilton	Good. Sorry I got cut off. Thanks again for the slides and the deep dive. Super, super helpful. Just a follow-up on the private credit opportunity, which I know you've talked about a lot, and it sounds like you've already built out quite a bit of the team. But I think you said direct lending productivity flows towards the end of this year. But then in terms of the broader opportunity, how broad are you going to go in terms of fixed income replacement? And how many of those products do you think will feed into the retail offering versus being more focussed on the insurance client base? Just to give a sense of looking beyond the next 12 months? And then one very quick on, I know gen AI is a bit of a buzzword, but have you identified any areas where it can drive efficiencies within the organisation? Do you have any workflows in production on that? Thank you.
Dr Stefan Hoops	Hey, Bruce, thanks for your questions. On the first one, we are adding, essentially, debt capabilities in two very specific areas, real estate debt US and private credit Europe. Nothing else for the time being. Real estate debt US, I can be very quick. We've decided to go organic. We've now hired the top people and the small team and will announce it in August. I think that we're probably six months behind Europe because the team just needs to arrive, get ready, and then we feel that there's a lot of demand for real estate debt US. And given that we have a very long history of managing real estate equity in the US, I feel the ability to know what it feels like to own a property is what you need at this point in time, because you may lend to ultimately own. Now, in private credit, that's why I've been giving updates on a quarterly basis. Think of it as three product strategies. One is a direct lending fund, which, because it's in active fundraising, I cannot go into detail, but that's focussed on Europe, I spoke about in the past. We feel we benefit from the collaboration, interaction with Deutsche Bank's Corporate Bank and Investment Bank to have privileged access to certain risk types. Obviously, Deutsche is doing what's in the best interest of their client base, but sometimes referring to us for mezzanine financing may be in the best interest of everyone. Secondly, we have a capital solutions business, which I would expect to start contributing in Q3, working on a couple of interesting capital solutions, and that's an experienced team that had joined us six months ago. The third in private credit, Europe

has been issuing CLOs, and that's the point that I've just made.

Bruce Hamilton: Great. Thank you.

Dr Stefan Hoops: Sorry. The people have been smiling at me. I'm now losing a bet, because I promised to not use that term, gen AI, on the call. But given that you asked for it, I'm happy to answer it. Firstly, we need to get our data in order, which we're not far from. But that's unfortunately a hygiene aspect of going into that direction. I think there are plenty of areas in which you can make the organisation more efficient, and you can debate whether it's just proper data flows or actually AI. But actually, the data flowing is like an enterprise, data management, enterprise process management, and so on, is a key component, key building block.

What I would then expect in the near future is to enhance the ability of individuals. I think gathering information is an obvious one. But what we're experimenting with is, imagine you had a gifted portfolio manager with a gifted thought process, but you fumble, you stumble on the last step to actually decide whether it's security A or B. Your performance may be mediocre, but it may be based on an amazing thought process, but then suboptimal decision on how to actually express your transaction. We feel that AI can help greatly, and especially given that we have many capabilities across products in our firm. The ability to say based on this thought process, this is the best way to express your view in the market. I think this is a near-term application. And we've brought in a good team, partially from outside the financial industry, partially from the investment bank, and so on and so forth, that have focussed on that.

I think medium to long term, there are many very, very interesting ways of deploying it. What is actually helpful, I'm trying to describe it carefully, is having a 30% stake in Harvest, the Chinese asset management company, is quite helpful. Because what they do around data, around using what we would probably call AI, is years ahead of what I would expect in the West. Their approach to people willingly being observed so that you can track what they read and what they buy, and therefore track their thought process, that is something where they're just years ahead. And we're learning from that. Our people have been over a few times to see which algorithms we could potentially get from there and use over here, but this is a couple of years away. But I think for generative AI to fuel investment processes, this may be after my retirement, which is in 20 years, but I think that you will see a lot of efficiency generation, probably allowing people to be more specific in their choice of instruments. And then in a couple of years, even more value-added approaches to using data.

