DWS Group GmbH & Co. KGaA

DWS Q3 2019 Investor & Analyst Conference Call

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Speakers:

Oliver Flade

Dr. Asoka Wöhrmann

Claire Peel

Oliver Flade

Yes, thank you Operator and good morning everybody from Frankfurt. This is Oliver Flade from Investor Relations, and I would like to welcome everybody to our third quarter 2019 earnings call. Please be reminded again that the upcoming Deutsche Bank analyst's call will outline the asset management segment results which have a different basis to the DWS results we are presenting today.

I'm joined by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO. And Asoka will start, as usual, with some opening remarks and then Claire will take you through the presentation. For the Q and A afterwards, I would ask everybody to limit yourself to the two most important questions.

And I would also like to remind you that the presentation may contain forward looking statements which may not develop as we currently expect. I therefore ask you to take note of the disclaimer and the precautionary warning on the forward looking statements at the end of our materials. And now let me hand over to Asoka.

Dr. Asoka Wöhrmann

Thank you Oliver. Good morning and welcome, everybody, to the quarter three results call for DWS. Today, I am pleased to report another strong quarter for our firm, despite the fact that markets were challenging for us and for the entire asset management industry.

Increased volatility and a further reduction in interest rates across regions affected investor risk appetite. Heightened geopolitical tensions have contributed to this environment as have greater asset allocation shifts. Regardless of these headwinds, we work hard to sustain our investment performance across our business. The success of our efforts is reflected in third quarter results.

With a total of €6.2 billion of net inflows, we were able to post the third consecutive quarter of net new in assets and the highest quarterly inflows so far this year. Over the nine months of 2019, we attracted nearly €13 billion of net inflows. This was made possible by our diversified business and especially our targeted growth areas of multi-asset, passive and alternatives.

We're also continuing to focus on executing our accelerated cost efficiency measures and we are confident that we will achieve our medium term cost savings guidance fully by the end of 2019. We also are well on track to deliver our 2019 target of an adjusted cost-income ratio of around 70%, assuming flat revenues compared to 2018.

As we continue to observe the tough trends in the market for asset managers, including the ongoing fee compression, we are committed to reducing our cost base further next year to ensure we stay on track for the adjusted cost-income target of below 65% by the end of 2021.

Additionally, we continue to enhance our diversified business model to better meet our clients' future needs. To this end, sustainability is top priority. ESG will be an essential part of the licence to operate for every asset manager in the future. So I am pleased to say we have made very good progress on this front during the third quarter. In addition to our ESG product innovations, we are setting up a group sustainability office to ensure we have a holistic and efficient framework to meet growing investor demand for ESG investments.

The office will coordinate all the great work we are doing across our firm in this space, including our proprietary ESG engine and our sustainable investment team, to name a few. We're also committed to a 50% carbon footprint reduction in our European real estate portfolio by 2030. And we became a member of the UN backed Coalition for Climate Resilient Investment initiative.

Before Claire explains our financial results in detail, allow me to recap on the third quarter at DWS. We successfully achieved a turnaround in our fund flows as we posted the third consecutive quarter of net new assets. We are pleased with the execution of our accelerated cost efficiency measures and our cost-income ratio being stable and on the target of the full year. And we have continued to make further progress in making sustainability the core of what we do. With that, I will pass to our CFO, Claire Peel. Claire.

Claire Peel

Thank you, Asoka, and welcome everyone. Today, I will present the recent activities and results for the third quarter of 2019, starting with the key financial highlights.

Adjusted profit before tax was €170 million, down 8% quarter on quarter, as low revenues more than offset lower costs. Adjusted cost-income ratio was 69.6%, in line with our full year 2019 target of around 70%. Net inflows were €6.2 billion, driven by multi-assets, passive and alternatives and with positive flows reported across all main three regions. Assets under management grew to €752 billion, reflecting net inflows, favourable market performance and positive FX movements.

Let's move to our financial performance snapshot. Starting at the top left, AUM increased 5% from Q2, supported by quarterly net inflows. Moving to the top right, revenues were €560 million, down 8% quarter on quarter due to the absence of a non-recurring alternative investment performance fee recognised in Q2.

