DWS Beteiligungs GmbH

Q4 & Full Year 2020 Earnings Call

4th February, 2021 | 10:00 CET

Transcription

Speakers:

Asoka Wöhrmann

Claire Peel

Oliver Flade

Oliver Flade	Operator, thank you very much, and good morning, everybody, from Frankfurt. This is Oliver, from Investor Relations, and I would like to welcome everybody to our earnings call for the fourth quarter and the full year of 2020. I hope everybody is keeping healthy and safe and, before I start, I would like to remind you that, as always, the upcoming Deutsche Bank analyst call will outline the Asset Management segment results, which have a different parameter basis to the DWS results that we are presenting today. I'm also, as always, joined by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO. Asoka 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 and, hence, I 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'm handing over to Asoka.
Asoka Wöhrmann	Thank you, Oliver. Good morning, everyone, and thank you for dialling in today. I hope you all continue to keep healthy and safe. Today, Claire and I will review our strategic success and financial performance from last year and we will outline the path forward for DWS. Allow me to start by looking back on this remarkable year 2020, which concluded phase one of our corporate journey as a listed company, following our IPO in 2018. Despite the unique unprecedented challenges of 2020, with all of the volatility and uncertainty in the markets last year, DWS was able to realise the benefits of clear corporate action and decision-making that have marked our efforts over the last two years. We turned around and reshaped our firm, we refocused on our strengths and client needs, concentrating on ESG as a driving topic, on improved investment performance and product innovation, as well as on better and more efficient processes. In 2020, we achieved record results on our key performance indicators. At the same time, we were successful in achieving our ambitious medium-term targets, set out in our IPO ,one year earlier than planned. Our adjusted profit before tax was €795 million, a record high for DWS, 3% higher than the previous record set in 2019 and 27% higher than 2018. We achieved an adjusted cost income ratio of

64.5%, our lowest level on record, after reducing our cost base by 11% year-on-year and hitting our target of below 65% already in 2020 ahead of the schedule.

Annual net inflows exceeded €30 billion in 2020, also a record, with inflows reported across all the regions in liquid and illiquid asset classes and from both retail and institutional clients. This translates to 4% net flows, following 3.9% net flows in 2019, thus also achieving our target originally set for 2021, one year ahead of the schedule.

Contributing immensely, our ESG-dedicated funds continued to attract strong investor interest, accounting for 30% of our total annual net inflows in 2020. As we managed the raging pandemic and its effects on the markets and our clients, we did not let the black swan of COVID-19 deter us from also making progress on the execution of our strategic development as affirmed during 2020.

As mentioned, we continued our laser focus on cost discipline on the one hand and, on the other hand, the investment performance. Both helped us immensely in reaching our targets last year. We also established a dedicated Product division, reflecting the DWS culture as a true fiduciary asset manager. For the first time, the Product division will unite and integrate the entire product value chain for all asset classes at DWS and will be responsible for ensuring that we remain competitive and deliver products that meet our clients' needs in an ever-changing environment.

Over the last two years, we have also continued to build and strengthen relationships with a number of strategic partners, which have been invaluable to DWS development. In 2020 alone, we renewed our partnership commitment with Zurich Insurance Group in Germany until 2032, and entered new partnerships with Eurovita in Italy and Northwestern Mutual Capital in the United States.

Also, last year, we acquired a minority stake in Arabesque AI, as we look to incorporate the general-purpose technology of tomorrow, artificial intelligence, into our investment processes. Meanwhile, our long-standing strategic partnerships with DVAG, Nippon Life, Generali and, of course, our trusted colleagues at Deutsche Bank Private Bank, Deutsche Bank Corporate Bank and others have also contributed to significantly success of our company.

The main area of focus for us, both as a fiduciary and as a corporate, has been ESG. Previously, having identified ESG as a mega trend of the next decade, an assessment further underscored by the pandemic, we worked intensively to implement the ESG that embeds sustainability into our DNA in everything we do, as we see it becoming a dominant team of our investors, our clients and regulators alike.

We set up a Group Sustainability Office to oversee a coherent, holistic ESG strategy firm-wide. We secured the support of high-calibre external experts for our new ESG Advisory Board. And, we enhanced both our ESG integration as well as our stewardship efforts with the introduction of smart integration into our investment process.

Additionally, we became a founding signatory of the Net Zero emissions initiative of the Institutional Investors Group on Climate Change, one of the only few European asset managers to do so, a commitment we reiterated at our AGM last November.

With our key achievements of 2020, we delivered on what we have committed to our shareholders. As a result, I am not only proud to say we are able to close the first phase of our corporate journey as a publicly listed company, I'm also, on behalf of the DWS Executive Board, pleased to propose for approval at our Annual General Meeting in 2021, a dividend of €1.81 per share for fiscal year 2020, delivering on another target set during our IPO of a dividend payout ratio of between 65% to 75%.

Now, I will pass over to our CFO, Claire Peel, to talk about our financial results in more detail before I present our plan for phase two of our corporate journey for 2021 and onward. Please, Claire.

Claire Peel

Thank you and welcome, everyone. I hope you're all having a healthy and safe start to the New Year. Today, I will present the results and activities for the fourth quarter and the full year 2020.

