DWS Group GmbH

Q4/FY 2023 Earnings

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Transcript

Speakers:

Oliver Flade

Stefan Hoops

Markus Kobler

Oliver Flade

Good morning, everybody, from Frankfurt. This is Oliver Flade from investor relations, and I would like to welcome everybody to our earnings call for the fourth quarter of 2023. Before I start, I would like to remind you that the upcoming Deutsche Bank analyst call will outline the asset management segment's results, which have a different perimeter basis to the DWS results that we are presenting now. I'm joined, as usual, by our CEO, Stefan Hoops, and our new CFO, Markus Kobler. Stefan will start with some opening remarks, and Markus will take you through the presentation. And 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. 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.

Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q4 and Full Year 2023 earnings call. Together with our new CFO, Markus Kobler, we will take you through key developments in the fourth quarter and the full year, and we will provide some guidance on what to expect in 2024 and beyond. Before we get into the details, let's quickly recap on 2023.

Imagine if, 12 months ago, we had said to you after a challenging 2022 we will be one of the fastest-growing asset managers in 2023. You probably wouldn't have believed it. Yet we are one of only a handful of managers worldwide which managed to report four consecutive quarters of strong flow performance in what turned out to be a flowless recovery environment in 2023. This positive flow momentum was across the entire franchise, including net inflows across active, passive and alternatives, and all four main regions.

Of course, it wasn't all plain sailing last year. As you know, DWS, like all asset managers, continued to face industry challenges from a tough revenue environment to ongoing inflationary pressures. This is why we worked hard and faster to continue delivering on what we set out to do at our capital markets day at the end of 2022. In the first half of 2023, this meant concentrating on the Reduce part of our strategy. We sold certain businesses and made tough but necessary restructurings to de-layer our organisation. As we have said before, our top priority was to make savings first, so that we could self-fund our investments into the strategic categories of value, growth and build. And this is what we have been doing throughout the year.

As a core feature of our diversified portfolio, we take pride in our

active asset classes, which is why we've intensively focused on the value part of our franchise. This is reflected by our strong investment outperformance of 71% on a three-year basis and 78% on a five-year basis, which are very solid results in a challenging investment environment for active asset management.

In the fourth quarter, we saw pick-up in active equity retail outperformance over the same time periods, notably in our €8 billion flagship DWS ESG Akkumula fund, which outperformed its benchmark over three years. Another area where we saw improvement is in active fixed income. As you may recall, we said that our fixed income performance in 2022 was not to the standard our clients deserve. We also outlined this at our capital markets day when we said we would look more closely at making changes to our fixed income business to sharpen our focus on investment outperformance.

As part of these efforts, we restructured our investment teams to operate more efficiently, including reshuffles at a senior level, and we saw the benefits of this come into effect in 2023. This is evident in a significant year-on-year improvement in both retail and institutional investment outperformance in active fixed income. And, as a result, the uptick in performance led to an uptick in flows. In the full year, we recorded €0.3 billion of net inflows in active fixed income, marking a reversal from net outflows in 2022. In 2024, we expect to build on this positive momentum shift, supported by our continued focus on outperformance as well as new initiatives implemented last year, such as the Global Insurance Council.

Beyond our value franchise, we also continued to progress on our growth strategy. Passive, including Xtrackers, concluded a stellar year, reporting €4.4 billion of net inflows in the fourth quarter, and €21.2 billion in the full year. This reinforced our position as the number-two ETP provider by net inflows in Europe in 2023, and supports our goal to reclaim the number-two position by ETP assets in the region. In addition, we continued to ramp up our product innovation in the fourth quarter, launching our US National Critical Technologies ETF in the Americas, as well as three new sustainability ETFs focused on biodiversity in EMEA.

In alternatives, we advanced ongoing efforts to expand our capabilities and appointed Dan Robinson as EMEA head of alternative credit in Q4. And although alternatives flows were negative in the fourth quarter, they were positive overall in the full year, at €0.3 billion. This total includes €3.4 billion of real estate net inflows in full year 2023, triple the levels reported in 2022, highlighting the depth of our knowledge and expertise in what has been a very challenging year for this asset class.

Finally, in the bid component of our strategy, we announced our intention to form AllUnity in Q4, as part of a new partnership with our strategic ally Galaxy Digital and global market-maker Flow Traders. This collaboration marks an important first step toward creating a euro stablecoin which we will continue to update you on when we can.

Before we move on, allow me to quickly touch on the greenwashing allegations. We always have been and always will be transparent with everything we are able to legally disclose in public. As you know, we reached an important milestone after the US authorities closed their investigations into the ESG matter last year. We confirm that we continue to stand by our financial disclosures and prospectuses, and we've already taken and implemented a number of measures designed to make improvements in our processes based on these findings.

At the same time, the publicly-known investigation of the Frankfurt Public Prosecutor is still ongoing. As you may have seen, they visited our offices in mid-January. This is not a new investigation, but rather a step to obtain further information as part of the ongoing investigation. Once again, we immediately provided all documents required, which are in addition to the almost 3 million materials we have already shared overall, both on request and proactively with the authorities. As always, we will continue to work closely, actively and transparently with the Public Prosecutor to resolve this matter as quickly as possible.

