

DWS Group GmbH & Co. KGaA
Q2 2025 Results – Investor & Analyst Conference Call
24th July, 2025 | 10:00 AM CEST

Transcript

Speakers:

Dr Stefan Hoops

Dr Markus Kobler

Oliver Flade

Oliver Flade

Good morning to everybody from sunny Frankfurt. This is Oliver from Investor Relations, and I would like to welcome everybody to our Earnings Call for the Second Quarter of 2025. Before we start, I would like to remind you that 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're presenting now.

I'm joined as usual by Stefan Hoops, our CEO, and Markus Kobler, our CFO. And Stefan will start with some opening remarks, as well as closing remarks, and Markus will take you through the main part of 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. And please note that the Q&A session can also be extended beyond 11 o'clock, if needed.

I would like to remind you that the presentation may contain forward-looking statements which may not develop as we currently expect. And I therefore ask you to take note of the disclaimer and the precautionary warning on the forward-looking statements at the end of our materials. And with that, I will now pass on to Stefan.

Dr Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q2 2025 Earnings Call. You will notice that my introduction today will be a bit longer than usual. I would like to take more time to walk you through our view on our financial performance and present our hypothesis for the path ahead, not just for this quarter, but for the year as a whole, and the trajectory we see for 2026 and 2027. As Markus takes you through the financials, I would like to ask you to keep this hypothesis in mind, which will hopefully help you challenge the numbers constructively.

To put it simply, we are delivering exactly what we promised, sustainable earnings that put us firmly on track for the €4.50 EPS this year, which we see as the jump-off point for 10% annual EPS growth in 2026 and 2027. To frame that, I will start by revisiting the bridge we first outlined in 2024, then discuss the sustainability of our current earnings, the long-term investments we are making, and the path to our 2025 EPS target of €4.50.

I will then hand over to Markus, who will take you through our Q2 financials in detail and provide a deep dive into our balance sheet. And finally, I will return to present the outlook and explain why we feel well positioned to deliver a consistent 10% EPS growth annually in 2026 and 2027.

With that, let me begin with the first point, credibility of the bridge we laid out back in April 2024.

More than a year ago, when we communicated our Q1 2024 results, we first presented the path to reach our 2025 financial targets. From the outset, the bridge was designed to be both clear and tangible, with its main pillars being reduced cost-adjusted items, higher performance fees and rising management fees.

We committed to this bridge and have remained consistent in our financial steering ever since. Today, the numbers show that we are on track to deliver what we promised to the market, and we believe that consistency is what builds long-term trust.

Second, our growth does not come from one-offs. It's hard-earned, sustainable and the result of disciplined execution over the past years. What you see in our numbers is not a one-time lift. So, we didn't just get in summer shape once. This was the result of systematic and sometimes difficult run rate optimisations that have reshaped the business for the long term.

We've taken deliberate steps to optimise our platform, including reorganising our legal entities to simplify our operating model, advancing our large-scale IT transformation project and reducing the number of internal committees by 42% to speed up decision-making. As an additional example, we've reshaped our workforce, our largest cost line, but also one of our greatest sources of long-term value.

As Markus outlined in his cost deep dive three quarters ago, we are growing talent from within. Since 2023, we have quadrupled our graduate intake and implemented development programmes to reduce our reliance on costly external hires. We've also built-up teams in India and the Philippines, creating scalable, cost-effective hubs which tap into deep resource pools.

None of this happened overnight. Every improvement, from cost management to platform efficiency, has been the result of consistent, focused effort over time. These tangible actions are central to how we've built a more efficient DWS, optimised for the future, and we are confident in our ability to keep these costs stable while continuing to grow. When Markus walks you through the financials, he will provide further insights into how these optimisation efforts are reflected in our numbers.

Third, we are investing for the long term. Alongside our cost

discipline, we are also deploying resources, with a clear focus on future growth to strengthen parts of the business that will matter most over the next decade. We continue to expand Xtrackers and our alternatives platform, both of which are already delivering momentum and flows. To be more specific, we've recently signed off on our next multi-year growth plan for Xtrackers and will double down on our European infrastructure franchise with additional hires.

We are also investing in the digital infrastructure that we believe will define the future of finance. A key example is AllUnity, our joint venture with Flow Traders and Galaxy, which recently received regulatory approval to issue Germany's first fully licensed, MiCA-compliant, euro-denominated stablecoin. Bringing the euro onto the blockchain is a foundational step towards a faster, more transparent and efficient European financial system, and exactly the kind of forward-looking innovation we aim to lead.

We view DWS much like a family business. Our responsibility is to leave the firm stronger for the next generation, and that means making the right investments today to ensure we remain resilient, relevant and positioned for sustainable growth.

Fourth, we are firmly on track to deliver our €4.50 EPS target for 2025, which we see as the jump-off point for the next few years. Markus will provide more detail in a moment but let me share how I view the numbers and why we see this target as entirely within reach.

In Q1, we delivered an EPS of around €1, and despite a very difficult April, with heightened volatility and a weakening dollar, we delivered an EPS of €1.07 in Q2. Given our current AUM is higher than the average AUM in Q2, and with an extra business day in both Q3 and Q4, you may assume a slightly higher EPS in the next couple of quarters, provided market conditions remain supportive. This would put us on track for an EPS in the mid €4.20s for the full year.

To close the gap to our €4.50 target, we would need to generate roughly an additional €50 million of net income, or €70 million of profit before tax. As you know, we have some seasonality in our revenue generation.

In Q4, we expect additional contribution from two recurring key drivers. Firstly, performance fees from our flagship multi-asset fund, Concept Kaldemorgen. And secondly, as I've referenced in prior calls, the PEIF IV fundraise is on track for a significant closing by year-end, with management fees accruing back to August 2024. So, when we say we are

at a run rate that supports €4.50 in EPS for 2025, we are on solid ground to meet this target.

Importantly, we view this not as a one-off achievement, but as a hard-earned run rate, supported by the structural improvements and strategic investments we have made. Many of these investments, particularly in alternatives, digital assets, platform efficiency, and the next phase of our Xtrackers growth plan, will show their full value in the years ahead.

With that, I now hand over to my partner, Markus, who will walk you through our financial performance in more detail and provide a comprehensive view of our balance sheet.

Dr Markus Kobler

Thank you, Stefan, and good morning, ladies and gentlemen. Let me take you through the key financial highlights for Q2. In the second quarter, we demonstrated the resilience of our business model in a challenging environment, delivering an increased EPS of €1.07. Our net flows were robust, with €3.7 billion in long-term net flows and €8.5 billion in total net flows.

Revenues held steady at €746 million, notwithstanding a decrease in average assets under management in the second quarter, reflecting the strength and the diversification of our revenue base. Driven by our active cost management, our net income increased and rose to €214 million.

