DWS Group GmbH

Financial Earnings Call

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Transcript

Speakers:

Dr Stefan Hoops

Claire Peel

Oliver Flade

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Good morning, everybody, from Frankfurt. This is Oliver from investor relations and I would like to welcome everybody to our earnings call for the second quarter of 2022. As always, I hope you're keeping healthy and safe. Before we start, I would like to remind you that the upcoming Deutsche Bank analyst call will outline the asset management segment's result, which has a different parameter basis to the DWS results that we're presenting today. I'm joined by Stefan Hoops, our new CEO, and Claire Peel, our CFO. Stefan will start with some opening remarks and Claire will take you through the presentation afterwards.

For the Q&A, 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. With that, I will pass on to Stefan.

Dr Stefan Hoops

Good morning, ladies and gentlemen. Welcome to the Q2 2022 results for DWS. As a new joiner on the call, I would like to quickly introduce myself. My name is Stefan Hoops and I took on the role of CEO on June 10. I spent the first 15 years of my career on the market side and the last four years in corporate banking. While working in markets, I covered global asset managers for fixed income and equities, with a focus on structured products and private credit. While running the Corporate Bank at Deutsche Bank, I got to know the engine room of asset management where collateral management, custody, clearing and cash management takes place.

Throughout my career I've learned a lot about how to manage disruption, starting with the global financial crisis in 2008. The last couple of years in transaction banking have been particularly intense for two reasons. Firstly, the perfect revenue storm for a business that holds deposits and hands out loans, when early 2020 we faced plummeting rates and a breakdown on global trade, reducing the need for trade finance. Secondly, we've seen complacent incumbents across several financial services sectors, notably in payments and retail banking, being disrupted by the emergence of fintechs and other new tech-first competitors.

Therefore, as I settle into my new role, I wonder, could the future of asset management also face a similar fate with a perfect revenue storm? And could fintechs drive another shift towards a new disruptive market structure in our industry? There have certainly been signals of a secular redeem shift with a number of so-called unprecedented events all taking place at the same time. Which make me believe that we're moving towards a new now with trends such as deglobalisation, new geopolitics, populism, quantitative tightening and a commitment to net zero are all leading in the same direction of higher inflation and interest rate regime shift, more uncertainty, more regional and less global GDP development.

These are having significant impacts on the asset management industry, as we've seen in the second quarter with rising rates, wider spreads, lower equity valuations and greater FX volatility, resulting in lower levels of assets under management. As a result, I don't think the terms volatile, difficult market environment or turbulent quarter quite do justice to what we're experiencing because these terms imply that we could go back to what the world looked like nine months ago, which I do not think we will. I will outline what this could mean for DWS later in the outlook. Before that, I would like to share some of my initial impressions of DWS so far.

I spent the first six weeks of my new job meeting with clients and colleagues across Asia, the US and Europe. What impressed me during my many conversations is the strength and stability of our franchise, which you can see in our financial results. Despite the changing environment, DWS continues to deliver profitable growth. Adjusted profit before tax increased by 11% year-on-year in the first half of 2022. This was supported by strong half-year revenue growth, including resilient management fees in both the first and second quarters. Our investment teams have continued to focus on markets and are doing a great job investing clients' money. This can be seen clearly in our strong five-year investment outperformance of 78% versus the benchmark.

We have a highly competent client coverage force that is providing high-touch service to our valued clients. These trusted partnerships enabled us to achieve €5.5 billion of net inflows, excluding cash, in the first six months of 2022, reflecting the strength of our diversified business model to meet our clients' ever-changing needs. While net flows into cash were negative in the second quarter, we've seen the majority of these flows return at the start of Q3, helping to bring our AUM levels back to above €870 billion. Finally, we achieved our strong Q2 results without compromising our cost discipline and while continuing to invest in growth, reporting an improved adjusted cost income ratio of 59.4% in the first half of 2022. Altogether, our financial results give me confidence that our business remains firmly on track and that we continue to create value for our shareholders in 2022 and beyond. With that, let me hand over to Claire to provide more detail.

Claire Peel — Thank you, Stefan. Welcome, everyone. Today I will present the results and activities for the second quarter of 2022, starting with the key financial highlights. Adjusted profit before tax remained stable in Q2, totalling €273 million, despite the significant market downturn in the second quarter. Adjusted cost income ratios sit at 59.3% in Q2 and 59.4% in the first half of 2022, supported by resilient revenue growth. Net flows were negative in the second quarter and almost flat excluding cash, primarily due to institutional cash outflows, which offset positive flow momentum into high margin alternatives and active retail flagship funds.

Moving on to the financial performance snapshot of the second quarter. Starting on the top left, AUM decreased to €833 billion, down 8% quarter-on-quarter, primarily due to negative market performance in Q2. On the top right, adjusted revenues totalled €674 million, down 3% from Q1, reflecting a quarterly decline in other revenues. On the bottom left, adjusted cost decreased further to €398 million, down 3% quarter-on-quarter, as a result of lower adjusted compensation and benefits costs. This supported an adjusted cost income ration of 59.3% and an adjusted profit before tax of €273 million in the second quarter.

Let’s recap on the market environment. The second quarter of 2022 was even more turbulent than the first quarter. Political uncertainty and growing fears of recession dominated the markets and exacerbated ongoing concerns over inflation and pricing pressures. This is evident across major indices, which continued to decline sharply in Q2 while the US dollar continued to strengthen against the euro. Overall market conditions remained extremely volatile in the second quarter, both in equities and in fixed income, which had a significant impact on our AUM, as I'll outline now.

Assets under management decreased to €833 billion in Q2, down 8% quarter-on-quarter. Once again, ongoing industry pressures continued to negatively impact equity and fixed income market performance, which more than offset favourable FX movements in Q2. The challenging markets also affected our flow performance in the second quarter, as investors continue to reposition their portfolios in response to heightened market volatility, which I will now highlight. In the second quarter we reported total net outflows of €25 billion and 0.3 billion, excluding cash. Quarterly redemptions were primarily driven by institutional outflows, which more than offset inflows into alternatives and active retail flagship products.