Now, coming back to the purpose of today's call, our results and the year ahead. Overall, DWS had a solid year of financial performance in 2023. The adjusted cost-income ratio remained below 65% for the full year, as guided, in spite of ongoing inflationary pressures, and despite slightly lower adjusted revenues year on year. Total global AUM was almost back in line with the record levels from 2021, supported by the recent tailwind of asset price appreciation in Q4. And net inflows totalled €28.3 billion in the full year, and €22.6 billion excluding cash, marking a reversal from net outflows in 2022.

This enabled DWS to rank among the fastest-growing asset managers worldwide by net new asset growth in 2023, an important milestone, not to mention a pretty remarkable turnaround in just 12 months. On behalf of the DWS executive board, I would like to thank our clients for their trust, and our employees for their great passion and focus in the current environment.

Collectively, these developments are testament to the efforts we have made to connect the dots further between our asset classes, partners and clients across all regions. This ability to tangibly connect broad and diverse expertise is something that

sets us apart from our peers, and we would put more emphasis on in the future to ensure we create even more shareholder value.

To demonstrate our commitment to shareholder value, the DWS executive board has decided to propose a higher dividend of €2.10 euros per share for the business year 2023. And as committed at our capital markets day, the board has also decided to propose an extraordinary dividend of €4 per share. This extraordinary dividend amounts to a total payout of €800 million and forms part of our commitment to hand back capital to our shareholders as promised.

At the same time, we maintain the ability to fund our organic growth ambitions in the alternatives business, and to continue exploring inorganic growth options. As a reminder, all dividend proposals are subject to approval at the 2024 Annual General Meeting. With that, I will now hand over to Markus to explain our financial results.

Markus Kobler

Thank you, Stefan, and welcome, everyone, with heartfelt grüezi mitenand from my end. This is my first results call as the CFO of DWS, and I'm very happy to guide you through our financial results and activities from the fourth quarter and full year 2023, starting with our 2023 key achievements. In full year 2023, adjusted revenues amounted to €2.6 billion and were slightly down compared to 2022. The adjusted cost-income ratio stood at 64%, well within our guidance of below 65% for the full year 2023.

Our total net flows were at €28.3 billion, mainly driven by passive including Xtrackers. Our ability to create alpha for our clients was underlined by a strong three and five-year outperformance ratios of 71% and 78% respectively. That's, in my opinion, remarkable, and it stands out compared to our peers in the current environment. As a result, and in line with our capital markets day commitment to return capital to shareholders, the DWS executive board will propose an increased ordinary dividend of €2.10 per share, and additionally an extraordinary dividend of €4 per share. The dividend payment is subject to approval at the DWS Annual General Meeting 2024.

Moving on, now, to the financial performance snapshot in the fourth quarter. Starting at the top-left, AUM increased to €896 billion, mainly by continued net flows and positive market development in the second half of the fourth quarter. On the top-right, adjusted revenues totalled €659 million, slightly decreased compared to the third quarter. The impact from continued margin pressure was almost offset by higher performance fees.

On the bottom-left, adjusted costs slightly increased to €433 million, up 3% quarter on quarter, mainly impacted by channel

and administrative expenses, particularly AUM-related service charges and one-off regulatory and tax costs. Compared to the fourth quarter in 2022, costs were flat considering the one-off impact from the reversal of carried interest. For the fourth quarter, the adjusted cost-income ratio increased to 65.7%, and an adjusted profit before tax of €226 million in the fourth quarter.

Let's move now to the full year snapshot. 2023 was another demanding year for the asset management industry, which was characterised by the spot-on description from an analyst as a flowless recovery environment. DWS however managed to report net flows, ex-cash, throughout all four quarters. AUM increased to €896 billion, up 9% year on year, being almost back to our record year in 2021.

Adjusted revenues slightly decreased and amounted to €2.6 billion, due to the impact from the industry-wide continued margin pressure which could partly be offset by the positive yields from proactive capital management. Adjusted costs only marginally increased compared to the full years 2022 and 2021, which proves our strong cost discipline in an inflationary environment. Our cost commitment allowed us to create efficiencies and self-fund our investments.

This resulted in a full year adjusted cost-income ratio of 64%, well within our full year 2023 guidance of below 65%. Adjusted profit before tax stood at €937 million in 2023, down 11% from full year 2022, but representing a compound annual growth rate of 8% since our IPO in 2018.

Let's briefly recap on the market environment. The year was dominated by rising interest rates, with markets fearing higher-for-longer rates, although inflation was coming down. After central banks indicated in the fourth quarter of 2023 that the hiking cycle was most likely over, government bond yields declined sharply from their peaks in the third quarter, which helped to push a strong year-end rally in most asset classes. This basically led 2023 to be a reversal of the very weak investment year 2022.

The US dollar started to strengthen against the euro from its year low at the end of September, and the change in market sentiment had a favourable impact on our quarterly AUM development, which I will now outline. We reported €896 billion of assets under management at the end of 2023, up 4% quarter on quarter, and almost back to our record level in 2021. The increase was mainly driven by net flow of €11 billion and €40 billion of positive market impact which more than offset the negative forex movement. Our active asset classes benefited from a returned positive market sentiment towards the year-end, and grew assets under management to €538 billion.

The market continued to be challenging for alternatives. Assets under management decreased from €118 billion to €111 billion, and this development was mainly driven by negative market impact and forex movements. Our targeted growth area of passive had an exceptional year, and grew its assets under management by 24% in 2023, to €247 billion, which is far above our growth target of 12% CAGR in our strategic plan.

