DWS Group GmbH Co. KGaA

Q3 2023 Earnings Call

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Transcript

Speakers:

Oliver Flade

Dr Stefan Hoops

Operator: Ladies and gentlemen, thank you for standing by. I am Sherry, your Chorus Call Operator.

Welcome, and thank you for joining the DWS Group Q3 2023 Results with Investors and Analysts Conference Call. Throughout today's recorded presentation, all participants will be in listen-only mode.

The presentation will be followed by a question-and-answer session. If you would like to ask a question, you may press star followed by one on your touchtone telephone. Please press the star key followed by zero for operator assistance. I would now like to turn the conference over to Oliver Flade. Please go ahead, sir.

Oliver Flade: Yes, thank you, Sherry. And good morning, everybody, from Frankfurt. This is Oliver Flade from Investor Relations, and I would like to welcome everybody to our earnings call for the third quarter of 2023.

Before we start, I would like to remind everybody, as usual, that the upcoming Deutsche Bank Analyst Call will outline the asset management segment's results, which has a different perimeter basis to the DWS results that we're presenting here.

Today, I'm joined by our CEO, Stefan Hoops, who will lead you through the entire presentation and will take all the questions afterwards. So, if you ever had questions which your CFO wouldn't answer, now is the time to raise them.

More seriously, for the Q&A, please would you limit yourselves to the two most important questions? So that we can give as many people a chance 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.

Hence, 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 would now like to pass on to Stefan.

Dr Stefan Hoops: Perfect. Thank you, Oliver. And good morning, ladies and gentlemen, and welcome to our Q3 2023 Earnings Call.

Last quarter, we continued our steady climb up the mountain. Obviously, all of you are aware of the headwinds in the current environment.

Geopolitics, volatile markets, a difficult year for active asset management, and competition from high-yielding bank deposits, make the path ahead demanding. Yet, we recorded another productive quarter in Q3.

We attracted positive net inflows, with Xtrackers in particular displaying its competitive strength, we kept our costs under control, and we settled with the SEC.

Clearly, building and maintaining annuity businesses is not easy, nor is it glamorous. However, we continue to push forward with determination and with a sense of urgency.

One topic that is keeping us busy, and that we want to provide transparency on, is our ongoing multiyear project to enhance our operational setup as a listed asset manager.

As you know, the objective is for us to become less dependent on Deutsche Bank across three key areas. Policies, corporate functions, and IT infrastructure, including cloud and cybersecurity.

In terms of policies, we're making good progress towards DWS operating under a policy framework that is suitable for an asset manager and in line with our competitors.

When it comes to corporate functions, we reviewed those again over the last few weeks, and continue to believe that whatever we can do ourselves, and can do cheaper than Deutsche Bank, will be done in house.

While this applies to most functions, there're some exceptions. For example, we decided to keep payroll and benefits with Deutsche Bank, as this is not a differentiating factor for an asset manager, separation would expose us to operational risks, and it is a pure scale game.

However, to be frank, where we faced most challenges over the last few weeks and months is in IT. As it is not uncommon with such IT transformation projects, original estimates and plans were, to a certain extent, too optimistic on timing and costs.

Some complex interdependencies in the project only became apparent along the way, and we underestimated the need to build up enough capabilities in-house, to replace the vendors we've previously relied heavily on.

We reviewed these parts of the project rigorously during the past months, and agreed on mitigation steps to address the matter. At this stage, it is clear that we will have another year of substantial IT build costs, in line with 2023, leading to more transformation costs in 2024.

As a result of this, the transformation benefits will likely arrive later. However, we've already identified further cost reduction measures to compensate for this.

For now, allow me to switch into CFO mode and present our Q3 results, starting with the key financial highlights.

In the third quarter, net inflows totalled €2.3 billion, and €1.6 billion excluding cash. The adjusted cost-to-income ratio stood at 63.1%, in line with our guided ratio of below 65% for the full-year 2023. And the adjusted profit before tax totalled €246 million, supported by higher management fees in the third quarter.

Moving on to the financial performance snapshot. Starting at the top left, assets under management were slightly up from Q2, supported in part by our positive flow performance in Q3.

On the top right, adjusted revenues were more or less unchanged from the last quarter, supported by strong management fees.

On the bottom left, adjusted costs were slightly up quarter-on-quarter, mainly due to higher general and administrative costs compared to Q2. As a result, the adjusted cost-to-income ratio increased to 63.1%, and the adjusted profit before tax decreased to €246 million in Q3.

Let’s recap on the market environment. After rallying in the first half of the year, all major equity indices started to slow in the third quarter, amid rising interest rates and concerns of a potential recession.

Volatility levels also increased towards the end of Q3, mainly in bond markets, due to shifting expectations about Fed policy and other central banks’ hawkish stance. Overall, central banks’ messaging drove US and European government bond yields higher in the third quarter.

Investor risk appetite decreased in the third quarter, and the US dollar strengthened against the euro. Together, these developments had an impact on our quarterly AUM development, which I will outline now.

Assets under management totalled €860 billion in Q3, marking a marginal increase from the second quarter, and up 3% year-on-year. Where there was a negative market impact in the third quarter, this was offset by favourable FX movements and positive net flows, which I will now outline in more detail.