The operational efficiency improved, resulting in a cost-income ratio of 59.2%. Our capital position remains healthy, with €0.8 billion in excess capital, providing flexibility to pursue growth opportunities and shareholder returns. Together, these results reflect our strategic focus towards our 2025 financial target plan. Moving on to the financial performance snapshot in the second quarter.

Starting at the top left, long-term assets under management totalled €893 billion, stable quarter on quarter, with our net flows and market appreciated being almost entirely offset by unfavourable forex movements. Total assets under management remained flat quarter on quarter and stood at €1.010 trillion.

Moving to the top right, revenues remained stable compared to the first quarter at €746 million, and up 7% year on year. On the bottom left, costs amounted to €442 million, down 6% quarter on quarter. Thanks to active cost management approach, the cost-income ratio stood at 59.2%, being down three percentage points quarter on quarter and 6.6 percentage points year on year. The continued operating

leverage drove an 8% increase in net income quarter on quarter and a 32% increase year on year, reaching €214 million.

Let me now share some insights into client dynamics during Q2. The client dynamics observed at the end of Q1 continued into Q2, shaped by elevated market volatility and a persistent risk-averse sentiment. Overall, we reported net flows of €8.5 billion and long-term net flows of €3.7 billion, a robust figure that underscores the enduring strength and appeal of our diversified product suite.

Although the flow picture has slowed in the second quarter, we were able to retain a positive flow momentum across all client segments and regions, being able to capture our clients' demand for risk management and diversified strategies through our broad product offering.

For example, in APAC, we reported net flows of €3.1 billion, marking our best-performing quarter ever. Clients are increasingly receptive to European investment opportunities, resulting in strong net flows across various asset classes. In EMEA ex Germany, the flow picture was impacted by market volatility, especially in passive strategies, and totalled €0.7 billion. Although the volatility led to high gross flow volumes, we saw limited net movement.

Net flows in our home market Germany amounted to €1.4 billion, driven by an ongoing demand for passive products. The US region recorded €3.3 billion in net flows. While overall direction of asset allocation remained steady, demand further shifted toward highly liquid, short-duration products, especially money market funds.

Across client segments, both retail and institutional investors showed a clear common trend, a strong focus on resilience and risk management. Despite ongoing market headwinds and a clear risk-off sentiment, our retail business has delivered its 10th consecutive quarter of net flows.

This resilience reflects the strength of our dedicated, proactive focus campaign and our ability to align with client preferences. Retail investors continue to favour risk-averse strategies, driving strong momentum into short-term fixed income solutions and advised quant-driven funds within SQI.

On the institutional side, flows were positive with €7.4 billion, led by inflows across asset classes such as infrastructure, passive mandates, multi-asset, and cash. The focus, however, continued to be on de-risking, favouring liquid short-term solutions, with diversification being a consistent

theme. Moving to the quarterly highlights within our active business.

In the second quarter, our active assets under management stood at €442 billion, a quarter-on-quarter decline primarily driven by negative forex movements, particularly within fixed income products. The flow picture in active remains challenging, with €1.7 billion in net outflows. However, we observed encouraging underlying momentum, particularly in active equity.

We recorded net flows into multi-assets and SQI with €0.4 billion and €0.2 billion respectively. These flows were largely supported by institutional mandate wins, including an LDI mandate in EMEA. Within SQI, inflows were partially offset by rule-based outflows as clients adjusted risk budgets in response to market conditions.

Although our equity business reported outflows of €1 billion, primarily due to previously notified mandate losses, underlying trends improved. This was supported by a reversal in rule-based inflows from SQI to equity amid a more favourable equity market environment. Additionally, DWS Invest top dividend attracted strong inflows, backed by solid performance, while DWS Invest artificial intelligence continued to see steady daily inflows.

Fixed income saw outflows of €1.3 billion. While our top-selling DWS floating-rate funds continued to attract strong inflows, these were outweighed by mandate losses. Notably, our DWS ESG floating-rate notes surpassed the €1 billion mark in the second quarter.

We continued to expand our active ETF offering. In Q2, we launched three new active ETFs, each targeting a different region, global, European, and US equities. So far, early investor interest has been strong, with inflows exceeding €205 million, according to latest available data in July.

In addition, we repositioned two active products, DB US Dynamic Growth and DWS Invest Critical Technologies. The latter is designed to address today's geopolitical landscape, focussing on five key investment areas, defence & space, AI & semiconductors, energy security & infrastructure, advanced manufacturing & robotics and cybersecurity. These sectors are expected to benefit from the global push for greater technological autonomy. Moving to our Xtrackers business.

Our Xtrackers business delivered net flows of €3 billion in the second quarter, marking the tenth consecutive quarter of positive flows. However, flow momentum was impacted

by US exposure and rule-based outflows in the quarter. Assets under management increased to €346 billion as net flows and market appreciation offset negative forex movements.

The main flow contributor was our UCITS business, which delivered net flows of €1.9 billion. Portfolio diversification and highly liquid products continued to gain momentum, with strong interest in top-selling products like MSCI World ex US and EUR Overnight.

US exposure sell-offs impacted overall flows, particularly in S&P 500 Equal Weight ETFs and select/sector client ETFs such as China and Financials. To further strengthen our product offering and stay ahead of peers, we are preparing to launch US Equities swap ETFs on our Irish-domiciled platform.

Our Mandates & Solutions business delivered €1.1 billion in net flows, driven by a global ex-Europe mandate win in Germany and two mandates from Southeast Asian institutional clients. These wins support the continued expansion of our Xtrackers institutional footprint and our core equity exposure.

Our US 1940 Act saw net flows flat in the second quarter, though performance was highly volatile. In April, we experienced strong outflows after the market turmoil, followed by flow recovery in May and June, led by renewed interest in high yield and a rebound in ESG products. Despite the flat net flows, our US platform continued to expand and reached US \$27 billion in assets under management.

Overall, we are confident in our strategic development, and our flow momentum has returned after a challenging Q2. With the start of Q3, the Xtrackers business has regained strength, supported by a strong return of flows that has continued throughout July.

As Stefan mentioned, Xtrackers has launched a multi-year growth plan focused on generating additional net new assets. This includes expanding digital distribution partnerships, entering untapped markets, such as the Baltics and Eastern Europe, and scaling our active Xtrackers ETF range through both internal and external strategies, positioning us as a full-spectrum leading ETF provider.

As an example, in Q2, we expanded our digital reach throughout three new digital distribution partnerships, strengthening our strategic footprint. Let me now turn to our

Q2 highlights for our alternatives platform.

The development of our alternatives platform continues in line with the trajectory outlined in last quarter's deep dive. In Q2, our assets under management totalled €105 billion, remaining stable versus the previous quarter. Net inflows and market appreciation were offset by forex headwinds.