Moving now to our flow development, the fourth quarter marked the strongest quarter of net flows in 2023, with a total amount of €11 billion. The largest net flow contribution came from cash products, amounting to €9.3 billion. The strong and stable contribution from passive continued in the fourth quarter with €4.4 billion of inflows dominated by investments in Xtrackers by EMEA retail investors. Our Xtrackers EFT business has even reported net inflows of €4.9 billion, but was slightly offset by redemptions in institutional mandates.

Alternatives continued to report net outflows of €900 million, due to the challenging and continued high interest rate environment. The inflows in infrastructure could not offset the outflows from liquid real assets and real estate. The low risk appetite continued among retail and institutional investors in active equities, which reported an outflow of around €600 million.

Overall, 2023 was a decent year in terms of net flows. All quarters reported positive flows which amounted to a total of €28.3 billion in the full year, and €22.6 billion excluding cash. That corresponds to an annualised net flow rate of 3.1%. We had a strong pick-up in flows from our international business locations, all reporting net inflows, with Americas and Asia reporting one of the strongest inflows since the IPO.

From a product perspective, we returned to net inflows in passive and our active ex-cash products in 2023. In alternatives, we were able to report net inflows despite the negative market sentiment from continued high interest rates. This underlines trust of our clients considering alternatives is an asset class with a high economic cycle sensitivity.

The flow development was mainly driven by our growth area, passive, reporting an average quarterly net flow of slightly above €5 billion and totalled €21.2 billion in 2023. This strong performance in passive led to an increase in our overall EMEA ETF market share to 10.2%. The year-to-date growth has even outpaced our market share, which is helping us to narrow the gap and getting closer to the number-two position for ETPs in Europe.

In full year 2023, active fixed income finished with net inflows of around €300 million after reporting net outflows of €12.2 billion in 2022, another turnaround which was mainly driven by two

significant insurance mandate wins of over €1.6 billion in Germany and Americas. The markets continued to be challenging for active equities, which reported net outflows of €2.1 billion in 2023.

Alternatives reported net inflows of €300 million in 2023, which were driven by a large real estate mandate in Americas in the second quarter, and continued positive development in infrastructure. Furthermore, the strong interest in our ESG products remained. They attracted net flows of €4.9 billion in 2023, driven by Xtrackers funds.

In addition, new product launches continued to contribute to net inflows in 2023, reaffirming the importance of product innovation to delivering our financial targets, as I will now explain. There were two focus areas in our product strategy, through which we wanted to capture and sustain market flows and grow revenues. First, we wanted to increase flagship funds with over €1 billion assets under management. And secondly, we wanted to launch new funds by leveraging on product innovation and addressing the market environment.

Since the capital markets day in 2022, we have managed to grow the number of our flagship funds by 10%, which was roughly driven by about two-thirds of flows and one-third as a result of positive market performance over that period. Our efforts to match our clients' needs with the right product offering are underlined by a solid €57.5 billion inflows through new funds since the IPO. This marks around 65% of our overall inflows and shows the importance of product innovation for inflows.

In the fourth quarter, much of our product innovation focused on alternatives, where we recognised further inflows in our latest Pan-European Infrastructure fund that is part of our flagship family of private investments into European infrastructure. We successfully completed, also, a liquidity transaction in our European infrastructure strategy to support the European transformation, and we have launched second-series in both direct lending and private infrastructure debt strategies.

Furthermore, we launched our US National Critical Technologies ETF in the Americas. The Xtrackers II Target Maturity series covering four ETF launches as well as two new sustainability ETF focused on biodiversity in EMEA. Our ambition around the digital space was underlined with the successful formation of the AllUnity joint venture with Galaxy and Flow Traders, through which we are aiming to jointly incorporate and fund a euro stablecoin issuer. Looking ahead, for the first quarter of 2024, we are aiming to launch products across all our three pillars, active, passive and alternatives, with a thematic focus on ESG and infrastructure.

Moving now to revenues, for the fourth quarter we reported total adjusted revenues of €659 million, being broadly stable compared to the third quarter. Despite an increase in average AUM to €871 billion, to a large extent driven by higher AUM in passive and cash, management fees were down quarter on quarter, resulting in a margin drop to 26 basis points. The AUM development in the quarter was in line with market moves. At the beginning of the quarter, the average AUM dropped further compared to the September levels, and only picked up in the course of the second half of the fourth quarter.

The margin drop can be further explained by the flow composition, with strong cash and passive inflows, as well as shifts in our assets under management composition from the markets development. And, lastly, the margin development in the fourth quarter also included some exceptional negative one-off items, including true-ups which account for almost half of the quarterly margin drop.

The drop in management fees was partially offset by performance and transaction fees. These are up €11 million quarter on quarter, and primarily driven by our multi-asset flagship retail fund, Concept Kaldemorgen, with a €15 million contribution. Other revenues are flat, quarter on quarter, including a €14 million contribution from our Chinese investment, Harvest. In the full year, adjusted revenues totalled €2.6 billion in 2023, being slightly down versus the prior year, mainly driven by lower management fees. Performance and transaction fees account for 4.9% of the total adjusted revenues, that is in line with our guidance of 3% to 6%. Other revenues strongly benefited from our efficient capital market, and amount to €159 million.