Bruce Hamilton: Very interesting. Thank you.

Dr Stefan Hoops	Thank you, Bruce.
Operator	Thank you. Before we take the next question, a reminder to all the participants. If you wish to register for a question, please press star and one on your telephone. The next question is from the line of Oliver Carruthers from Goldman Sachs. Please go ahead.
Oliver Carruthers	Hi there, it's Oliver Carruthers, Goldman Sachs. Stefan and Markus, thanks for the presentation. Particularly slides 12 and 13. If I summarise, I think you're saying that there's a paradigm shift in client buying behaviour, particularly on the wholesale side, where there is a risk that investment content becomes more commoditised in the b2B2C value chain. And a big part of the solution to staying relevant is to invest in driving efficiency in marketing and distribution, whilst also having a comprehensive offering across active, passive, and alternatives. Not trying to twist your words, but is that a fair summary? And then, in this view of the world where fee margins probably come down and cost to serve probably goes up, what do you think happens to subscale competitors? Thank you.
Dr Stefan Hoops	Thank you, Oliver. By the way, I quite like your research report on platformalization I just can't pronounce it properly, so that's why I'm just calling it something different. But I think that you will have seen that our thought process is not far away from each other. Now, when it comes to retail, specifically, the way we think about it, think about the value chain between an investor and investment. How is a retail person, a retail client that is in their 30s or 40s, how will they actually see investments? And they may simply not go to a branch where they have a trained coverage person saying please buy top dividend or Concept Kaldemorgen, but they maybe have an account at scalable Trade Republic, Revolut, whatever, like one of those neobanks and neobrokers. In that case, they see what they see because they see what's on the shelf, and what's on the shelf is everything which is easy to embed. Now, if you then want to provide value add to that platform, to that neobroker, to that neobank, you need to be able to deliver thought processes, thought leadership, research, marketing material, but in a way that they can distribute it swiftly to their customer base. Therefore, I don't think it's about less or more. It's more the delivery mechanism is one which is very similar to what you've seen in payments, very similar what you've seen in private banking and so on. Technically speaking, this is APIs, so that doesn't sound that complicated. What makes it complicated is that all of our internal services need to be able to be API able, so that connector to the non-traditional distribution channel, that is not difficult. What is

	difficult is for us to be able to deliver multi-asset equities, research, the CIO view, and so on, through that channel. And that's what we're investing in. We can go into more detail. I think it's a fascinating topic, which will happen. You can call it little b2B2C, the era of platforms or whatever. But that will happen. I think you need product capabilities, no question. But then also, the ability to actually get it into the hands of the retail client, and that is decided by the platform.
	Now, to the second question. I think, essentially, will how you deliver products become more expensive? Probably, because we need to make proper investments. And then to the point you've made, it's about scale. I think once you have those investments, I don't think that the ongoing cost will be high. In fact, it could be lower. But remember what I said about salespeople who I love, but they're probably maybe less relevant in ten years than they were ten years ago. Once you have APIs and the ability to distribute your services through APIs to the end clients, you will save cost. I think that it could be a scenario in which, once you've build it, your operating costs, both for institutional and retail, could be much lower.
	However, you will need scale, and you will need to have been there when the insurance client decided that they award you with whatever they need. And that's why I think that smaller subscale player, people that don't fully comprehend the value chain, people that don't have the full product capabilities, they will probably struggle in the future. But, again, we just wanted to show you in two pages. It's always difficult, but provide a deep dive on how we think about it and how we're investing for the future. Thank you, Oliver.
Oliver Carruthers	Very helpful. Thank you.
Operator	Thank you. Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Oliver Flade for any closing remarks.
Oliver Flade	Thank you very much, everybody, for listening in and good questions. And please reach out to the IR team in case there are any open questions left. Otherwise, we wish you a fantastic day. Thank you very much. And bye-bye.
Dr Stefan Hoops	Thank you.
Dr Markus Kobler	Thank you very much. Bye-bye.