In the third quarter, we reported total net inflows of €2.3 billion, and €1.6 billion excluding cash.

This total also includes quarterly ESG inflows of €1.7 billion in Q3, driven by both institutional and retail demand for our Passive ESG offerings. Overall, Passive, including

Xtrackers, reported another solid quarter, attracting €6.2 billion of total net inflows, with strong contributions into our ETPs across all regions.

In our home market in EMEA, Xtrackers continues to rank number two by ETP inflows, with Q3 net flow growth far outpacing our AUM market share. Our strong Passive flows played an important role in enabling us to sustain another quarter of positive flow momentum, overall, in the third quarter.

Active fixed income also saw net inflows for the third quarter in a row, in Q3, driven by our flagship retail fund, DWS Floating Rate Notes, and further supported by two insurance mandate wins.

Cash returned into positive territory with €0.6 billion of net inflows in Q3, mainly driven by institutional inflows in the Americas. Collectively, inflows into these asset classes more than offset outflows across our other actively managed asset classes, as well as in Alternatives.

Alternatives were mainly impacted by redemptions from liquid real assets and real estate, amid lower valuations and reduced transaction activity in Q3. However, infrastructure sustained its positive flow momentum, reflecting continued client demand for such strategies.

Active multi-asset outflows were primarily due to institutional redemptions in low-margin mandates in EMEA, a trend we also play out in SQI, in the third quarter. Meanwhile, active equity reported a mix of retail and institutional outflows in Q3, reflecting weaker investor risk appetite in the quarter.

Overall, our diversified portfolio has served us well in the current market environment, and we will continue to strengthen this through our product innovation.

Moving on to new fund launches. Since our IPO in Q1 2018, new product launches have attracted €55 billion of cumulative net inflows, and averaging an overall management fee margin of 35 BPS.

In the third quarter, much of our product innovation was focused on our targeted growth areas of Alternatives and Passives, including Xtrackers.

In Alternatives, we started raising capital for our European Real Estate Transformation Fund, and in Xtrackers, we rolled out a first range of thematic ETFs in the US, focusing on green infrastructure, semiconductors, and cybersecurity.

We also continued to set up a cryptocurrency ETC platform in Switzerland, ahead of our planned launches with our strategic ally, Galaxy Digital.

Looking ahead, both growth areas of Alternatives and Xtrackers remain a key feature of our product pipeline for Q4. During the fourth quarter, we will launch a new range of target maturity, euro corporate bond ETFs, in response to growing client demand for such products.

In addition, we will expand our suite of Alternatives offerings with a new European Infrastructure Strategy. Furthermore, we continue to enrich the value part of our portfolio with a focus on sustainability-themed products, including the DWS Invest Conservative Sustainable Bond Funds.

Collectively, our new product launches remain important for DWS to not only meet client demand, but to also sustain positive flow momentum and revenue growth.

Moving on to revenues. The total adjusted revenues were €666 million in Q3, essentially flat compared to the second quarter, and with a management fee margin of 27.2 BPS, while management fees and other recurring revenues increased by €13 million in the third quarter.

Performance and transaction fees were slightly down, as these benefitted from the recognition of strong Alternatives performance fees in Q2. Other revenues were also up in Q3, growing to €44 million, supported by higher net interest income, together with a €13 million contribution from our Chinese investment, Harvest.

Looking forward, we expect performance and transaction fees to continue contributing 3% to 6% of total adjusted revenues in the medium term, as they did in the third quarter.

Moving on to costs. In the third quarter, total adjusted costs were up from Q2, but down 4% year-on-year. The quarterly increase can be mainly attributed to slightly higher adjusted general and administrative expenses, which were impacted by seasonal effects, including increased marketing spend for our Xtrackers brand push, and higher service charges in Q3.

Meanwhile, total adjusted compensation benefit expenses remain stable, supported by cost efficiency actions taken earlier in the year, such as organisational delayering and restructuring.

As a result, the adjusted cost-to-income ratio stood at 63.1% in Q3, supported by stable Q3 revenues and in line with our guided target of below 65% for full-year 2023.

As a reminder, the total adjusted cost base excludes €26 million of investments into our Infrastructure Platform transformation in Q3, in addition to other non-recurring expenses.

To conclude with the strategic outlook. Overall, a pleasing third quarter, given the tough market environment. Net flows remained positive, revenues were stable, and costs were under control.

Looking forward to Q4 and the year ahead, we will continue our steady climb up the mountain, to ensure we are well positioned in our four key categories of reduce, value, growth, and build.

In the reduce category, we've delivered on what we promised at the Capital Markets Day by restructuring and delayering our organisation to achieve efficiencies. We've already seen the benefits of this starting to come through in the third quarter.

Looking ahead, we've identified further measures to take active action on our cost base, amid ongoing inflationary pressures.

Looking at the value part of our franchise, active fixed income, equity and multi-asset, we continually assess how to increase our investment performance, so that we can help navigate our clients through the current challenging environment.

As mentioned in Q2, we remained fully focused on cultivating an even stronger collaboration across the entire Investment Platform, by connecting the dots further between our experts, clients, regions, and asset classes.