Infrastructure remained the growth contributor within our alternative platform, leading to overall net flows of €2.4 billion in the quarter, which were supported by positive flows in liquid real assets. Fundraising efforts across various strategies, such as our PEIF IV fund and our newly launched U.S. Real Estate Core Plus Debt strategy, continue to generate positive momentum and position us for future growth.

Infrastructure contributed with €3.9 billion of net flows, largely supported by a new fund mandate, which is expected to generate incremental management and performance fees over the next 12 months. With the mandate, we have secured the controlling stake in the underlying asset, which will support the delivery of a successful exit for PEIF I and the Gateway funds, ultimately maximising value for investors.

Our LRA business recorded net inflows of €0.4 billion, which were driven by renewed interest from institutional investors and a newly won SMA.

The sentiment for real estate remains challenging. We report outflows of €1.9 billion in the second quarter. Around half of the outflows were attributable to a single redemption in our US real estate portfolio. Despite strong asset performance, the investors sought greater geographic diversification.

For the EMEA real estate platform, the redemption queue continues to ease, with incoming redemptions declining in 2025, likely driven by falling interest rates, market volatility and positive year-to-date performance, particularly in our Grundbesitz funds.

Our private credit platform build-out is progressing steadily. The wind-down of our European CLO business is now complete, with the warehouse fully sold down. We have expanded our strategic partnership with Deutsche Bank across both investment and corporate banking.

Our focus now sharpens on European direct lending and asset-based finance, with key hires already made. Fundraising is underway for our European Direct Lending Fund II, building on our successful partnership with

Deutsche Bank. We expect the platform to begin generating revenues in the first half of 2026, with asset-based finance following in the second half. Let me elaborate how this performance impacted our P&L.

Revenues remained stable quarter on quarter at €746 million and marked a 7% increase year on year. Management fees declined slightly by 1% quarter on quarter to €630 million. This was largely due to lower average assets under management, a result of foreign exchange headwinds and continued investor caution amid macroeconomic uncertainty.

However, it is worth emphasising that this slight decrease was well contained, demonstrating the resilience of our client franchise and the strength of our globally diversified product offering.

Performance and transaction fees totalled €58 million, supported by the fee recognition of PEIF II, Spezial Invest funds, as well as Real Estate APAC. Other revenues amounted to €58 million, including €26 million from net interest income and an €11 million contribution from Harvest. Moving to our cost development.

As many of you may know by now, I am passionate about active cost management. In the third quarter of 2024, we introduced you to our active cost management approach, a key enabler of our sustainable profitability and operating margin protection, particularly in volatile market environments.

As part of that deep dive, we presented our robust cost management framework that distinguishes between discipline-based cost, expenses we can directly control through rigorous planning, budgeting and process optimisation, and volume-based costs, which are inherently linked to market dynamics and client-driven business growth.

This combination of discipline-based cost control and agile management of volume-driven expenses ensures our cost base remains both flexible and aligned with market conditions and strategic priorities, something the second quarter with its challenging backdrop has clearly reinforced.

In this quarter, total costs declined by 6% quarter on quarter to €442 million, driven by reductions across all cost management pillars, keeping us on track for essentially flat costs in full year 2025. Compensation and benefit expenses were managed prudently, reflecting a 9% decrease from the previous quarter due to primarily lower retention-related

expenses. General and administrative expenses were also contained, driven by lower volume-based costs.

As a result of these concerted efforts, our cost-income ratio improved by three percentage points versus the previous quarter, now standing at 59.2%, being below our full year 2025 guidance of less than 61.5%. This outcome demonstrates effective stewardship over our cost base but also provides valuable headroom to continue investing in future growth initiatives without compromising our profitability. Moving now to our balance sheet deep dive.

This quarter, I would like to provide you with a comprehensive look at our economic balance sheet and capital position. As of Q2 2025, our economic balance sheet remains simple, stable and robust, underlined by a solid liquidity position and backed by capital with no debt financing.

Our economic balance sheet matches our consolidated IFRS balance sheet but excludes assets and liabilities from investor-owned funds, such as guaranteed funds, and matching items related to unit-linked life insurance investment contracts. Key characteristics are a strong equity and liquidity position as well as corporate investments to support our business and intangibles. This structure provides financial resilience and flexibility to support growth and shareholder returns.

Looking at our capital position, we speak of tangible equity as our key capital supply metric. It is central to our economic capital adequacy framework, ensuring that we not only comply with regulatory standards, but also maintain ample resources to support the risks inherent in our business. As of Q2 2025, we hold €0.8 billion in excess capital, which is a solid buffer and well above our target capitalisation. It reflects our financial strength and gives us strategic flexibility going forward.

Our capital management strategy is dynamic. We are continuously stress-testing our balance sheet under a range of economic and market scenarios, incorporating lessons from recent volatility and industry shifts. The excess capital not only enhances our resilience in uncertain markets, but also provides us with meaningful optionality, allowing the group to respond decisively to attractive growth opportunities, potentially inorganic investments, or adapt to evolving regulatory requirement without undue delay or stress.

Since our IPO, we have remained committed to the efficient and responsible return of capital to shareholders. We have

now returned €3.44 billion to shareholders via ordinary and extraordinary dividends, a clear reflection of our focus on shareholder value creation.

Looking ahead, we have announced our intention to establish a sustainable dividend payout ratio of approximately 65%, starting in 2025. This strikes the right balance between generous shareholder distributions, with reinvestments in future growth and innovation.

All in all, our economic balance sheet and capital position demonstrate not just financial robustness, but also the discipline and long-term thinking that shape DWS strategic direction. We are confident that this solid foundation enables us to finance innovation, navigate uncertainty, reward shareholders, and support sustainable organic growth well into the future. With that, let me now hand over to Stefan for his closing remarks.

Dr Stefan Hoops

Thank you, Markus. Now let me turn to our outlook for 2026 and 2027, and specifically how we plan to build on the strong and sustainable earnings per share base we've established and converted into continued growth over the coming years. As I said in the beginning, our hypothesis is clear. We are delivering sustainable earnings, built on a foundation of structural improvements and strategic investments. From an EPS jump-off point of €4.50, we see a clear and tangible path to 10% annual EPS growth in 2026 and 2027.

As we look ahead, maintaining active cost management remains just as important as driving revenues. While we've had costs flat for the past three years, we're being realistic about the future, and therefore assume that costs will increase around 2% annually going forward. To achieve 10% EPS growth on this cost base, we need a revenue growth of roughly 5.5% per year. We believe that is achievable through a balanced combination of market performance and inflows.

Previously, we flagged €150 billion in net new assets cumulatively over 2025, 2026 and 2027. As expected, market turbulence led to a slower flow picture in Q2. Fortunately, as client momentum has picked up again, we're now back at our typical monthly run rate, and our ambition remains intact.

