DWS Group GmbH & Co. KGaA

Q2 2023 results with Investor & Analyst Conference Call

26th July, 2023 | 10:00 CEST

Transcript

Speakers:

Dr Stefan Hoops

Claire Peel

Oliver Flade

Oliver Flade

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 2023.

Before we start, I would like to remind everybody that the upcoming Deutsche Bank analyst call will outline the Asset Management segment's results, which has a different parameter basis to the DWS results we're presenting today. I'm, as always, joined by Stefan Hoops, our CEO, and Claire Peel, our CFO, unfortunately for the last time. Stefan will start with some opening remarks and Claire will take you through the presentation.

For the Q&A afterwards, please could you limit yourself to the two most important questions, so that we can give as many people a chance to participate as possible. I would also like to remind you that the presentation may contain forward-looking statements, which may not develop as we currently expect. Hence, I therefore ask you to take note of the disclaimer and the precautionary warning on the forward-looking statements at the end of our materials. With that, I would like to pass on to Stefan.

Dr Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q2 2023 earnings call. A good year after the on-site visit by the prosecutor and the abrupt CEO change that followed, many of you view DWS as a show-me case. You respect that we prevented a downward spiral last summer, seemed to like what you heard at the Capital Markets Day last December, and agree with our approach of taking restructuring pain decisively and early. But you also remain cautious about the outlook for our firm, which I find completely understandable.

Therefore, I will not waste any time summarising markets or giving my view on AI. Instead, let me give you an update on the positive momentum shift we're observing across our franchise, which we believe is the result from the sense of urgency and discipline with which we implemented our strategy.

Our financial results in Q2 are a good indication of this positive momentum shift. Excluding cash, total net inflows increased to €10.4 billion in the second quarter and to almost €20 billion in the first half of the year, reinforcing the strong client trust in our diversified investment offerings. Adjusted cost-to-income ratio improved to 61%, keeping us firmly on track to deliver our full-year guidance for 2023.

Adjusted profit before tax was up 27% quarter-on-quarter, supported by stronger revenue growth. Where some of the revenue growth stems from performance fees, which can be lumpy and, therefore, perceived as lower quality than management fees, even when taking these figures out, revenues are still up and costs are broadly flat. These numbers are a

testament to the efforts we have made to achieve disciplined portfolio optimisation in our four key categories of reduce, value, growth and build. Over the last few months we put a lot of focus on the reduce part of our strategy because we wanted to take necessary pain early. The internal restructuring programme and organisational streamlining are now broadly complete. By taking active action on our cost base, we created savings that we will now invest into growth and that have also helped us to offset inflationary pressures. With this difficult phase behind us, we feel we have earned the right to focus on disciplined, profitable growth.

For the value part of our franchise, Active Fixed Income, Equity and Active Multi Asset, we're able to track net inflows overall, which compares favourably with the industry trend. In the growth part of our strategy, the positive momentum shift is most visible. Xtrackers reported even stronger inflows in Q2, with net inflows across all regions and into both Passive mandates and EPPs. More recently we expanded our platform of thematic ETFs in the US, with offerings in green infrastructure, semiconductors and cybersecurity. Despite the less favourable conditions for Alternatives so far this year, we won a significant real estate mandate in the US in the second quarter, highlighting our deep knowledge and expertise in the asset class. Finally, in the bid component of our strategy we've hit the ground running since announcing our strategic alliance with Galaxy Digital in April, which I will discuss later in the strategic outlook.

Before we move on, I would like to briefly update you on another topic that remains a top priority for the executive board, the greenwashing allegations. As we've said before, we continue to work closely, actively and transparently with the authorities to close these matters. With the investigation still ongoing, we cannot predict precisely when and how they will conclude. However, in our interim report released today, we disclosed that we are in advanced discussions on one matter. We cannot exclude that the outcomes of the investigations may be adverse and could involve financial penalties, which is why we've adjusted our provisions accordingly. In short, we are moving forward in the right direction and hopefully with a timely conclusion in sight.

Another important priority is our ongoing transformation to become a standalone asset manager. In the first half of 2023 we executed the first technical migrations as part of the ongoing implementation phase of our multi-year project to develop our own infrastructure platform. As you would expect, we do this while closely monitoring for transformation risks, to protect our clients and our firm.

In other developments, I'm pleased to say that DWS's efforts to

operate as a listed asset manager are being recognised externally. Earlier this month we received an A2 long-term issuer rating from Moody's with a stable outlook. This is an important achievement to acknowledge our robust financial flexibility, which we've continued to demonstrate in the second quarter and first half of 2023. With that, I'll now hand over for the last time to Claire, for the details.

Claire Peel

Thank you and welcome, everyone. Today I'll present the results and activities for the second quarter of 2023, starting with the key financial highlights. Quarterly net flows remained positive at €9.3 billion and €10.4 billion excluding cash, driven by our targeted growth areas of Passive Xtrackers and Alternatives. Adjusted cost-to-income ratio improved to 61% in the second quarter, keeping us on track to achieve our guided ratio of below 65% for full year 2023. Adjusted profit before tax increased to €260 million in Q2, supported by stronger revenue growth in the second quarter.

Moving on to the financial performance snapshot. Starting at the top left, AUM increased to €859 billion, up 2% quarter-on-quarter and 3% year-on-year, driven by positive markets and stronger net inflows. On the top right, adjusted revenues grew to €668 million, up 10% from Q1, with increases reported across all revenue categories in the second quarter.

On the bottom left, adjusted costs increased slightly to €408 million, mainly due to higher variable compensation related to the DWS share price development in Q2. Despite this, the adjusted cost-to-income ratio improved to 61% and the adjusted profit before tax grew to €260 million, up 27% quarter-on-quarter.

Let's recap on the market environment. In the second quarter market volatility slowed to the lowest levels reported since before the pandemic, while investor risk appetite continued to improve. All major equity indices sustained their positive momentum from Q1, as the US economy showed signs of resilience amid the higher interest rate environment. In Q2 both US government bond yields and European rates rose steadily, as central banks continued their hikes. At the end of the second quarter the US dollar remained relatively unchanged against the euro and, collectively, these developments are constructive to the asset management industry, as well as for DWS, which we can see in our quarterly AUM development, which I will now outline.