As we saw in the first quarter, institutional investors are continuing to withdraw cash holdings amid ongoing concerns over growing levels of inflation. This is a trend that we have seen most prominently in the US and which accounted for the majority of the total quarterly outflows in Q2. However, we continue to see volatility in the asset class, with the majority of cash inflows already returning at the start of Q3. Excluding cash, our flow performance was slightly negative, as the turbulent markets had a greater impact on our passive business than we saw in Q1. On our ESG funds, which reported total net outflows of 0.8 billion in Q2, primarily from cash and fixed income, which offset positive ESG flow momentum into all other asset classes. Passive recorded €3.3 billion of net outflows, amid reduced investor appetite for both ETS and passive mandates, in line with broader markets, as seen in the decline in ETS flows industry wide in the second quarter. However, we continue to attract net inflows into our passive ESG funds, reaffirming the sustained investor demand we see for ESG ETS.

Despite reporting overall outflows in Q2, we remain encouraged by the sustained flow momentum that we see into high margin investment strategies. Alternative inflows increased to €1.6 billion in the second quarter, reflecting growing investor interest in alternative strategies to diversify portfolios and generate higher returns in response to inflationary pressures. In Q2 the majority of our alternative inflows were driven by liquid real assets, with additional contributions from infrastructure. We also reported alternative inflows across all three regions in the second quarter. Active equity inflows totalled €0.7 billion, driven by our retail flagship offering Top Dividend and further supported by active ESG equity funds. This is a continuation of the active equity inflows reported in Q1 and a remarkable achievement, given the increased levels of volatility seen in the equity markets during the second quarter.

Active multi-asset also sustained flow momentum with €0.6 billion of net inflows in Q2, including significant contributions from our flagship retail fund, Concept Kaldemorgen. Strong retail demand also led to an improvement in active SQI, which attracted €0.4 billion of net inflows in Q2, marking a reversal of outflows in Q1. Overall, retail continues to be a key driver of net inflows at DWS, with €3.5 billion of net inflows in Q2 and €8 billion of net inflows in the first half of the year. Our flow performance is also a testament to our investment outperformance and our global and diverse range of investment solutions, as I'll now explain further.

The asset management industry, like so many other sectors, is currently experiencing significant market volatility. While we cannot make all of our products immune to the environment, we are able to offer our clients greater portfolio protection through our diverse range of investment solutions and styles, to help navigate such challenges. On this slide we outline two examples of these, our active equity flagship fund, DWS Top Dividend and the DWS Invest Global Infrastructure Fund. After falling out of favour in 2021, Top Dividends is seen as strong recovery in performance, both in relative and absolute terms since 2021, as demand for value-orientated income strategies has begun to pick up again to compensate for the overweight in growth within other asset allocations. Meanwhile, the DWS Investment Global Infrastructure Fund has sustained its positive investment performance from 2021, reflecting the appeal of its pure play approach and ability to endure inflation. As a result, the fund has attracted more than 1 billion of net inflows in the first half of 2022, helping us to sustain stable revenue growth.

Moving on to new launches and product pipeline. Since our IPO in Q2 2018, new product launches have attracted €46.2 billion of cumulative net inflows and an overall management fee margin of 38 basis points. This includes €1.7 billion of net inflows from new fund launches in the second quarter, primarily from new passive fund launches. There are additional contributions from new fund launches in active, excluding cash, and in alternatives, as well as from new ESG product funds, which reported stronger inflows in the second quarter compared to Q1. This is a testament to DWS' focus on clients and markets, as well as our ability to identify new opportunities through product innovation.

Looking ahead to the second half of 2022, we will expand our investment offering across a range of asset classes, mainly in areas where we see growing demand. We will continue to scale our passive business through ETS launches, including our Net Zero Pathway Paris Aligned UCITS series. We will continue to strengthen our range of alternatives, with a particular focus on infrastructure funds, including a new offering that targets German retail investors. As we have seen clearly in the second quarter, new product launches are extremely important to sustain positive flow momentum and support top line revenue growth, which is why we remain committed to product innovation in 2022 and beyond.

Moving on to revenues. Total adjusted revenues were €671 million in Q2, down 3% quarter-on-quarter, but up 7% year-on-year. The quarterly decline can be attributed to a decrease in other revenues, driven by a less favourable change in the fair value of guarantees and a lower contribution from our Chinese investment, Harvest, among other movements. This more than offsets stronger performance in transaction fees, which increased by 20% quarter-on-quarter, due to the recognition of an alternative performance fee in Q2. Management fees and other recurring revenues remained stable in the second quarter, reflecting sustained client demand for alternatives and active flagship retail products. The management fee margin increased to 28.4 basis points in Q2, benefitting from a mix of low margin cash outflows and high margin inflows into active equity and alternatives.

Moving on to costs. Total adjusted cost decreased further to

€398 million in Q2, down 3% from Q1 and supporting an adjusted cost income ratio of 59.3% in the second quarter. This was driven by a quarterly decline in adjusted compensation and benefits costs in Q1, as Q1 included carried interest, compensation expenses relating to a future alternatives performance fee. This more than offset a slight increase in adjusted general administration expenses in Q2, which primarily reflects higher spending in marketing and travel expenses. As a reminder, total adjusted cost space excludes €15 million of investments into infrastructure platform transformation in Q2, in addition to other non-recurring expenses.

To conclude, despite challenging markets, DWS reported a solid financial result in Q2. Adjusted revenues remained resilient, supported by stable management fees. The management fee margin increased in the second quarter, driven by a favourable mix of net inflows. Notably, we continue to attract strong client demand for high margin alternatives and active retail flagship funds, enabling us to generate new revenues. This is testament to our global and diversified business model, as well as our strong three- and five-year investment outperformance of 75% and 78%, respectively. Looking ahead we will remain focussed on cost control to help navigate our business and our clients through this highly volatile environment, but we also expect continued investment into growth and, therefore, an adjusted cost income ratio of around 60% in 2022. Thank you and I will now hand over to Stefan for closing comments.