On the bottom left, continued cost efficiencies and the absence of the Q2 carried interest expense helped reduce adjusted costs by 8% in the quarter to €389 million. This supported a stable adjusted cost-income ratio of 69.6% in Q3. Adjusted profit before tax decreased to €170 million, down 8% quarter on quarter due to the decrease in revenues.

Let's refresh on the market environment in Q3. In Q3, the marked divide between equities and bond markets continued on from Q2. Investor risk appetite weakened amid heightened volatility, a trend seen more broadly across Europe, including in our domestic retail market in Germany.

Many major equity markets traded at increased levels in Q3, though with elevated volatility, while sharply declining bond yields continued to deteriorate within the quarter, resulting in the US yield curve inverting in Q3. Lower fixed income interest rates continued to negatively impact fair value of guarantees and affect our retail fixed income flows. And yet, despite this, market performance remained positive overall, contributing to higher AUM at DWS in Q3.

Let's look at AUM development more closely. Assets under management increased to €752 billion in Q3 19, driven by favourable market performance and FX movements, each contributing €13 billion of AUM growth and further supported by net inflows. The positive market performance was driven by fixed income appreciation and equity markets in almost equal parts. Strong quarterly inflows also supported AUM growth, which I will explain now in more detail.

Net inflows were €6.2 billion in Q3, our highest quarterly inflows so far this year, and confirming a positive turnaround in our flow performance this year. Excluding cash, net inflows were €5.8 billion in Q3. In the current market environment, our diversified business model has helped us deliver inflows from a range of active, passive and alternative asset classes and across all regions, both in the quarter and year to date.

Active multi-asset was one of the key drivers of Q3 inflows, contributing €3.4 billion due to a significant institutional mandate win. And this was further supported by Concept Kaldemorgen, where inflows were almost doubled in Q3 due to increased flows in our core European markets outside of Germany, including Italy, France and Spain.

Passive remained strong this quarter, attracting €3.2 billion of inflows with mandates accounting for a significant proportion of this total. ETPs continued to see positive momentum, both in Europe and in the US, where inflows have exceeded €1 billion year to date. Alternatives remain a key growth area for DWS with inflows totalling €1.6 billion in Q3, reflecting sustained flows to real estate and infrastructure. Together, these asset classes more than offset redemptions in active fixed income, equity and SQI.

Active fixed income outflows primarily reflect a couple of institutional clients withdrawing funds for corporate purposes as well as short duration retail redemptions driven by the declining interest rate environment. This activity more than offset positive flows from Nippon Life and our Asian bond fund which continued to attract significant inflows.

Equity redemptions primarily reflect the asset class falling out of favour amid heightened volatility, a trend seen more broadly in the European retail market, particularly in the German equity sector where DWS has a strong presence. We also saw indications of institutional investors shifting their allocations from active equity into passive.

However, we are encouraged by inflows to our ESG equity offerings, demonstrating the progress made to better protect our active business from ongoing industry pressures. Overall, we are very pleased with our positive flow performance this year, culminating in €12.9 billion of inflows year to date and €13.7 billion excluding cash.

Let's move onto fund launches. This quarter, we have continued our focus on product innovation. ESG remains a prominent theme as reflected in most of our product launches this quarter. We also introduced a new multi-asset offering, the DWS Invest Conservative Opportunities Fund, in response to growing demand for such products in the low interest rate environment. Looking forward to Q4, we have a pipeline of product launches across all three pillars of active, passive and alternatives, subject to demand assessments and approvals.

Moving onto revenues, total adjusted revenues were €560 million in Q3, down 8% quarter on quarter. Quarterly management fees and other recurring revenues remained stable due to the positive market conditions and net new inflows, while performance and transaction fees decreased by €45 million in the quarter, as Q2 benefited from a non-recurring alternative performance fee. Excluding this effect, performance and transaction fees would be broadly flat.

Other revenues were also down in Q3, reflecting the negative impact of a declining interest rate environment on the fair value of guarantees. And on a year to date basis, total adjusted revenues remain in line with 2018.

Moving to management fees and margins, overall, our management fees were stable in Q3 despite ongoing margin pressure and supported by the strong rise in AUM. The quarterly margin decline can be attributed to a combination of product, flow and market effects as follows.