Assets under management increased to €859 billion in the second quarter, up 2% from Q1. This quarterly asset increase is driven by positive market impact and strong net inflows, which more than offset unfavourable FX movements in the second quarter. Looking more closely at net flows.

DWS sustained its positive flow momentum in the second

quarter, reporting total net inflows of €9.3 billion and €10.4 billion, excluding cash. This includes inflows across all three regions of EMEA, APAC and the Americas, and with contributions from both retail and institutional clients, indicating an improvement in investor risk appetite. This is most evident in our targeted growth areas of Passive Xtrackers and Alternatives. Passive reinforced its strategic importance, delivering €6.2 billion of Q2 net inflows. This included a significant institutional mandate in Asia Pacific and Passive ESG inflows, which were split almost equally between ETPs and mandates.

Once again, Xtrackers ETPs remained a key flow driver, accounting for the majority of our passive inflows in the second quarter with positive contributions across all regions. In our home market in EMEA, Xtrackers ranked number two by ETP inflows in Q2 and in the first half of the year, with net flow growth outpacing our AUM market share.

Alternatives reported €3.9 billion net inflows in the second quarter, marking a reversal from Q1 net outflows. This was primarily driven by an institutional real estate mandate in the US, which was a significant win for our business in the region. The mandate is a diversified, open-ended real estate fund, comprising currently of 43 properties and with over 230 investors, which DWS has selected to manage because of its overall strength, capabilities and capacities in private real estate. In addition, our Q2 inflows in Alternatives are supported by infrastructure funds in EMEA.

Beyond our growth areas of Passive Xtrackers and Alternatives, we also attracted positive flows into several of our actively managed value asset classes. Active Multi Asset reported net inflows for the second quarter in a row, mainly driven by an institutional mandate win and inflows into our flagship retail fund, Concept Kaldemorgen. Institutional demand was also a key driver of Q2 net inflows in Active Fixed Income. Building on the progress we made in Q1, we won and strengthened insurance fixed income mandates in EMEA in Q2, reflecting our ongoing commitment to continually review and improve our performance in the asset class.

Collectively, inflows into these actively managed asst classes more than offset quarterly outflows in Active Equity and Cash, and contributed positively to our overall flow performance for the second quarter in a row. In the first half of 2023 net inflows totalled €15 billion and €19.2 billion excluding cash. This included net inflows into growth asset classes Passive Xtrackers and Alternatives, giving us confidence that we remain on track to achieve our AUM targets in both asset classes by 2025, as committed.

In addition, our ESG products remain an important flow driver, with €1.9 billion net inflows in Q2 and €3.4 billion net inflows year-to-date. These reflect strong inflows into Passive ESG mandates and ETCs, as well as continued demand for Active ESG products. To ensure DWS sustains this positive flow performance, we will continue to strengthen our investment offering through product innovation and new launches, which I will now outline in more detail.

Since our IPO in Q1 2018, new product launches have attracted €53 billion of cumulative net inflows and an overall management fee margin of 35 basis points. This includes €1.9 billion of net inflows in the second quarter, mainly driven by new ESG products. Sustainability remains a key feature of our portfolio, with the expansion of our Xtrackers climate solutions and ongoing European transformation efforts in the first half of the year.

Looking ahead to the second half of 2023, we remain focused on this topic while continuing to target growth areas, both existing and new. In Passive Xtrackers we plan to launch the MSCI World Momentum ESG UCITS ETF and by the end of the year we aim to take our first steps into the digital asset space with our new crypto currency ETCs. In Alternatives we will launch a US logistics strategy, which is being developed in response to growing demand for German institutional clients for such solutions. To help sustain flow momentum in our Actively Managed asset classes, we will strengthen our value proposition in Active Fixed Income with the upcoming DWS Invest Conservative Sustainable Bonds fund. Collectively, these product launches are key to insuring that DWS continues to attract net inflows and to sustain top line revenue growth and overall profitability.

Moving on to revenues. Total adjusted revenues grew to €668 million in Q2, up 10% from Q1, with increases reported across all revenue categories in the second quarter. The largest contributions came from performance in transaction fees, which grew by €36 million in Q2, mainly due to the recognition of alternatives performance fees in the second quarter. Management fees and other recurring revenues were also up, increasing by €9 million quarter-on-quarter, supported by higher average AUM and has resulted in a management fee margin of 27.4 basis points. Other revenues increased to €41 million in Q2, supported by higher net interest income together with a 16 million contribution from our Chinese investment, Harvest. In the first half of 2023 adjusted revenues totalled €1.3 billion, down 6% compared to the same period in 2022, mainly due to lower average AUM year-on-year.

Moving on to costs. Total adjusted costs were slightly higher in

the second quarter, reflecting and increase in total adjusted compensation and benefits costs, which includes higher variable compensation related to the DWS share price development. Total adjusted general and admin expenses were essentially flat quarter-on-quarter with operational efficiencies were offset by ongoing efforts to invest into growth. In the second half of the year we will benefit from cost efficiency actions taken at the end of 2022 and the beginning of 2023. These efficiencies enable investment into growth strategies, as outlined at our Capital Markets Day last December. As a result, we continue to guide towards an adjusted cost-to-income ratio of below 65% for 2023. As a reminder, total adjusted cost base excludes €25 million investments into our infrastructure platform transformation in Q2, in addition to other, non-recurring expenses.

Moving on to our financial outlook. Looking ahead, I'm pleased to reconfirm the financial outlook for 2023. As guided, adjusted cost-to-income ratio is expected to increase year-on-year but will remain below 65%, as we continue to take active action on our cost base while investing into growth.

Adjusted revenue are expected to remain essentially flat compared to 2022, supported by positive flow momentum, especially into our targeted growth areas of Passive Xtrackers and High Margin Alternatives. Before I hand over to Stefan, I would like to say a few words.

This will be my final earnings call with DWS. It's been an honour and a privilege to serve as the CFO and to be part of the company's journey from IPO to its mature and competitive position today. The Moody's A2 long-term issuer rating received this month acknowledges this status, and I give my huge thanks to everyone. I will now hand over to Stefan for the strategic outlook.

Dr Stefan Hoops

Thank you, Claire. Not only for the presentation today, but also for the dedication and service you've selflessly given to DWS and Deutsche Bank over the years. We will certainly miss having you on the calls, I know I will. Your confident and calm presence, and of course deep knowledge of the franchise, helped me immensely during my first analyst call almost one year ago. Not to mentioned the countless times we've presented together and met with investors. A big thank you.