Before we get into the detail, allow us to reflect on the progress we have achieved since our IPO in 2018. As committed, we have tightened our cost control to deliver a lower and sustainable cost base as promised. And, by intensifying our focus on investment performance, distribution and product innovation, we have strengthened our flow performance.

As a result, we have achieved our ambitious financial targets one year early. Our disciplined focus on efficiency was key to this achievement. At its current level of 64.5%, the adjusted cost income ratio has fallen from 72.3% in 2018. This is the lowest level on record and delivers our target of below 65% ahead of schedule.

Cost reduction was supported by gross saving initiatives of approximately €250 million over the past three years. In addition, full year net inflows totalled a record €30.3 billion in 2020, generating a 4% annual net flow growth rate, in line with our target of between 3% to 5%. This is an improvement from the €26 billion of net inflows reported in 2019 and marks a significant turnaround from net outflows in 2018.

As a result, we've been able to consistently deliver a competitive and increasing absolute dividend since our IPO, and we will continue to do so for 2020, subject to approval at our 2021 Annual General Meeting. Overall, 2020 was a strong year for DWS with our Q4 performance, in particular, helping us to reach our targets one year early.

Let's move to our financial performance snapshot in Q4. Starting at the top left, AUM increased to a record €793 billion in Q4, up 4% quarter-on-quarter, driven by market performance and stronger net inflows. On the top right, adjusted revenues of €605 million, up 8% from Q3, driven by higher management fees and other recurring revenues. On the bottom left, adjusted costs were up 15% quarter-on-quarter at €393 million, mainly due to higher general and admin expenses in Q4 and this resulted in an adjusted cost income ratio of 64.9% in the fourth quarter. Adjusted profit before tax was €212 million, down slightly from Q3, due to higher costs in Q4.

Moving on to our full year financial performance in 2020. Despite the unique challenges of 2020, markets remained constructive for most of the year, enabling us to continue executing our strategic priorities and deliver positive financial performance. AUM increased 3% year-on-year, driven by stronger annual net inflows of €30.3 billion and further supported by positive market performance.

Adjusted revenues were down 6% at €2.2 billion, as full-year 2019 revenues included the recognition of a significantly high alternative and active multi-asset performance fee. Adjusted costs declined to €1.4 billion, down 11% year-on-year, driven by declines in both general and admin expenses, and compensation and benefits costs in 2020. This also reflects our continued focus on cost efficiencies and additional savings related to COVID-19 environment.

As a result, the adjusted cost income ratio improved to 64.5% in full year 2020, down from 67.6% in 2019. Adjusted profit before tax increased by 3% to a record €793 million in 2020 as lower costs compensated for lower revenues in the year. After tax net income of €558 million increased by 9% on 2019 results.

Let's recap on the market environment. At the start of 2020, we endured one of the most challenging first quarters on record as the outbreak of COVID-19 triggered a significant downturn in the markets. However, the year ended more positively than it started with many equity indices trading above year-end 2019 levels in Q4, amid news of the first approved vaccine and agreed Brexit deal and a new US president.

Both monetary and fiscal support were also supportive of further spread tightening in the credit space and during Q4, the US dollar continued to depreciate against the dollar [sic]. Overall market conditions remained constructive in the fourth quarter, supporting positive AUM growth at DWS, which I'll outline in a bit more detail.

Assets under management increased to €793 billion in Q4, up 4% quarter-on-quarter and 3% year-on-year, exceeding our AUM in full year 2019 and achieving record levels. Q4 asset growth was driven by positive market performance and net inflows, which more than offset the negative impact of FX movements over the quarter. This trend was also evident in the full year, as overall market gains were offset by the depreciating dollar while record net inflows supported full year AUM growth in 2020.

Let me look more closely at net flows. The fourth quarter concluded a strong year of flow performance in 2020, with €13.6 billion of net inflows across all regions and in almost all asset classes. ESG-dedicated funds accounted for a quarter of this total. Passive remains a key driver of our flow success, reporting €5.9 billion of net inflows in the fourth quarter, of which more than a third came from ESG ETFs.

As we have seen in previous quarters, European listed ETPs continue to dominate our quarterly passive inflows, helping us to rank number two by full-year 2020 net inflows in the region, with a 13% market share. In the Americas, passive ETP sustained their positive flow momentum from Q3, contributing €1.0 billion of net inflows in Q4.

Alternatives also had a strong end 2020, reporting €1.6 billion of net inflows in the fourth quarter. These were primarily driven by infrastructure, which was in high demand among pension and insurance clients, in particular, and with further flow contributions from liquid real assets and real estate in the fourth quarter.

Cash marked its fourth consecutive quarter of positive flow performance with €5.3 billion of net inflows, as institutional investors in Europe continue to increase their holdings in the Deutsche Global Liquidity series.

Q4 inflows into active multi-asset and active fixed income also reflect stronger institutional demand. Active multi-asset inflows of €0.8 billion in the fourth quarter mark a reversal of Q3 outflows after we secured mandate wins from pension clients in Europe and in Asia. Q4 active fixed income inflows remained in positive territory at €0.1 billion, driven by strong insurance inflows over the quarter. Meanwhile, active equity inflows of €0.2 billion were driven by continued demand for our ESG-dedicated products, a trend we have observed more broadly in 2020.