Let me explain the year-on-year impact on management fees and our margin in more detail. For full year 2023, the management fee margin was 27.1 basis points, around 1 basis point lower compared to 2022 and in line with our guidance of 1 basis point per annum margin compression. Active equities and alternatives remain our key contributing products to the management fee of €718 million and €541 million respectively.

Our full year 2023 management fee and margin development can be explained by three unfavourable components. Firstly, our average assets under management were lower in 2023, €855 billion versus €873 billion in the previous year, primarily resulting from lower active and alternatives levels. Secondly, our inflows were strongly skewed towards low-margin products, mainly passive and cash products. And thirdly, our margins and revenues were impacted by the strategic decisions that we announced during our capital markets days. In order to free up capabilities for investments in our Grow and Build pillars, we

divested from our private equity business and sold our fund platform.

As we're ending the year with higher AUM, we are expecting to start the year with positive tailwinds on the management fee side. Regarding our margin development, our guidance of 1 basis point dilution compared to the full year 2023 will be unchanged in 2024. In this context, I would like to stress that the margin dilution is not, per se, an alert for us. We are comfortable with changes in the overall DWS margin if it is driven by faster-growing, lower-margin asset classes obviously under the premise that those flows generate additional revenues above the incremental costs.

Let me go now to our contribution from our Chinese investment, Harvest. For more than a decade, we have owned a 30% stake in Harvest Fund Management, one of the largest fund management companies in China. This joint venture continued to be fruitful and is reaffirming our long position and strategy in China and Asia in general. We do see Harvest as an attractive and long-term investment into our future growth. The Harvest contribution is captured in our other revenue category.

For the full year 2023, Harvest generated €56 million of contributions, including €40 million in the fourth quarter. Harvest was able to deliver quarterly-stable revenues despite the introduction of a fee cap at the beginning of the second half of 2023, and a demanding economic environment in China. At the end of 2023, Harvest's assets under management stood at €196 billion, that increase was driven by positive flows in fixed income and passive equity products, which offset negative market movements and an unfavourable forex impact.

With the positive flow momentum driven by strong retail inflows and won mandates, Harvest was able to gain a market share, improve its positioning in the Chinese asset management market to become the sixth-largest asset manager in China in terms of mutual fund size, excluding money market funds.

Moving now to costs, my favourite topic, in Q4 total adjusted costs slightly increased, quarter on quarter, to €433 million. This was mainly driven, on the one hand, by higher AUM-related service charges and, on the other hand, by some one-off regulatory and tax costs. That was only partially offset by lower adjusted compensation and benefit costs.

In the full year, total adjusted costs slightly increased year on year, and resulted in an adjusted cost-income ratio of 64%, well within our guidance for the full year 2023 of below 65%. Taking out the favourable adjustment from the reversal of the carried interest in the fourth quarter in 2022, the cost base would have been flat. And this demonstrates our commitment and focus on

our strict cost discipline in a continued high inflationary environment.

In line with our strategic plan to generate €100 million of cost savings until 2025, more than half of these savings have already been realised in 2023, in line with what we have committed to during the capital markets day. The total adjusted cost base excluded €99 million of investments into our infrastructure platform transformation for the full year 2023.

So to conclude, this year DWS was able to demonstrate its ability to generate profits, leverage on growth initiatives to attract flow business and capture market share. All this while keeping its strong cost discipline and investing into the future. In 2024, we are aiming to proceed on our path towards our strategic targets by continuing to deliver on our promises we made to our stakeholders.

While the asset management industry is expected to continue to face pressure, particularly on the revenue side, we are aiming to keep our pace and outperform the industry. Consequently, for 2024 we have forecasted total adjusted revenues, adjusted costs and adjusted profit before tax to say essentially flat compared to 2023. Positive flow momentum is expected to be at higher levels compared to 2023, and the growth will be supported by Xtrackers. Thank you, I will now hand back to Stefan for closing remarks.

Stefan Hoops

Perfect, thank you, Markus. As you may recall, I described 2022 as our battle with the ultimate super-bear, a scenario in which DWS came out bruised but still standing, and ending the year in good financial health. We maintained this fighting spirit and can take some pride in what we managed to achieve last year. In a very challenging flow environment, we ranked amongst the top asset managers worldwide by organic asset growth in 2023. Now, you will never see us complacent, so we need to make sure we stay on this trajectory, which is why we’ve set ourselves three overarching priorities for the year ahead. Firstly, solve, once and for all, self-inflicted issues, which essentially means overcoming the challenges of our transformation project, and enhancing our processes and controls. It also means leaving behind the legacy of our well-known ESG investigations, so that we can focus on the future of sustainability, which remains an important topic for us, the industry and society.

Secondly, be in the top three asset managers by organic growth. We want to build on our positive momentum from 2023 so that we can retain our position amongst the fastest-growing asset managers worldwide, ex-cash, as supported by our targeted growth areas of Xtrackers and alternatives. Thirdly, sustain high levels of alpha creation for clients. As we’ve said many times, we

believe in active asset management. Here, we aim to continue outpacing markets and beating our benchmarks to maintain the strong levels of investment outperformance achieved in 2023. At the same time, we should be even more ambitious in satisfying client demand and creating shareholder value in 2024 and beyond.

As a result, we are focusing on the following priorities for the next three years. First, becoming the gateway to Europe. Second, ranking amongst the top five, in the top five. And third, building the future of finance. Each of these priorities is designed to correspond with our strategic ambitions in value, growth and build.