Notably, our new Global Insurance Council is serving us well, enabling us to sustain positive inflows into fixed-income insurance products in the year-to-date, as well as strong investment performance.

We are also enhancing processes within our Actively Managed Portfolio, such as modularising our Multi-Asset Platform, so that we can increase potential for scaling these strategies further.

In the growth category, Passive, including Xtrackers and Alternatives, remain top strategic priorities. Both asset classes have collectively contributed 86% of our total €20.8 billion of net inflows, excluding cash, year-to-date.

In particular, our Xtrackers franchise is going from strength to strength, reporting positive inflows across all regions in the third quarter. We will continue to build on this success through a solid pipeline of innovative products, including exciting new ETF launches in the Americas, where we're intensifying efforts to expand our brand.

In Alternatives, we're continuing to develop and diversify our portfolio, so that we can meet client demand and navigate some of the industry headwinds we're currently facing, especially in the real estate space.

Notably, we are strengthening our infrastructure offering by supporting the European Transformation, and designed a clear path ahead.

In Q3, we acquired one of the largest open-space solar parks in Germany, marking our first investment into the European Infrastructure Strategy, which allows German retail investors to invest directly into infrastructure projects for the first time.

Furthermore, we're expanding our Alternatives franchise into new areas. We will soon announce a new Head of Alternative Credit in Europe, and we are strengthening our real estate debt capabilities in the Americas.

Finally, in the build component of our strategy, we're moving forward with digital assets. We launched an Education Programme with Galaxy Digital to upskill our colleagues on digital assets, before bringing our planned cryptocurrency ETCs to the market.

In addition, we have moved into the next phase of our strategy, focusing on tokenised money, which brings us one step closer to the creation of a Euro Stablecoin. We'll give an update on this in due course.

This quarter, I would also like to talk about Asia-Pacific, where we continue to build out our local profile. As part of these efforts, we formed a strategic alliance with Bank of China (Hong Kong) Asset Management, one of the fastest-growing asset managers in the region.

We also hired a new Chief Country Officer and a Head of Real Estate in Japan. Furthermore, we plan to explore new opportunities for growth in China and in India, which I hope to update you on in the coming quarters.

To summarise, we remain laser-focused on growth, to become even stronger as a franchise, and we maintain our cost control and discipline.

While the path ahead may be demanding, our financial stability gives us confidence that we can remain front-footed and continue our steady climb up the mountain. Thank you. I will now pass over to Oliver for the Q&A.

Oliver Flade	Yes, thank you, Stefan. And Operator, we're ready for Q&A now. If I just may remind everybody to limit yourself to the two most important questions, that would be very nice. Thank you.
Operator	Ladies and gentlemen, at this time we will begin the question-and-answer session. Anyone who wishes to ask a question may press star followed by one on their 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. The first question is from Jacques-Henri Gaulard of Kepler Cheuvreux. Go ahead.
Jacques-Henri Gaulard	Yes. Good morning, everyone. Congratulations for getting the greenwashing with the SEC done. Just maybe a quick question about for what's left to be sorted there, in Germany in particular. Are you expecting any major, I would say, monetary consequences, or not really? Should we consider that more or less totally filed? And the second question also, on your alliance with Bank of China (Hong Kong), which is great news, can you give a bit more detail about whether that could be capitalistic at some point, and if that interferes with your dividend exceptional that you considered as more likely than not, last quarter? Thank you.
Dr Stefan Hoops	Hey, Jacques-Henri. Thank you very much for your questions. So, firstly, on greenwashing. So, the SEC is behind us, as you know. That is resolved. In Germany, we still have the ongoing process with the German Prosecutor. There's nothing new to report, so this remains utmost priority for us as management. I think I can just emphasise that we're sharing everything that's expected of us, and more. However, we operate under the timeline of the Prosecutor, so really no update. And I would make two additions, one being that when you look at our reserves for potential penalties, we feel confident and comfortable with the reserves we've built. And secondly, there's always the question of, could this lead to lawsuits from retail investors potentially? This is a question that I've been asked a couple of times. I think when you look at the SEC resolution, that really criticised us for exuberant marketing and certain processes and controls at that point in time, or policies and procedures.

	However, there were no facts that would make us think that it implies that any retail investors were impacted, so we see no facts and no basis for any potential lawsuits.
	So, that's on the greenwashing. On Bank of China (Hong Kong), I wouldn't call that partnership a major catalyst. That partnership is one of joint product development, joint marketing partnership and so on.
	It does not include any potential capital contribution, meaning when it comes to our dividend, on the extraordinary dividend of up to €1 billion to be paid after the AGM in 2024, that remains more likely than not. So, that specific Bank of China (Hong Kong) has no impact on the dividend.
	I think it just shows that Asia remains a very interesting space for us, and one in which we feel we have a pretty ambitious, but also strong organic growth path ahead. Thank you, Jacques-Henri.
Jacques-Henri Gaulard	Thank you.
Operator	The next question is from Mike Werner of UBS. Please go ahead.
Mike Werner	Thank you very much, Stefan, for the presentation. Just two questions from me. One, if you could just provide a little bit more maybe disclosure with regards to some of the financial impacts of your decision to, I guess, adjust the IT infrastructure progress in terms of your separation from the parent company.
	And then, second, I think you noted that some of the benefits might arrive a little later in terms of the economic benefits of this transformation? Does that have any impact on your 2025 cost-to-income ratio target of being less than 59%? Thank you.
Dr Stefan Hoops	Thank you, Mike. To answer your second question first, we remain committed to our 2025 financial targets, so that's just to answer that right away.
	I think the way to look at it, is as follows. What we're doing is to build an owned IT framework and IT infrastructure, mainly for our corporate functions.
	So, I think the one thing which is quite important to keep in mind, this has virtually zero impact on our clients, on our portfolio managers, on the ability to create products. This is really solely for corporate functions.
	So, when your first question was on the financial impact, I would expect zero financial impact on revenues, performance and so on.