We expect that growth to come from the key areas where we are already investing and seeing momentum. First, our active business remains a steady contributor to our platform. We recently extended a key distribution partnership with DVAG, Germany's largest independent network of financial advisors, for another ten years. This speaks to the strength

of our relationships and our long-term positioning in the market.

We've also expanded our active product range with a launch of three enhanced active ETFs, providing clients with new solutions and helping to broaden our reach. Active multi-asset strategies and SQI both saw inflows this quarter, and we expect that they will continue to attract strong client demand.

Second, in Xtrackers, the trajectory remains positive, with steady growth over the past few years as we scale up. We continue to see strong inflows into key products like MSCI World ex US and EUR Overnight. We're also giving clients new ways to access our expertise through innovative solutions like ETF as a service, and our digital distribution partnerships are playing a key role in accelerating flows. As I mentioned earlier, we've now signed off on a dedicated growth plan over the coming years.

Third, in alternatives, we delivered positive inflows in the first half of the year, and we expect that momentum to continue with a solid pipeline for the second half. Our gateway to Europe strategy is starting to pay off, with the capabilities we have built now beginning to deliver tangible results.

We're making further investments in infrastructure, including hiring specialist talent to strengthen our platform and meet growing client demand. We're also moving forward with the opening of our Abu Dhabi branch, which will further expand our global reach and bring us even closer to key growth markets.

As an asset manager rooted in Europe's largest economy, we're uniquely positioned to help clients unlock the full potential of the opportunities ahead. Our strategy remains fully aligned with our financial steering, and we continue to be one of the few asset managers with no distractions from restructuring or integration. Based on this position and the outlook we have outlined, we are confident that 10% annual EPS growth is realistic and achievable.

So, to summarise, we are firmly on track to deliver €4.50 EPS in 2025 and are comfortable using this as a jump-off point for future growth. We have a clear and tangible path to delivering 10% annual EPS growth in 2026 and 2027. And while we're staying disciplined on costs, we are continuing to make long-term investments in our platform, capabilities and people.

We look forward to being challenged on this, but we hope we have gained credibility by showing you the hard work

and discipline we've put in over the past couple of years, work that we feel has put us in a strong position. Based on what we've outlined, we've built a sustainable revenue and cost base and set the foundation for long-term profitable growth. Thank you. Over to Oliver for Q&A.

Oliver Flade

Yes, thank you very much, Stefan. And Operator, we're ready for Q&A now. And if I may remind everybody to limit yourself to the two most important questions. That would be very kind. Thank you very much.

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two.

Questioners on the phone are requested to disable the loudspeaker mode and eventually turn off the volume from the webcast while asking a question. Anyone who has a question may press star one at this time. The first question comes from Hubert Lam from Bank of America. Please go ahead.

Hubert Lam

For taking my questions and also thank you for the granularity in the presentation. A couple of questions. Firstly, on the target for this year of €4.50, what market assumptions do you have for the rest of the year? And in terms of your performance fee assumptions, how much of it is driven by fees that you've already locked down but yet to recognise versus those you need to perform from markets such as Kaldemorgen?

The second question is on active ETFs. How important is this for your growth outlook in Xtrackers going forward? How much has it contributed to your inflows within Xtrackers today? And how big as a percentage of your AUM is it? I assume it's pretty small at this stage. Thank you.

Dr Stefan Hoops

Hubert, thank you for your questions. I'm just going to start and then see if Markus adds granularity. So, first question, for our target of €4.50, what is the market assumption, and how much of the performance fees are essentially locked in?

So, market assumption, basically in line with our CIO outlook. So, markets have already suppressed what we had expected, or what we expected over the next 12 months. But I would just say, broadly stable markets, so nothing heroic. We had initially assumed market growth in the mid-single digits for 2025. So obviously, it has been more than that. But for the next couple of quarters, we just expect

broadly stable markets.

When it comes to the performance fee, the PEIF II performance fee is basically locked in. So, I want to be careful how I phrase it, but from an accounting perspective, we're now giving credit for the essentially inherent value that was created over the past few years. And based on market discussions that we had with potential buyers, we feel pretty confident about that being a floor to ultimate valuation.

So, when you look at the contribution of PEIF II performance fees, which was €30 million in Q1, roughly €30 million in Q2, a little bit more in Q2, I would expect similar performance fee to come in Q3 and Q4. And it's basically locked in.

What would come on top is a potential Concept Kaldemorgen performance fee, which we always book on the last day of the year. So that would be Q4. I think everyone understands the math. So, we have €11.1 billion of essentially funds that are eligible for performance fee. We get 15% of that. They're in the money.

So multi-asset, as you would expect, didn't have... I guess, phrased positively, they navigated markets well enough that they're ahead for the year, despite obviously having a global portfolio in euro, which was impacted by euro-dollar. But they're in the money. So that's a performance fee that you would expect in Q4.

When it comes to active ETF, I think you're right with both of your assumptions. This is important going forward, but at this point in time has a reasonably small percentage of AUM. So, the launches were successful. We raised a couple of hundred million. I guess all those numbers you can see if you dug for it on Bloomberg.

But the launch was positive, collected a couple of hundred million. We think it's going to be an important feature going forward, just like other thematic ETFs. And yes, so excited for the future of the active ETF franchise.

Dr Markus Kobler

So if I just add one detail there, Hubert, we are extremely well positioned in that growth area. And it's also one of our focus areas, active ETFs. And we have already started launching the first ETFs in the course of 2024. And as of the end of the first quarter, we were in terms of assets under management around €300 million. But I also mentioned before that the three newly launched active ETFs have already gathered more than €200 million. So that is still a small segment but growing very fast.

Hubert Lam

Great, thank you.

Operator The next question comes from Jacques-Henri Gaulard Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard Yes, good morning. Two questions from me. One is about the outlook for the year. My question is more on the change of tone. Q4 2024, brilliant, confirming €4.50, everything is fine. Q1 25, the tone is definitely a bit more wobbly. We're talking about a range of €4.50 and €4.60. And I have the feeling that in answer to what you gave to Hubert immediately, more or less what was on PEIF II was more or less predictable.

So, what makes you now more back on the balance of certainty, and what makes us believe that we're not going to have something a little bit less secure, I would say, in Q3? That's the first question.

And the second, thank you very much for the excess capital, Markus. Within that, the requirements have remained amazingly flat since 2022. So, is it fair to assume that the requirement will not really move over the next two to three years if we try to actually value the excess capital from 25 and 27?

And on modelling purposes, to go from €800 million to some sort of year-end figure, do we just have to take retained earnings as an addition? Is that a fair way to look at it, or estimates of retained earnings? Or is there a quarterly aspect within the excess capital that we don't know about and that you could guide us on? Thank you very, very much.