In the full year, we reported a record €30.3 billion of net inflows, stronger than the €26.1 billion of net inflows in 2019 and enabling us to achieve a 4% net flow growth rate in line with our targets. This is a remarkable result given the unique challenges of 2020, a year in which DWS demonstrated its ability to continue meeting clients' needs regardless of the market conditions and fully supported by its globally integrated and diversified business model.

This is evidenced in the composition of our full year 2020 net inflows, which span both liquid and illiquid strategies, all three regions, as well as both retail and institutional clients. While a significant proportion of our annual net inflows came from cash in response to the pandemic, we are pleased to report meaningful flow momentum into targeted growth areas.

Notably, ESG-dedicated funds have performed particularly well this year, accounting for 30% of total net inflows in 2020. Our passive business also continued to thrive in 2020, growing its AUM by 15% year-on-year and reporting €16.6 billion of annual net inflows, of which almost a third came from ESG ETFs.

Although some planned investments in alternatives had to be pushed back because of COVID-19, the asset class remained in demand with €4.0 billion of net inflows in 2020. Our annual flow success is also a testament to our product innovation, which we are focused on and continue to do so intensively. In full year 2020, new product launches since the IPO have accounted to more than a third of our annual net inflows, which I'll now discuss in more detail.

As a fiduciary investor, product innovation is fundamental for DWS to deliver and meet the investment needs of its diverse and global client base. This is particularly important in 2020, a year in which investors sought the right investment solutions to help them navigate industry headwinds amid the outbreak of COVID-19. While we saw investors de-risk their portfolios in response to the pandemic, we remain encouraged by the continued demand we see for our new product launches as detailed on the left-hand side.

Since Q2 2018, new product launches have attracted €21.8 billion of cumulative net inflows and reported an overall management fee margin of 44 basis points. In addition, new product launches contributed nicely to our full year inflows, accounting for more than one-third of our €30.3 billion total.

This reflects an ongoing trend for investors looking to increasingly switch into ESG equivalents, for which DWS is well positioned to meet this demand. Our product launch pipeline for the first quarter of 2021 continues to prioritise ESG. We will launch a number of innovative ESG equity products, including global equity strategy that we have developed together with our strategic partner Arabesque.

We have also designed investment products that support the UN's Sustainability Development Goals, such as the DWS Invest SDG European Equities offering and the DWS Concept, ESG Blue Economy fund, which is among the first of its kind to focus on water risk and will be targeted to retail investors and family offices.

In addition, we continue to build our passive business with the launch of the Xtrackers MSCI EMU ESG UCITS ETF. This offering builds on our growing range of ESG ETFs, which have seen significant success in both the Americas and EMEA in 2020 and will continue to be key to our growth area in 2021.

Product innovation remains very high on our strategic agenda in 2021, and we seek to capture new growth opportunities to continue our positive flow trajectory and achieve top line revenue growth in the medium term.

Moving on to revenues. Total adjusted revenues grew to €605 million in Q4, up 8% quarter-on-quarter. Quarterly management fees and other recurring revenues were up 5% from Q3, benefiting from positive market performance and net inflows. This supported an improved management fee margin of 28.3 basis points in Q4. Performance and transaction fees increased from €13 million, driven by higher active and alternative performance fees in the fourth quarter. The uptick in other revenues reflects a 17 million contribution from our Chinese investment, Harvest, resulting in a €64 million contribution in the full year.

In the full year 2020, total adjusted revenues were down 6% to €2.2 billion. This primarily reflects the anticipated year-on-year decline in performance and transaction fees as full-year 2019 revenues benefited from a nonrepeating alternative investment performance fee and exceptionally high active multi-asset performance fees. Also contributing to the year-on-year decline was Other Revenues, with higher shortfall provisions for guaranteed products and lower investment income.

Looking forward, we expect performance and transaction fees to continue contributing 3% to 5% of total adjusted revenues in the medium term. And we expect revenues to benefit from higher markets at the start of 2021.

Moving to management fees and margins. Management fees remained stable year-on-year, as the positive impact of net inflows and market developments offset industry-wide margin compression as well as unfavourable US dollar movements. At 28.3 basis points, our overall 2020 management fee declined by

1.3 basis points from the end of 2019.

Last year, we saw investors de-risk their portfolios in response to the pandemic by shifting to low-margin and lower risk products, which had an impact on our overall management fee margin in 2020. Notably, in passive, management fee revenue increases from strong annual inflows, albeit with a declining average fee margin, reflecting pricing and mix.

Specific fee events in Alternatives contributed to declining margin overall, notably the sale of hedge fund assets at the end of 2019 and a temporary infrastructure product restructure. And, Active Equity management fees and margin declined due to a large lower mandate win and mix effect. As we progress into 2021, there will be industry headwinds that continue to challenge the management fee margin but we will strengthen our well-diversified portfolio with continued product development.