Now, I think the way to think about it is, the IT side of things simply has more build costs in 2024, which I recognise is annoying for you as shareholders. I'm not trying to belittle that fact.

Obviously, it's transformation, so it's not part of our adjusted cost-to-income ratio, but I appreciate that for our shareholders that is bad, because it's more build costs.

However, the benefits we still target to be in line with what we initially assumed, or lower, but for which we will have other measures, meaning the benefits will arrive one way or the other.

So, therefore, the way that I would look at it, is more build cost in 2024, but still the same financial targets for 2025. I just want to repeat the fact that this has nothing to do with our client franchise, nothing to do with our portfolio managers, nothing to do with the ability to do something in Asia, to do digital assets and so on.

It's solely, essentially, discontinuing using the network of Deutsche Bank and having our own. And that obviously has build cost, but no financial impact on the franchises, and we remain committed to the 2025 financial targets. Thank you, Mike.

Mike Werner: Thank you.

Operator: The next question is from Nicholas Herman of Citigroup. Please go ahead, sir.

Nicholas Herman: Yes, thank you for the presentation, Stefan. Two questions from my side, please. Just, I guess, beyond saying overly optimistic on cost and timing of the IT projects, I guess just what specifically? What was overly optimistic?

And also, could you provide a bit more detail on the offsetting factors? The fact that you had to actually draw them out, as you suggested there, is somewhat material.

The second question, please, on investment performance. So, there seems to have been a notable improvement in performance in equities, across both retail and institutional. Just curious, which products that's…? Sorry, yes, active equities. Just which products has that come from?

And then within Alternatives, it looks like there's been another couple of billion in negative market effects. Could you please just disaggregate that please, I guess presumably within liquid real assets and real estate? Thank you.

Dr Stefan Hoops: Thank you, Nicholas. I think it was very smart to fold a couple of questions into what you call two questions, but I'm enjoying being CFO and CEO at the same time.

So, on the first one, more on our Transformation Project. Look, I think typically, and hopefully that doesn't make me come across as cynical, but if somebody shows me a project which is supposed to take out costs, I typically double what the person thinks they will spend on building it, and I halve the cost benefit.

I think that's typically the rule of thumb which serves us well. Unfortunately, that's not far from what we're experiencing in this particular IT project, where don't take the double and halve for precise math, but we were just a little bit optimistic on how quickly we could build things.

When you think about what we're doing, so we basically create our own corporate functions across finance, tax, legal compliance, owned network, owned cloud, owned cybersecurity and so on.

And I think at the beginning, one was a little bit optimistic on, let's say, the lack of interdependence between the different workstreams. Obviously, inflation came in, so that made all the vendors much more expensive.

The threat from cybersecurity increased, so in that case, I think there's nothing that one could have expected in 2020, when it comes to cybersecurity.

So, a couple of assumptions needed to change because of the market context, and a couple of instances one was simply slightly too optimistic.

I stepped in late July, early August. I took over the accountability for the Transformation Project, overall, so I've been quite involved.

And then, unfortunately when I also had to step in as the Interim CFO, I spent even more time on the numbers. So, I have good confidence in this really being a question of more build costs in 2024, but not a substantial deviation from the overall trajectory.

When it comes to the cost benefit, at the Capital Markets Day, we said that we would have 40, 45 million of lower operating costs going forward, versus what we would've been allocated from Deutsche Bank.

Honestly, I would expect that to be lower. I don't know how much lower, but what I can tell you is that given that we've made more progress than we had hoped on our reduce part, by delayering and taking out cost, we will simply continue on that path. Now, as you would expect, when you have a three-year plan, you always have certain buffers and you hope that you don't need to use them.

So, the, could we take out more cost? Is always something which we had as a buffer. Now we need to use the buffer to make up for potentially later or lower cost benefits.

But I think the point I want to get across, and obviously I don't want to suggest how you run your models, but that you treat it as more build cost, essentially adjusted cost, transformation cost in 24. But again, we remain committed to our financial targets, our EPS target, our cost-to-income ratio target for 2025.

Now, your second question, and I didn't fully hear the second part of your first sentence, whether it was investment performance or flows on equities and Alternatives.

Nicholas Herman

So, yes, it was on the investment performance. So, within equities, investment performance improved quite notably, particularly on a one-year basis, across both retail and institutional.