Dr Stefan Hoops Hey, Jacques-Henri, thank you very much. By the way, thank you to everyone's limiting yourself to two questions. You have unlimited questions on European infrastructure or euro stablecoin, if anyone cares. So that's on top of your two questions.

But starting with the first one, so tone, our Q1 earnings call was in late April, and the world just didn't look amazing in late April. So, at that point in time, we simply didn't quite know what May, June... The recovery we saw specifically in equity prices. So, at that point in time, we simply said, look, €4.50 is still in sight. However, range of outcomes, slightly broader. I think that was the terminology we used.

So since then, markets were much better than I think you were able to expect in April. And I think that's simply reflected in our statement. Again, the logic that we are simply applying, we had a €1 of EPS Q1, €1.07 Q2. Q3 and Q4 have an extra calendar day. Our AUM is now €10-15 billion higher than the average AUM in Q2.

So therefore, given that the performance fees are mostly

baked in, meaning should be similar in Q3 and Q4 to what you saw in Q1 and Q2, we simply feel we're currently on a run rate getting us into the mid-€4.20s, simply from that run rate.

And then in Q4, we have those two extra items. One, the Kaldemorgen performance fee, and second, the PEIF IV fundraise. And I think everyone understands, you get the management fees accruing back to when the first asset was bought, which was in August 2024. So, a couple of billion, whatever you assume that's our target, those two items combined with the €70 million-plus of profit before tax, €50 million of net income, which would get us to the €4.50.

So that's why, at this point in time, granted markets look better in the last three months than in April, well, that's why our tone is now more confident. Again, we haven't deviated from our bridge, but obviously the confidence and the range of potential outcomes is a bit market dependent, and we feel better now than three months ago.

Dr Markus Kobler

And happy to address your question with regard to the excess capital. On page 11, it shows the dynamics. We are using tangible equity as the capital supply. And on the capital demand side, that is relying on two pillars. The first one is regulation driven, IFR EU regulation from 2021. And additionally, we have our internal model where we assess all the risks. So again, given the course of the business, we are generating again net income, and that is adding to the tangible equity.

And on the other hand, we also pay out dividends, and that again is going to then reduce the tangible equity. So all factors stable, we currently accrue our excess or increase our excess capital between €200 million to €300 million on an annual base.

Jacques-Henri Gaulard

Thanks a lot, gentlemen.

Dr Markus Kobler

And that comes on top of the €800 million, which we have as of end of Q2.

Operator

The next question comes from Angeliki Bairaktari from JPMorgan. Please go ahead.

Angeliki Bairaktari

Good morning and thank you for taking my questions. First of all, can I please check whether the strong flows that we saw in infrastructure reflect any incremental fundraising in PEIF IV in the second quarter, or is the additional capital expected to come in the second half of the year for this fund?

And second question, can you provide a bit more colour on

the avenues to monetise the euro stablecoin venture that you're working on? And what could be the revenues earned from this initiative? And under which time frame are we looking at?

Dr Stefan Hoops

Thank you, Angeliki, for the two questions. Let me take both. So, we had a small close in PEIF IV in Q2, but it was small. So that significant inflow was a separate mandate. That separate mandate comes at a lower fee than the average in alternatives, because it was essentially a significant mandate we took over from another asset manager in a specific situation.

So, this is hard earned. We competed against multiple other asset managers to win it. It brought us a relationship with a bunch of new LPs, which we quite enjoyed. So therefore, it's going to be supportive for the PEIF IV fundraise, but it's completely separate to PEIF IV. That's the way to look at it.

Secondly, and thank you for the stablecoin question, that gives you another couple of questions that you may ask on top of it, so that joint venture with Galaxy and Flow Traders is something which obviously we'd worked on for a number of years. So it was hard work, as you would imagine. And the AllUnity management team, run by or led by Alex Höptner, is excellent.

We look at three different ways of monetising, and they're essentially with increasing relevance, however, also with an increasing time frame. So it's crypto, securities on blockchain and payments. That's how I'd look at it. So obviously, AllUnity is going to participate in the crypto ecosystem, so for retail investors in Europe to simply go on-ramp, off-ramp, if they want to buy crypto. That's something which you have to do as part of the ecosystem, and it's going to create revenues, short term.

I think secondly, what is, I think, more exciting, once securities are cleared on-chain, so whether that's bonds, stocks, and you see multiple experiments, obviously the other leg needs to be a stablecoin. I don't think anyone is going to buy DWS shares and exchange it against other shares, or DWS shares against Bitcoin. You would at some point buy our shares on blockchain. And the other leg would be euro, and that would be a euro stablecoin.

Our hypothesis is that at that point in time, you will not choose the stablecoin of a, I don't know, fintech-launched stablecoin regulated in the Baltics, nothing against those regulators. But I think you would prefer a large stablecoin, MiCA-compliant, launched in Germany. So that's why I would imagine that to be a significant source of revenues.

However, that will take a couple of years, because that's more in experimental stage.

I think third, when you think about payments, that is quite exciting. So AllUnity is already engaged with at least one large corporate that wants to pay employees in a non-euro country. And simply as opposed to converting euro into that local currency, they want to send the employees stablecoin, so euro on-chain, and then they can do whatever they want to do with it.

So, I think that is something which is going to be quite interesting, as everyone understands. Naïve Bitcoin aren't really great for payments, and therefore this is going to be a further use case. And again, I would imagine multinational, large, blue-chip corporates to choose a properly regulated, Germany-regulated or France-regulated stablecoin. So therefore, quite excited about the outlook for the next few years.

I think for the purposes of your 2026 model, I would not assign a lot of value to the AllUnity inflows, which, by the way, will come from two sources, one, managing the collateral, but obviously secondly, dividends, simply, of our one-third ownership. I would say the timing of it couldn't have been more interesting, given the Circle IPO and the excitement around stablecoins in the US. And I think that competitors are currently waking up to that and trying the same.

It will take a couple of years. This is very difficult, to get regulators in Europe comfortable. And that's why we are happy that we started, that we seed invested that a couple of years ago. And again, I see the revenue outlook for the next five to ten years could be tremendous.

Angeliki Bairaktari

Thank you very much. I'm going to take the opportunity to ask one more question, since you gave me that opportunity.

Dr Stefan Hoops

Yes.

Angeliki Bairaktari

Just on passive flows, that they were much lower than the run rate this quarter, and you did explain why in the presentation. But when I look at some of your competitors in Europe, for example, the number two player by AUM, they had much stronger ETF flows in Q2. So, is there anything there that has played a role? Is there any concern about your near-term market share loss? And what is the outlook for passive net flows for the rest of the year?

Dr Stefan Hoops

Thank you, Angeliki. I think when I said that you have another question, I should have caveated that, but it's fine. So, look, let me not beat around the bush. Our Xtrackers

franchise had an off quarter in Q2. It is what it is. I think when you look at our flows, €3 billion of inflows in Q2, yes, you're right, they had ten quarters of consecutive inflows, but the €3 billion is a fraction, a quarter of what they had over the last couple of quarters. So, they had a bad quarter.

