DWS Group GmbH & Co KGaA

DWS Q3 2021 Analyst & Investor Call

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Transcript

Speakers:

Asoka Wöhrmann

Claire Peel

Oliver Flade

Oliver Flade

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 2021.

As always, I do hope that you're keeping healthy and safe, and before we start, I would again like to remind everybody that the upcoming Deutsche Bank call will outline the asset management segment results, which have a different parameter basis to the DWS results that we are presenting today.

I'm joined by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO. And also, as usual procedure, Asoka will start with some opening remarks, and Claire 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.

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 Asoka.

Asoka Wöhrmann

Thank you, Oliver. Good morning, everyone, and thank you for dialling in today. I hope you are keeping and healthy and safe, wherever you are. This morning, I'm very pleased to report another record quarter of financial results for DWS in quarter three 2021.

We can report today record levels of profitability, as well as a continued flow momentum, while at the same time starting to invest into growth. This is a testament to our commitment to advance further into phase two of our corporate journey to transform, grow, and lead.

In the third quarter, adjusted profit before tax grew to a record €271 million, up 10% from quarter two, driven by higher quarterly revenues and AUM growth during the last three months. And the adjusted cost to income of the firm improved to a record low, 59.2%, despite some initial investments into growth projects.

During this quarter, we also attracted strong, positive net new money, reporting €12 billion of net inflows, and all-importantly, €10 billion, excluding cash.

For the first nine months of the year, our net inflows totalled €32.6 billion, almost exactly double our flow result in the same period last year, at €16.7 billion. Remarkably, €4.8 billion of net inflows came in September alone.

Our strong quarterly performance includes €5 billion of net inflows into ESG products, which accounted for more than 40%

of our total net inflows in quarter three.

This not only reflects our unwavering commitment to our fiduciary responsibility to our clients, offering them ESG products to meet their requirements for risk-adjusted returns in their portfolios, it also demonstrates the confidence our clients have in us as a fiduciary asset manager, as well as the trusted relationships we share with our strategic partners and our distribution partners.

In addition, we also showed our continued commitment to the ESG space by being recognised as the signatory to the Financial Reporting Council's UK Stewardship Code.

This is acknowledgement that underscores the recognition of the capabilities we have in place to integrate stewardship and ESG factors into our investment decision-making processes, which we take very seriously.

During the third quarter, we saw at work our strategy to grow in areas we believe we can take a leading position in, beyond ESG, especially in passive and in high-margin strategies. Over the last three months, we retain our number two position in our share of European ETP flows, as well as market AUM, both during quarter three and year-to-date.

Overall, our passive business recorded €7 billion of net inflows in the quarter, and €22 billion in nine-month 2021, double the €11 billion of net inflows reported in the same period last year. This also includes significant contributions from our ESG ETFs, which are fast becoming a growth area amid growing client demand for such offerings.

At the same time, we have maintained our focus on high-margin strategies, including alternative offerings, active multi-asset, and active SQI, which all sustained a positive flow momentum in quarter three.

Notably, alternative strategies remain a strong demand, with continued client interest in liquid real assets, infrastructure, and real estate, which have collectively contributed significantly to our higher margin flows year-to-date.

As we have outlined before, phase two of our corporate journey marks a shift away from focusing on driving efficiency, towards also focusing on top-line revenue growth, which is not only evident in our financial results, but also in the strategic progress we have made this quarter.

To enhance our existing capabilities and expand our distribution reach, we have engaged in some selective M&A activities in quarter three. First, we have formed a partnership with BlackFin Capital Partners to unlock the full potential of our Digital

Investment Platform IKS, taking a minority stake in the new joint venture.

And in the UK, we have acquired a minority stake in retirement technology provider Smart Pension, to a target growth in the local pension savings market, in a moment where the marketplace is moving from defined benefit to defined contribution plans.

Both partnerships are a great fit with DWS, and we are looking forward to our joint collaboration to bring something new and exciting to the asset management industry. Before I pass over to our CFO, Claire Peel, for a detailed walkthrough of our numbers, allow me to recap.

The third quarter of 2021 has been a great one for DWS, demonstrating our focus and client-centric commitment to execute and deliver on phase two of our corporate journey to transform, grow, and lead. As a result, our firm has delivered another quarter of record growth, record adjusted profit before tax, record AUM, and a record-low adjusted cost income ratio.

And we have sustained our strong flow momentum throughout the entire quarter, contributing to record nine-month net inflows, already exceeding full-year 2020 M&A, and including significant contributions from our ESG products. Let me now hand over to Claire to present our results in detail. Claire, please.

Claire Peel

Thank you, Asoka, and welcome, everyone. I hope you're all keeping well. Today, I'll present the results and activities for the third quarter of 2021, starting with the key financial highlights.

Adjusted profit before tax increased to a record €271 million in Q3, reflecting continued AUM growth over the third quarter. Adjusted cost-to-income ratio further improved to 59.2%, supported by higher quarterly revenues.