Strong inflows into lower margin products within multi-asset, passive and alternative, market growth resulting in lower margin asset classes appreciating more in value compared to higher margin products, and price reductions in guaranteed funds earmarked for termination together with the one-off item in passive. Year to date, the management fee margin stands at 29.8 basis points.

Moving onto costs, total adjusted costs decreased by 8% to 389 million in the third quarter. This is primarily due to Q2 costs, including a carried interest compensation expense relating to a non-recurring alternative investment performance fee. Additional Q3 cost reductions were driven by efficiency measures.

Total adjusted general and admin expenses were flat in Q3, with lower DB Group service charges offsetting the slight increase in non-compensation costs. And this supported a stable adjusted cost-income ratio of 69.6%. As a result, we remain on track to deliver our gross cost savings objective of €150 million and our targeted adjusted cost-income ratio of approximately 70% by year-end 2019. I will now pass to Asoka to conclude.

Dr. Asoka Wöhrmann: Thank you Claire. Very clearly, the third quarter has been another positive quarter for DWS and we are very pleased with our year to date results. We sustained net inflows in quarter three and year to date, reflecting the strengths of our globally diversified business model to withstand market pressures. Improved fund performance, especially in our flagships, further supported net inflows and keeps us on track on outperforming industry fund flows in 2019.

Given the current economic climate and the trends we have observed so far, we are already turning our attention to 2020. In particular, we expect the revenue environment to continue to be challenging amid ongoing fee compression and the ultra-low interest rate environment. These effects will slow organic revenue growth for the wider asset management industry.

To compensate for this industry-wide headwind, we have not only proactively ramped up our cost savings efforts in 2019, which we are delivering on, but we have also identified further cost measures for 2020 and beyond, to ensure we remain squarely on our glide path towards an adjusted cost-income ratio of below 65% at the end of 2021.

We will provide more details of our strategic priorities and financial outlook at the upcoming investor update on 10th December, to which you are all warmly invited. I look forward to seeing you then. But for now, let me say thank you for your time and attention, and allow me to hand over to Oliver for the Q and

	A.
Oliver Flade	Thank you very much, Asoka. Operator, we're ready for Q and A now. And again, if I could remind everybody in the queue to limit themselves to two questions. Thank you.
Operator	Thank you. Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. To withdraw your question, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selection. 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 Arnaud Giblat with Exane. Please go ahead.
Arnaud Giblat	Good morning. I've got two questions, please. Firstly, in the product pipeline, you indicate the infrastructure fund. The press suggest that the final close could be at €3 to €4 billion in Q4. Is that something you can confirm? And also, could you maybe give us a bit of colour in terms of what the margin contribution from this fund could be? And secondly, more generally, in terms of the alternatives, you've got good presence there with infrastructure and real estate. Can you talk through any progress you're making in other areas to get more exposure to realise…?
Oliver Flade	Arnaud, can I please ask you to repeat the question? We had difficulties in understanding.
Arnaud Giblat	Sorry, yes. Is this better?
Oliver Flade	That's better. That's much better, thank you.
Arnaud Giblat	Yes. So my first question is you talk about the infrastructure fund in your pipeline. The press seems to indicate that that infrastructure fund could have a close at €3 or €4 billion in Q4. Is this something you can confirm? And also, I'd like to know the margin contribution from this fund. And my second question in on alternatives more generally. You're doing well in infrastructure and in real estate. Could you talk through any progress you might be making in trying to gain more exposure to realise that more broadly? Thank you.
Claire Peel	Hi. Thank you for the question. Apologies we couldn't hear the first time. On your first question around our Q4 pipeline, we indeed include an infrastructure equity fund in there and you've alluded to the infrastructure fund, PEIF Three, that's due to launch in that period. There'll be a number of closes for that fund. The first one will be in Q4 and there will be subsequent closes through 2020.

And there is the target size of that fund that you indicated. Not all of that is achieved in Q4 because of the subsequent closes that we see in 2020. We can't disclose specifics on fee margin, of course, but given the nature of the fund, you can anticipate what the average is. We have two other of those funds already in existence.

On your second question around the alternatives portfolio, we indeed have a strong portfolio in real estate and that has contributed very strongly to inflows this year. Also in infrastructure. In both of those areas, we have been launching new funds.