Now, Markus and I had a series of business deep dives, in-depth deep dives with the team. That's probably less pleasant than what it sounds like for the team. And look, what we realised is, sometimes a lot of bad stuff comes together.

So, what the team was exposed to in Q2, and I'm not being defensive, I'm just explaining, is they had aggressive fee cuts from competitors in areas of relevance to us. We lost a couple of large institutional mandates, a couple of campaigns didn't go as expected. We are the largest provider of Chinese A-shares ETF in the US, which you would imagine wasn't flavour of the month in April and May. We had some rules-based outflows stemming from our SQL strategy. So frankly, a lot of stuff came together in Q2.

So after a series of deep dives with the team, we simply said, look, Michael Jordan, Roger Federer, Lionel Messi, great players have off nights, don't make it a trend, but we believe in the outlook of the market, and we believe in the management team. So, we signed off on the new growth plan for the next three years, which is quite ambitious. And when you look at our flow share in Q3, that's back at 15% versus the market share of 10.6%. So, we feel that we've bounced back nicely.

But again, I'm not being defensive. Q2 was an off quarter for Xtrackers. The one thing I would say, when you look at our flows, and when you look at one minus Xtrackers, so you look at total long-term flows and subtract Xtrackers, we had a few quarters in which the rest was negative. This time, the rest was actually positive.

And maybe there will be questions on also flows for other parts of the franchise, but this quarter, the flow momentum was entirely down to Xtrackers having an off quarter. But we're very confident in their ability to bounce back, and therefore the growth outlook and the monthly run rate that we've seen over the previous quarters, that has now recovered in July. Thank you, Angeliki.

Operator

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

Arnaud Giblat

Oh, yes, good morning, and thank you for the useful presentation. I've got a quick follow-up. Did I hear well that

you said that PEIF IV was activated in August 2024?

And my two questions are firstly, in terms of your targets on the alternatives, could you break out what the flow expectation is there, which areas they're coming from? If you could give us a little bit more granularity, looking out over the next two years, as to how much you expect the private credit business to scale, whether there's other launches in infra, etc. I'm just wondering what sort of quantum of money you can raise there over the next two years.

And secondly, €0.8 billion of surplus capital, thanks for the extra disclosure there. Clearly, you did a special dividend last year, and you're talking about distributing eventually excess capital to shareholders, should the opportunities not become available. I was just wondering if you could put a time frame on that. Thank you.

Dr Markus Kobler

Thank you, Arnaud, for the question. I would address the second question you asked about the excess capital. Again, we do not put any time frame on what we do and whether we would pay any extraordinary dividend. We believe now we are in a position of strength at DWS, and we are also not under time pressure.

And we also mentioned before that we are open for inorganic opportunities if they're going to add shareholder value, which means they both increase our EPS but also afterwards help to further grow the business. And to keep that flexibility open, that allows us to work actively on targets, but also then only move ahead if something really, really makes sense.

But we have already said back in December 2022 at the Capital Markets Day, if we're not investing into an inorganic opportunity or/and internally, we would return money back to the shareholder. And again, that's why we decided also to provide this time a bit more transparency on our balance sheet.

Dr Stefan Hoops

And Arnaud, the question on alternatives, so firstly, yes, to confirm, PEIF IV was activated, I think that's actually a good term, in August 2024 when we bought the first asset. So I think, as all of you know, private equity style, everyone coming in later is paying management fees accruing back to when the first asset was bought.

So I think the best way to think about it is assume fees, 1%. Anyone coming in in December 2025 will have to pay 17 months' worth of management fees. And given that we target a €2 billion capital raise, could be a bit more, could be

a bit less, that's essentially the math behind it.

You asked about specific flow targets for the various parts of alternatives, which we haven't broken out so far. And I don't know if I would want to do it, just because there's so much happening in that space. But I will give some high-level thoughts.

Starting with the easiest ones, the liquid real assets, which is always a good leading indicator for alternatives overall. We have now seen positive inflows in Q2. So you saw that roughly €0.5 billion. And I would continue that path, or I would expect that path to continue over the next few quarters. So, let's just assume a couple of billion a year.

Infrastructure is looking nicely. So, we have obviously PEIF IV. We have something else called SGIF, which is more, let's say, core plus, European focused. That will be raised at some point after PEIF IV is closed. And our infra business in the US is something which actually I haven't spent enough time on explaining, but that is a very nice, neat infra debt business, which I'm happy to explain in more detail if anyone cares. But that will also add a couple of billion a year.

So, I think for infrastructure, I would just expect a couple of billion a year in Europe, a couple of billion a year in the US. It could be more. Look, we are waiting for the fiscal bazooka in Germany and getting ready for that. Once that comes, we should be one of the... How do I say it? The gateway to Europe is probably the best way to think of it. So, we would be one of those asset managers that global investors trust, deploy capital in Germany. Again, this is not part of our growth plan. That would come on top, if it came to that.

When you look at real estate, that's probably the toughest one, because rates in the US are just not coming down, however hard the US President, I think, is trying. So therefore, that business is still slightly challenged, as Markus explained, with a couple of large outflows, institutional outflows, lower margin in the average, but still outflows. So, I would like to say that that business has stabilised, but I've said that for a couple of quarters.

So, for US real estate, I would probably be cautious for the next 12 months. At some point, that will recover. And our real estate debt in the US, that's off to a good start of investor discussions. So that's something which we've launched a couple of months ago. So that will add. But I think US real estate is probably one of the bigger swing factors.

European real estate looks more promising. So the Grundbesitz outflows have slowed. I think everyone understands we have good visibility, given that we have 12 months' notice. So that is much lower now than in Q1, lower than in Q4 last year. So that's helpful. And we had a nice inflow in European real estate from an Asian investor. So, I think for European real estate, I'm more optimistic.

Private credit, we are now basically complete with the senior team, off to good discussions, will not raise capital in 25. But that is something which I would expect to start meaningfully contributing in 26 and 27. But more to come on that front. Thank you, Arnaud.

Arnaud Giblat

Great, thanks.

Operator

The next question comes from Bruce Hamilton, Morgan Stanley. Please go ahead.

Bruce Hamilton

Hi, morning, guys, and thanks for the detail in the presentation. So, the two from me would be firstly just going back to the German bazooka, the infrastructure spending plans. How do you think about that in terms of, do you have any concrete plans for how to participate in the public-private? I know there's not a lot of clarity yet, but how do you look at the time frame, and how much could that incrementally maybe add to this €2 billion run rate you're talking about, would be the first question.