Let me explain what this means. Firstly, while we have a strong global franchise, we need to be exceptional in Europe. This is why we're aiming to leverage our roots across all asset classes and markets to become the first point of contact for global investors wanting to invest in Europe. For instance, if an international investor is looking to gain exposure to German small cap stocks, participate in the European transformation, or is seeking opportunities stemming from the dislocation of the German real estate market, they should be coming to DWS to fulfil their investment needs.

Secondly, we've a real chance of becoming one of the most relevant asset managers in each of the five largest economies. After all, we are the undisputed number one in Germany, a top three foreign asset manager in the US, have an established franchise that currently punches below its weight in Japan, and, together with our partners Harvest and Nippon Life, we're exploring opportunities to significantly expand our footprint in China and India.

Finally, in three years, if anybody asks which asset manager is most likely to get right the disruption caused by digital distribution channels, blockchain and artificial intelligence, we want to be top of mind. We are committed to playing a part in helping to build the future of finance.

Sure, these priorities may sound aspirational, but we believe they are attainable. After all, we moved from having our back against the wall in the summer of 2022, with significant outflows for that year, to substantial inflows and being one of the fastest-growing asset managers in 2023. We've a tough-but-achievable financial plan, a committed team, and a clear path to deliver our financial targets and overarching priorities for the years ahead. And rest assured that we will remain laser-focused on implementing our strategy with a sense of urgency, and will always put clients, markets and investing at the core of what we do, with the clear aim to create shareholder value. Thank you for

listening. I will now pass over to Oliver for Q&A.

Oliver Flade

Thank you very much, Stefan. And, operator, we are ready for Q&A now. And if I just may remind everybody to limit yourself to the two most relevant questions, that would be very nice. Thank you very much.

Operator

Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. To withdraw your question, you may press star followed by two. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question comes from Bruce Hamilton from Morgan Stanley. please, go ahead.

Bruce Hamilton

Hi, there. Morning, and thank you for taking my questions. The first one, just on the guidance, I guess for 2024, just to understand if there's any kind of conservatism baked in, are you assuming any market improvement, which I guess most analysts would probably have in their numbers? Because given the bounce in assets in Q4, I guess we might have hoped for a bit more than flat.

And then as we cast to 2025, you basically haven't moved your 2025 guidance, so that's over 50% EPS growth, cost-income below 59, so can you walk us through how you've retained confidence in delivering the 2025? And then secondly, on the alternatives outlook and pipeline, could you just give us some sense of how you see that building, how flows could recover through 2024, and how quickly you can build up your private credit offering, of whether we should really just be thinking about infrastructure as the key driver for 2024? Thank you.

Stefan Hoops

Thank you, Bruce. After reading all of your commentary this morning, we sort of anticipated the first question to be on guidance and outlook. Let me take that, because that plan was done when I was the interim CFO, which probably gives you a little bit of an indication of when we put this together. I think coming back to the idea that all of us communicated, that we are show-me stock, we want to be conservative and fact-based. So I think the way that you may want to look at it is in three categories. The category of facts, the category of future that we can control, and the category of future that we cannot control.

I think in the world of facts, we feel pretty good about the flow momentum. I guess I mentioned it 25 times in my prepared remarks, I'm not going to repeat it, but we feel pretty good about inflows, we feel pretty good about it being in all categories across all regions. And we maintain that flow momentum in January, so January looks good from what we can see so far.

Secondly, in the future that we can control, the investments we've made, you asked the second question on alternatives, so I will go into more detail, but we feel pretty good about the investments we've made. So we feel that we have made with a short payout horizon, so the investment in Xtrackers, that paid off nicely in 2023, there are more investments in Xtrackers in 2024, changed fixed income made hires in alternatives. So we feel pretty good about being prepared for those things where we expect to grow in 2024. Those are the things that we can control.

What we cannot control is market appreciation or depreciation. We cannot control geopolitical. We cannot control client sentiment. So when we put the plan together, which, in Germany, is a fairly formulistic process because it's shared with our auditor, it forms part of our annual report, that process takes months, clearly we cannot give you different guidance to what we told the auditor weeks and months ago. So that's a fairly formulistic process.

I think it's fair to say that, since then, the market's probably surprised all of us. It looks like client sentiment is slowly turning more favourable, but who knows what the next few months will bring. It's very difficult to predict geopolitics, it's very difficult to predict a variety of factors in that bucket of stuff we cannot control. So if your question is there a certain level of conservatism built in, maybe when you look at market appreciation, simply because it was tough to expect that in November, December, for now we just want to be conservative, again coming back to the idea of us being a show-me stock.

When it comes to the 2025 targets, we remain fully committed to our 2025 targets, and we've a number of factors that we feel give us comfort. One of them is, and we discussed it in the past, performance fees from our PEIF II infrastructure private equity flagship series, and we already see that we've sold assets that created carry that can be booked in 2025, so there are few things that we know and shared with you guys in the past of why 2025 will see a pop-up in revenues versus 2024.

We remain committed to then reducing the cost from the transformation project, meaning the double cost that we incurred in 2023 and partially in 2024. So there are a variety of things that were part of that plan 15 months ago still hold true. Markets probably being a bit better than what people would have assumed, all of us assumed, 12 months ago. So that's why we remain fully committed to the 2025 targets.