Also in private equity, a newer part of the business, we've had fund launches this year and we anticipate more of those as we look forward into the future and, equally, some other products on that credit structure. So I think that's more that we anticipate as we move into 2020.

Arnaud Giblat — Okay, thank you very much.

Operator — The next question comes from the line of Jacques-Henri Gaulard with Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard — Yes, good morning everyone. Two questions. On the other revenue line at minus €1 million, you mentioned the impact of negative interest rates on the guaranteed product. Maybe it would be helpful to have a bit of a guidance there if possible. Is the fact that we're going to remain at lower interest rates indicate that that line is going to remain negative as well? Potentially having a breakdown between the Harvest contribution, for example, and the weight of those guaranteed products could be helpful.

And the second question on the cost efforts in 2020. If I look back, even three, four years, your effort on cost has been quite spectacular but you've been able to maintain the commercial meat throughout those years. And I was wondering if had still quite a bit of fat to actually go through without penalising either the performance or your commercial efforts towards the inflows. Thank you.

Claire Peel — Hi. Thank you for the question. I'll take the first one on the other revenue category and Asoka will pick up on the second question around costs. In the other revenue category, we have a number of items in there, including the fair value on our guaranteed portfolio. We also have the income from our joint venture with Harvest and we have some divided returns on investments and co-investments that we make.

The movement that we see between Q2 and Q3 is not that significant. A small portion of that relates to fair value of guarantees. Another portion of it actually relates to movement in the divided income, quarter on quarter. More specifically, on question around interest rates, we provide a guide around the sensitivity of interest rates to the fair value aspect of our guaranteed products.

So roughly a 50 basis point decline results in an annualised €15 million revenue impact. Where we are at the moment, the interest rates between the Q2, Q3, we have seen some of that effect coming through and we take that into account in our forward projections. I'll hand over to Asoka for the second question on costs.

Dr. Asoka Wöhrmann	Yes. No, thank you. And I think thank you, first off, for the compliment. I think we have really improved in our organisation on cost, and I think cost discipline is one of the main drivers or will be a main driver for the profitability of the asset management industry in the future. And I think, as I said, we are expecting a slow organic revenue growth for the next years, for the whole industry, not only for DWS. So I do think to manage the costs will be super important, and the cost-income ratio, as we really highlighted in the last quarters, will be our main KPI that you can see our operational strength. And your question regarding are we overdone and took a little bit growth out of that, I do think you can see also in the flow numbers as well as in the growth areas like multi-asset, like in alts, but also in the passive pockets, that we are really doing in a healthy way the cost management. And that has to stay in this way. But one thing is very clear. The whole organisation turned to a very cost disciplined approach and, as you have seen, and I think we'd love to discuss that also in the December meeting, how we reduced non-comp cost down and how we took, for example, building lease items, all that, down. And I do think this is, in some way, not taking the growth potentials but introducing cost discipline to the organisation.
Jacques-Henri Gaulard	Thanks a lot.
Operator	Next question comes from the line of Haley Tam with Credit Suisse. Please go ahead.
Haley Tam	Morning. So I guess for my two questions, could I ask you first of all, given you've had a very clear focus now on cost management to offset the slower organic revenue growth you're expecting for the whole industry, can you give us any comment on your attitude to inorganic growth opportunities and perhaps remind us of your capital position at the same time? And then a second question is really, I suppose, a follow up in

terms of flows. Can I confirm, are we still expecting the wind-up of the €2.5 billion FlexPension funds in Q4? And then also, given your comments on the Pan European Infrastructure Fund, the Three launch, how you would encourage us to think about the interplay of that with the original fund maturity, which I think is €5.5 billion next year. Thank you.

Dr. Asoka Wöhrmann

No, thank you for the questions and I will answer the inorganic one. I do think the inorganic one we answered quite, the last six months, in two ways. I think there is inorganic growth, what we have to invest in some M and A activities, like in small boutiques, to enrich other capabilities to use the strategic changes in the market and the industry to make us fit for the future.

And I think, as you have seen, the S-Ray investment, the small participation was one clear action, or last year what we'd done under Skyline AI, to introduce the AI capabilities to our platform, the Neo, also was an example in the distribution side. So we will do this kind of enrichment to our platform continuously in a steady process.