And then the second one would be on the pension reform proposals that are working their way through under the Savings and Investments Union. Obviously, we're in a consultation period. So, I'm keen to understand what you are pushing for, what you think good would look like, whether there's more opportunity through auto enrolment, whether it's more through tax incentivised savings or what could drive household savings into more productive assets. What will you be pushing for there? Thank you.

Dr Stefan Hoops

Thank you, Bruce. So, both questions fully understood. I will be cautious when I speak about them, because if I put out large numbers, it's going to be somewhat lame. Because if those reforms don't come, I would just be able to say, hey, we tried, but not our fault. So that's why I will give you my true and fair view, but then all of you will need to haircut it to whatever extent you want to do it.

So, starting with the large infrastructure programme, that will come. So, I have no doubt in my mind, and you've seen some of the news flow out of Germany on Monday when the CEOs of the largest companies all committed to invest in Germany, and the Chancellor and Finance Minister and

Econ Minister making their commitments. So that will come.

That will not just be infrastructure investments. Some of the other items like growth investments in VC, which is something we haven't really done, but then again nobody else has really done in Germany, that could be an interesting opportunity.

So, when it comes to other things happening which we would essentially make investable through alternatives, this is much broader than just infrastructure. And lots of discussions are happening. We're not opening a branch in Abu Dhabi to sell money market funds. And same applies to investors from Asia. So, I'm quite optimistic, but again, I want to be careful, just because it depends on decisions which I think will come in the next few months, but not in my hands.

I think the pension reform is similar. And really, when you think about all pillars, one, two and three, I'm pretty optimistic that big reform packages will come. So, I'm pretty optimistic that the people in charge will really make, I would imagine, the biggest reform package potentially in the history of Germany, definitely in the last 20-30 years.

And that will probably include government investments in pillar one. I think it will be more mandatory for corporate pension funds to fund pension plans, and we've seen the first steps in that direction, and also provide incentives for pillar three.

Again, this will be open to anyone. And by the way, for the record, we're always advocating not doing anything just for European asset managers. We should be competing against anyone. And I wouldn't want to exclude any US competitors from any of those. However, it will be a significant opportunity for DWS, again, and really coming from... I think pillar one will be mostly covering institutional.

Pillar two will be difficult for others to access, because our partnership with Deutsche Bank's Corporate Bank probably gives us better access to corporate pension funds than most of our peers would have. And pillar three, conceptually open to anyone, but I think having strong partnerships with the DVAGs, the Deutsche Banks and other distributors will also be helpful. So again, we're quite optimistic. Pillar three will be ETF but also active equity.

Maybe one point to add when you look at our active equity, yes, there were outflows overall, but when you look at the gross flows, what's quite interesting is that out of the 3.5 of gross inflows, and then 4.5 of outflows, but the gross inflows

were much broader diversified, coming from real retail investors, where some of the outflows were larger mandates. So therefore, also quite optimistic about this part of the business. Thanks, Bruce.

Bruce Hamilton

Thank you.

Operator

As a reminder, if you wish to register for a question, please press star followed by one. The next question comes from Pierre Chedeville, CIC Market Solutions. Please go ahead.

Pierre Chedeville

Yes, good morning. Thank you for the presentation. I would like to focus my two questions on the cost, which was clearly a good point this quarter. And I wanted to know, I didn't do my math, I had no time this morning, but I would like to know what could be a target in terms of cost-income ratio in 2027, considering your 5.5% growth in revenues and 2% growth in cost. Could you give us, I would say, what would it be in terms of cost-income ratio?

And if we come back a little bit on the costs themselves, could you explain to me a little bit better what is exactly retention-based costs? How do you see them evolve? Because I don't know exactly what you mean by that.

And also, in terms of externalisation, you mentioned two countries in which you externalise people. Do you think that you have here something that is not to be improved, or it's stabilisation in terms of organisation? Or do you think that you still have room of manoeuvre to improve your organisation, or you think that now most of the job has been done? Thank you very much.

Dr Stefan Hoops

Thank you, Pierre. And I'm going to start, and Stefan, you may add afterwards with some additional thoughts. With regard to your cost-income ratio question, first of all, we are well on track, when we outlined that we're now talking no longer about adjusted cost-income ratio but reported cost-income ratio, and we explained it last time, that the target for this year is 61.5%, and year to date, we are at 60.2%. And that is probably going to improve further going forward.

Now, when we also look forward, and Stefan outlined how we see the cost line to develop with around 2% per year, but stronger revenue growth, that again shows improvement of the cost-income ratio as well towards 26 and 27. I would not put a figure there yet, because on the other hand, we also want to be in the ability, or having the capacity and the ability to invest.

We continuously improve our operating model. And as a consequence, the run rate costs both for compensation and benefit costs as well as for G&A costs should come down,

which should also free up resources we can then reallocate into productive investments.

And so, we have cost-income ratio as one of our KPIs, which we use for our financial steering, but the number one KPI is EPS and EPS growth. And we would not compromise EPS growth just to achieve a one-point cost-income ratio, which anyway is depending on other factors which we can't influence.

When we talk about your other question, Pierre, about retention, that is share price. And as part of the variable remuneration, so again, when you look at our cost base, very, very simple cost base, about 50% compensation and ben, 50% non-comp. And within comp and ben, about one-third is variable remuneration, and two-thirds is base salaries and add-ons.

So, in that, in the variable remuneration line, some of our staff are incentivised and have the retained variable remuneration which is linked to the share price. So, if the share price goes up, that goes up. And if the share price goes down, like in the second quarter, that comes down. So that's to your second question.

Then the third question about externalising resources, and I spoke about that a few quarters ago, we very much look at that very broadly and comprehensively. Our employees, our people are the most precious assets we have, and we invest into our people, which we call active human capital management.

And what we had a few years ago, we were depending, again, on a very high number of externals, which, again, it's important that we add resources, especially when we have projects. But as a company, you would like to have as much as possible of the human brain, of the human capital be internalised so you can afterwards also invest into that.

And that's what we did when you look at... And Stefan spoke about the graduates, but we also have been increasing our workforce in India and in the Philippines, because that's such a deep pool of experts. And we're just at the beginning in tapping into that, which then, again, obviously a combination of our staff in other locations are working on that. And so, we're not looking about compensation and benefit costs, just looking as a line item at the cost base, but we look at it as an asset. It's like a balance sheet in which we invest for long-term value.

Dr Markus Kobler

And Pierre, that was obviously a comprehensive answer. The only thing I would add when it comes to India and

Philippines, very publicly, 18 months ago, we banned the term outsourcing, because sometimes people almost imply that we are moving small tasks to those folks in India and Philippines.

And our view is quite clear. I think the average IQ of people in the Philippines and India working for us is, I would say, at least the average of DWS, probably higher, given when you think about what percentage of the population would be working for a Western company.