When it comes to alternatives, in the last quarterly call, I told you that we'd decided that we would go organically in private credit, we hired Dan Robinson who I think is well-known to most of you, given he spent his career at pretty well-known firms. And I would

say we're pretty optimistic. We had a very nice win in structured credit already in January, so we feel good about that. We've launched our European Direct Lending Fund II. We still aim to launch our first CLO probably towards Q3, Q4, pushing people but it's a difficult market environment overall, so obviously things take a little bit of time. But we feel pretty good about the pipeline, the organic pipeline in private credit.

I think we feel good about infrastructure, our Pan-European Infrastructure Fund IV, so the fourth part of that series, started marketing end of last year. We aim for 4 billion-plus, so that should be larger than PEIF II and PEIF III, so that looks good so far. We've a variety of things in real estate around logistics, around Core Plus, residential in the US, and that also feels good. So it just feels that, in alternatives, the market sentiment specifically in the asset classes that we compete in, so equity, real estate, infrastructure equity, now private credit, that sentiment in that space has turned for the better.

And that just gives us confidence on the alternatives flows. I took a little bit longer to answer that question because I figure that many people were wondering on the guidance, but hopefully with those buckets of facts, things we can control and things that we simply cannot control, we may be being slightly conservative, simply because of the timing of our planning process. Hopefully, that helps you a bit put things into context.

Bruce Hamilton: Yes, very helpful, thank you.

Stefan Hoops: Thank you, Bruce.

Operator: And the next question comes from Arnaud Giblat from BNP Paribas Exane. Please, go ahead.

Arnaud Giblat: Good morning. I have two questions, please. If I can come back to your guidance on costs specifically, so flat costs in 2024 and your cost-income ratio going down to 59%, I'm just wondering if you could update us on the moving parts there? The quantum of your running costs that will fall away, inflation and other savings still to come, I think you're halfway through your savings. So if you could give a few more numbers around that, that's quite helpful.

And secondly, on new products, I'm wondering, we've seen quite a bit of traction in fixed income, with fixed maturity products and structured products taking off, I'm wondering if there's much of a pipeline going on there? And if I may, just a quick follow-up, in your comments, Stefan, I think you mentioned part of the reasons why you're still targeting 59% cost-income ratio is a bump in performance fees for 2025, given the infra coming into carry mode. Which year was it? 2021? What you could be looking for for performance fees in 2025? Thank you.

Markus Kobler

Thank you, Arnaud, happy to take the first question. As we said, with the outlook on the cost side, it is in line with the expenses for the year 2023. And that comprises a few components. It includes efficiency gains, it includes also investments which we made, and it includes the run part.

As part of the reduced bucket, we took restructuring pain early last year that was including some layoffs of senior people. We have reduced our managing director population by 15%, and, as I said before in the presentation, from the 100 million cost saving targets until 2025, we have already realised half of that by 2023. And that allows us to invest into ongoing initiatives which we have also outlined.

Stefan Hoops

And now, taking over for questions two and three. And, by the way, thank you for the flowless recovery idea. Clearly, you have copywrite and you can choose between a DWS Lakers jersey or DWS coffee cup as a little gift. The two questions on fixed income, and you put it right that we have Xtrackers and essentially active, so let's just forget the format and just think about the asset class.

I would say that, probably in line with competitors, we are a little bit disappointed by the lack of material inflows into fixed income in 2023. I feel it was not specific to DWS. We have a turnaround, but albeit not that impressive to have 300 million of net inflows, but I think the high level of interest rate on money markets, in bank deposits, was probably something that people moved in first and now are shifting to fixed income.

One thing to keep in mind, basically underneath those 300 million of inflows in fixed income, we had very low fee outflows from one of our longest-standing insurance partners, that was simply changing things, shifting things, and actually nice inflows from a variety of insurance companies. So we feel pretty good about that trajectory in 2024.

Product-wise, yes, the fixed maturity ETF, I think they are things people like because they kind of look like a bond but with all of the upside and benefits of an ETF, but I think on the institutional side we also feel that, now that our performance has picked up and we can explain why people should trust us with their money, we also expect inflows on the fixed income institutional side. So I think it's not just one product, I think it's probably more the sentiment shift towards fixed income than anything revolutionary on the product development side. And I think the pick-up in performance fees should help. Sorry, on performance, investment performance.

Now, third question on performance fees, I think 2021 was a bit different to what 2025 could look like, because in 2021 we had significant performance fees from our Concept Kaldemorgen. So

maybe that will come through in 2024, 2025 and so on, but that's why it was a bit different. So in 2025, on performance fees, we've increased our guidance of this being 3% to 6% of fees, which was previously 3% to 5%, so we are optimistic on that potentially being a higher contribution to revenues in the future.

And I just wanted to give you guys comfort on 2025, given that we have good visibility on that PEIF II related performance fee, given that the assets have been sold, we know the prices that it has been sold at, and just from the way it's being accounted, 2025 is the first year in which that will come in. 2026 should be similar in quantum for that specific series. And obviously we've a variety of products that we aim to create more performance fees in the future.

Arnaud Giblat — Great, thank you very much. And hopefully the flows come back with a lag. Cheers.

Stefan Hoops — Thank you, Arnaud.

Operator — And the next question comes from Oliver Carruthers from Goldman Sachs. Please, go ahead.