Quarterly net inflows of €12 billion and €10 billion, excluding cash, keep us firmly on track to achieve our net flow target of greater than 4% on average in the medium term.

This has been supported by ESG products, which accounted for more than 40% of net inflows in the third quarter and in the year-to-date, reflecting the continued strong client demand we see for such offerings.

Moving on to our financial performance snapshot in Q3, starting at the top left, AUM increased to €880 billion in Q3, up 2% quarter-on-quarter, driven by net inflows and favourable FX movements.

On the top right, adjusted revenues grew to €664 million, up 6% from Q2, supported by higher management fees and other recurring revenues.

On the bottom left, adjusted costs totalled €393 million, due to an increase in general administrative expenses in the third quarter.

Adjusted cost-to-income ratio was 59.2%, an improvement of 1.4%, as a result of stronger quarterly revenues. Adjusted profit before tax increased to a record €271 million in the third quarter, up 10% from Q2 and up 20% year-on-year.

Let's recap on the market environment. All major equity indices had a strong start to the third quarter, but dipped in September, as investors reacted to a number of concerns, including China's regulatory initiatives, continued supply chain disruptions, the prospect of tighter monetary policy, and the ongoing pandemic.

In particular, high energy prices have led to increased concerns that higher inflation rates are more persistent than originally anticipated. As a result, market volatility levels were slightly higher compared to Q2, and the US dollar appreciated 2.5% against the euro in the third quarter.

However, market momentum has picked up since the start of Q4, as investor sentiment has shown signs of improvement. Moving on to AUM development, assets under management increased to a record €880 billion in the third quarter, up 2% from Q2 and up 16% year-on-year.

Quarterly asset growth was driven by favourable FX movements in Q3, together with strong net inflows, which I will now outline in more detail. In Q3 2021, we sustained our positive flow momentum from the first half of the year, reporting net inflows of €12 billion and €10 billion, excluding cash.

This brings our total net inflows to €32.6 billion in nine-month 2021, which already exceeds our record net inflows of €30.3 billion in full-year 2020. Our strong flow performance in Q3 and in the year-to-date has been supported by retail and institutional channels, and all three pillars of active, passive, and alternative.

Retail investor sentiment has been particularly strong, with 66% of our Q3 net inflows coming from retail investors, especially in EMEA. This is a testament to our strong three- and five-year investment outperformance at 72% and 82% respectively.

In addition, more than 40% of our quarterly inflows came from ESG-dedicated funds, reflecting our strong client demand and engagement in such offerings, a trend we see clearly in most asset classes.

This is most evident in passive, our biggest flow driver, which contributed €6.6 billion of net inflows in Q3, a third of which came from ESG ETFs. This includes inflows from new product launches, as we continue to build out our range, to meet increasing investor interest in ESG.

One example is the Xtrackers Emerging Markets Carbon Reduction and Climate Improvers ETF. Overall, ETPs accounted for almost two thirds of our total passive inflows in Q3. The remainder of net inflows were mainly contributed by a significant mandate win.

As we have seen, quarter after quarter, our European-listed ETPs continue to perform strongly, ranking number two in the region, and by Q3 net inflows. In nine-month 2021, DWS has steadily increased its total passive flow share with €22 billion of net inflows year-to-date, double the €11 billion of inflows recorded in the same period in 2020.

Alternatives have also sustained their positive performance, with €1.4 billion of net inflows in Q3. This was primarily driven by liquid real assets, including the DWS Real Assets Fund, which continued its flow success from Q2 and is now close to achieving €2 billion of net inflows year-to-date.

In nine-month 2021, we have seen our alternative net inflows almost double to €4.3 billion, compared to €2.3 billion of inflows in the same period last year.

This not only reflects continued demand for liquid real assets, but also stronger interest in infrastructure, especially the DWS Infrastructure Debt Opportunities Fund, and the DWS Invest Global Infrastructure Fund.

We also continue to see client interest in our real estate offerings, including flagship fund run visits. This uptick in alternative inflows not only supports our quarterly and year-to-date flow performance, but also contributes to revenue generation, underscoring the importance of alternatives to ensure DWS sustains its growth trajectory.

Cash remained in positive territory this quarter, with €1.9 billion of net inflows. Q3 cash inflows were primarily driven by the DWS Government Money Market Series Fund, supported by the US institutional market.

Active multi-assets attracted €1.1 billion of net inflows in Q3, continuing its positive flow momentum from Q2. Our Flagship Concept Kaldemorgen was our top-selling multi-asset fund in Q3, following a rebound in investor appetite for the asset class.

In addition, the DWS ESG Dynamic Opportunities Fund also continued to attract strong investor interest, and currently ranks as our top-selling multi-asset ESG fund year-to-date. Active fixed income reported €0.8 billion of net inflows in Q3, marking a fifth consecutive quarter of positive flow performance.

This reflects net inflows from institutional investors in the US and retail investors in EMEA, and includes sales in our flagship product, Floating Rate Notes Fund. In addition, our insurance fixed-income business continues to perform well, reporting €1.2 billion of net inflows in Q3, and €3.9 billion year-to-date.