But at the same time, what you are asking, and a very valid question, yes, we are expecting further challenges for the asset management industry. As I started last year, came back, I said we will see a tough environment for asset management industry. It's proved to be right, unfortunately. And therefore, I do think cost management will be key, but also inorganic options.

To look how all these options going in the bigger… Beyond the bolt-on transactions, how that's going to fit to our model is key. That means either strengthening our location footprint or capability in some asset classes or to enrich the client base is one of the desires, also to counterbalance these kinds of trends that have just kicked in, in the industry.

And I think I am expecting, as I said, that consolidation requirements will be more and more increasing and getting more focus into the asset management industry. And I will hand over to Claire to answer the second question on FlexPension.

Claire Peel

Hi. Thank you for your question. Just to clarify on the FlexPension product which is a CPP- based guaranteed fund family, we will be liquidating that product in Q4 in November. And it has a total AUM size of €2.5 billion. It is a liquidation effect, so it's not a flow effect.

In our flows for Q4, we have a number of other events in the pipeline which we've referenced. We've discussed, in alternatives, we have an infrastructure fund launch which will be part in size of the full-size expected over the life of that product. And as usual, we anticipate a good pipeline in passive and in the growth areas that we've seen to date across the portfolio. So a

	number of effects going on in Q4 flows, if that addresses your question, Hayley..
Haley Tam	Thank you. Is there any comment in terms of the redemption of the original fund in Q1? Is that still expected?
Claire Peel	And redemption in Q1, which fund is that?
Haley Tam	Sorry, the original Pan European Infrastructure Fund, I think, is about €5.5 billion and I think it's maturing at the beginning of next year. Or is that incorrect?
Claire Peel	Yes, sorry, understood. That's right. The PEIF One fund is coming to the end of its life and we have PEIF Three obviously being launched in Q4. And there will be sequencing between those two flows, an effective staging effect that you'll see through the flow effect across Q4, Q1 and beyond.
Haley Tam	Very clear. Thank you.
Operator	Next question comes from the line of Bruce Hamilton with Morgan Stanley. Please go ahead.
Bruce Hamilton	Hi, good morning. Thanks for taking my questions. Just clearly, the overall new money growth and asset growth is impressive. But I guess looking at slide three, what's stark is that you've grown assets 9% over the last 12 months, yet revenues are down 2.5% and profits down 4%. And clearly, that speaks to some of the margin pressures. So just looking at Q3, you've given some colour but I guess I would've expected that the combination of solid inflows into multi-asset and alternatives, which should be above the average margin, would mean that revenue margins should be more stable. So is there any other area where pricing is under a lot of pressure or new products are coming in at lower prices? And then secondly, on multi-asset, which obviously has been driving growth, the performance stats look obviously quite weak now. So what's your level of confidence that you can continue to see pipeline in that area? Or, alternatively, is there risk to outflows, given performance challenges in that space? Thank you.
Claire Peel	Hi. Thank you for your question. I'll take the first one around the effects of net new money and management fees. I think maybe if I first point to the nine month results, we see on the nine months the adjusted profit before tax is up 9% over that period and revenues are broadly flat overall. But if you look at the management fee line, the management fees are slightly up in the nine months, up 1%. But quite right that of course we are operating in an environment where margin compression is a feature, and so having the full

pool of asset classes to respond to that is very, very important. And we have seen, as much as our management fees are growing slightly to reflect the movements that we've seen in the flows, there's margin compression and market factors that go against that as well that we have to respond to.

But I would draw your eye to the fact that the revenue composition is a feature of management fees, performance fees and the other revenue factors. And when you look quarter on quarter, it's the performance fee that's driving the decline in revenues, not management fees.

Dr. Asoka Wöhrmann I think regarding the multi-asset question, yes, I do think Kaldemorgen, first of all, had a great performance, Concept Kaldemorgen fund, and all the whole area that is managed by Kaldemorgen's team is great performance. But I want to give you a little bit of colour into the multi-asset.

Multi-asset area has very less really benchmarks and sometimes, to compare the performance in multi-asset is quite difficult, that weak or not weak. But I want to say there is another product series that's upcoming with stunning performance. It's the Champions Select world. What we are doing for one of the biggest IFAs in Germany, in a very close collaboration with them.