Oliver Carruthers — Hi there, morning, thanks for the presentation. Just two from me, then. How are you thinking about inorganic growth opportunities in this environment? And are you able to provide your excess capital position pro forma for the 800 million special dividend? That's the first question. And the second question, just a question on digital assets. As you were saying, Stefan, DWS has introduced a joint venture with Galaxy Digital and Flow Traders to pursue a euro-denominated stablecoin. Just taking a step back here, are you able to give us a sense of what a euro-denominated stablecoin could mean for DWS's clients? And what are you solving for, here? Thank you.

Stefan Hoops — Thanks, Oliver. I think I will also take the two questions, in that case. From an inorganic perspective, we feel, firstly, that we have enough capital to do that. You know our starting position that we communicated at the capital markets day, we have increased the capital because of higher rates. The reserves for some of our retirement products have decreased. So we feel that we have enough capital for our organic growth measures, so fund launches in alternatives, and also inorganically.

Overall, when you look at the universe of, let's call it, plausible M&A activity for DWS, we'll always look at transformative targets but that's simply a finite number, when it comes to bolt-on activities specifically in alternatives, we keep looking. All of you have corporate finance colleagues that show us things, we look at that, we're interested, we're speaking to people. So far, we've typically liked our organic potential more than adding someone, but we keep looking.

And then one of the things we mentioned at the last quarterly earnings call, and you may have noticed my half-sentence on India and China, that is something where we would need to do something inorganically. I think reinterring India, which unfortunately we have left eight years ago, organically would be impossible, just to understand distribution channels and so on, so that would be an inorganic entry.

And again, in China we sort of like a lot what we have in Harvest, maybe we could have more of what we like so much. So when it comes to inorganic things we look at, that would be either bolt-on in alternatives, or things we would do potentially in India and China.

Quickly on digital assets, the euro stablecoin, just to be clear, these are things that do not form part of our 2025 EPS targets. I'm optimistic, I think it will be relevant, I think it will be profitable, but not in the next couple of years. So a euro stablecoin basically requires us to apply for an e-money licence in Germany, which we're in the process of applying for, and we chose Germany over a variety of other EU jurisdictions I guess for obvious reasons. Probably, if you want to portray trust, Germany is better than Lithuania or other places where FinTechs are currently applying for similar licences.

We then feel that the combination of Galaxy's knowledge around all of the technical components, Flow Trader's knowledge around the market making, the liquidity creation and all of that, and our knowledge of actually managing the reserve assets, the distribution of that, is a pretty good combination.

You asked about DWS clients. I think the best way to think about it is in the corporate space, so European corporates require euro on blockchain for a variety of use cases. I could run out the time on that topic, but I'm sure that you have other pressing questions. But just think of anything in industry 4.0, anything where you want to have real-time charging for industrial machinery, you simply need to be able to also process payments continuously, 24-7 and in fractions. And for that, you simply need euro on blockchain.

The CBDC will take some time. I'm optimistic on Europe at some point launching a digital euro, but that will probably be in the tail end of my career, so it will take some time. So therefore euro stablecoin would simply bridge that. We aim to be the first large one. We aim to be, ideally, the one that everybody feels can be trusted, given the players contributing to it. So we feel it will be relevant, but we aim to launch it early next year and will simply take some time for it to meaningfully contribute to revenues.

Oliver Carruthers — Very helpful, thank you.

Markus Kobler	To the angle with regards to the extraordinary dividend on capital, I think it's important to know that our capital levels, even after the extraordinary dividend payment, are going to continue to stay at an adequate and healthy economic and regulatory level. And our excess capital is going to continue to grow organically, as it did in 2023, but one has also to take into consideration that part of the retained earnings have been reinvested into our growth and build categories and cannot be purely and fully added to our 2023 excess capital. And for the internal capitalisation level, these are also impacted by business decisions and market impact, including goodwill, deferred tax assets, and also forex movement. But the details will be provided with our annual report in the month of March.
Oliver Carruthers	Very helpful, thank you.
Stefan Hoops	Thank you, Oliver.
Operator	And the next question comes from Angeliki Bairaktari from JP Morgan. Please, go ahead.
Angeliki Bairaktari	Good morning, and thanks for taking my questions. First of all, with regards to the cost-income ratio target of below 59%, do you have any flexibility to perhaps cut cost further? You mentioned today that the MD population has come down by 15%, but I was wondering are there any cost savings, other levers that you could pull, if revenue growth is slower than expected, at the CMD to be able to reach the €4.5 EPS target? And second question, in today's press release, you mentioned that you plan further exits of known strategic businesses, can you give us some colour on what you have in mind there, especially in terms of the revenue and cost perimeter change that we should be anticipating? Thank you.
Markus Kobler	Happy to take the first question, that is now the stingy accountant from Switzerland speaking. We absolutely keep a close eye on every single cost item to remain in a position of strength. And that means we constantly review different areas. However, we don't plan for a restructuring programme. As I mentioned in the presentation before, we have taken the pain last year, and we're benefiting from that. And whilst others may be doing that, because of the different revenue scenario in the flow outlook, it is very important for us focusing on organic growth, number one, in 2024, whilst being very, very diligent on the cost side.
Stefan Hoops	And, Angeliki, on your second question, we will not be able, willing to disclose what we are potentially disposing of, but I think it's the same logic we discussed over the last couple of quarterly calls. We believe in efficient markets, and if there are certain areas in which we may be strong but subscale, or maybe okay but not great, then those assets probably belong in the hands of

more capable people managing them.