Active SQI recorded positive inflows for the third quarter in a row, in Q3, with €0.7 billion of net inflows, marking a reversal from 2020 outflows. This quarterly result primarily reflects the uptick in European retail sentiment, with inflows reported across a range of funds.

Altogether, these inflows more than compensated for active equity outflows in the third quarter. While investor appetitive for the asset classes picked up in the markets, there has been a greater shift away from traditional active equity funds in favour of ESG equity funds, as investors seek to rebalance their portfolios.

We saw this trend play out in the third quarter, amid uncertainties around economic outlook and flagship fund performance. And while we reported net outflows from our traditional active equity funds in Q3, we're encouraged by the strong and continued demand we see for our active ESG equity funds, which have attracted €1.9 billion of net inflows year-to-date.

Overall, ESG products contributed €5 billion of total net inflows in Q3, and €13 billion year-to-date, representing approximately 40% of our €32.6 billion of net inflows in the nine-month 2021. ESG products also account for 40% of cumulative net inflows into our new product launches, which I'll now explain in further detail.

Since Q2 2018, new product launches have attracted €37.3 billion of cumulative net inflows, and reported an overall management fee margin of 40 basis points. This includes a €4.2 billion contribution to our Q3 net inflows, bringing the year-to-date total to €15.5 billion.

As a result, new products represent almost half of our total €32.6 billion of net inflows in the nine-month 2021, which is testament to product innovation. Notably, the DWS Concept ESG Blue Economy Fund we developed with the WWF has been well received, contributing positively to net inflows in Q3.

And as mentioned previously, the Xtrackers Emerging Markets Carbon Reduction and Climate Improvers ETF is attracting strong client demand, confirming that we are meeting growing client interest. This is an area we will continue to build out, including in Q4, with the planned launch of the Xtrackers ESG Global Government Bond UCITS ETF.

We are also planning to launch the DWS Invest ESG Net-Gen Consumer Fund in the fourth quarter, which is designed to invest in companies that are expected to benefit from a shift in consumption patterns, driven by Millennials and the subsequent next generations.

Both of these new products will comply with Article Eight of the EU SFDR Regulation, which will continue to play a key role in our fund launches going forward. In addition, we will also focus on SFDR conversions for existing products, where efforts are concentrated in Q4.

Moving on to revenues, adjusted revenues increased to €664 million in the third quarter, up 6% from Q2, and up 19% from the same period last year. Management fees and other recurring revenues grew by 4% from Q2, as a result of higher average AUM and strong net inflows in Q3.

Despite this, the quarterly management fee margin declined to 27.6 basis points, due to specific quarterly factors.

Performance and transaction fees increased by 45% quarter-on-quarter, primarily driven by higher transaction fees in Q3, while other revenues increased quarter-on-quarter, and were supported by a €17 million contribution from our Chinese investment, Harvest, together with positive investment income.

Moving on to costs, with fewer COVID restrictions now in place, we are gradually getting back to normality. Total adjusted costs have risen by 4% to €393 million in the third quarter. This was primarily due to an increase in adjusted general and admin expenses, as we continue to invest into growth projects as well as in business travel and marketing activities.

There have also been a number of one-off items in the G&A expenses in Q3. Together, these more than offset the 7% decline in adjusted compensation and benefits costs, due to lower variable compensation relating to DWS share price movements within quarter.

As a reminder, the adjusted cost base excludes €9 million of investments into our Infrastructure Platform Transformation Project, and €21 million in the first nine months of the year. To conclude, DWS reported another successful quarter in Q3, sustaining its positive momentum from the first half of the year, into the second half of 2021.

Strong Q3 net inflows contributed to total net inflows of €32.6 billion in the nine months of 2021. This was driven by positive flow performance across most asset classes, retail and institutional channels, and with continued client demand for ESG products, which accounted for approximately 40% of total net inflows in the third quarter and year-to-date.

Together, this supported higher revenues and AUM growth in

Q3, resulting in record adjusted profit before tax of €271 million, and an improved adjusted cost-to-income ratio of 59.2% in the quarter.

As committed, we have continued to invest into the growth and transformation projects in Q3, a focus we will retain in the fourth quarter and into 2022. As a result, we expect an adjusted cost-to-income ratio in the low 60s, in 2022.

As we have demonstrated already this year, we are successfully attracting net inflows into our targeted growth areas.

And this keeps us firmly on track to deliver a net flow growth rate of more than 4% on average in the medium term, and ensures we continue to advance even further into phase two of our corporate journey to transform, grow, and lead the business. Thank you, and I will now pass to Asoka for closing comments.

Asoka Wöhrmann

Thank you, Claire. Looking ahead, we will continue to concentrate on our corporate journey for phase two. We will continue to focus on helping our clients navigate through any macroeconomic situation that may present itself, including inflation pressures, with our global and diversified offering of products and solutions.

We are more committed than ever to deliver value for our shareholders, while transforming our organisation and investing into both organic and inorganic growth, wherever it adds value to our firm.