So, I was just curious, which products that improvement has come from? And within Alternatives, I'm presuming that the couple of billion or so of negative market effects, excluding FX, has come from LRA and real estate rather than infrastructure. So, I was just curious if you could also just disaggregate that for us, please?

Dr Stefan Hoops

Perfect, yes. So, that's actually the fund part of my portfolio, because I do oversee the Investment Division, and one of the things we've changed is that every meeting starts with a performance review.

So, every Executive Board meeting, every Global Leadership Team meeting, whatever we want to call it, always starts with performance, and we know it has improved. So, once you track something much closer, everybody is probably slightly more on the case.

So, on equity over one year, the outperformance increased by about 50% to 73%, mainly due to two of our large funds, one is the DWS Vermögensbildungsfonds Fund, which has about €12.3 billion, and also the DWS ESG Akkumula, which is about €7.7 billion.

They're both now, additionally, outperforming their benchmark. So, the three-year rose by 22%, mainly due to the Vermögensbildungsfonds Fund.

Again, I think the way to look at it is, when we disclose the outperformance, some of our mega funds, like the Top

Dividende, they're not part of it because they don't really have a benchmark. And some of the really large ones that we have, they were below the benchmark in the past, and now they're above benchmark, and they've just massively flipped it. So, that's probably the best way to think of it.

In liquid real assets, we, quite honestly, got the rates call wrong in late 22. So, we were slightly more optimistic on inflation not being that high, meaning also rates not going up as much, and that turned out wrong.

We've changed our approach, changed not really our strategy because it's really competent people, but changed a bit.

I think what you have seen is that specifically in listed real estate and natural resources, we've done really well over the last couple of quarters, really creating alpha for our clients.

So, I feel so far, so good, both for equities and essentially the, let's call it equities component of our Alternatives franchise, because obviously it's listed, it's real assets.

I think the fund, because your half sentence was also on flows, yes, the outflows which we've seen in Alternatives were roughly half liquid real assets and roughly half real estate Americas, and a bit real estate Europe.

We feel quite confident about future flows, one, because when it comes to the negative sentiment around real estate, that seems to have improved a bit. So, when you look at some of the outflows of competitors that are disclosing retail flows, that has improved.

It looks like rates have stabilised. People are more optimistic on us having seen peak rates, so I think that's helpful for real estate. And we've seen our performance improve for liquid real assets, and that is also something which got noticed by institutional investors, so also pretty optimistic on fund outlook for that. Thank you, Nicholas.

Nicholas Herman: Very helpful, thank you.

Operator: The next question is from Bruce Hamilton of Morgan Stanley. Please go ahead.

Bruce Hamilton: Hi there. Good morning, Stefan, and thanks for taking my questions. Two follow ups.

On the cost point, just to check, then. I noticed that consensus has a fairly stable line for the cost-to-income, 64% this year and then 62% next, and 60% the following year or 59% the following year. Is your guidance basically that we should expect that it's going to be at around these levels more likely through 24, and then a more meaningful drop in 25?

Or are all of these increased costs below the line items, but obviously would be a cash cost, which is why you're flagging them? Just to check.

And then, secondly, on the M&A environment, you've sounded as though there weren't that many interesting opportunities in the past. Is there any change to that? Is the dislocation driving any improvements in opportunities and pricing levels, or is it still pretty patchy? Thank you.

Dr Stefan Hoops

Thank you, Bruce. So, on 24, yes, this is below the line. And I didn't want this to come across as, I don't care because it's below the line. I appreciate it's a real cash impact for you, for our shareholders, so that's why I wanted to provide transparency.

So, we didn't give guidance for 24. One of the things I had to learn as the Interim CFO is to not get ahead of myself and say things which I know, but we don't want to disclose to the market.

So, we have below 65% for 23. We have below 59% for 25. We are sticking to that. Now, obviously we have assumed a certain path in getting from 65% to 59%, which is not necessarily linear, but also not a cliff.

Obviously, this is an annuity business, so we want to make steady progress. I think you have seen us get to low 63s% this year, so far, in the first nine months. So, 63.1% third quarter, 63.4% for the first nine months.

So, let's just assume that the quarter doesn't have any major surprises in Q4, so you I think get a good idea of what 23 should look like. We want to improve from here, that's always our ambition, but I wouldn't want to give any outlook for 24.

But I can just reemphasise the point that you already have made, Bruce, is that the additional build cost is a transformation item, so below the line. But still, I'm trying to minimise that for the benefit of our shareholders. But we remain fully committed to our 2025 financial targets.

Now, on M&A, I don't know if it's fortunately or not fortunately, depending on whether you would like to have the dividend or want us to deploy it for other means, but nothing has really changed over the last couple of months.

So, we're actively following the market. I think my view is still that when it comes to big, transformative opportunities, that insurance companies seem to have re-found their love for asset managers, so it doesn't seem that any large insurance company wants to part ways.

In an environment of EU retail regulation and focus on not having captive access to retail clients, it seems that buying a bank-owned asset manager is probably not as attractive as it may have been in the past.

And when you look at the standalone large asset managers, essentially the third opportunity for something transformative, I've also not really seen any increased, let's say, need for somebody to be bought.