Dr Stefan Hoops

Thank you, Claire. I notice that Claire has the calm voice of a veteran and that the excitement of doing my first quarterly earnings probably got the better of me. To ensure that all of you on the call don't have to put your volume up or down, I will now pretend that I've been doing this for all my life. Ladies and gentlemen, knowing that you're ready to ask us questions, allow me to give you an outlook of what we'll focus on over the coming months. This is just a glimpse of our ideas and thinking and not a full-blown strategic review of where we stand and where we’re heading to. We will update the market on our strategic outlook later this year in detail.

It goes without saying, DWS remains fully committed to our clients and to creating shareholder value and we will achieve this by doing what we do best, focussing on clients, navigating markets and investing our clients’ money. In particular, we'll remain disciplined on costs, while continuing to invest in growth. We will continue to focus on product innovation, as well as on investment outperformance. Of course we remain committed to advancing our sustainability agenda further. I will reiterate what I already said at our AGM, restoring DWS’ credibility on ESG is paramount and one of our top priorities.

Lastly, we will continue to scan the market for M&A opportunities that help us accelerate our organic growth. Looking ahead, we need to stay on top of our game by responding to a multitude of secular changes that will impact the asset management industry in the future and to pave the way forward for DWS in the new now. As part of these efforts, we will target a number of additional growth opportunities. We are convinced that digital assets and currencies are here to stay, which is why we will aim to add resources and intensify our efforts in this space. To be clear, this is not to be confused with data strategies or digital channels, which are already on the DWS agenda. In alternatives we will assess each of our business areas regarding potential operational synergies and how to improve cross collaboration to enhance our product offerings and capitalise on growing client demand. We also believe that there will be a renaissance of active asset management, i.e. the ask for experienced asset allocation in a highly volatile world, which plays to one of our core strengths. As we have seen in the second quarter, DWS is already well positioned for this trend with our active flagship funds continuing to report strong investment outperformance, thus enabling us to maintain positive flow momentum and protect our management fee margin.

Regarding our multi-faceted relationship with Deutsche Bank, we will stay the course and double down on our efforts to become independent from an infrastructure, policy and procedures perspective. At the same time, we'll find better ways to leverage their distribution and sourcing capabilities, especially with the corporate bank and the investment bank. Looking beyond DWS, we see a significant need for our expertise to help Europe handle current challenges. We are convinced that Europe has a bright future, but that a range of transformation investments are needed. This includes investments into ESG and the transition to net zero, increased research and development into new business models and, finally, new ways to gain supply chain independence, especially during times of geopolitical tension, as we’re experiencing now. Europe is short of risk capital, but will over time benefit from the Capital Markets Union. Until this is achieved, we think this is a call to action for asset managers and banks alike. We can and should provide the expertise, as well as the access to global capital pools to channel risk capital into the European transformation. I personally believe that DWS is uniquely positioned to provide these capabilities and be part of a broader European transformation.

As mentioned, we will provide a more comprehensive update on this and all other points I outlined at our Capital Markets Day in early December. But for now, allow me to quickly recap. DWS delivered profitable growth in the first half of 2022, a significant achievement, given the highly volatile market environment. We remain committed to our financial targets and, at the same time, want to pave the way forward for DWS to remain competitive and successful in the future. In the upcoming months my team and I will work hard to enhance our strategy to address the key trends I just outlined, with further details to follow at our Capital Markets Day. As I reiterated earlier, we'll continue to do what we do best, focus on clients, navigate markets and invest money, while remaining disciplined on costs to ensure we continue creating value for our shareholders. Thank you. Claire and I look forward to your questions and I will now pass over to Oliver for Q&A.

Oliver Flade	Thank you, Stefan. Operator, we're ready for Q&A now.
Operator	Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wants to ask a question may press star followed by one on their touch-tone telephone. The withdraw your question you may press star followed by two. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question is from the line of Hubert Iam from Bank of America. Please go ahead.
Hubert Iam	Good morning, everybody, and thank you for the presentation. Welcome, Stefan, to your new role. If you don't mind me asking, Stefan, in terms of strategic priorities, are there any major change in strategic priorities for you? What do you plan on doing differently? Tied to this, on M&A, where do you see the opportunities? In which areas do you think DWS is currently underweight and you'd like to go more in? That's the first question. Second question is on the ongoing greenwashing investigation. Any update you can provide us there? How are you approaching this situation and any timing on a resolution, as I think could be seen as an overhang on the business end and the stock. Thank you.
Dr Stefan Hoops	Thank you, Hubert. I was wondering what my first-ever question would be. I suspected the second question of yours would be the first, but I think you're very smart in the way that you prioritised. Let me start with strategy and M&A and then come to the ESG allegations. In strategy, as we said, we're fully committed to our financial targets and fully committed to the strategy we have. However, as we pointed out, there are massive changes in the market environment and I think that any management team of any asset manager is currently trying to make sense of what that means. We're convinced that we're not going back to what we've seen during the 2010s, of just all markets doing great. It would be more difficult and, obviously, our strategy will be adjusted accordingly and we'll provide more guidance and clarity during the Capital Markets Day.

When it comes to M&A, we are ready. We are ready to do M&A, however, M&A should really be done and not talked about. We're obviously realistic with our current multiple and we're realistic that we have to conclude our IT transformation as quickly as possible, but as I said, we're ready. We're scanning the markets and looking for opportunities in the consolidation.

When it comes to the ESG allegations, I will start, as you would imagine, Claire and I have 20 pages of talking points on this topic. I'll give you in my own words, my view and then hand over to Claire. This is the highest priority for us and we are fully focussed on addressing it. As you would imagine, we are fully cooperating with the various authorities that are currently investigating that. Obviously we are continuing and always continuously improving processes, but I also want to be clear that we stand by our disclosures. Claire is nodding, so I think there's nothing to add at this stage. Thank you, Hubert.