In particular, we are committed to, first, delivering ongoing profitability though continued unit flows, driving AUM growth. Second, achieving a clear path to a sustainable adjusted cost income ratio of 60% in 2024. And third, staying fully committed to the ESG space, to meet our clients' growing needs.

To ensure we are able to accomplish these goals, our strategy of transform, grow, and lead, will continue as before. We will keep pushing to transform our firm into a truly standalone asset manager, with our own dedicated infrastructure platform.

We will remain focused on developing and evolving the best possible ESG products and solutions offering for our clients, while engaging in external commitments to help shape better ESG practices for our industry. We will invest more to grow in the markets and businesses where we believe we can lead, especially in passive and high-margin strategies.

We will continue to form strategic partnerships that capture growth opportunities, especially in our targeted growth region of Asia-Pacific.

And to underpin our growth strategy in key markets, we will accelerate building and promoting the DWS brand globally, supported by our recently announced strategic partnership with the iconic NBA basketball team, the LA Lakers, leveraging their global visibility, especially in Americas and in Asia.

While there is clearly still a long road ahead of us during phase two of our corporate journey, which we started just ten months ago, the resilience of our strong financial results in quarter three, and the first nine months of 2021, indicate we are positioning ourselves well for the future. Thank you for your attention, and I will now pass over to Oliver for Q&A. Oliver, please.

Oliver Flade

Thank you very much, Asoka. And operator, we are ready for Q&A now. Again, I would like to remind everybody in the queue to limit yourself to two questions. That would be great. Thank you very much.

Operator

Ladies and gentlemen, at this time we will begin the question-and-answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. To withdraw your question, you may press star followed by two.

If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. And the first question is from the line of Mike Werner from UBS. Please go ahead.

Mike Werner

Thank you, Asoka, and thank you, Claire, for the presentation. Two questions from me. First, can you describe, I guess, any impact that the ongoing SEC and Boston investigations are having on your business?

We did see a good €5 billion of inflows in September, but I was just wondering on the institutional side if there has been any impact, maybe, that we haven't seen or we may see in the future. That's number one.

And then number two, on the cost side, thank you for the colour on the incremental costs that we saw on Q3. I was just wondering if you can break out maybe what the one-off costs were, related to some of the transactions that you have done, particularly the professional fees there, which are unlikely to recur.

And, or maybe, Asoka, I think you mentioned that some of this came from the initial investments in growth opportunities. I was just wondering what that initial investment looks like versus the recurring investment that will be needed as we go forward in those specific opportunities. Thank you.

Asoka Wöhrmann

Mike, thank you for both questions. I think the first question or complex I will take might be, Claire will chip in on the numbers, and I think then also the cost one will also be answered by Claire.

First of all, we never comment on any regulatory interaction. I think you understand. We have been very clear that we firmly reject the allegations being made by a former employee. We stand behind our disclosures, and we remain firmly committed to ESG as a part of our fiduciary duty, as well as our corporate.

We have to say, all our institutional clients, they are longstanding partnerships. They knew all our processes, and therefore I think we have more client interaction, but they knew exactly what we're doing and what our disclosures are, our investment processes are, our product and solutions are.

So, therefore we can't see any material impact to our business and to our franchise. This is due to also our close relationships, but also very strong, let me say, reach out to our clients during this phase, and I think we are glad to see that it's also shown in numbers.

With that, I will hand over to Claire, and Claire, if you want, we can go in the deep dive on numbers, but I think Claire has done that already in her section, and also go into the second questions.

Claire Peel: Thank you Asoka, and thank you, Mike, for the questions. On the second one, on costs, we did see 4% increase in total costs, as you've indicated, in the third quarter. And we really saw, across a number of areas, incremental costs on the G&A side, but really no surprises there.

So, in part, I would say that's business-as-usual activity, some small pickup coming in travel and activity levels on the marketing front.

We had a few one-off costs, which I referred to, related to various activity we have in the platform, some actually linked to efficiency gains, where we're adjusting our real estate portfolio at the moment, and we have some one-off costs attached to that.

And also, some of the activity that we've outlined in terms of the recent transaction, drove some costs in the third quarter as well. So, a small uptick there in G&A, but offset by some decline that we saw in the comp and ben costs. But overall, still a 60.1% cost-to-income ratio on the year-to-date.

On the question of growth costs going forward, we have incorporated in our target of a sustainable 60% cost-to-income ratio, capacity for investment into growth initiatives, and we've seen some of that playing out in the third quarter.

And we'll continue to see that in the second half of this year, and moving into next year and beyond. Hopefully that addresses the question. Thank you.

Mike Werner: Very helpful. Thank you both.

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

Hubert Lam — Hi, everybody. Just two questions. Firstly, on ESG AUM, do you have an updated figure in terms of your ESG assets, and have there been any changes on how you report ESG in your disclosures? That's the first question.

The second question is just a little bit more generally, Asoka. Do you think there'll be increased regulation on ESG going forward, and what do you think this will be, generally? Thank you.