So, when it comes to the big transformative opportunities, it's not for a lack of trying, but it just doesn't seem that something interesting opens up.

Now, when it comes to more bolt-on acquisitions, one of the things that you and other people asked in the past, was on private credit. There, we've now decided to go organically.

So, we found the right person to run it for us. I actually spent three days with him last week, so I think I just disclosed that it's a male. We obviously tried to find women, but in that case, we found a really good person that we trust to run it for us organically.

We will be quite ambitious in that space, so you will hear more from us, but it will be an organic strategy. When it comes to other parts of Alternatives, we're still looking, maybe infrastructure debt, but these will be smaller acquisitions.

So, therefore, we continue emphasising what we said last quarter, that us paying the extraordinary dividend of up to €1 billion remains more likely than not. Thank you, Bruce.

Bruce Hamilton: Great, thank you.

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

Hubert Lam: Hi, good morning. I've just got one question. I think you've mentioned it already, around the alternative flows. I know you lost some in the liquid real assets and real estate.

I guess my question was, how much of it do you think was due to just the general slowdown, and how much of it was specific to your performance, your underperformance in these sectors?

And also, can you talk about any new launches in the pipeline in the Alts space? Thank you.

Dr Stefan Hoops

Thanks, Hubert. So, in Alts in real estate, essentially private real estate, we've actually done pretty well, when it comes to performance.

So, I feel that outflows we've seen in private real estate equity are simply in line, actually better than the market, but that was simply market sentiment driven.

As you know, when you think of our overall Alternatives franchise of roughly €120 billion, we are unfortunately exposed to those parts which were toughest over the last 18 months. So, €70 billion in real estate equity, €15 billion in infrastructure equity, and just under €30 billion of listed real assets, liquid, that was essentially the tougher part.

So, for our €70 billion of real estate equity, we've seen some outflows in Germany, some outflows in the US, but I think this was really sentiment driven, and seems to have improved.

When it comes to our LRA business, obviously I'm challenging my PMs to show outperformance, and it's probably not helpful if you're essentially the component of the Alternatives franchise, where investors can reduce exposure.

So, when you think about the denominator effect, it was very difficult for institutional investors to sell private equity, or anything private. Listed real assets, you can sell.

So, I think what happened to that part of our franchise, which makes up a greater proportion of our Alternatives franchise and for other asset managers, it was, frankly speaking, simply the easiest way for institutional investors to simply reduce their exposure.

So, I think that this, irrespective of our individual performance, probably had an impact. We've seen this improve, and with our performance improving and I think people feeling that we may have reached peak rates, I'm more optimistic on that part of our franchise.

When it comes to fund launches, Hubert, I think what I'm excited, looking forward to, is our Pan-European Infrastructure Fund Four.

That's the fourth of our big flagship series, which we'll begin marketing this year, and we plan to launch first-half 2024. So, this is going to be substantial, and we see good interest from investors.

We have a couple of other launches in infrastructure. Our Europe, our German, the fund focused on German retail investors, that's going well, with continued inflows, and that was the fund that we've made a major acquisition for.

We have a bunch of launches here and there in real estate. I think what will be significant in real estate is our focus on debt for the Americas. That is something which has been, unfortunately, underdeveloped at DWS.

When you think about our history in managing real estate equity, we should know one or two things about managing real estate debt, which is more like equity, than in infrastructure, where equity and debt are quite different in real estate, especially in this environment in which you may lend and then end up owning something.

We feel that our knowledge translates quite well, and this is why we're focused on that.

I think, lastly, in alternative credit, Europe, and just to be clear, we will be very specific. So, I think you know us by now, we are quite specific in the things we want to invest in, and remain, and we'll continue to do that.

So, we will, yes, be ambitious in becoming one of the major providers of alternative credit in Europe. I think our approach will be a bit different.

We feel that our focus on real economy corporates, so not just PE-owned corporates, but real economy corporates, will be held off origination through Deutsche Bank's Corporate Bank and other bank partners, is going to be different than what our competitors are showing.

And the person we're bringing in is a very experienced CLO manager, and I will give an update in the next quarterly earnings call, but we want to start launching CLOs in 2024. Thank you, Hubert.

Hubert Lam — Thank you.

Operator — The next question is from Pierre Chédeville of CIC. Please go ahead, sir.

Pierre Chédeville — Yes, good morning.

Operator — Mr Chédeville, I'm sorry, we do not hear you. Can you please use the handset?

Pierre Chédeville — Hi, can you hear me?

Dr Stefan Hoops — Hey, Pierre. Yes, now we can. Hey, good morning.

Pierre Chédeville — Okay, sorry. Good morning. Yes, just one question left. Maybe I'm an old-fashioned guy, but I was looking at the evolution of your margin, not quarter-on-quarter, but year-on-year, and we can see that it has lost 1.8 points, as far as

I remember from this morning's presentation. I guess that it's due to the development of cash and, of course, Xtrackers, but how do you see it evolve in the medium term?

Do you see a stabilisation, or a continuing decreasing margin, balanced by of course efforts on your cost? How do you see that evolving in the coming quarters? Thank you.