As we look forward to the second half of the year, DWS is well positioned to continue its positive momentum shift. We've earned the right to intensify our efforts in the value, growth and build categories of our strategy, and we'll do this without compromising our diligent and disciplined focus on cost. In the value part of our strategy we continue to firmly believe in the future of active portfolio management. In this ever-complex world

the number of factors impacting asset prices is a lot higher than in the past. Asset managers have to connect the dots between geopolitics, divergence of central bank policies, real economy data, investor sentiment, impact of AI, and much more.

The breadth of our platform with experts across all asset classes, a presence in the US, Europe and seven markets in Asia Pacific, and deep knowledge of retail and institutional client behaviour gives us a competitive edge to drive outperformance for our clients. Cultivating an even stronger collaboration across the entire investment platform is one of my top priorities, which is why we've implemented a variety of initiatives, such as the Global Insurance Council and firm-wide CIO calls.

In the growth category we remain committed to expanding our capabilities in our targeted areas of Alternatives and Xtrackers. In Alternatives we are progressing forward with supporting the European transformation. And outside of Europe we are strengthening our profile and capabilities in Alternatives across the world. Specifically in the US, where our recent real estate mandate win lays the foundation for more of these special situations and large client solutions in the future. In Xtrackers we are also continuing to expand internationally, so that we can build on the positive flow momentum we have attracted so far in all regions. We aim to achieve this by extending our range of thematic and ESG ETFs, as well as by exploring new opportunities in the digital asset space.

This leads me nicely onto the build part of our strategy. As outlined at our Capital Markets Day, we want to grow in the digital asset space, as we expect significant parts of the financial economy to be tokenised in the future. Since forming our strategic alliance with Galaxy in April, we already have plans under development to launch our first crypto currency ETCs in the fourth quarter. To prepare for this, we are setting up a crypto currency ETC platform in Switzerland and we've started to engage with clients on the upcoming products during first client meetings and roadshows, which have been well received so far.

In addition, we're working on education and thought leadership initiatives, such as a DWS Digital Assets Academy. These efforts will also lay the foundation for the next phase of our digital asset strategy to issue a euro stable coin, whereby we finalised a feasibility study that evaluates potential roles that DWS could play in this space. We expect to communicate more in the coming quarters. For now, allow me to come back to the positive momentum shift.

To be clear, I am not declaring victory. It would be a shame if we lost our focus because things are getting better, as clearly there's still plenty of work to do, but we are through the worst. We made

tough, but necessary, restructurings. We maintained our clients' trust and our investment performance in focus areas such as Fixed Income is picking back up. The strategic initiatives I've just outlined are designed to help us to remain firmly on a positive growth trajectory and ensure that DWS creates shareholder value. As we aim to grow our dividend, we would also like to remind you of the potential extraordinary dividend commitment we outlined during our Capital Markets Day in December. Given that we're currently not conducting advanced due diligence on potential targets, it seems more likely than not that the executive board will recommend a potential extraordinary dividend for our shareholders in 2024.

To summarise, a solid second quarter and a productive first half of the year, but with plenty of work ahead. We will not lose focus and we'll never be complacent, but we believe we can be front footed and be confident because we visible shifted momentum and are on the right path. Thank you for listening. I will now pass over to Oliver for Q&A.

Oliver Flade — Thank you, Stefan. Operator, we're ready for Q&A now. Ladies and gentleman, 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 touch-tone telephone. To withdraw your question, you may press star followed by two.

Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question comes from the line of Jacques-Henri Gaulard with Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard — Good morning. Can you hear me?

Dr Stefan Hoops — Yes, Jacques-Henri Gaulard. Good morning.

Jacques-Henri Gaulard — Good morning, everybody. First of all, Claire, thank you so much for everything. You've been a beacon of consistency throughout. It's not been easy. It was great to have your calm, anchored voice leading us through the progress of the company, so fantastic, and again, you'll be missed. Two questions from me. I would like to come back a little bit on the progress in the US. I remember during the Investor Day you lamented, Stefan, the fact that that company was fifth-largest asset manager in the US not that long ago, you had ambitious growth plans. You're mentioning the real estate mandate, your progress on ESG. Are you happy about where you are in the US now? Do you think there is more scope for growth? Is it turning into the second-largest region of the group?

Then on the independent front, which is interesting, have you been able to actually pass to your shareholders the potential change in KGaA or, considering where you are right now,

potentially increasing the free float of the company. Thank you very much.

Dr Stefan Hoops

Hey, Jacques-Henri. On the US, I don't know if happy is the right term, but I think that we are seeing the early fruits of the restructurings we've done. Just to remind on a couple of changes we've made. Dirk Goergen as CEO is actually the first time in a while that we have the US CEO, who also runs global coverage, sit in the US. I think that definitely had a positive impact on morale.

If you then look at the various asset classes, we made a bunch of changes. I think in Alternatives it was mostly investments, so Paul Kelly coming in as global head of Alternatives from Blackstone Credit. In Xtrackers, so Passive, we actually, for the first time in the while, fully funded their growth requests, what they wanted to have. Then in the Active Asset Management side we made a bunch of changes. I think most notably was fixed income, where we essentially, taking out is always such a tough word, but we changed the person running it and the top four, five people, so it was a pretty major restructuring. And we implemented a true culture career, so the person that previously ran trading.

This was something that people had wanted to do for ten years, people were always worried about what would happen to flows, to performance. And strong collaboration between coverage and product in investment division, we actually did all of that at once, and so far, so good. I think it's too early to take credit or be happy about fixed income performance after a couple of quarters, but performance looks better. We haven't lost any AUM in fixed income, so some of the things that people thought would happen didn't happen. So, I would say so far, so good.

I think what we like is that our Alternatives franchise is picking up. I think that’s significant win. It was not random. I think it shows in good weather, when the sun shines, it almost doesn’t matter who’s managing your assets. When it rains, you want to have somebody who’s competent, so we take some pride in having been selected for such a large mandate. In Xtrackers we always spoke about launching thematic ETFs as our strategy in the US, and we've done that.