Asoka Wöhrmann — Hubert, good morning. Thank you for all the questions. Claire will answer the disclosure and how we're reporting on ESG flows, and I will take maybe on regulations, how that kicks in, and how that's going to shape the asset management industry.

Claire Peel — Good morning, Hubert. Thank you for the questions. On the ESG dedicated AUM number, we reported that in our half-year interim report, and we will again report in our annual report, but we don't report that as standard practice in the interim quarters of Q2 and Q3.

So, as of our interim report that we published in July for Q2, we reported ESG AUM of €70.1 billion, and that was following the new regulation that came into play on 10th March around the SFDR definition. So, in terms of the question on changes, the only changes that took place in the definition were as defined from the regulation that was published on March 10th.

So, that's effectively the basis of the reporting disclosure that we have for AUM, and will also be so when we report at the end of the year.

Asoka Wöhrmann — Hubert, I think hopefully the first part is answered. I do think, regarding your second part of your question, how the regulatory environment is going to change over the next course, not months, in my opinion, years. This is a start.

The SFDR regulations in Europe, Article Eight and Nine is the start of disclosure regulations. I do think that will kick in much more regulations. We're expecting next year to have not only the European Taxonomy, as we discussed many times here, but also, I think the MiFID regulation will change.

That means the suitability discussion will come in. All that, that is the way how we're preparing all our conversions, all our product suite into the future. It will be a very evolving and dynamic market. That is Europe.

At the moment, we are not seeing anything ticking in the US, also in Asia, but that will come in, in my opinion, next years. As we discussed, the ESG space is an evolving space. I think we very much welcome also the dialogue, also as a part of the asset management industry, the dialogue on the COP26 that will happen soon, next month in Glasgow.

And we will see how the dialogue is going on, and I do think the green industrialisation topic, and the contribution of asset management to this green industrialisation and the society change, will be discussed.

And I think, as we always talk in our AGMs, but also in different events, we are happy to contribute and bring out thought leadership into this field.

And I think, to be honest, as an active manager and also a passive player and alternative player, we are happy to especially go the path of engagement into this field. I do think that will differentiate us also to some other players.

So, Hubert, I think I want to only prepare all of us. There's huge dynamic market, and many changes will come in, and therefore the disclosures and also the reporting standards will be developed very dynamically in the future. Thank you.

Hubert Lam: Great. Thank you very much.

Operator: The next question is from the line of Arnaud Giblat from Exane BNP Paribas. Please go ahead.

Arnaud Giblat: Yes, good morning. I've got two quick questions, please. Firstly, on Harvest, you mentioned in the presentation a €17 million contribution this quarter. I think that's quite a substantial sequential decline. Could you talk a bit about the factors that have affected Harvest, and whether these will continue in the following period?

Also, I'm just wondering, what are the other contributing factors to that €29 million in other revenues? And my second question, to come back on cost, you got into a low 16% cost-to-income ratio in 2022. I'm wondering, what are the moving parts?

So, perhaps could you give us a bit more colour in terms of what are the investments still to be made, and quantify those? Any efficiencies to be made, and quantify those? And any revenue assumptions, I think is quite important in that cost-to-income ratio regardless. Thank you.

Claire Peel: Good morning, Arnaud. Thank you for the questions. I'll take the first one on the composition of the other revenues, which was €29 million in Q3.

And as pointed out, €17 million of that came from our Harvest joint venture, which takes us to a year-to-date total of €66 million from the Harvest JV investment, already outpacing the exceptional revenues that we actually generated in the full-year of 2020.

So, yes, it is a decline quarter-on-quarter, but as with any quarterly numbers, there're no particulars going on there. I think it is just the performance that we're seeing across the Harvest JV. But 18% to 20% was expected to be a more normalised run rate per quarter.

We slightly outperformed that in Q2, and there was a very strong performance that we saw in Q1, but we still expect to continue on that path and see an increasing and improving contribution from Harvest for 21 compared to 2020, and also looking forward into 2022.

In terms of other items that are within the other revenue category, the other most notable item for Q3 was coming from investment to income from co-investment positions that we hold in our Alternatives Platform. And so, we saw a strong return coming from those in the third quarter. Those are the most notable items to comment on.

On the second question around the outlook for 2022, we're guiding to a cost-to-income ratio in the low 60s%, to recall that our target here is to have a sustainable 60% cost-to-income ratio target by 2024. And we are on a path forward to both invest in the business, while ensuring that we can generate ongoing sustainable efficiencies to take us to that 60% level.

So, as we look forward to 2022, and we will give more guidance in the future, we do expect to see further investments into growth, further investments into the platform, and of course, some normality returning to general activity levels compared to what we've seen in the last 18 months.

On the revenue side, we've seen very strong growth, we know, in 2021, so we wouldn't expect to see such strong growth in market levels in 2022. But we do take a constructive consensus outlook in terms of opportunities for 22 on the revenue side, and more details will follow on that later on. I hope that addresses the question. Thank you.