Hubert Iam	Great, thank you.
Operator	The next question is from the line of Jacques-Henri Gaulard from Kepler Cheuvreux. Please go ahead.
Jacques-Henri Gaulard	Good morning, Jacques-Henri here from Kepler Cheuvreux. Dr Hoops, welcome, as well. First question for you maybe on morale, you talked about meeting clients, you even talked about meeting staff, how you feel about the morale, generally in the organisation, and how confident you are that you will be able to retain people in the turbulent times we live in? The second question is on costs. There were materially more one-off costs this quarter than there are usually, at about minus 44 million, if I add it up properly. If we could have a bit of a breakdown and comments on these costs and whether some of them are recurring in the next couple of quarters? Thank you.
Dr Stefan Hoops	Thank you, Jacques-Henri, and also thank you for taking note of my academic background, which was a lot of hard work. When it comes to morale, I would give my feeling, which is probably more a qualitative assessment than some quantitative assessment. I think qualitatively, obviously the first part of June was tough. When you read about your employer in the press, it was tempting to just read the headlines. I think we made that clear that we didn't want anybody to become clickbait over the headlines and really just focus on what we like to do, which is focus on clients, focus on markets, investing money and so on. I feel that probably starting second or third week of June, everybody went back to business and there wasn't too much talk about the DWS idiosyncratic challenges. Obviously the market is hot and we have incredibly talented people across the various functions and we've seen attrition be higher than we've seen in 2021. They're pretty rich nuances, there are nuances across

seniority levels, there are nuances across the type of expertise one has. I think it's fair to say that alternatives is really hot, maybe hotter than some other parts of our franchise. As the management team, we're laser focussed on any area in which we lose more than we should, lose more than the market. So far, the attrition we've seen is not more than our largest competitors, so I think we're united in ensuring that people see the beauty of asset management and don't go to other parts of the financial industry. But so far, and hopefully you see that in the numbers, everybody's really focussed on what they're supposed to do, including our excellent client coverage teams, who are really focussed on our clients.

On cost, I will just make one statement and then hand over to Claire for more detail. We dislike cost and we like investments. Even in the current time, we'll continue to invest in those areas which we have previously designated as areas of growth, so we'll continue to do that because, frankly, shareholders would expect that and clients deserve that. But at the same time, I think like everybody, we're incredibly disciplined on unnecessary cost or maybe nice-to-have stuff. And have already been incredibly crisp and precise on some of the things we probably don't need to do any longer. Over to Claire for more detail.

Claire Peel — Thank you and hello, Jacques-Henri. Thank you for the question on costs. I will address that one regarding the non-operating and exceptional cost that we have in the second quarter, which are higher than we've seen in previous quarters. The first item is the transformational charges of 15 million, which relates to our IT transformation project. This project is ramping up in execution phase, so we do expect to see costs attached to the project in upcoming quarters, but of course, not on a recurring basis once the project is completed. We'll be discussing more details of that in the Capital Markets Day.

We also have severance and restructuring costs, which were higher in the second quarter of 2022 than previous quarters. We wouldn't expect to be operating at that run rate going forward. And we have other cost adjustments, which were 21 million, in the second quarter. This included a regulatory enforcement provision which we made, which amounted to €12 million relating to regulatory investigation by the SEC regarding employees' use of unapproved devices and record keeping requirements. Again, that is a provision, it's not an item that we would expect to repeat, but it is a provision. That's the adjusting items. The one that we would expect to see going forward would be the transformational IT platform project expense.

Jacques-Henri Gaulard — Many thanks.

Operator — The next question is from the line of Arnaud Giblat from BNP

Paribas. Please go ahead.

Arnaud Giblat: Good morning. I've got two questions, please. If I could come back on cost, you did say, I think in response to Hubert's question, that you were still committed to the 60% cost-to-income ratio. This year it looks quite feasible, given H1, but I'm just wondering about further down the line, 23, 24. If markets stay at current levels, you should be seeing roughly a 30 million headwind in terms of management fees at current market level. What can you do to compensate? What cost action can you compensate to achieve these targets? I appreciate that markets are a bit of an unknown, but you do have a cost-to-income ratio target, after all.

The second question is on the fair value of guarantees and the underlying [?]. My understanding on fair value of guarantees is that it had an inverse relationship with interest rates, so I'm just wondering why that's not really working out this quarter? If I could follow up on Harvest, as well. Could you detail the climb we've seen in profitability over the quarter? Thank you.

Claire Peel: Hi, Arnaud. Thank you for the questions, I could take those. Firstly, on the cost-to-income ratio target, we have a medium-term target of 60%, which takes us out to 2024. We recognise we've indicated the outlook for 2022 to be around 60% and we think we have a clear path to achieve that during 2022. Then as we move out to 2024, yes, the outlook for revenues weakness with the macroeconomic environment, but we have some options that we can pull within our cost space, within that two-year timeframe. One of course will be efficiencies that we will generate from our IT platform transformation project, which should give us some benefits at the outer point of that timeframe. We have variability in our general and admin expenses, which is related to levels of AUM. We will of course be cautious in the investments that we're making within this window of time. Those are the areas that we focus on. We're not giving specific guidance for the year of 2023 at this point in time, but we focus on the outlook for 2024.

On the fair value of guarantee, for the period of Q2 we had a positive impact from the fair value of guarantee, but it was less positive than the impact that we saw in the first quarter, hence the quarter-on-quarter decline. And just a reminder that we do have a hedge, as well, on the volatility that we see, to manage the volatility in the long-term interest rate. We take that into account, so there is a positive effect from the improvement in long-term interest rates, but that's mitigated by the balancing that we have with our hedged position.