I think, Jacques-Henri, to conclude, I think at least you see that all the things we've said we would do, we have done. Coming back to the theme of a show-me case, I think we’re doing what we've said. I would say so far, so good. Maybe the one negative, when you look at Active Equities, we actually have the outflows in the US and we have outflows percentage wise a little bit higher than the market. The market overall lost in Active Equities, but we lost a bit more, so there are all these things that remain to be

optimised, so work is not done, but I would say so far, so good.

On the second question, on free float and KGaA, every time I say something about that I get in trouble with our majority shareholder, but Claire's probably less conflicted, given that she's leaving soon, so I will hand over to Claire for the second question.

Claire Peel

Thank you, Stefan. Thank you, Jacques-Henri, for your comments, really very much appreciated. On the corporate structure, we've been a KGaA structure for five-and-a-half years since the IPO and that's how we continue to operate. No indications that we are changing that, but we continually assess what the appropriate structure is, which is of course determined by the majority shareholder. Similarly, the position that we have by the majority shareholder is also determined by themselves, so no additional comments to add to that.

I can just also add on the US position, that we have AUM of 209 billion as at the end of the first half of the year, which is almost 25% of our total AUM position, so a really sound and solid holding that we have in the Americas.

Operator

The next question comes from Hubert Lam from Bank of America. Please go ahead.

Hubert Lam

Hi, good morning, thanks for taking my questions. I'd also like to thank Claire for all her hard work and help over the years. It's always been a pleasure interacting with you, also good luck in the future. I've got two questions, firstly for Stefan. Again, thanks for the update on the ESG investigation. I see that you've added 21 million of litigation provisions. I'm just wondering if this is a good indicator on a possible settlement and what is this based on. Also assuming a reasonable outcome that you get. What will this change for you? Will this allow you to engage with clients that otherwise you couldn't? Just wondering what a resolution means on the business side of things.

Second question is on NII. Claire, can you give us a breakdown in terms of the other revenues, how much of this came from NII in the second quarter? Also, what's the cash balance to look at and what rates should we think applies to it. Should we think about the ECB rate or what are the rates to think about going forward? Thank you.

Dr Stefan Hoops

Thank you, Hubert. Your first question had two parts and I choose to spend more time on the second part, as on the first part, 21, does it cover it? I would not be able to say more than we shared in the script or the interim report. The 21 is for a few items, we don't split out for which items, but as we've said, we are in advanced discussions on one matter, which we've also disclosed in the interim report. So, remain hopeful that while we

operate on the timeline of the authorities, remain hopeful that we can conclude one matter in due course.

I think the second part of your question was interesting, what does it mean in the future? I would say that when you look at flows, we don't feel that we are negatively discriminated because of any overhang. I think we have solid inflows in ESG throughout the last couple of quarters, and again in the second quarter. So far, it seems that our flows into ex-cash, I think we have decent flows across, but when you look at the longer-term, revenue-generating asset classes, we seem to have been doing fairly well compared to the industry, so I don't think there's any overhang.

However, imagine a panel where CEO of another asset manager and I discuss the future of sustainability and what we want companies to do, I think even a neutral, fact-based person like you will in the back of your head probably say, look, get done with your own investigations before you come out swinging. I feel that our ability to take a more active stance on that super important topic and properly engage and, therefore, be more of a [32:27 unclear ?]. Again, not saying we'll do it best, not saying we're the brightest or the most green, but to take an active stance. I think that ability will go up.

And second point before I hand over to Claire, when you think about the amount of work that our competent people spend on the past versus the future, obviously that's going to swing. I think that's going to be also a positive momentum shift in the minds of people, if you can focus on the future of sustainability and not dela with the legacy. Thank you, Hubert.

Claire Peel: Hi. Thank you for the comments, Hubert. Coming back to the question on net interest income. For Q2, the other revenues accounted for €41 million and within that, we had €23 million which was directly related to net interest income. In addition, separately, within other revenues we have our Harvest investment, whereby we recognised 16 million in Q2. Those re the predominant revenue items that we have within the other category.

On the question of the liquidity balances that we carry, it's approximately 3.5 billion in total, 3.4 billion, more precisely of liquidity balances that we hold on our balance sheet, entirely covering all HQLA type assets. And within that, we have closer to 1.7 of bank deposits and 2.7 with more highly liquid assets that we are generating net interest income from. They're predominantly euro denominated, we also have US denominated. And in terms of rates to be looking at, the overnight rate and other rates more euro orientated would be the core area in terms of modelling. Hopefully that helps.

Hubert Lam: Great. Thank you, both.

Operator

The next question comes from Arnaud Giblat with BNP Paribas. Please go ahead.

Arnaud Giblat

Good morning. I just want to comment for Claire it's been a great working with you over the past five years, it's been extremely helpful. I just had two questions. First on cost and second on Alternative flows. On the costs, in the outlook statement you talk about cost being only slightly ahead in 23 versus 22 for the adjusted cost. Should we interpret that as low single-digit growth? I was just wondering if you could update us a bit on the outlook for cost evolution in 23 and beyond, since you seem to be slightly in advance on your restructuring plan, how do costs evolve? And what exceptional costs remain to be taken?

Secondly, on the flows, I think last quarter you talked about the launch of an Infra fund. How is that panning out, what sort of flows or closings should we be expecting in the coming quarters? Also, have you made any progress on your private credit offering? Thank you.

Claire Peel

Hi, Arnaud, thank you very much for the comments. I'll take the first question, initially, on costs. For 2023 we are guiding to a cost-to-income ratio of below 65% and that compares to a cost-to-income ratio last year of 60.6%. Increasing year-on-year in terms of cost-to-income ratio, but staying below 65% is the precise guidance that we're giving.

On the adjusted cost base, when we did our annual reporting, we guided that our adjusted cost would be higher year-on-year and we slightly refined that to now say slightly higher year-on-year. That represents the pace of restructuring, the pace of investment into growth and, to a lesser degree, of a few FX fluctuations, inflation and other facts that we see in the cost base. But year-on-year we expect slightly higher costs, no material movements overall.

As we look forward, as you say, to guidance beyond 2023, we're working towards a cost-to-income ratio of below 59% by 2025. We need to go through our strategic planning more deeply, to give more specific guidance for next year, but obviously we're ensuring that we are on a guide path to move in that direction by 2025. I would say so far, in terms of the restructuring actions that we've taken and the investments that we're taking, that looks to be on track.