So, what we've done, and this is in line with what we had done in the Corporate Bank of Deutsche Bank, for example, is move whole, essentially, services or parts of the value chain to India. And then you get phenomenal outcomes. So part of our investment engine in systematic quant investments sits in Mumbai, and so on and so forth. So therefore, this is not just a cost play, but in some cases, you simply have access to excellent talent. And that's something which we intend to leverage even more going forward.

Pierre Chedeville

Thank you very much. Very clear.

Operator

The next question comes from Oliver Carruthers from Goldman Sachs. Please go ahead.

Oliver Carruthers

Hi there. Oliver Carruthers from Goldman Sachs. Thanks for the presentation, and thanks for taking my questions. So the European ETF flows are having a record year. The market is now growing flows at a faster rate than the US, but access to ETFs in Europe is still well behind that of the US market. So, it feels natural to ask a couple of questions.

So, number one, are you seeing US asset managers increasingly trying to compete here with your Xtrackers business? And then, number two, if they do try and compete more, how durable do you think your incumbency market share position is here? So, I guess really, beyond the market leader we all know, do the US players have a right to win here in your home European markets? Thank you.

Dr Stefan Hoops

Thank you, Oliver. Do they have the right to win? I think so, just like we have a... Actually, so you always have right-to-compete questions, obviously. Do you have the right to win? So, I think European ETFs, and I don't want to lecture anyone, are slightly more difficult than US ETFs, simply because you need to have financial infrastructure in every country where the underlying stocks are being traded. So slightly more difficult than just doing the US.

Obviously, iShares, and you said the market leader, let's not talk about them. I think you've seen Vanguard gain market share. They've probably found it slightly more difficult in

Europe than in the US, but they are growing market share. So, I think that people have a right to compete, and probably a right to win.

I think my view is, though, if you really want to understand how the digital platforms are operating, how ETFs can be integrated in solutions for corporate funds and so on, if you simply assume that we're going to have the same disruption in Europe that we've seen in the US, meaning ETFs just taking over, then your knowledge of essentially the whole client base in Europe is going to be paramount.

And I think that's going to be difficult for a new market entrant, that doesn't understand active, to win. So therefore, I think just understanding retail is not going to be enough, given the difference in distribution mechanisms over here. That's number one.

So, I feel that our market share, which was 10.6% in Q2, would be higher now after a strong start to Q3. That is supposed to grow. I just want to be very clear. The new growth plan that we've signed off is more ambitious than the growth plan which we signed off on three years ago, and the team materially outperformed that growth plan. So, we are quite optimistic.

But again, that's quite granular. So, we feel that we can continue market share, but I'm just looking at Markus. We had, I don't know, 60 different initiatives as part of that growth plan. So, when I said that in-depth business reviews with Markus and I are maybe not as pleasant as it may seem, it's not that we just say, phenomenal last three years, here's your new budget, please run.

There was a very, very specific growth plan for countries in Eastern Europe for new client ties we haven't accessed yet, I think a deep understanding of not just what platforms have done over the last couple of years, but investments in API. And we just made a bunch of hires in that tech space in order to be even more integrate-able into all of those digital players. So, it's a broad series of specific initiatives, which we are confident is going to allow us to grow our market share from here.

Oliver Carruthers

Thank you. Very helpful.

Dr Stefan Hoops

Thanks, Oliver.

Operator

The next question comes from Michael Werner, UBS.

Michael Werner

Thank you very much. Just two questions from me, please. First, with regards to the change in resourcing towards India and Philippines, what per cent of your headcount is currently

based in those two countries? And ultimately, where do you think that can go in the next three to five years? And then just quickly on the active ETFs, I was just curious to see what the fee margins on those products were relative to like-minded, non-ETF active strategies. Thank you.

Dr Markus Kobler

On the first question, Michael, and thanks for asking, in terms of resources in the two regions, India and Philippines, it's currently about 1,100 of our employees, and growing.

Michael Werner

Yes. And do you guys know where that can go? I think that's, what, maybe a quarter or so of your total headcount or...?

Dr Markus Kobler

At the moment, yes.

Dr Stefan Hoops

I think it can grow. It's not going to be half of our workforce, because we're probably not going to standalone operate or sell assets in those countries. But I think it can probably go up 20-30%, I would imagine, so being maybe a third of our total workforce. That's probably what I could see, which would be in line with resourcing the corporate bank, for example, when you look at the tech and ops folks.

And again, I think the level, so the competency of people we get there, is excellent, especially if you don't treat it as an offshore outsourcing but really as a super significant value trader for the global franchise.

On active ETF, obviously you see the margins. So, I guess your question was versus similar strategies. We've chosen to not cannibalise successful active strategies yet. Maybe that will come at some point. But it's essentially new offerings where we didn't have active strategies, so therefore, it's not quite comparable.

As you would imagine, it would be lower. When I say a fraction, it would be maybe a third, maybe half of comparable active strategies, but again, I think something where, as the market grows overall, this is going to be a more relevant part of our franchise.

Michael Werner

Thank you.

Dr Markus Kobler

Thank you, Mike, which I think was the last question. So, before I hand back to Oliver... So is there one last question?

Oliver Flade

Michael.

Dr Stefan Hoops

Okay. Well, can I say something? Okay, sorry. Sometimes live TV, the live thing... Thank you for all the questions. Allow me to make one comment, passionate comment, given that I'm overseeing alternatives myself. I understand that you view performance fees as lower quality than management fees. So, I get that. I'm not trying to argue that

this is much better than management fees.

I can just tell you, we work really, really, really hard to get those low quality revenues. And we'll have more of that going forward. So I think you may want to just take a look at PEIF II continuing to pay performance fee in 26, I would say, at least in line with 25. When you look at our performance fees, let's say in 2021, which were over 200, when the real estate was kicking in nicely, why wouldn't we have that as a base?

So, when we said that we had 4% to 7% of revenues going forward, this is not just coming from one strategy. So yes, we have Kaldemorgen every year, we have the infrastructure business. But private credit, real estate coming back, and a few other things, are all essentially a diversified source of performance fee.

So, I would just ask you to, in follow up, ask any question you may have on performance fee, but I think that this is something which you will see as a steady, recurring source of revenues for DWS in the future. And with that, I wish you a happy summer. But back to the Operator. Thank you, everyone.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Oliver Flade for any closing remarks.

Oliver Flade

Yes. Thank you all for joining today, and for the continued interest in DWS. As you have seen, our Q2 results highlighted the resilience of our business in, I think, a very challenging environment, and also reaffirmed the solid progress that we're making towards our 2025 financial goals and beyond.

And with that, I wish you all a great summer. Thanks again, and we're looking forward to catching up during upcoming virtual meetings, conferences and other IR activities. Have a good day. Thank you. Bye-bye.

Dr Stefan Hoops

Thank you.