Moving on to costs. Total adjusted costs increased to €393 million in Q4, up 15% quarter-on-quarter. This was primarily due to an uptick in adjusted general and admin expenses, including investments into growth and transformation initiatives, as well as higher marketing and volume-related expenses in the fourth quarter. Adjusted compensation and benefits costs were also up from Q3, reflecting an increase in the value of formerly granted deferred compensation in Q4.

However, both general and admin costs and compensation and benefits expenses fell by 11% and 10%, respectively, in 2020, supporting an 11% reduction in total adjusted costs for the full year. This reflects our continued focus on cost efficiencies and additional savings related to COVID-19, achieving a €173 million cost reduction year-on-year. As a result, our adjusted cost income ratio improved to 64.5% in the full-year 2020, down 3.1 percentage points from the full-year 2019.

Looking forward, we will shift our focus from efficiency to growth as we invest in our future to keep DWS moving forward. Over the next three years, we will spend approximately €60 million in one-off transformation charges, which we will exclude from our adjusted cost base definition as we transform the core of our infrastructure platform.

We are implementing a DWS-owned and managed infrastructure platform, using cloud-based technology to sustain our efficiency by generating a run rate net benefit of €50 million by the end of 2024. While we need to spend money to invest in our future growth, we will do so without compromising the low-cost base we have worked so hard to achieve. The 65% cost-to-income ratio will be our baseline in the near term, but we will reduce this further in the medium-term horizon.

To conclude, despite its challenges, 2020 was another successful year for DWS. We navigated our clients and employees through the pandemic, ensuring their health and safety first, and we achieved record levels of net inflows and AUM while sustaining a lower cost base, enabling us to deliver our ambitious financial targets as committed and ahead of schedule.

The adjusted cost income ratio improved to 64.5% in 2020, supported by our continued focus on efficiency, together with additional COVID-19-related savings. Annual net inflows exceeded €30 billion at the end of 2020, our highest annual flow performance on record and generating 4% annual net flow growth, in line with our medium-term target of between 3% to 5%. As a result, we propose a dividend of €1.81 per share in 2020, in line with our target payout ratio of 65% to 75% and subject to approval at the 2021 Annual General Meeting.

Looking forward to this year, we will continue to build on the positive momentum achieved in 2020 with an intensified focus on products, distribution and sustainability as we shift our focus from efficiency to growth. This will require us to spend money in the near-term as we invest in our future but without compromising our diligent cost control to ensure we maintain our adjusted cost-to-income ratio to the levels already achieved.

While revenues were lower in 2020, we expect total adjusted revenues to benefit from higher market levels at the start of 2021 and we remain confident that our new fund launches and demand for ESG-dedicated products will help us to sustain our strong flow performance and create stronger shareholder value in 2021 and beyond. Thank you, and I will now hand over to Asoka for our strategic outlook.

Asoka Wöhrmann

Thank you, Claire. 2020 certainly forms a nice conclusion to phase one of our corporate journey as a listed asset manager. As Claire just explained, DWS executed and delivered on its commitments as set out at the IPO in 2018 and we have achieved all of our ambitious financial targets one year early.

While we're proud to celebrate our accomplishments in such a short space of time, we cannot afford to slow momentum now. Instead, we look ahead to phase two of our corporate journey. We feel confident about our business and our firm's place within the asset management industry and the challenges it faces as the industry is pushed out of the comfort zone.

As we look ahead to 2021 and beyond, the work we have done over the last 24 months forms the basis for the high ambitions we are now setting ourselves for the medium term. In this next phase, we will prioritise, investing into transformation to remain efficient, focus on and investing in targeted areas to deliver profitable growth, aiming for leadership in our industry in areas of strength from across our diversified business, including ESG, passive and high-margin strategies, and growing our business by taking an active role in the consolidation of the market.

In short, our goal for phase two is to transform, grow and lead. In 2021 and onward, we will transform ourselves to meet the industry challenges of this decade and the era that lies ahead. This includes doing everything we can to continue to strengthen our asset management-focused approach with a stand-alone core platform, including IT and policy framework, tailored to DWS Fiduciary business and its clients.

Our transformation also includes integrating new technology into our work, such as artificial intelligence. The use of data and algorithms will improve investment managers in their decision-making in the future and, with the help of automatisation, will also ensure better and more efficient processes.

Most significantly, we will also go through a cultural transformation that is performance-driven and a clear meritocracy, helping us attract the best talent from a wide range of profiles and backgrounds. This will be supported by a newly implemented functional role framework in which we will introduce flat hierarchies to ensure every voice is heard at DWS.

We will also invest to grow in businesses and areas where we believe we can lead our industry, building on our strengths and expertise. We will invest into high-margin asset classes and products in the active and alternative space, such as real estate, infrastructure and more, on one hand side, as well as into our scalable passive business, especially in ETFs on the other hand side.

We are equally committed to investing into expanding our client base. For DWS, this means further leveraging existing partnerships and finding new ones, especially in the growth region of Asia, with a clear focus on China. And, finally, we will invest into product innovations in ESG, so that we can position ourselves as the go-to, one-stop shop, ESG investment manager.