On your questions on the other cost adjustments, we have in there the transformation project, where we can see for the second quarter 25 million of expenses and for the first quarter 18 million of expenses. Those costs do pick up pace in 2023 compared to last year. We indicated in the Capital Markets Day that 2023 would be the peak of the investment period in transformation expenses, and that's obviously continually under

review and assessment. Within that, we have approximately half of that which is related to dual platform license costs, as we do the transition from platform that we currently are hosted with Deutsche Bank, to a more self-managed platform. And so, we see that expense in our adjustments for this year.

In addition, we have litigation expenses and legal fee expenses related to exceptional matters. We have seen an increase in those expenses also in the second quarter and in the first half of the year. As we look forward beyond 2023, of course we expect such other expenses to decline, as we look to bring such matters to a resolution. Similarly, we have restructuring and severance costs and again, we expect that we have hit the peak of those already in the first half of the year and we should see those declining going forward. Hopefully that clarifies.

Dr Stefan Hoops

Arnaud, the question on Alternatives. Firstly, on the infrastructure fund for retail. I think that's going well. We raised little over 200 million in the first six to eight weeks. That's probably, to be honest, ahead of what the coverage folks had promised and probably slightly below what I'd hoped, so I think we are in good shape versus when new strategies are being launched. I would imagine this continuing to grow quite nicely. You almost don't have to do any marketing for it because people can read in the press every day that there's significant investments in infrastructure, so it seems to be a good zeitgeist and plenty of interest. Again, a little over 200 million in the first six to eight weeks.

On private credit, we spent a ton of time on it. If you recall, Paul Kelly was hired to oversee all of Alternatives, but then he has distinct knowledge on how to build, run, oversee, compensate a private credit business. Sometimes you spend a lot of time on something and then conclude it's probably not for you, so that happened to some extent. I think the US, for example, we'll probably create more opportunistically. I think they were interesting ways to grow the US, but quite honestly, I fear that we will be a tourist in the US. We would see risk after other people have passed over that risk. I simply don't want to be a tourist in any asset class. Therefore, I know that we will focus on building that in Europe.

Now in Europe, the question is then do you grow organically by hiring people and then setting up your own investing guidelines and risk committees and so on, or do you buy somebody, so build versus buy? I think we are still undecided in the sense that we're spending quite some time in looking at potential targets. When you think about the European private credit space, specifically direct lending, there would be asset managers, maybe 3 to 10 billion AUM, so from a cost perspective certainly not breaking the bank. And you have certain advantages, time

to market, you have a track record and so on, but at the same time, there's always some risks that you buy and there will always some cultural elements that you need to be quite convinced you can manage.

I think building, it's longer term, it simply takes a bit longer, but we're obviously long-term ambitious. Right now, I think it's probably still 50/50, which direction we go. I think we're quite close to deciding on who our number one person would be, so we just need somebody to oversee it and then that person can decide whether you want to buy, to build and so on. I think making decent progress. I think the opportunity to collaborate with Deutsche Bank's Corporate Bank and Investment Bank or other banks, that remains quite high and it's definitely a selling point when we speak to people in the market.

Maybe one more comment because some, or actually most of you, when you looked at our numbers today, commented on the performance fee. Which, and I said it myself in the script, is obviously of lower quality than management fees, which is well understood. However, I would urge you to really have a distinct difference in your mind between random, one-off or targeted, but lumpy. As we grow Alternatives, obviously we want to grow performance fees. In our outlook we've said that as a percentage of total revenues, it should grow.

I appreciate that we will only be able to get any credit for some stickiness value of the performances if we do it over and over. Just like this is the second quarter in which we had a significant, large win. Last quarter in Multi Asset, this time in Real Estate. I appreciate it will take a couple of quarters for you guys to give us some credit for that, for that being repeatable. But, therefore, Alternatives remains definitely on a growth trajectory and private credit probably the number-one area which we want to build. Thank you, Arnaud.

Arnaud Giblat	Great, thank you.
Operator	The next question comes from Haley Tam with Credit Suisse. Please go ahead.
Haley Tam	Good morning. Thank you for the presentation and for taking my question, and congratulations on a strong set of results. A great note for Claire to pass on and I can add my thanks as well in terms of her consistency and knowledge over the course of the last five and a half years.
Dr Stefan Hoops	Hayley, you are very difficult to understand. Can you get closer to the mic? We hardly can understand you.
Haley Tam	Hang on one second, let me see if I can fix this quickly. Sorry, please bear with me.

Dr Stefan Hoops

Like you do it now is much better already. If you just speak up a little bit, I think that would help.

Haley Tam

Great, thank you. I will just say thank you again to Claire for her consistency and her knowledge over the last five and a half years. I think she will be greatly missed by the analyst community. If I can have two questions, please. The first one on the fund flows. With alternative investments, clearly you saw a significant US real estate mandate win in Q2, which did offset the outflows from the liquid Alternatives. Could you give us some colour please on the fee margins on this versus the 50 basis points you have for the asset class? Also, given the positive comments you've made about this opening doors for future similar mandates, can you maybe give us some visibility into the pipeline.

Then a second question, on your A2 long-term credit rating. You've clearly said you have no intention to issue debt in the near term, but could you tell us under what circumstances you might consider this? Is this M&A only or would you consider it maybe when interest rates come down, just to give yourself a more efficient balance sheet? Thank you.

Claire Peel

Hi, Haley. Thanks again for the comments, much appreciated. Picking up on the Alternatives significant mandate that we won in Q2. I can't give precise fee margin on that, but I can confirm that it is very much in line with the average that we see for the asset class overall. It could be slightly higher or lower, but it's very much in line with that, so supportive, I would say, of the asset class overall.

On the pipeline, maybe we come onto that in a moment, but to comment on the A2 long-term credit rating for Moody's, the purpose of that initially, as of now, is really to provide security that's required for insurance clients in particular, in terms of questions that they have to ask and validate their providers, as we go through RFPs and so on, so it's very supportive in that process. But of course, it is also an enabler for future funding for M&A if required. That's not the primary purpose, but it's certainly an enabler for the future as well.