Then on Harvest. In the second quarter we saw 15 million of return from the Harvest contribution. That's obviously affected by

	the impact from Chinese markets, albeit if we look at the cost space for the first half of the year in Harvest asset management, that has been managed downwards. But we think at this point in time, it's probably a reasonable run rate, given the market environment for Harvest.
Arnaud Giblat	Thank you. If I can just come back on the 60% medium-term target for 2024. You feel that that is achievable at current market levels, which are a recovering market?
Claire Peel	Yes, we're standing by that commitment of 60% cost-to-income ratio by 2024. We recognise that next year in particular, that will be challenging, but we have a period of time to manage across the whole cost space. Just a reminder, as well, on the management fees. That we've certainly seen a negative market impact from the equity-linked portfolios, but we've also seen a positive return from the alternative franchise. The diversification within management fees has enabled us to have a stable management fee revenue between Q1 and Q2.
Arnaud Giblat	Perfect, thank you.
Operator	The next question comes from the line of Bruce Hamilton from Morgan Stanley. Please go ahead.
Bruce Hamilton	Hi. Thank you for taking my questions, and welcome, Stefan, from me as well. Firstly, on the alternatives strategy, I know we'll hear more in due course, but I'd be interested in any initial thoughts on the change of emphasis based on what you're hearing back from clients in terms of demand areas? You mentioned an increase, Stefan, on cross collaboration, but do you expect there'll be more of a tilt in favour of certain private market assets versus others? How does that impact your thinking? Secondly, I'm afraid on some of the ESG stuff. Again, given your range of meetings with clients, what's your sense of any risks to the institutional pipeline linked to the uncertainty and the overhang from the ESG investigations? It sounds like we shouldn't read too much into the outflow from ESG in Q2, but just to check how you're thinking on that in the nearer term, before we get a bit more clarity on the investigations? Thank you.
Dr Stefan Hoops	Thank you, Bruce. I intend to spend the next 22 minutes talking about alternatives because that's a topic I'm very passionate about. Obviously clients are highly interested for a variety of reasons, one being that some of them are a pretty hedge against inflation. But I think that just because clients like something, doesn't mean it's good for us because it doesn't necessarily mean that we can provide the products. However, in this this specific case, we actually have really good products that work well in a higher inflation environment.

Personally, if you time travel back to 2010 and in 2010 ask the question which asset manager is most likely to drive the move to alternatives in the 2010s? I think you would've bet on Deutsche Asset Management, DWS, at the time. The reason being that Deutsche Bank had, by far, the best structured credit, alternative credit, commercial real estate franchise industry, I was one of them. When you look at the [unclear 00:38:45] from 2010, out of the 30 most senior people, really only two stayed. I'm one of them and I moved to DWS. The other people went to all of the big competitors and drove the drive into alternatives from, I'm not going to mention all of the competitors, but that's what they've done, or set up their own hedge funds. The point I'm trying to make is it's definitely in our DNA, that's what I've spent most of my career on, to focus on fairly complex private credit markets.

Now when you look at our franchise, I think we have really, really good individual products with the real estate businesses, particularly in the US and in Europe. Our liquid real asset business, which is awesome. The infrastructure business, even the private equity secondaries business that we have. I think we've really good individual businesses, we just don't really have a one alternative setup. We're not going to change the [unclear 00:39:41], we're not going to create another [unclear 00:39:43] of alternatives that would cost six, 12 months of confusion and reorganisation. We don't want to do that, but we definitely will spend time on how to really get the best out of the overall approach to alternatives. The cross sell, the synergies with the various teams working together. That's on alternatives, and happy to take more questions on that topic.

When it comes it ESG, maybe I will start and then Claire will have more specific views. Firstly, I like your interpretation of the flows, meaning that one shouldn't read too much into it. To be more precise, to be frank, we had a couple of pipeline items that will take longer than expected because of the allegations against us. To be realistic, I think it would be silly for us to say that this is not the case. I think what we've also seen is people asking themselves what is ESG really all about? I think us, across the industry, really have to agree on terms and standards. Obviously you have regulation, you have taxonomy, but I think there also needs to be an understanding whether a green fund should include gas an nuclear and weapons or not. We believe it shouldn't, others believe it should. That's then also misleading when you look at ESG performance. We could go into more detail, but I think your question was specific on flows, so I will hand over to Claire for more insights.

Claire Peel — Thank you, Stefan. On the ESG fund flows that we saw in the second quarter, overall we saw 0.8 billion of outflows. But, as noted, it was driven by fixed income, predominantly, and a little bit of cash. Whereas the other asset classes within ESG, including equity and passive, were showing inflows in the second quarter. I think that is a continuation of the part that we've seen in previous quarters and it also demonstrates the focus that we've got on product innovations and new fund launches, which is also focussing on ESG fund launches, particularly in the passive space with the Net Zero Pathway series, etc. I think it's very much the new fund launches in the ESG ETF territory, which is attracting flows. Likewise, with sematic funds within equity. It's difficult to give a pipeline outlook, it's not something we track specifically, but so far, those trends we have seen continuing. In the absence of any other changes in the macroenvironment, we would expect to see a continuation in the pipeline go forward as well.

Bruce Hamilton: Great, thank you.

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

Angeliki Bairaktari: Good morning. Thanks a lot for taking my questions. First of all, a clarification on the management fee margin, which actually increased quarter-on-quarter. I hear your explanation on the net flow mix, but I just wanted to double-check if there were any one of elements in there? Perhaps anything on the alternatives side that could have helped management fees in the second quarter and might not be repeated? That’s the first question.

Second question. You mentioned that your relationship with Deutsche Bank could present an additional growth opportunity. Can you please elaborate a little bit further on what you have in mind there? Thank you.

Dr Stefan Hoops: Thank you, Angeliki. Love the precision on detail. Stuart was the one who quizzed me more than anybody in 2019 on the deposit charging and really wanted to get to the bottom of it, which then turned out to be a great success story, so love the in-depth question. Claire will take the one management fee margin and then I will talk about our majority shareholder.

Claire Peel: Thank you for the question, Angeliki. On the fee margin, we saw in the second quarter 28.4 basis points and this compared to Q1 at 27.6. There is no special items in there in this particular quarter, I know that we have had that in the past in alternatives with equalisation fees, when we've had large inflows attached to fund launches and so on. That’s not the case for the second quarter, but of course, we do have cash outflows, which do affect the result in the second quarter. That would be a 0.4 basis point impact. If those cash outflows were to return, which indeed we have predominantly seen so far in July, noting volatility, then the effect of that would be about 0.4 basis points.