These transformation and growth initiatives will propel DWS to the next level and help us take a leading position in our industry. In particular, we want to become an ESG leader in the asset management space, both as a fiduciary and as a corporate. We also want to become a leading asset manager in all important passive space, especially in Europe, as well as a leader in the high margin businesses, expanding on our market position in thematic equities, multi-asset and alternatives.

To succeed, in achieving all our ambitions described, we will be bold and decisive in executing our strategy to transform, grow and lead. Just as we have been decisive in completing phase one, one year ahead of the schedule, and to ensure that phase two of our corporate journey is equally successful, we have set our new financial targets to reflect our growth and profitability ambitions in the medium term.

Let's review these targets more closely. Looking forward, we are setting new medium-term financial targets to ensure that DWS remains focused on delivering profitable growth and achieving its aspiration to become a leading European asset manager with a global reach, with a global presence and a global footprint.

In this respect, our adjusted cost income ratio will remain key to making sure we will maximise shareholder value, while sustaining our efficiency levels. This is why we commit to further reducing our adjusted cost income ratio to 60% by 2024. However, as we make more investment into growing our business, this ratio might not drop in a linear way in the near term.

In addition, we are also upgrading our net flow target range of 3% to 5% to a target of net flows of more than 4% on average in the medium term. We are confident that we can achieve even higher net inflows over the coming years, supported by our global diversified portfolio, driven by continued strong client demand for our ESG-dedicated funds and new launches. Thank you for listening and for your patience, and let me, without further delay, pass over to Oliver for Q&A. Oliver, please.

Oliver Flade

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

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question, may press * followed by 1 on their touchtone telephone. To withdraw your question, you may press * followed by 2. If you are using speaker equipment today, please lift the handset for making your selection. Anyone who has a question may press * followed by 1 at this time. The first question is from Hubert Lam, of Bank of America. Please, go ahead.

Hubert Lam

Hi, everybody. Good morning and thank you for taking my questions. I've got two questions. Firstly, on your cost income target of 60%, can you explain how you expect to get there? I assume it's mainly driven by revenue growth rather than cost? And, what are your market assumptions for this target? I guess, related to this, how much lower can the cost base get or is it fair to assume that the cost base is expected to grow from now on? That's the first question.

The second question is on M&A. I was wondering if you can give us your thoughts on possibly doing M&A? If so, what areas are you looking at? For example, you mentioned that ETF was a growth priority. Is this an area that you would look for to do deals? And, related to this, can you remind us of your M&A criteria and any excess capital you have? Thank you.

Claire Peel

Good morning, Hubert. Thank you for the questions. I'll take the first one on the cost income ratio. Obviously, closing at the end of 2020, we have a cost base of €1.4 billion which is delivering us on our cost income ratio target of below 65%. And, we've made a very clear commitment that we will not compromise this achievement which has taken a while and a number of cost-initiatives efforts over the last there years to get there. So, we will not be compromising on that outcome but we are now committing to a further target over the next four-year horizon at the end 2024 to take us to 60%.

On the cost side, specifically, we will be investing in a transformation programme over the next three years, and we'll be investing in that programme in order to deliver us with another step of efficiency savings at the end of that investment period.

We are implementing a DWS-owned infrastructure platform using cloud technology which will enable us to sustain a more efficient platform in that horizon and this will generate a run rate net benefit of around €50 million by the end of that 2024 horizon. So, very specifically, an efficiency programme there that will further contribute.

We also have further efficiencies coming into 2021 in the near term, the benefits of the cost-saving programmes that we announced last year, that will give us some further benefits in the year of 2021 specifically.

Beyond that, we are looking to invest and grow in a profitable way. We would expect over this horizon to see revenue growth. We have constructed market assumptions over that time horizon, and that will enable us to deliver in the 60% region, obviously bearing in mind that we will have investments upfront in the near term and we will have volume-related expenses related to a growing AUM level.

Asoka Wöhrmann

Thank you, Claire. Hubert, thank you for the both questions, but I want to also reiterate again the 60% cost income ratio in 2024 is a very ambitious target as many people have not expected that we will deliver the 65% one year earlier. I think it looks today also very, very ambitious but we are setting ourselves ambitious targets, I think, because we believe strongly in shareholder value. From this perspective, that is the way of thinking.