Arnaud Giblat: Thanks.

Operator: The next question is from the line of Nicholas Herman from Citigroup. Please go ahead.

Nicholas Herman: Yes, good morning. Thank you for taking my questions. Two from me, please. One on ESG, one on the margin this quarter. I imagine you've done some internal evaluations following the allegations.

What have been your initial learnings across your ESG governance structures and integration processes? Or otherwise, was there absolutely nothing that needs to change, as you see it?

And the second question, on margin, I thought it was actually quite a solid margin considering mid-shift. Yes, the margin did come down versus a strong Q2, but if I remember well, that benefited, particularly on the alternative side, following fund closures.

So, I'm just curious, were there any other similar effects on alternatives this quarter, please? Thank you. Or anything else to call out, I should say.

Asoka Wöhrmann

Nicholas, thank you very much for the two questions. If you allow me, I will take the first one. I think, as you know, 26th August, we'd done a corporate statement that hopefully for everyone it's clear. Our part of ESG will continue, as I stressed again today, and I think we are standby to all our disclosures, what we've done in all our annual reports.

As I already said, and I think Hubert asked this question also, what will happen to the ESG space in the future regulatory wise, I think, as we discussed many times, Nicholas, it is a dynamic area. And I think we decided end of 19 our strategy licence to operate.

And licence to operate was designed to bring a clear governance into our organisation, and we've done it with the GSO Office, and brought that as a core strategy to DWS. All that is continuing.

And you can see not only that we are now in this year, that we have decided about our conversion with very clear foresight, not only at the SFDR Regulation, we are also preparing for the future regulation, changes and taxonomy changes in Europe.

Saying that, at the same time also we are looking forward, and as you know, we are one of the signatory members of the Net Zero, and I think Net Zero is also a part we want to go as one of the signatory early members.

Saying that, we are continuing our programme, the first phase as well as the second phase, to become one of the leading players in this industry. And I think, as I said, also other contributions to the biggest change, in my opinion, lies. Because I do think that it's not only a society topic, it's also especially an industry topic, what we can contribute.

So, therefore our organisation is not only changing fast to all the changes, what we are seeing outside, but we are sticking to our strategy, as we always said and agreed and also discussed with you guys.

Claire Peel

Thank you for the question, Nicholas. I'll take the second one on the fee margin. So, yes, the management fee margin of 27.6 basis points in Q3 is a decline compared to Q2 of 28.1 basis points.

And as you pointed out, we did have some fund closures in the second quarter, in alternatives, that lead to an equalisation effect in uptick in Q2, which we see normalised in Q3. And that really accounts for the majority, I'd say, about 0.3% of the movement we see quarter-on-quarter. Otherwise, adjustment is from a small mix effect that we see in the Q3 number.

The guidance still very much holds, that we project around one basis point of fee margin dilution per year. So, where we came from at the end of 2020, I would say that for the full-year, the fee margin will be slightly less than one basis point of dilution.

Overall, compared to last year 2020, we were slightly higher. So, I think on average, about one basis point of dilution per year continues to be the guidance.

Asoka Wöhrmann — Nicholas, did we answer your questions?

Nicholas Herman — Yes, you did. It was helpful. Listen, I obviously noted the fact that you have rejected the allegations, and that you are confident in your disclosures. I'm not disputing that at all.

I was just curious in terms of, therefore, if there were any other learnings beyond that, from what you have, from what you've obviously investigated since then. But I appreciate that it's obviously sensitive as well. So, if there's anything else that you want to add to that, then you're obviously welcome. Otherwise, I'm happy to leave it there.

Asoka Wöhrmann — No, Nicholas, I think your points are very, in my opinion, valid. What we can see, through these allegations that we have rejected, it came a moment to the organisation we never believed.

We have now so much client interaction, and we have so much education sessions on ESG, it's a great chance for our organisation.

This is now really one of the full-fronted items with our clients. Not only with institutional clients, it is also with all distribution channels. And I think that's a great opportunity for us, and I think that is also witnessed by flows and I think also the number of client actions.

And I think that gives us not only, let me say that great feeling, this is very much an interest of all, but we can really show up now with all our, let me say capabilities, what we have in hand, and be in a dialogue with our clients.

But also, I think more and more with very, in my opinion, the pressing topic. This is not only asset management industry topic. We have to engage many other stakeholders to get there, what people are looking for.