Dr Stefan Hoops

Haley, just to add. And I will try to keep it short because Oliver told me there are many people that want to ask questions. Allow us to have a couple more quarters for these types of large mandates and then I will explain what we've done. Because there's no secret behind it, you just need to be slightly more targeted in identifying than ones that are situations where you compete. Being preorganised in how to win, which comes with a combination of ensuring that there are adequate resources, the right sequence in pushing for it. But frankly, to some extent, given the people fighting for the mandates, confident that it can

	actually be implemented. Which I feel people now have the confidence, but allow us to do it for a couple more quarters, then we talk more about it. I think the pipeline overall for real estate looks quite promising. Focus on logistics in the third quarter. Our Europe real estate transformation fund will properly raise capital in the third quarter. So, I think the pipeline is decent, but those one-offs, I want to do it for a couple more quarters and then we'll spend more time talking about it. Thank you, Haley.
Haley Tam	Thank you.
Operator	The next question comes from the line of Tom Mills with Jefferies. Please go ahead.
Tom Mills	Good morning. Thanks for taking my question. I'd also like to pass on my congratulations to Claire. Many, many thanks and best wishes for the future. I appreciate it's quite a new development, but I'd seen earlier this month there's been a regulatory mandate in China to limit fees for asset management products to 1.2%. Do you have any sense as to whether that's going to have much of an impact for Harvest, AUM base? That'd be great. Thanks very much.
Dr Stefan Hoops	Hey, Tom. I can take that. It will definitely have a negative impact, there's no question about it. As you correctly say, there's essentially add-on fees. When you look at Harvest, there were a number of funds which they haven't disclosed, therefore, we won't disclose it. But a number of funds which were both debt cap, so therefore, it will have a negative impact. I don't think it's going to be significant, but we're working with the Harvest team to go through it. I think one update which I'm happy to share in the circle of trust, I will actually join the supervisory board of Harvest, which is the first time that a DWS, so Deutsche Asset Management CEO, sits on it. Simply because when you think about the value of our Harvest stake, so 30% in now the seventh-largest asset manager in China. I think valuation will probably be not far away from our valuation. And ours is maybe too low, but it would be 4, 5 billion for Harvest, so that stake represents 1.2 to 1.5 billion in value. And just to make sure we get the most of out that stake, I will sit on the advisory board going forward, so happy to give a more precise answer on your question on the next quarterly call.
Tom Mills	Great. Happy to be in the circle of trust.
Operator	The next question comes from Michael Werner with UBS. Please go ahead.
Michael Werner	Thank you very much. I also want to extend my congrats to Claire and wish you the best in the next stages of your career. It's been a pleasure. Just two questions from me, please. One,

can you please remind me, you talked about the SEC investigation, can you just remind me what other investigations, what are the counterparties of those investigations, BAFIN prosecutors you are dealing with, with the ongoing greenwashing investigation?

Second, maybe just to circle back and try to get another answer. You did say you expect AUMs and the adjusted cost base to increase, quote/unquote, only slightly this year. Is there any way you can provide a bit of a range on that, only slightly, what it means from a more quantitative perspective? Thank you.

Claire Peel

Hi, Michael Werner, thank you again for the comment, much appreciated. On the first question around allegations and matters in the investigations that we are addressing. It's best that I refer you to the statement that we got in the interim report on that, which is under opportunities and risks. It's page 14, just to save everyone some time. There is a number of matters that are always going on with any global organisation, global asset management firm. These span Europe and the US. A number of items, that I don't want to miss anything, so for completeness I would refer you to that note. It does address Germany, Europe and the US, and provisions accommodate all of those accordingly.

On the second question, on year-on-year movements in costs. I can't give you a specific percentage because then I'm giving you a precise guidance on a number. But slightly higher just means that we see some uptick movement in the cost base year-on-year. Slightly lower than we had originally expected. That's on the adjusted cost base and the cost base is split broadly half and half between comparable and non-comp. There is a mix effect there of the efficiency gains and the growth in investments that is resulting in a slightly higher cost base year-on-year. Hopefully that helps.

Michael Werner

Excellent, it does. Thank you very much, Claire.

Operator

The next question comes from the line of Nicholas Herman with Citi. Please go ahead.

Nicholas Herman

Good morning. Thank you for taking my questions. First of all, Claire, just like to echo the previous sentiments and offer my best wishes to you on your next chapter. The two question I have, please, one a follow-up on Alts and one on Harvest. On the Alts side, two consecutive quarters of negative performance, despite broader positive markets. Is that real estate or is it also other asset classes as well? It looks like your direct real estate outperformance versus benchmark has declined recently. Just curious of what's driven that decrease in that performance? I guess I was under the impression that you're mostly in core real estate, which is relatively more immune. That's the first one.

The second question is on Harvest. Interesting to hear that you're joining the board of Harvest, Stefan. Is that evidence of even greater cooperation between the two businesses? Any goals or aims that you hope to achieve as a part of that? Then more broadly, do you see an opportunity to potentially acquire or buy out either of the two partners in Harvest over the medium term? Thank you.

Dr Stefan Hoops

Hey, Nicholas. I will start with the second and then hand over to Claire. We like Harvest, obviously, having been a third-person shareholder for 20 years. They actually have 140 million retail clients and the way, when you think about embedded asset management, so what we call asset management as a service, that is something that they have been doing for quite some time. When it comes to what can we learn? It's actually quite interesting how they integrated in the big apps that you have in China. Obviously quite a different market environment than Europe, but there's definitely something to be learnt on that front.

I think secondly, when you think about artificial intelligence, and this is not going to be a call where I spend a lot of time on it, but they also significantly had, for obvious reasons, a different approach to data and data privacy, but significantly had of any Western asset manager. I think also there, there's something to learn. I visited them twice over the last couple of months. I think when it comes to potentially increasing our stake, we wouldn't want to comment on it. Obviously we’re not in any advanced discussions, otherwise I wouldn't have said what I said earlier about us not being in advanced discussions on any large M&A and, therefore, recommending an extraordinary dividend be more likely than not. But when you look at the other two shareholders, one is essentially the state at 40% and one is a group of individuals. Talking to them, but by joining the board I think it also helps us to have more confidence in whatever direction we end up going.

Claire Peel

Taking the second question, I think this is specifically on fund performance within Alternatives. Firstly, I would comment on liquid real assets. In liquid real assets we have seen an improvement in the one-year and the three-year performance quarter-on-quarter, and that is something we spotlighted in the first quarter as being slightly weaker on our performance in Q1. We have seen an improvement in NRA in Q2 and we’ve seen a slowing down of the outflows thereafter, so that’s an area that we watch very closely.