Dr Stefan Hoops

Perfect, Pierre. Thank you for your question. And by the way, I'm reading all of your analyst's reports, and you always compare year-on-year, which is always painful for me.

So, next time, I'll give you two or three questions, or any questions you like, if you also do quarter-on-quarter. But that's just meant in jest.

To answer your question, so the Q3 average margin was a bit of an anomaly at 29 BPS. So, for the full-year 2022, we are at 28.1. We were 27.2 this quarter. When you think about the full year, we'll be slightly above that, so well within our guidance of roughly 1 BPS decrease year-on-year.

So, Q3 was a bit of an anomaly. The average, last year, was 28.1. We're targeting slightly above what you have seen in this quarter, for this year, so well within 1 BPS, and that's something which we'd also expect for the next couple of years. So, margin decrease or margin compression of less than 1 BPS.

Now, in Q3, and you already gave the answer, I would say it was, let me just call it a good margin compression, on average, when you look at the portfolio, because we had strong earnings per share increasing inflows in Xtrackers.

In Q3, we had no fee concessions, so no fee cuts of any meaningful impact on our revenues. So, this was not fee concessions, it was really simply substantial inflows in Xtrackers.

And they have, you see it for our whole portfolio, Xtrackers has roughly 17 BPS of average margin. If you assume that the inflows were roughly that, equities is low 20s, fixed income maybe a little bit less, but if you assume that on average, it was more a dilution than any fee concessions.

And again for 25, our most important target is the earnings per share, so therefore any inflows that have positive earnings per share contribution, at a competitive cost-to-income ratio, we like.

But more specifically, Pierre, to your question, this year we will be within our guidance of 1 BPS compression, we feel, for the right reasons of simply having outperformed on

	Xtrackers, and we remain committed to the guidance for future years.
Pierre Chédeville	Thank you very much. Perfectly clear.
Dr Stefan Hoops.	Thank you, Pierre.
Operator	The next question is from Arnaud Giblat of BNP Paribas Exane. Please go ahead.
Arnaud Giblat	Good morning. I've got two follow-up questions, please. You've explained a lot about the changing costs, so I've got all that. I'm just wondering if you can give us a bit of a quantum in terms of exceptionals that are booked towards these IT transformational costs? And also, is there any seasonality in the adjusted cost to be expected for Q4? And my second question is with regards to the redemptions that you see in real estate and liquid real assets. I'm just wondering if you could give us maybe a bit more colour in terms of how these funds operate. Are there any maximum monthly gates or monthly redemptions that are imposed on investors? What's the redemption profile looking like? And on the real estate funds, are there any maturities coming up that we need to worry about? Thank you.
Dr Stefan Hoops	Perfect. Thank you, Arnaud. I think those were three questions, if I counted correctly. But look, we're amongst friends. So, the first one on the build cost. What we're saying is roughly in line with 23. It can be a bit more, it can be a bit less, but I just wanted to be transparent. Again, it's let's say below the line, but obviously a cash item for our shareholder, and that's why we wanted to be transparent. I think a follow-up question may be, what are you paying this year? We're not specifically disclosing the components of our transformation cost, but I think we said at the Capital Markets Day that it would be roughly €100 million. So, again, could be a bit more, could be a bit less in 24, but I just wanted to give you guidance on what magnitude to expect. Again, that will be build cost in 24, and we remain committed to the 25 financial targets. In terms of seasonality for Q4, I wouldn't think. Nothing really comes to mind. So, what we had in Q3 were really two items, one which I wouldn't necessarily call seasonality, but

obviously we did that in the script, so that's why I'm sticking to it. But it was simply us investing more in our Xtrackers push.

So, what we've done in Q3 is launch a bunch of thematic ETFs in the US. I think we have a pretty exciting launch coming up, which keep me honest on that in the next quarterly earnings call, but I think I will comment on it as a blockbuster in the Q4 earnings call.

And we're simply investing in a brand push in the US, so that will continue in Q4, but I would say it's good cost. We are fully focused on Xtrackers, we've said that, and we're nicely growing.

The other seasonality in Q3 had something to do with the change in management, and essentially deferred compensation and so on, so that wouldn't repeat in Q4. So, therefore, I would probably see that as an anomaly in Q3, but the increased marketing spend in Xtrackers, that will continue.

The third question was essentially on, I guess, the question of liquidity is the way that I'm interpreting your question. So, when you look at the European…

Because you asked, is there any redemption date, or so on? So, liquid real assets don't really have that, meaning there are many institutional mandates, and they have certain bespoke termination clauses and so on. But there's nothing special, like not this one big maturity date.

In real estate, we have, if memory serves correctly, one fund with a redemption cap, which it hit a couple of months in a row. But we have enough liquidity, so this is not a question of, can we pay? But simply contractually, there's a redemption cap which we fit.

But again, enough liquidity. Same in Europe. The open-ended funds in Europe typically have a 12-month notice period, so if you invest, you are initially in for 24 months, and then you have a 12-month notice period.

And therefore, we have enough liquidity, and for lack of a better term, we'd see it coming if there were increased notifications. As you would expect, they were definitely more than we saw in 21 or 22, simply given the sentiment on real estate, but we have enough liquidity properly managing it.