Nicholas Herman	Great. Thank you very much.
Operator	The next question is from the line of Gurjit Kambo from JP Morgan. Please go ahead.
Gurjit Kambo	Hi. Good morning. Thank you for the presentation. So, two questions. Firstly, on the Digital Investment Platform and obviously the acquisition of BlackFin Capital Partners, what's the strategy behind that? What are you trying to do? Are you trying to build a distribution platform? I'm just really interested to understand what that platform would look like, and where we will expect to see the contribution from that. Does it come into other revenues, or will it come somewhere else? That's the first question. And then, secondly, on M&A, what's the rough firepower you currently have for M&A, and what areas are you looking for potential acquisitions? Thank you.
Claire Peel	Hi. Thank you for the questions. Let me perhaps start with the second question, on firepower for M&A. And I think, as we've indicated before, we are in a position to act should the right opportunity arise on the acquisition front. We don't have any constraints or obstacles in that regard, we're suitably capitalised, and we have tools that we can deploy to engage in an acquisition of size, whether that's bolt-on or larger. So, we are in a position to move forwards. We can't disclose the specific excess capital, but we are able to act should the opportunity arise. On the question around the digital platform, to answer the question on the recognition side, we have not yet closed the transaction, of course. That will take us into next year. And when we do close that transaction, we expect midway through next year we would look to report if there is a gain on sale, which we're not disclosing at this point in time. That would, indeed, be reflected as another revenue line, so that's something to come next year. And I'll hand over to Asoka on the transaction.
Asoka Wöhrmann	Thank you. And I think, if I may answer your question regarding what we desire to reach out of this, let me say, partnership, BlackFin and DWS have agreed a long-term partnership to evolve our Digital Investment Platform into a platform ecosystem. And I think, as you know, it is a very intense work. And we thought it is very helpful for us to work with BlackFin Capital Partners, because of their great experience in this field. And we are going to create a best-in-class client experience and service platform, and not only, by the way, for distribution partners, but also the institutional clients and retail clients in the future.

And I do think it might be irrelevant at the moment in Europe, but it will become very relevant in the future. And I do think also our global coverage head, Dirk Goergen, has mentioned I think this joint venture on the digital side will be important, to create a pan-European player, go out of our very strong positioning in Germany.

And I do think that will help bring us with this partnership, and I do think this is a big hope and intention of us, and I do think that's a relevant partnership for us in the future.

Gurjit Kambo: Great. Thanks very much.

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

Jacques-Henri Gaulard: Yes. Good morning, everyone. I guess I have the same two questions as everybody else, but I will rephrase them. The beginning of the quarter, it was the stock price numbers going down by 12% on the day you had those two regulatory inquiries. I'm just surprised you didn't make even half of a slide on the communication today.

I was wondering what drove your decision not to basically do that. And I can possibly appreciate you can't communicate on it, but do we have any idea of the delay on these inquiries?

Because, as you know, when these contingencies happen, they really are a pain for the medium-term analysis of any stock. So, any colour, even very vague, you could give on any delay, would be great.

The second question. On the cost front, it's great hearing you, Claire, on the cost-to-income ratio side, you're down 59% this quarter, with a lot of one-offs. So, probably without the one-offs, you would have been at 58%.

Obviously, I'm not asking you to change any of your guidance, but if you were an analyst in our shoes, wouldn't that make sense to just stick the cost-to-income ratio to 60%, almost irrespective of market conditions, over 20% to 24%? That's it. Thank you very much.

Asoka Wöhrmann: Jacques-Henri, I think let me take the first question. First of all, I've been a longstanding investor, and I started as an investor. One thing I know, my career, you will not control markets. And I think share prices move according to news flows, and as we know, 25th August with the Wall Street Journal article, the discussion started, and we have seen the slump.

Since then, we had a quite side way. And I have to say, that is something we never discuss here, the rise of stock, and we never discuss the down of the stock, but I think that is an event we can't, let me say, not recognise it. But we can do only our best as the management.

We are close to our clients, we are implementing and executing our strategy consistently, as you knew, and I think we're delivering the numbers, what our shareholders are expecting.

And that's what we can do, and all other things, our investors and the community where you are in can do it, and I think that's the only way you can tackle these situations.

Again, we are not going to control our stock price, so therefore I would say we are doing our best, as you can see on the third quarter with the record results, what we delivered, and close to our clients and driving our strategy. With that, I will hand over to Claire to answer the second part.

Claire Peel

Thank you, Asoka, yes. And thank you for the question on the cost side. So, indeed, we have reached a record low in Q3 at 59.2% cost-to-income ratio, with the few one-off items that we have in that number. So, indeed, that would have improved it slightly, albeit there's always a number of one-offs that we have through the quarters.

The guidance that we're giving for next year is looking to refine the medium-term guidance a little bit more for you, to indicate that we will be in the low 60s% next year. We have seen strong accelerated revenue growth in the year of 2021, and we need to look more closely at the market outlook for the year 2022.

And on the cost side, as we've said, we will see a normalisation of some activity, which will give some upward cost pressure, with continued investments into growth. So, I think when we combine those factors, that does lead us to the guidance, that we would see a cost-to-income ratio in the low 60s% in 2022.

But we're firmly committed to achieving a sustainable 60%, and that's why we don't think we can guarantee that next year, but we are committed to achieving that sustainable cost-to-income ratio target by 2024. Hopefully that answers the question. Thank you.

Jacques-Henri Gaulard

Thank you very much, both.

Operator

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

Bruce Hamilton

Thanks. Morning, and thanks for all the answers so far. Many of my questions have been answered, but I guess just, and this goes a little bit to the 22 guidance point again, it sounds like the exit speed in net new money terms coming out of Q3 is pretty strong.