Dr Stefan Hoops: Angeliki, on the question on what I call the multi-faceted relationship with Deutsche Bank. Obviously it has the element of independence, which we will double down on, both from an IT integration policies, procedures and so on. That was not your question, but I just want to make it clear that we're not getting closer, getting bank into the Deutsche Bank overall holding structure. However, it is a great advantage to have a majority shareholder which has excellent divisions in the private bank, which we have been leveraging forever. But I think we have underleveraged the corporate bank and the investment bank. When you think about our competitors, nobody would quite have that sort of access. Again, I'm not going to mention all of our competitors, but none of the independent asset managers has access to an investment bank and a corporate bank.

I think that there are at least two elements. One is sourcing of interesting risk for our clients and the second one would be distribution. If we start with the distribution, obviously we have long-lasting relationships with management, with the retail division, but we don't have the same with corporate bank. Obviously that's a division I know reasonably well and I think when it comes to enabling corporate clients to deploy liquidity into money market funds, fixed income funds, and really including our fund arsenal into the liquidity portal of the corporate bank. That is a really interesting area of upside, both for the clients, but then also for the corporate bank and DWS. That's one distribution of our products, solving the excess liquidity challenges that corporates are facing.

When it comes to sourcing, I could go into more detail, but if we want to grow alternative credit, if we want to grow private credit, having access to the pipeline in the investment bank and, at the same time, being able to potentially add products to the corporate bank toolkit, are two pretty interesting ways of sourcing risk for our clients. The investment bank, that would be the typical pipeline you could think about across different types of alternative credit. When you think about the corporate bank, you would have typical corporate loans that the corporate bank can hand out to clients and, by the way, has done pretty successfully, if you've seen the second quarter. What they wouldn't be able to do is hand out mezzanine loans or maybe even equity to German mid-caps. But that's something which we could do in conjunction with the corporate bank. Essentially, have products which our clients would be interested in, but then simply add to the toolkit of the corporate bank.

Angeliki Bairaktari — Thank you very much, that's very clear.

Dr Stefan Hoops — Thank you, Angeliki.

Operator — The next question comes from the line of Nicholas Herman from Citi Group. Please go ahead.

Nicholas Herman: Good morning. Thank you for taking my questions. Two follow ups on Angeliki's questions. One on the DB relationship and one on margin. On the DB relationship, you talked about doubling down on efforts to accelerate the independents and separation of DWS. Just curious what you mean by that? Is there anything incremental there? Then on the margin point, the fee margin is stronger and there are no material one-offs, but notwithstanding that, it does appear that there have been some notable declines in the fee margins with individual products. Active equities, which is down 2 to 3% versus 2021, fixed income down 5%, multi asset down 8%. Just curious on what mix shift effect is going on there, that we should be aware of? Because I thought that with sales in higher margin products, particularly on the retail side, we would've seen more resilient products margins. Thank you.

Dr Stefan Hoops: Thank you, Nicholas. On your first question on the doubling down of becoming independent, I would say two things. The first, I think DWS has made really good progress on the IT transformation, the IT independence. I think we probably could've made more progress and we'll focus more on the asset management's specific policies and procedures. Becoming independent sounds great, but it's hard work to actually draft your own policies which are more appropriate for an asset manager. I think there we simply need to double down on efforts. Secondly, yes, you will see more in due course on what specifically or how we'll do that. Sit tight please, in the next couple of weeks it will become more clear.

Claire Peel: Just picking up on the question on the fee margin. I think certainly on the alternatives side we have seen an increasing share of management fee revenues coming from the alternatives portfolio as a proportion of total management fees over time. That's obviously having a positive factor on the average margin. Conversely, we've seen a decline in the revenues coming from cash and coming from fixed income. There is certainly a mixed effect that's taking place with some of the higher margin strategies contributing to the mix effect. We'd originally in our outlook, going back to last year, we'd anticipated to see a higher proportion of passive inflows, also below the fee margin of DWS overall. But the market environment is obviously leading to a shift in asset allocations, not so much towards passive, but more into active and alternatives. I think that is the mix effect that we are seeing in the fee margin. If we look to the outlook for this year, I know we normally indicate around 1 basis point of fee margin dilution across the year. We clearly anticipate to see less than that within this year and we're more conservative on that particular outlook.

Nicholas Herman: Thank you.

Operator: The next question comes from the line of Haley Tam from Credit

	Suisse. Please go ahead.
Haley Tam	Morning. Thank you very much for taking my questions. Just two from me, please. Firstly, on ESG and then, secondly, on the new now strategy. In terms of ESG, apologise for focussing on the 0.8 billion net outflow in Q2. I heard that you said that we had still seen inflows into equity and passive and other active classes, but out from fixed income and cash. Could you quantify those numbers for us at all, just so we can understand that? Given the strength of net inflows into ESG that you'd seen in the past, I think you saw €9 billion in 2020 and 19 last year. Is there anything we should be aware of in terms of asset class mix or potential additional vulnerabilities, as you look at it in terms of possible outflow risk in the future? The second question, on the new now environment. Thank you very much for the outlook, I'm looking forward to what you have to say in December when you've had more than six weeks to think about all of this. But if I can ask you one question, it seems to me that you're very enthusiastic about the transformation capital for Europe opportunity. I just wondered if that was something specifically that's come out of conversations with clients or whether you have a particular idea in mind in terms of the nature, the opportunity, whether it's public or private assets? Any structuring there, that would be great. Thank you very much.
Claire Peel	Thank you, Haley for the question. Happy to give a bit more colour on the ESG net flows, recognising that there is some attention on that. The equity flows were just higher than 0.2 billion of inflows and the passive quant flows were also just higher than 0.2 billion, with slightly lower the difference coming within multi assets and less so in alternatives. Really, the lion's share of the outflow was coming from fixed income and, to a lesser degree, cash. It was 0.8 coming from fixed income and 0.4 coming from cash. That's the mix that we've seen within the second quarter, so I think to some degree it's corelating the asset class allocation that we're seeing in our non-ESG funds as well. I think it's very much an asset allocation choice in the market environment, rather than any other specific factors. Your second question, sorry, was regarding the AUM overall, if I may ask you to repeat that one?
Haley Tam	Yes. I just wondered, given the strength of ESG in flows you saw in the past, I think you saw 9 billion in 2020 and 19 in 2021, whether there was any particular maturity of those or particular things we should be thinking about in terms of possible risk, given the greenwashing investigations at the moment?
Claire Peel	There's nothing specifically that we can point to. We don't track a pipeline for specific ESG fund inflows, but I think what we're seeing consistently over respective quarters is that the mix of