So, therefore, from my perspective, there's not this one maturity date, or this one event that would make me nervous or should keep any of you too focused on that topic.

Arnaud Giblat: Great, thank you. Looking forward to Q4 and the slam dunk.

	Thanks.
Dr Stefan Hoops	Yes, maybe I shouldn't have said that, but now that I've said it, I'm sure you will keep me honest. Thanks, Arnaud.
Operator	The next question is from Angeliki Bairaktari, I'm sorry, of JP Morgan. Please go ahead.
Angeliki Bairaktari	Good morning, and thanks for taking my question. Just one left on my end, please. If I look at the consensus expectations, consensus does seem to expect an uptick in revenues and also a commensurate increase, in absolute terms, in the cost base for 2024, on an adjusted basis, for 2024 and 2025. And I think, if we look at the revenue progression, that's probably predicated on the expectation for significant alternative net flows, in line with the business plan that you presented a year ago. So, my question is, if the alternative net flows remain below plan for in 2024, given the environment that we're in at the moment, do you have any levers that you can pull in order to achieve the target? Could we actually be in an environment where the cost base in 2024 is lower in absolute terms, relative to the cost base in 2023? Or would that be too optimistic?
Dr Stefan Hoops	Thanks, Angeliki. So, I'm handing over to my CFO. I think that's the type of question I typically would have had Clemens and obviously Markus going forward. So, look, I won't be able to give you specific numbers for 24, not because I don't know them, but because we wouldn't want to provide this outlook. So, let me just stay slightly more conceptually. When you look at our management fees, they were 593 in Q3, so they are ticking up. Whatever your assumption is for markets going forward, I think we're not massively optimistic, but also not too negative. So, that would probably give you an idea of management fees going forward. Hopefully we'll see 600 at quarter soon, and that probably gives you a certain indication. When you look at performance and transaction fees, we remain committed to the guidance of 3% to 6% of revenues. And that is something I would probably expect a bit fewer performance fees in 24 for the whole market, given that, for example, real estate obviously had difficulties in 22 and 23. But it's just whatever you assume within that guidance.

When you look at other income, again we're not a bank, so I'm not proud of our net interest income, but that is ticking up quite nicely. So, we have about €3.5 billion of liquidity.

When you look at our average interest we're getting, that went from 1.5% in Q1, 2.5% in Q2, 3% in Q3, so the one thing I can promise you, given my background in cash management, we have the most optimised cash management operation at DWS.

So, that can give you an idea of the other revenues, and then you have Harvest and a bunch of other things. So, that's probably on revenues whatever you make of it, but just wanted to give some guidance.

I think on cost, I think you've seen us be quite disciplined. When you look at our comp and bens, they are stable, despite investments in growth. You've seen that we promised, the fact that we promised to self-fund all of our growth investments, that we've done.

I don't want to give a specific cost guidance. I think we made it clear that the build costs are essentially, again, not great, but below the line in transformation. And when it comes to normal costs, we'll continue to invest in the businesses we're committed to invest in, but you will continue to see us disciplined on costs.

Now, you asked a question on Alts. Do we have anything up our sleeve? Look, whenever you make such a plan, you have certain assumptions on markets, certain assumptions on inflation, on outlook and so on, outlook for different asset classes.

I think we're doing materially better than we had expected in Xtrackers, so we have grown AUM by about 13% in the first nine months, and we have targeted 12% per annum CAGR, so we are nicely ahead.

I think the markets have been doing better than what one could've expected in last December, so I think there we're ahead. I think we're doing better than we had hoped on the cost side of things, and yes, simply shown discipline, frankly, to take out costs.

And you're right, I think Alternatives has been more difficult to raise funds, and there we're behind the 10% CAGR. I think it would be unrealistic for me to say that we'll be catching up on the 10% CAGR on Alternatives, unless something changes.

Now, that something changes can be alternative credit, and there we've made the hires, so obviously we are ambitious

	for that. What could change is real estate debt Americas, which we are building up.
	And hopefully the market will do better. Infrastructure had a rough year this year, which I would expect to be better next year.
	But I think overall, hopefully you see the benefits of a very diversified franchise, in which a market underperformance in Alternatives, we can make up for in Xtrackers and Passive and other parts of our franchise.
	And maybe last, but not least, I think you've seen the improvement in fixed income. I was maybe too negative on fixed income in Q3, Q4 last year, so I think you've seen a notable improvement in investment performance and inflows.
	And fixed income has always been a key strength of DWS, so that is also something where we feel we can be more optimistic than we thought last year.
	So, therefore from a portfolio perspective, that gives us confidence to remain committed to our financial targets in 25. Thank you, Angeliki.
Angeliki Bairaktari	Thank you.
Operator	There are no further questions at this time. I hand it back over to Mr Flade for closing comments.
Oliver Flade	Yes, thank you very much, everybody, and please reach out to the IR Team if there are any other open questions. Otherwise, I wish you a fantastic day. Thank you very much, and goodbye.
Dr Stefan Hoops	Thank you very much. Have a great day.
Operator	Ladies and gentlemen, the conference is now concluded, and you may disconnect your telephones. Thank you for joining, and have a pleasant day. Goodbye.