	The M&A question, the second question, if I may answer it, and I think Claire can chip in. I think, as I outlined, the DWS TGL programme Transform, Grow and Lead. I add another point to say we want to grow not only organically and we want to go fast there, but also we want to look now at the opportunity in the market. The second phase should really stay for that, all kind of M&A activities.
	I think most of you have in mind transformational ones but M&A activities should also go and enrich our TGL programme, where we can grow organically, we take as our first priority. If we can add and go faster to deliver, we would do it. I know that what you want, I think, Hubert to hear in the passive area, there are some asset managers in the market offering today but we are not normally commenting on these things. But, we want to say, first priority is go faster in organic growth and then, if there are chances, we will act in the market where we want to lead and where we want to grow.
Hubert Lam	Great, thanks. Just to check excess capital, can you give us an update on how much excess capital you have?
Claire Peel	I can take the question on excess capital. As we've previously disclosed, we don't announce or disclose excess capital specifically. We did, at the point of IPO, have a position of excess capital and we have built upon this from accumulated profits after our dividend, very competitive dividend distributions. In addition to the increase in capital supply that we've seen, we also have changes in our risk assessment and in our internal risk models, specifically related to the market conditions since IPO and the interest rate environment. So, we have seen increases in our excess capital, but not a number that we will specifically disclose at this time.
Hubert Lam	Great. Thank you, both.
Operator	The next question is from Arnaud Giblat, of Exane. Please, go ahead.
Arnaud Giblat	Good morning. Thanks. I've got two questions, please. Firstly, on the impact the infrastructure fee suspension has had on the alternatives revenues. I was wondering if you could quantify that and whether fees come onboard in 2021? Also, related to infrastructure, do you have a lot of capacity to raise more funds?
	And, my second question is relating to the uptick in costs we saw in G&A in Q4. I was wondering if you could give a bit more granularity around those raises and, particularly, are part of these cost raises investments related to your new plan to grow?
Claire Peel	Good morning, Arnaud. Thank you for the questions. I'll take the first one on the alternative infrastructure funds. I think I heard the question correctly, which is referring to a comment around the

temporary fee suspension in a new infrastructure structure.

This is related to our pan-European infrastructure series, where we launched in Q4 of last year and also in Q4 of 2019, the P3 infrastructure fund, and that was contributing to inflows in the fourth quarter. And, that takes us to close to €3 billion overall in AUM for that fund vehicle, with a further closing scheduled in the first half of 2021.

Separately to that, the PEIF I vehicle, which was coming to the end-of-life and to liquidation is where we see a transition of a specific asset restructure from that fund, and that's leading to the temporary effects that are referred to in the margin, whereby we carry the AUM level that we are in the process of restructuring that fund, so a technical factor in PEIF I.

On your question on general and admin expenses, in the fourth quarter we saw an uptick in G&A which was related to early investments into our growth programmes and also into early investments into transformation programmes. We also saw higher marketing expenditure in the fourth quarter and higher volume-related expenses, obviously linked to the record AUM level. So, all of those factors came together in the fourth quarter, but we wouldn't expect that to be the level that we would see in Q1 2021.

Arnaud Giblat

Generally, we're seeing a lot of alternative fundraising in the market. Do you have capacity to do more?

Claire Peel

We have further closes on our infrastructure fund to come this year. So, certainly, there is the demand, and the capacity, and a continued pipeline of products to come in alternatives.

Arnaud Giblat

Thank you.

Operator

The next question comes from Mike Werner, of UBS. Please, go ahead.

Mike Werner

Thank you very much. I've just got two questions, please. First, in terms of your net flow targets, in terms of more than 4% of AUMs per annum through 2024 on average, does this include cash in that figure? And, if so, how should we think about the target ex-cash?

And, then, second, with regards to the ESG, you guys have been certainly getting some very good and positive traction in terms of inflows on your ESG products. I was just wondering if you had a sense internally as to what portion of those ESG flows are coming from funds that have previously been invested in maybe more plain vanilla active strategies or even passive strategies? Are you seeing switching from non-ESG to ESG funds or is a lot of these ESG inflows coming from new money, new clients, etc? Thank you.

Asoka Wöhrmann

Mike, thank you for both questions. I will answer the first one and the second one I will share with Claire. Let me start with your the target 2024 for net flows over 4%. I have to correct you, what you said, not per annum in average for the period we set. That is important to highlight and also under the assumption that the market is not falling apart and so on. You know that. But, our expectation is that we are really in the period between 2021 and 2024. On average, we have a more than 4% net flows.

And, I think it's a very good question what you're asking regarding cash and non-cash. That about that last year, like a pandemic situation that is, as I said, a black swan event. There is a normally, in the early stage of recovery from a black swan, you have more cash and then it's transferred into value, good assets and also non-cash products.

We are, and that is what we also outlined now in the TGL programme, we are very much going into the area of profitable growth. That means we are targeting non-cash flows and our client base is also looking for that more and more, and this demand, really not creeping up, will go massively up and we are very much go on like in '19 to non-cash-type flows. This is a clear approach, what we have.

Regarding your ESG question, it is for us very much, at the moment we are very happy that we launched the ESG-leading product innovation in the market, but we are very much flushed and really surprised about the high demand from our clients. This is a client-centric approach here. ESG is now imperative for all the asset managers if you want or not, and I do think we should not underestimate.

But, all our management efforts, also changing the DNA of DWS in this regard, we are impatient to do it, and we are asking to take very bold actions. We are thinking now, and we are coming to a stage, for example, except for the product launches what we have already planned for 2021 in early stage, in all the products we are designing in 2021 in the active area, not to launch any more non-ESG. And, for institutional area, only if client demand is there for non-ESG.

And, for the existing product range, we have a very active discussion with all our distributors and with our clients to change into ESG-type investments, smart integration-driven investments. I do think from that, I am expecting net inflows to get more and more into ESG and faster track than many people are expecting, and for the existing asset base to have a faster transformation into a smart integration. And I have to say that the clients are driving as big days, and it will take big days this topic in the next two years with our clients' conversations. Claire, I think it might be I forgot one or two things, please.