flows coming into ESG funds is a similar asset allocation to non-ESG funds, effectively. As Stefan said earlier, that on some institutional mandates there is more time and, I would say, more of a wait and see in some cases, but that's not across the board. I think that's just some more caution, given the backdrop that we are operating within. When it comes to product innovations and fund launches, certainly the new fund launches that we make, particularly in the decarbonisation space, the net zero space, those funds are certainly an area of interest. We continue to launch those and we continue to see inflows in those categories.

Dr Stefan Hoops

Haley, some of your colleagues became more sceptical on our stock after I took on and I will try to win their confidence. You're one of the few that I inherited being sceptical, so I will try to persuade you that we actually have a bright future. I will start with the European transformation. It's something which I've been hearing for the last 12, 24 months on the corporate side, so let me start with the demand for capital and I will come to the supply of capital.

When you think about what Europe will have to do over the next decade, really, is significantly invest in LNG terminals, project finance, building gas pipelines, solar and so on. Europe needs to significantly invest in research and development for new business models. We have phenomenal companies producing stuff, we don't have phenomenal internet companies. And as the Internet of Things becomes relevant, that is a huge area of investment. Thirdly, what has become incredibly clear over the last couple of months, we simply don't have commodities in Europe and we actually have unlearnt how to process commodities in Europe. Right now we get commodities from all over the world, but they don't come directly to Europe. They come through a couple of countries in Asia that process everything on our behalf. The question is simply whether Europe will want to relearn those capabilities, which based on the feedback I've received over the last couple of years, Europe wants to, but that will require massive investments.

When you think about the structure in Europe, and just look at Germany, most of German corporates are the Mittelstand, the mid-cap corporate that are actually not publicly traded. To get risk capital into Europe is not that easy because you would have to IPO many companies, which is not realistic. Much of that is going to be private, much of that is going to be partaking in government sponsored projects where you could just provide a more junior version of credit to the more senior version that the government is providing. I think the man side is probably pretty clear. Now the supply side of capital has been challenging because people just didn't put risk capital into Europe and that's a long-term challenge, which has been pointed out by many. But I think now is the time and, yes, what I've heard from investors in Asia and in the US, isn't questions like whether or not people are bullish on Europe. Everybody sees it as going to be significant investments. Whether or not they're bullish on Europe, they believe that Europe will be able to repay. There's a lot of demand from investors in partaking in these investments, in these transformation investments. I think that DWS is better positioned than any other asset manager in breaching the demand and the supply for their transformation capital.

Haley Tam — Very helpful. Thank you.

Operator — The next question comes from the line of Michael Werner from UBS. Please go ahead.

Michael Werner — Thank you very much for the presentation and welcome, Stefan. Just two questions from me, please. One, a follow up, I think earlier you said one of the areas to M&A in the immediate future is the platform transformation and having an independent IT. Can you give us a little bit of insight as to when that's going to be targeted for and how exactly that is progressing? I know you may speak about it later in the Capital Markets Day, but just from a timing perspective.

Then, second, with regards to the ongoing greenwashing investigation. Can you provide a rough estimate as to the incremental costs that are being incurred as a result of the investigation? Ultimately, confirm whether those costs are included in the adjusted base or the reported base? Thank you.

Dr Stefan Hoops — Hey, Mike, thank you for your questions. I will start with M&A and then Claire will answer your second question. The point I was trying to make is as we're doubling down on becoming independent from Deutsche Bank and have our most competent people in control and infrastructure functions focussed on the IT transformation, drafting policies and so on, it would be the same people that would do a large-scale M&A integration. The point I simply wanted to make is obviously we're scanning the market, obviously bolt-on acquisitions would be doable. I just wanted to be realistic that in the current market environment and with all the stuff we have going on, we need to be realistic in what we can integrate. That's the point I wanted to make. I will be giving more colour, but I think that's the way, it's the same sort of people, we just need to be realistic in the day only having 24 hours.

Michael Werner — Thank you, it's very clear.

Claire Peel — Hi, Mike, thank you. With regards to the costs that we will incur to manage the allegations against the organisation, we don't consider those to be operating expenses, as we don't consider them to be repeating expenses. But they are, of course, expenses, including legal fees, that we have to incur at this point

	in time. These are represented as another cost adjustment, outside of the operating cost space and, for the first half of the year, is in the region of 13 million.
Operator	The next question comes from the line of Mandeep Jagpal from RBC. Please go ahead.
Mandeep Jagpal	Good morning and thank you for taking my questions. The first one is on the net outflows in passive products. Would you be able to provide any colour on the destination of these passive products once they've been redeemed by clients? For example, how much was reallocated to asset [?] alternatives within DWS? How much went to competitors and how much is just taken out of the market? The reason for asking that question is the rate of passive outflows over the quarter was quite high, compared to previous quarters. It'll be useful to understand how much of this was market environment related and how much was DWS-specific? Then the second question is on retail, where net flows remained positive over the quarter. Are you able to let us know the average B margin on the retail business and how this compares with institutional?
Claire Peel	Hi, Mandeep, thank you for the questions. On the first one, on the passive flows, I can confirm that within that, half of that is coming from exposed traded products and half of that is coming mandates. We can really isolate how much of that is being reallocated client-by-client into other asset classes, but effectively, that is the shift that we're seeing. We're seeing more inflows into the active asset classes and less so within the quarter, within passives. As I say, that's including ETPs and mandates. I must say, looking at public data in July, we see that turnaround a little bit, so it is a little bit volatile. And again, I would point out that within ESG ETFs we have seen positive inflows within the second quarter. On the retail side, we have indeed seen inflows coming through in retail in both the first and the second quarter. 3.5 billion of net inflows into retail in Q2 and 8.1 billion of inflows for year-to-date. Institutional is where we're seeing the other direction to that, more so in the cash asset class. The retail channel is also an indication of what is supporting and holding up the management fee margin and the resulting management fee revenues overall.
Mandeep Jagpal	Thank you.
Operator	The next question comes from the line of Pierre Schdeville from TIS. Please go ahead.
Pierre Schdeville	Good morning. Welcome, Stefan. For me, it's also my first quarter with DWS, as I recently initiated the coverage of the company. I hope my questions won't be too naïve. My first