And we are… This area, for example, is also great performance. But most of the multi-asset products, it's difficult to compare, as I said, a huge range in the industry, in the peer groups. But I want to say, in total return perspective, all the multi-asset products are greatly performing this year and many people are really enjoying. And we can see also, besides Kaldemorgen's area, inflows into more than into Kaldemorgen's area. So therefore, I think that is underpinning the great performance.

Bruce Hamilton Thank you.

Operator Next question comes from the line of Stuart Graham with Autonomous Research. Please go ahead.

Stuart Graham Good morning. Thank you for taking my questions. I had two, please. First, on active equities, the outflows are deteriorating. It was €0.2 billion in Q1, €0.7 billion in Q2 and then €1.1 billion in Q3, and that's despite success on ESG funds. If I understood you correctly, it sounds like you just attribute that to the environment. But I wonder, is there anything more dramatic you can do to turn around the flows on the traditional non-ESG active equity side? That's the first question.

Then the second is on passive. I think you said at the Q2 stage that you were not seeing the margin pressure you expected. But since then, we've seen some big competitors announcing yet more fee cuts. So I just wonder how you're thinking about the outlook for passive fee margin pressure now, please. Thank you.

Claire Peel: Hi. Thank you for the questions. Just the first question on active equity, we have seen outflows in the third quarter. And we do point, indeed, to the equity environment, the volatility, which is driving some risk appetite away from that in German equities, in part. We do, of course, have a portfolio within equities, so we have seen some of our products performing strongly there. And some of those are attracting inflows on a gross basis. But overall, net outflows in equities affecting the German market.

On your question around Passive, the margin there has been very resilient for us over past quarters. We've always pointed to an anticipated margin decline of one to two basis points per year. And if we look at what we're seeing in the 9 months, where we stand at 22 basis points compared to 23 basis points at the end of last year, we see that play out.

The margin decline in passive between the quarters has got the few technical factors going on there, as we always see within the quarters. But there certainly is margin pressure in that area, of course, that we can respond to across the portfolio of ETFs and mandates and products that we provide across passive and are all taken into account in the overall diversified portfolio of asset classes that we manage too.

Stuart Graham: But then, on the passive, it sounds like you just expect a continuation of a gradual one to two basis points a year; you're not anticipating any cliff effects in terms of a dramatic repricing of that product silo.

Claire Peel: I think that's right. We're not expecting any cliff effects based on what we see at the moment, but we do see continued margin compression in the passive asset class.

Stuart Graham: Okay, thank you.

Operator: Next question comes from the line of Hubert Lam with Bank of America. Please go ahead.

Hubert Lam: Hi. Good morning. I've got two questions. Firstly, on the fee margin. How should we think about fee margin going forward? Should we expect it to continue to drift downwards from the Q3 levels, which was probably a little bit worse than expected? Or do you expect it to stabilise from this lower point onwards? That's the first question.

The second question is on cost-income. You're still targeting… You maintain your target at 65% cost-income in 2021. What are your assumptions there? Are you expecting revenues to rise but costs not growing as much or shrinking? Or, put it another way, if revenues are unchanged from today in 2021, do you expect the target to just still be met through a lower cost base, or is revenue growth a main assumption in your target for cost-income in 21? Thank you.