So, I just wanted to get a sense, when you talk about fading your assumptions on growth for 22 versus where we've been in the last 18 months, I completely get that. But to check, you're not seeing anything in the business today that suggests any form of slowdown in the organic growth rate?

And then, just to clarify, I think to one of the earlier questions, any institutional impact from the ESG investigations? Just to make it clear, you're not seeing any impact to pipeline that you would flag in terms of growth? That would be super helpful, just to clarify. Thanks.

Claire Peel: Thank you for the question. I'll pick that one up, given the continuation onto the outlook and the guidance for 2022. I would say in terms of the net flow outlook that we've seen year-to-date, and what we see continuing going forward, we continue to be very constructive on our guidance there.

We have a good pipeline, no surprises in our pipeline. And as we've said, in Q3 there've been no material impacts to the negative side that we have seen, and we continue to see that in our pipeline outlook for Q4.

In terms of our guidance on flows, we've always said that we will exceed 4% net flow rate, and we've certainly seen that for this year. At the same time, we do recognise there can always be volatility, and that's why we hold to the guidance of greater than 4% on the net flow rate.

Otherwise, in terms of business outlook on the revenue side, we continue to guide on performance and transaction fees of between 3% to 5%, and that will continue into next year. But noting that we can always exceed that, we can outperform, as we did in Q4 2019, when we had a one-off performance fee in that quarter.

We can see a recurrence of that, which would, indeed, mean that we would outperform our 3% to 5% Performance and Transaction Fee Guidelines. But otherwise, nothing out of the ordinary that we would point to for 2022.

Bruce Hamilton: Great. That's very helpful, thank you.

Operator: The next question is from the line of Angeliki Bairaktari from Autonomous. Please go ahead.

Angeliki Bairaktari: Good morning. Thanks for taking my questions. Just a follow up on the IKS Platform, please. What was the revenue and net profit contribution of the business to your P&L in 2020, and perhaps also in the first nine months of 2021? Just to understand the size of that business, given that you're now selling most of it.

And a second question on flows. Retail net flows have been very strong year-to-date, and I think you also called out a good appetite from retail clients. In which countries do you see most interest from retail investors, and how is Deutsche Bank's

	network in Germany performing in particular? Thank you.
Claire Peel	Hi. Thanks for the questions. On the first one regarding IKS, we haven't disclosed specific financials for that platform business, but it has been embedded in our broader business, and now it's in the process of a carveout. So, I don't have any numbers to disclose on that one, I'm afraid. But we will have more to say on that as we close the transaction next year. On the flow side, in terms of retail distribution, indeed, we've seen strong retail flows in the third quarter. And in fact, that's been the majority of the flow pipeline, particularly strong in EMEA and across our distribution networks, including the Deutsche Bank Distribution Network, which has also been contributing strongly to the results that we've seen in the third quarter. So, mainly EMEA and strong in Germany.
Operator	Ms Bairaktari, are you finished with your questions?
Angeliki Bairaktari	Yes, thank you. If I may just follow up on the IKS, is it fair to assume that the impact from the deconsolidation, or from the partial deconsolidation of that business, is not going to be more than a couple of percentage points in your earnings?
Claire Peel	I can't give any specific guidance on that, I'm afraid, to that degree.
Angeliki Bairaktari	Okay, thank you.
Claire Peel	Thank you.
Operator	The next question is from the line of Reg Watson from ING. Please go ahead.
Reg Watson	Good morning, all. As you shift into stage two of your strategy, clearly, you're focusing on the top line. And in the commentary, you make a reference to a strong fund launch pipeline in 2022. Please could you give us some quantification in terms of scale and cadence of how 2022 is going to be different from 21?
Claire Peel	Hi. Thank you for the question. Yes, indeed, on the slide on product innovations, we have pointed to two things, actually, that we are focusing on fund conversions following SFDR Regulation. And I think that's one indication of where we'll see a lot of activity in terms of product pipelines, as we convert current funds that we have on the platform to SFDF-defined funds. And in addition to that, we have a strong fund pipeline going into 2022. And again, we have said that our new fund launches will be very much focused on ESG-dedicated funds as the default, and that's really where we'll see the continued growth across our passive and ETF platform, across active thematic funds.

	Specifically, within equity, where we have thematic ESG equity funds, and also within alternatives, where we have a pipeline next year. I don't have specific percentages to give you on that, but I think that's something we can certainly follow up on, as we have more details coming into next year.
Reg Watson	Okay, thank you. That'd be much appreciated.
Operator	There are no further questions at this time, so I hand back to Oliver Flade for closing comments.
Oliver Flade	Yes, thank you very much, and thanks, everyone, for your questions and for dialling in. Any follow-up questions, please feel free to contact the IR department. And otherwise, I wish you a fantastic day and a healthy time. All the best. Bye bye.
Claire Peel	Thank you.
Asoka Wöhrmann	Thank you.