question is when I'm challenging your model with one of your major listed competitors in Europe, I was quite astonished by the fact that your relationship with Deutsche Bank network was not so close in terms of asset management. I was wondering, I understand that your model is a pure open architecture model, but I was wondering if you could not intensify your distribution with the model company network. Also, if you were thinking in order to stabilise your business model in difficult times, try to have some long-term contract relationship with some smaller networks in Germany, for instance, where we know that the distribution is very spread. If it could be an evolution of your strategy in the future?

My second question is a follow up on M&A. As far as I understand, M&A was focussed on Asia by the previous CEO. I was wondering if you were a little bit more open in terms of geographics, considering what you said on what is at stake in Europe? Thank you very much.

Dr Stefan Hoops

Pierre, thank you very much for your questions, which were actually very specific and not naïve. Let me try to answer that and then Claire will tactfully complement with more detail, if needed. When it comes to Deutsche Bank, yes, you're right. They have open architecture and we need to compete based on performance. For those funds where our performance is strong, obviously we're doing really well through the retail distribution of Deutsche Bank, but they have their clients' interests in mind and that's what they will focus on. But I think there's definitely upside with other parts of Deutsche Bank. As I outlined with the corporate bank, investment bank, in addition to the retail and wealth management franchises.

When it comes to other strategic partnerships, yes, we have very close relationships with some of the large distributors in Germany. Could we do more? One could always do more. We're obviously focussing on new channels, like digital channels. What I've seen in payments over the last couple of years is that people really move away from the traditional way of targeting products, buying products and going through platforms, other new channels. That's something we'll focus on, but 100%, there's probably upside with the other divisions of Deutsche Bank where we haven't historically been very close to.

When it comes to your question on M&A and Asia, I think the reason why there was focus on Asia was simply that we are not on the ground in all that many countries. When you look at Asia, and obviously you need to be quite nuanced, which one would be looking at India, China, Korea, Japan, APAC and Australia. It's not that anybody would have a one-size-fits-all Asia strategy, but as we look at the various counties which, like historically in my previous roles, I spent a lot of time in Asia. For every country we'll simply assess the market opportunity, these incumbents and does it actually need anybody new? But then you would always assess whether you can do it organically and inorganically, simply because we're just not on the ground in, let's say India, I think that's why my predecessor focussed so much on M&A in Asia. Which we'll continue to focus on.

Pierre Schdeville: Thank you.

Operator: The next question is from the line of Tom Mills from Jefferies. Please go ahead.

Tom Mills: Good morning, thank you. I just have a few questions, please. Firstly, sorry to dwell on the alleged greenwashing topic, but I know you said you've got 20 pages of talking points there, so I'd hate for all of that to go to waste. I appreciate the candour your provided, that a few counterparties on the institutional side are sitting on their hands whilst the investigations are ongoing. Have you had any sizable institutional counterparties warning you that they will be compelled by policy to cease their relationship with you, if you were to receive some kind of conviction related to the issue? Or you don't expect it to be as cut and dry as that?

Then secondly, I wondered if you could speak about how well positioned you are to capture flows from Middle East and sovereign wealth funds, given they're perhaps the strongest single-asset wonder beneficiaries of current macro conditions? Can you give us an idea of how much of your asset base does that comprise at the moment? Thanks very much.

Dr Stefan Hoops: Tom, thank you very much for thinking about the many people that contribute to what Claire and I are saying, just drafting all those pages. I can confirm that we have not received such a super negative statement or warning from clients. We could go into the different types, whether they're retail distributors, where they have a different type of responsibility for the distribute. Or institutional investors that invest for themselves. The reason why Dirk Goergen, who runs our global client coverage, and I travelled the world for the first month, is to have a lot of one-on-one discussions with our biggest clients, to provide more clarity on what's actually happening. Some of the stuff we can't say in public, but we're allowed to say in private, which we've done. I think the reason why our flows are so strong in the second quarter is because clients gave us the benefit of the doubt, if I may just say that. While I understand that for some people it's tempting to write a big headline about the outflows in money markets, which all of the analysts understand have mostly reversed. I think when you look at the substance of our client relationships, that is really portrayed through the inflows in multi-asset active alternatives and so on, where clients continue to trust us.

	Your second question, when it comes to Middle East, that's an area in which we could increase our coverage efforts, quite honestly. I haven't travelled there. Historically, I think it has been a strength, particularly of the US investment banks and US asset managers, so quite honestly, Tom, the way that we would always look at opportunities is just because somebody is an investor in something, doesn't necessarily mean that there's space for us. We will be realistic in what we can and cannot do, but it's definitely an area in which we want to increase our efforts, particularly because they're so interested in alternatives, and we've actually seen inflows from them in alternatives, and because they're so interested in European transformation. There we'll definitely increase the efforts, but definitely an area in which we can do more.
Tom Mills	Thank you, Stefan, that's very clear and helpful.
Operator	There are no more questions at this time. I hand back to Oliver Flade for closing comments.
Oliver Flade	Thank you for much and thanks, everyone, for your questions and dialling in. It took a little bit longer than usual, but shows your interest in DWS, so thank you very much for that. As always, if there are any follow-up questions, please feel free to contact the IR team, otherwise I wish you a great day and a healthy time. All the best. Bye-bye.
Dr Stefan Hoops	And thank you from our side. Thank you very much for your questions.