Claire Peel	Hi. Thanks for the question. Maybe if I comment on your first question around fee margin. Just a reminder of the reduction that we saw in the third quarter. There were three effects taking place. There was a market effect, which was quite interesting in that the fixed income interest rate movement that has an asset depreciation which is below the average of DWS, had an effect to bring the average margin of the group downwards. There's the flow effect and the mix that we see across the portfolio, and the individual product effects that we've had from the liquidation of the FlexPension product, which has a decline in margin within the period. So a few factors that were taking place in Q3. That said, we've pointed to the fact that we do see margin compression in the industry, and we see that in our portfolio as well. So we do see that as a feature that we manage to, by managing our sales across our growth areas, alternatives included, passive, multi-asset and so forth, to manage the revenue line going forward. On the cost-income ratio, we have a target of below 65% over the next two years. And the success that we've had in cost management this year has enabled us to continue to increase our profitability. And that's exactly our target for this year and for beyond, to continue to grow profitability, despite having a more challenging revenue environment.
Hubert Lam	So if revenues are flattish from here onwards in 2021 in a bear case situation, are you still confident you can still meet the 65% cost-income just by adjusting the cost base?
Claire Peel	Yes. Within our cost base, we do have opportunities to continue to drive efficiencies. We have almost completed our €150 million gross cost saving program this year. We will, or we have, year to date, achieved a 70% cost-income ratio year to date, and we're very much on track to get there by the end of 2019. And we have a very solid glide path to take us to below 65% in 2021. So we're always very constructive on the cost measures that we can take and ensure that we can execute and deliver against those to continue driving profitability across the organization.
Dr. Asoka Wöhrmann	I do think December 10th, we have, I think, a little bit more time to go for the deep dive on the cost. I think that is an important element in our equation on the 65% cost-income ratio, and we'd love to give you the deep dive, I think for orientation. But again, as Claire said, we are not making as easy. We are taking a challenging market environment and my main assumption is more or less the flat revenues for the next… Up to 2021 after a slight up in 20.

Hubert Lam — Very helpful. Thank you.

Operator — Next question comes from the line of Mike Werner with UBS. Please go ahead.

Mike Werner — Thank you very much. Just two questions from me. One on if we take a look at the areas where you had the very strong inflows, which was multi-asset, passive and alternatives, we saw quite sharp declines to the fee margins in all three of those asset classes by about two to three basis points on a quarter on quarter basis. I know you explained some of the drivers before, but I was wondering if you could just give a little bit of a colour as to why we saw that correlation this quarter?

And then second, you mentioned the ESG product. So I was just wondering if you could provide a little bit more granularity as to what you have seen in terms of inflows into ESG products, either on a Q3 basis or on a year to date basis. Thank you.

Claire Peel — Hi. Thank you for the question. Coming back to the topic around the margin, I think in the case of passive, in the first instance, we saw within Q3, compared to Q2, strong inflows in the products, but an inflow mix that was below the average of passive, that had an effect on the average margin within the period. And there was also some one-off effects in passive quarter on quarter, which means that you had a higher margin in Q2 compared to Q3.

If I look at alternatives, again, we had strong inflows in alternatives within the period. We were successful in winning a large institutional mandate. But the average of those flows within alternatives were below the average of alternatives within the period.

And the same applicable to multi-assets. The mix of the product flows within the fee margin are driving the effects that we see in multi-asset. So very much a theme that we see across the board. It's flow mix, product mix and market effect. And the fixed income effect, I think, is quite notable in the third quarter where the sharply declining interest rates mean that the appreciation of the AUM is having an effect on the average margin, given it's below the average of DWS.

Dr. Asoka Wöhrmann — Your question regarding ESG, I think ESG flows is getting more momentum also this year. We have year to date, so far, €2 billion ESG assets in the ballpark of all the flows. So I think that it's a variety of products are gathering. These inflows, equity products, but also, more and more also fixed income type products.

And I think also, on 10th December, we will go for a deep dive of our ESG strategy, and we'll show you, not only in the new assets how we want to grow, but also how we're going to integrate the existing asset base into ESG compliant standard. I think this will be one of the focus points on the 10th, and then we can talk about the flows.

One thing also I want to bring into context – because I think the first question you asked and what Claire now in detail answered was if ESG prevents you in some way also on the margin erosion – for us, it's again too, this is a retention play. I think ESG is not creating a premier in the market. It is a retention play and keep the assets in the house, but we have to manage differently.

And this is the way, how we are looking. And I think, furthermore, as I said, ESG products – it's for us, in the future, licence to operate. And so therefore, love to go into detail also on 10th December.

Mike Werner: Thank you. I look forward to the investor day. Cheers.

Operator: Ladies and gentlemen, as a reminder, if you'd like to ask a question, please press star followed by one. There are no further questions at this time. I hand back to Oliver Flade for closing remarks.

Oliver Flade: Yes, thank you. And thank you very much, everyone, for dialling in today. For any follow-up questions, please feel free to contact the IR team. Otherwise, we wish you a good day. Bye-bye.