Claire Peel	I would just add on the nature or the asset class of the inflows that we saw in 2020, it was very diverse. So, passive, certainly leading in terms of ESG inflows but also strong in in equity, un active equity, thematic ESG funds, in fixed income, in cash and alternatives. And, the total AUM, driven by ESG-dedicated funds in 2020 is €94 billion, a significant increase that we saw in 2019. So, we do, indeed, expect this to be a key flow driver as we look forward, as Asoka outlined.
Mike Werner	Thank you, Claire, and thank you, Asoka. Just a quick follow-up. What was the total AUM for ESG at the end of '19, if you don't mind?
Claire Peel	End of '19, it was €74 billion.
Mike Werner	Thank you very much.
Asoka Wöhrmann	And, I think, if I may add one point. Oliver wants that I'm always quite disciplined but, Mike, one thing is stunning. All the client segments are looking for ESG products and innovations. This is not only due to institutional and very professional institutional and insurance clients, it is also in the retail area. And, I do think this is a phenomena I have not seen in my career so far and that is a very interesting trend.
Mike Werner	Thanks.
Operator	The next question is from Haley Tam, of Credit Suisse. Please, go ahead.
Haley Tam	Good morning, everyone. Thank you for taking my questions. Can I ask the first one on the transformation programme and the costs? And, the second one is just a follow-up on the infrastructure AUM. In terms of the €50 million of efficiency benefits that you expect to get at the end of 2024 from the new platform, I just wanted to clarify. I think, back in 2019 when you used to disclose Deutsche Bank Group allocation costs, they were around €120 million and I just wondered if you could tell us what they were in 2020 and whether there's any incremental cost savings that we can look to from a shift to a stand-alone platform from that source? And, then the second question in terms of the infrastructure funds, just to clarify that the PEIF I vehicle that is coming to an end-of-life this year, could you confirm for us how much AUM that is that we should expect to come back out and when that will be? Thank you.
Claire Peel	Good morning, Haley. Thank you for the questions. On the first question, just to clarify on the infrastructure platform transformation programme. Yes, we expect to see approximately €50 million of run rate benefits at the end of the investment period, which will be in year 2024. That is spanning, not just

technology costs but also our operational and corporate function activity. So, we are driving that run rate benefit from across that suite.

Specifically, the question about charges related to services from a third party, Deutsche Bank, that was for the year 2020, €106 million, which was a decline on the prior year. Part of that service provision is related to these corporate functions in addition to what we operate internally within DWS today.

On your question on PEIF I, coming to the end of its life. Some of the assets will transfer, as mentioned, into a continuation fund. I will just have to reconfirm during the call the specific amount of AUM on that fund vehicle, just to address that question, but I think there is a net movement, which I will come back to.

Haley Tam — Thank you. Sorry, just to make sure I understood the answer, the first half. The €50 million run rate benefits, then, that includes any further improvement in Deutsche Bank Group services costs? I shouldn't think of anything incremental on top of that?

Claire Peel — That's correct. We would look at it across the whole suite of our cost base. All of our general and admin expenses, including all of those charges, have been taken into account.

Haley Tam — Great. Thank you.

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

Nicholas Herman — Good morning, everyone. Thank you for taking my questions. One question on passive margins and one question on costs, please. So, on passive margins, it looks like we've seen, broadly, a 10% decline in passive margins after 12% or so in 2019. Now, clearly, growth has been even stronger because revenues have grown but, nonetheless, that margin pressure has still been bigger than the circa 6% per annum that you guided back in the 2019 investor day. So, what's changed since then and any reason why passive margin pressure should abate from here or should continue at the same pace?

On costs, if I look at the perimeter difference between DWS and Deutsche Bank Asset Management costs, that that's something in the range of €60 million. Is it fair to assume that difference should not change materially from here?

I'm going back to the Deutsche Bank 2020 investor deep dive. Deutsche Bank guided for flat costs in Deutsche Bank Asset Management between 2020 and 2022. So, on that basis, again, assuming no changes to perimeter difference, should we see presumably assume that €1.4 billion of costs for this year should remain flattish between now and 2022? Thank you.

Claire Peel — I can take the question on the passive margin. We've always guided to approximately two basis points dilution in our passive management fee, which is roughly what we've seen during the year of 2020, and that's what we have continued to see, maybe it could push just beyond 2%. The 6% margin compression continues to be the assumption that we carry forward, and I think that's what we see in our passive space. And, overall, outside of passive, the one basis point or thereabouts is what we've seen fairly consistently over the last few years. On your question on ETFs, it's the same assumptions that we are assuming there. On your question on the Deutsche Bank perimeter of expenses, I'm afraid I can't comment on that one.

Nicholas Herman: Okay, thanks. Fair enough.

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

Bruce Hamilton: Hi. Morning. Thanks for the presentation. Just a couple of questions, then. Another on ESG, first. Clearly, this has been and remains key to your growth strategy but I guess many other players in the market are equally focused on it. So, how do you stay ahead in ESG? What's the most important point of differentiation? Perhaps you share a bit more on your sort of smart integration approach or anything else that you think will keep you ahead of the pack?