On direct real estate, you're right that on the one-year measure we have seen a decline in the performance metric within the year, but with a more limited composition of assets that sits within that measurement bracket. That is one I think we'll have to come back with more details on, just to explain the movement

there, which I think has some more unique aspects to it.

But generally speaking, on fund performance I also just want to focus on fixed income. We did spotlight fixed income as an area of attention requiring an improvement in performance which we have indeed seen in the one-year result quarter-on-quarter for Q2, so we're pleased with that result.

Nicholas Herman

Thank you, appreciate it.

Operator

The next question comes from the line of Roland Pfaender with Oddo BHF. Please go ahead.

Roland Pfaender

Good morning. Two questions from my side, please. Firstly, I would like to come back to your Active Fixed Income franchise. What do you really need to improve on this product to make it more attractive for investors? Do you have all the capabilities you needed or you need to engage maybe additionally in M&A transactions?

Second question, looking at the increased interest rates in the market, what effect could that have on the demand side of your alternative asset which you are selling increasingly to investors? Is there a trade-off looking at the higher interest rates in demand or how do you see it there? Thank you.

Dr Stefan Hoops

Thank you, Roland. On Active Fixed Income, I think we have all of these ingredients for the more traditional fixed income. I think we're actually quite strong, I don't want to go through all of the ingredients of fixed income. What we don't have is a proper total return setup. When you look at our insurance efforts, for example, we're still one of the largest third-party insurance asset managers. Unfortunately, most of the insurance companies only trust us for the bread and butter, so govies or credit and the more interesting total return fixed income mandates go to competitors. That is something which we want to build, it's something which is not that easy to train.

If you've done govies or credit for all your life, and benchmark oriented, it's tough to completely change. I think we probably need to bring in some talent and new efforts. I don't think that you would do M&A for that. I don't think that you would need to do that because I think we have access to clients, we just need to then have the competence and be able to point to look, these are the people. This is something which we're working on, both in Europe and in the US.

Claire Peel

On the second question on Alternatives demand in the rate environment, I would expect as we start to see the rate environment now stabilise, our business is expecting that we should start to see looking forward transaction activity picking up. This has obviously been very muted in the first half of the year. We haven't seen much activity at all when it comes to real

	estate transactions, but perhaps more opportunity in the outlook looking forward.
	Similarly, on capital raising, new capital raising again has been muted in the first half of the year and some of the fund launches capital raises we've seen move out in our pipeline, but the demand is still very much there. I think it's been more of a timing event and as rates are stabilising, we're starting to see that interest resurfacing. I think it's been more of a timeline impact, rather than an absolute impact on capital raising capacity.
Dr Stefan Hoops	One thing to add. I think what all of you call the denominator effect is also going to have less of an impact going forward. If rates stabilise or go down and equities continue to go up and maybe fixed income goes up if rates go down, that obviously has a positive impact on denominator effect and that is something that probably slowed down alternatives and will be less of a slowdown factor going forward.
Roland Pfaender	Okay, thank you.
Dr Stefan Hoops	Thanks, Roland.
Operator	The next question comes from Angeliki Bairaktari from JP Morgan. Please go ahead.
Angeliki Bairaktari	Good morning and thanks for taking my questions. I would also like to say thank you to Claire for all the help in the previous years, and all the best for the future. Two questions on my side, please. First of all, you have set a target at the Capital Markets Day to grow your Passive a year by 12% by 2025. Clearly the Passive net flows year-to-date have been quite strong. I was just wondering with regards to your market share in ETF, if I remember correctly, you use to be number two, but then following the merger or the acquisition of Lyxor by Amundi, you fell down to number three in terms of ETF market share in Europe. Do you feel that you can reclaim your number two position, given the strong flows? Also, I would be interested to hear whether you see the gap with BlackRock's iShares narrowing at all or not really?
	Second question. What are your thoughts about the European Commission's retail investment strategy package which came out at the end of May? My interpretation is that the commission wants distributors to offer passive funds as an alternative to active funds within bank networks and also bring down management fee rates across the industry as part of their value-for-money proposal. Do you agree that this could be quite onerous for the industry if it goes ahead as proposed at the moment? Thank you very much.
Claire Peel	Hi, Angeliki, thank you for the comments. Maybe I start with the second question on the commission's report that came out. I

know that's something we've been discussing and speculating on more recently. I think your observations are correct. I think we observed that there will be a longer timeframe on some of the changes that will come into effect. I think that there will generally be more of an impact on transparency, on decompression and on relationships with distributors. I think we anticipate all of that in the future and it's something that we take into account. I think, given that we can offer asset classes across Passive as well as Actives and Alternatives, but Passive in particular, we are well positioned with our distributors in terms of offering retail clients all of those solutions. We do anticipate over time continued management free compression, as of course we've indeed seen in the past, as well. We're very mindful and open to the changes that are in the pipeline and working with distributors to put those into effect.

Dr Stefan Hoops

Angeliki, on your first question, which is more longer term, I will take it. Whenever we do a plan some things work out better, some less good as planned. I think that's always the nature of these things. Right now, Alternatives, a bit tougher to raise capital, I think Passive a bit easier. We are head of what we had planned, but there's no point in changing any of the outlooks so far. We continue to commit that we want to grow by 12% CAGR until 2025.

Secondly, when you look at questions like market share and flows we've seen, I think we are pleased so far. I think when you look at UCITS, we've been growing ahead of our typical market share. Market share was always around 10%, year-to-date we've grown at little over 11, the second quarter was specifically nice. Based on what we see, we're growing market share, which is nice. There are always some plusses, some minuses. I was happy with fixed income first quarter, not so happy in the second. Quite happy with what we've done in equities, quite happy with the ESG. We're spending a lot of time on all of the ingredients of Passive.

I think in the US probably more we have to do. We just launched those thematic ETFs that I referred to in my initial comments. That will continue being our strategy, I would imagine that our crypto currency ETCs that we will launch in Q4 will also show that we are quite innovative when it comes to having thematic ETFs. All of that, and that was also part of your question, I think should allow us to catch up to the current number two and be number two.

Catching up to iShares is slightly more ambitious. I'm only 43, I have another 20 years at DWS, so I remain hopeful that we can catch up to iShares, but that's a long-term project. I think becoming number two in Europe is something which we want to do over the next couple of years.