And, then, secondly, just coming back to the consolidation point. In terms of your thoughts, then, on trend from here, should we be thinking more around bolt-ons to further develop growth areas or access new or growthy distribution or do envisage that actually Europe is likely to see substantial sort of scale transformational deals over the next sort of one to two years? Thank you.

Asoka Wöhrmann: Bruce, thank you for both questions. ESG first, I think you are right. Your comment is right. I think ESG looks like becoming mainstream and that is why also our organisation has to go faster to keep that frontier progress, keep that progressing.

Like a smart integration, as you know, we developed for seven years ago and smart integration, a cross-sector approach we are using to manage existing assets today and also a very proprietary engine we are using, rating other investments. But again, we have to go faster to develop this smart integration to the next level.

I think that is why we are very keen to bring data and artificial intelligence together into this area and that it will be very important. But, I think, Bruce, we should not underestimate that product innovation is super relevant and how clear we are expressing to the market and are acting internally on this topic.

I do think there is a lot of missing taxonomy in Europe. There's a lot of, let me say, definition about ESG and we have to go beyond the European taxonomy. And, I think that is what we are looking for to get really in this ESG first not only on product innovation side, not only on the investment side, but also to be a thought leader in this area with our clients to bring their existing assets to the new, let me say, ESG needs, also what is coming over the regulatory requirements, that is the way we are thinking.

And, I think also at the corporate, we will develop there very much, not only as a fiduciary investment manager. This is very important, and we will be detailing out that also in the next meetings for you and, I think, happy to a deep dive.

On the consolidation, you are right. I think we have to have a different kind of thinking. It is, for us, the TGL programme and how can we take a stronger market position if we add M&A or boutiques or platforms into our organisation, but also looking, as I said, at the footprint, strengthening our footprint, especially in a fast-growing Asian market. And, I do think, also, that is something we are looking at and all that, saying, I am expecting.

I do think because of the great market recovery of 2020, there was a pause on the consolidation, even there was some volume-wise with Eaton Vance, there was a high number has been printed, but I think the number of M&A activities, for me, went down and I think this time will be over.

I think in the next three years I'm expecting a moderation of the market and also not going steadily up. There will be a pressure on margin erosion, also passivation, and I do think that will lead to further platform-building, to consolidation, and we want to play an active role there, and we are looking actively in the second phase to be a noticeable player here. I hope I answered your questions.

Bruce Hamilton: That’s great. Thank you.

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

Angeliki Bairaktari: Good morning. Thanks for taking my questions. Just two on my side. First of all, on the transformation costs that you guided for, I think I understood €60 million over the next three years. Should we assume that this will be evenly split over the next three years or is it going to ramp-up as you move forward?

And, can you give us some colour on the glide path of the cost income ratio that you have in mind between 2021 and 2023? Should we assume that it's not going to change much and, effectively, the big drop from the 65% level is going to be visible only in 2024 as the transformation programme bears its fruit?

And, second question, could you please give us some colour on

	Harvest? How many AUM did the joint venture have at the end of 2020 and how many net flows did it generate last year, and what is your expectation going forward for revenues coming from this JV?
Claire Peel	Hi, Angeliki. Hello. Good morning. Thank you for the questions. Just to reconfirm on the transformation expense for the platform investment that we expect over the next three years. You're correct, it's €60 million as that time horizon, slightly more heavily weighted upfront and then declining thereafter. I would estimate approximately €25 million for 2021 and then declining slightly thereafter over the three-year investment period. On your question around the cost income ratio, having achieved below 65% at the end of 2020, we consider that to be very much our baseline. We will not compromise that level but given the upfront investment that we see in our growth initiatives in the near-term in 2021, over the next 18 months, we would expect to see a non-linear effect on the decline of the cost income ratio, coupled with the run rate benefits that we will see from the transformation programme at the end of the investment period. On your question on Harvest, I can confirm that the AUM for the Harvest investment overall, so Harvest Asset Management, was €160 billion at the end of 2020.
Angeliki Bairaktari	And, if I may just follow-up on Harvest. You generated revenues from the joint venture of around €60 million this year. Should we expect this to grow at the same pace over the coming years?
Claire Peel	In the Harvest revenue recognition, you're right, there was quite a notable increase in 2020 compared to 2019. We saw €64 million of revenues in 2020 compared to €44 million in 2019. There was a benefit from a performance fee that was recognised within Harvest within that number, so I wouldn't necessarily expect that absolute level in 2021. But, certainly, given the high AUM and market conditions, product pipeline and inflow profile, then I would certainly expect that to be higher than the levels that we saw in 2019.
Angeliki Bairaktari	Thank you.
Operator	As there are no further questions at this time, I'll hand it back over to Mr Oliver Flade for any closing remarks.
Oliver Flade	Thank you very much and thank you, everyone, for dialling in today. For any follow-up questions, as always, feel free to contact the IR team and, otherwise, we wish you a fantastic day and a healthy time. Bye-bye.
Asoka Wöhrmann	Thank you.
Claire Peel	Thank you.