Angeliki Bairaktari	Thank you.
Operator	The next question comes from the line of Pierre Chedeville with CIC, please go ahead.
Pierre Chedeville	Good morning. One question regarding the evolution of fee margin, which is decreasing by one point since last week. I was just wondering, how do you see the evolution of this fee margin in the future due to the development of passive management? Do you feel that you will balance that with a parallel shift of the decrease of your cost-to-income ratio or do you think this is a temporary decrease in the fee margin due to external factors? My second question is regarding retail. We know that retail is more profitable than institutional, generally, institutional mandates. I was wondering, how do you see the evolution of your retail franchise in the coming months? Because we feel that in Q2 particularly, institutional is leading the path for net inflows. Last question, just a clarification, you mentioned an extraordinary dividend in 2024, but do you mean 2024 on the net income of 2023 or an extraordinary dividend in 2025 based on net income in 2024? Thank you and I also thank Claire for always very clear comments during the time I covered DWS. Thank you very much.
Dr Stefan Hoops	Thank you, Pierre. I think you also just had your one-year anniversary, similar to me, in covering and following DWS. Quickly, in reverse order, the extraordinary dividend would be paid at the AGM 24, so essentially for 23, but paid in nine, ten months, if we end up recommending it. And as we said, as of today, it appears more likely than not that we'll recommend paying up to €5 a share, in addition to the normal dividend that we intend to pay for 2023. I think on retail, the way I would ask you to look at it, I think in the institutional space we've simply had more catchup to do. I think that DWS, which is a phenomenal franchise, but has been more retail oriented over the last couple of years and most of the senior folks have more of a retail DNA. That's why we focused more on institutional over the last couple of quarters, and I think people quite liked it. That obviously was a combination of new type of product offerings. In many cases, what institutions care about, the way they receive valuations or how to respond to RFPs is a bit different to retail. I think those investments we've made in 2022 for the institutional franchise, they seem to be paying off, that's why we had more inflows. However, retail, to the point you've made, very profitable and obviously remains a key focus for us. I think on your first question I'll hand over to Claire, but just one thing to keep in mind. Our number one target for DWS is

earnings per share. We want to grow what we can distribute to all of you. Therefore, if we can grow a lot more in passive and it's profitable, it increases earnings per share, even if it dilutes our average management fee, that's fine. Because it's growing earnings per share.

The second target we have out there is cost-to-income ratio and then specific growth in Alternatives and Xtrackers. Therefore, I think we've set the right incentives to really push for EPS and not try to optimise other numbers. But handing over to Claire for more detail.

Claire Peel

Thank you, and thank you again for the comments. To recap on the fee margin question, at the end of Q2 we stood at 27.4 basis points. At the end of Q2 2022 we were at 28.4 basis points, so indeed one full basis point over those periods year-on-year. But for the full year of 2022 the average management fee was 228.1 basis points. Our guidance for the full year for year-on-year is still around 1 basis point of dilution that we anticipate across all asset class and we think it will be slightly less than that overall, if we look at the full-year effect. We're starting to see the pace of management fee margin dilution slow down.

Within Passive specifically, we have guided to around 2 basis points of dilution per year, but we are running below that. Currently, we finished year 2022 with 18 basis points in Passive. We wouldn't see that currently diluting by 2 basis points, but I would stick, to avoid any confusion, the total average fee margin overall to be slightly below 1 basis point overall, taking into account all of those effects. Thank you.

Pierre Chedeville

Thank you very much, very clear once again.

Operator

The last question for today comes from the line of Bruce Hamilton with Morgan Stanley. Please go ahead.

Bruce Hamilton

Morning. Thanks for taking my questions. Actually, most of mine have been asked, so I'll keep this brief. I'll start by saying thank you very much indeed to Claire and congratulations on a terrific stint at DWS, and all the very best for the future.

Just a follow-up question on M&A. I think, Stefan, you've been pretty clear around nothing imminent, hence the comment around distribution, but then also, in terms of where you could be interested, you said direct lending, private credit, it was 50/50 between whether you could buy or whether to build. Are there any other areas that look particularly interesting in terms of M&A opportunities that are out there or in terms of content, technology or other, that you think will be a good infill versus the current setup of the company? Thank you.

Claire Peel

Bruce, thank you again for the comments, very much appreciated. This is the last question, so thank you to everyone

for that, and I'll hand over to Stefan.

Dr Stefan Hoops: Bruce, on M&A, high level, I would love for any of you or your bankers to challenge me on that view. Could you just check if you could go on mute, if I could ask you, Bruce, because a bit of background noise, apologies. Please challenge those assumptions, but I feel that any super-huge transformational targets appear less likely. Because when you think about what insurance companies are doing, they seem to have re-found love for asset management, when you look at Generali's takeover, for example. I wouldn't imagine any of the insurance companies to part ways with their asset management arm.

I think secondly, because of retail regulation, buying somebody's captive distribution, like some competitors have done, is also less interesting at this point in time. I think some of the standalone asset managers that had cost-to-income ratios in the mid to high 80s last year, given that markets have been nicer than any of us had hoped, I think there's also less pressure for them to be open to any discussions. When you look at large scale M&A, which we scan and we spend enough time with all of you bankers and so on, but I think it just appears less likely that something which represents value for our shareholders comes to market.

Therefore, what we continue to focus on is, to the point you made, anything tech related, digital assets related, but that's not going to break the bank from a cost perspective. Remain focused on alterative asset managers, primarily for direct lending, but when it comes to infrastructure or real estate debt, that's also something which we already have but could probably do more of. That's probably also an area in which I could imagine some inorganic growth. But again, from a pure price tag perspective, these are all not in a fear that would deplete the excess cash we have.

If any of you feel that I'm missing something, please reach out. Because obviously, while you should do M&A and not talk about it, obviously we want to look at all options, but that's the current view we have of the opportunities that are out there. Thank you, Bruce.

Bruce Hamilton: Very helpful, thank you.

Operator: Ladies and gentlemen, that was the last question. I will hand over back to DWS for any closing remarks.

Oliver Flade: Thank you very much, everybody. I can only offer you to reach out to the IR team if there are any other questions. Otherwise, I wish you a fantastic day. Thank you very much. Bye-bye.