And I think when you think about what we've done with selling a really, really good but very, very small private equity secondaries business, or selling but still retaining a stake in our direct-to-consumer platform, the logic was these things we actually like, they are non-strategic by definition, but we just felt that somebody else could add more value to clients, and would also allow us to focus on our true areas of strength. So I think we're going to apply the same logic. You will not see us sell ETF or alternatives, but there are other things that could allow us to sharpen our focus.

I think, logically, we would then continue to just use that to reinvest, essentially self-fund, into other business areas, so that would then therefore probably create cost-income ratio upside by potentially increasing revenues, but not necessarily reducing costs overall. That is the same logic, Angeliki.

Angeliki Bairaktari — Thank you.

Stefan Hoops — Thank you.

Operator — As a reminder, anyone who wishes to ask a question may press star followed by one at this time. And the next question comes from Jochen Schmitt from Metzler. Please, go ahead.

Jochen Schmitt — Thank you very much. Good morning. I have one question on transaction and performance fees in the financial year 2023. Could you provide a split into source of revenue generation, namely into alternatives and other products? That's my question. Thank you.

Stefan Hoops — Sorry, Jochen, thank you for your question, was it performance or transaction fees? Can you say that again?

Jochen Schmitt — Actually, I refer to the number which you combine in the position transaction and performance fees, but indeed I am in particular interested in the transaction fees which you generated from alternatives.

Stefan Hoops — Very low. I can tell you that. When you look at the number, we had 70 million plus of performance fees in 2023, to be honest mostly from performance preceding 2023, given that it wasn't the best year, but then 2023 sort of being that measurement year. We had performance fees in our Concept Kaldemorgen in Q4. The transaction fees, overall, we had some but there weren't a huge number of transactions in the real estate space, so that's typically where you get those transaction fees, so that's why that number was probably the lower end of what we would typically expect.

Jochen Schmitt — Thank you very much.

Stefan Hoops — Thanks, Jochen.

Operator — And the next question comes from Chedeville from CIC. Please, go ahead.

Pierre Chedeville — Hi, good morning, just one question left. Precision regarding external growth, what you call inorganic growth, just wanted to know if, in your mind, it's an inorganic growth with your own excess capital, or could it be, in your view, done with a capital increase on the market, or you want to stick to inorganic growth with your own capital and not the capital of shareholders? And I just want a clarification regarding India. Was it just an example you were giving, or is it an intention to go back to India? It was not very clear for me. Thank you very much.

Stefan Hoops — Thank you, Pierre. Let me start, and Markus may chip in because the questions you asked are smart, strategic questions and not specific numbers questions, so that's why I will start and Markus may chip in. I think we would always prefer to increase EPS, and I guess ideally you would take cash if you want cash on balance sheet, or capital on balance sheet for a potential acquisition, because that would be typically EPS increasing, unless what you buy yields less than the money markets or interest rates.

But just to be clear, there will be certain potential M&A transactions where the other side simply wants to have a stake in the combined entity. If you think about potential transformative transactions, I guess that typically would then not require cash, or the other side wouldn't be willing to take capital or cash but would want to have shares. So I don't want to deflect your questions, we fully understand what you're asking. We would always try to use cash, but it could be shares, dependent on the preference of the other side. I think for bolt-on alternatives transactions, it would be cash. Other things that are of larger scale could potentially be a combination thereof.

For India, this was not just a leftfield, not-thought-through comment. We like the top five economies, and that's factual. It is factual that we are not present in India. It is also factual that we like the market and know the market, because Deutsche Bank has been in that market for a very long time, and are quite present on the corporate side. I think, and I've been spending plenty of time in India in almost the last decade, in the various roles I've had, what I like specifically about right now is, in the China plus one strategy of global corporates, India probably even more than Vietnam features very prominently.

What India will have to do is have significant investment in infrastructure, logistics, trains, airports and so on and so forth, so there will be substantial supply of credit coming on the market. At the same time, there is significant interest, globally. You saw India's inclusion in the J.P. Morgan index, so clearly the interest

in India, internationally, is going up significantly.

And the question we're getting from international investor is, hey, if I want to add exposure in India, whether it's infrastructure, alternatives and so on, or just plain fixed income and equities, and the market has rallied not just Nifty 50 but just much broader, people would like to have safe access to find people the know. Could you choose locals? For sure, but if a large international player can sell that to clients we know, we feel that there's an edge.

I think the last point, when you look at the development of the market, it's still quite small. The total AUM of all mutual funds is just over 0.5 trillion, and that is very likely to grow, both as GDP in India grows, as the population becomes wealthier, things like retirement and so on, and as people move from bank accounts or bank deposits into fixed income and equity investments. So we like the market. But again, it's simply one where if you try to enter as a foreigner, you're doomed to fail. So that's why it's more likely to be inorganic.

Pierre Chedeville: Thank you, very clear and very interesting.

Markus Kobler: Pierre, just confirming again what Stefan said, for a midsized deal, we could do that with the available capital we have, if that is a preference, but we also have the flexibility that we would increase capital if needed, in the capital markets.

Pierre Chedeville: Okay, very clear, thank you very much.

Stefan Hoops: Thank you, Pierre.

Operator: There are no further questions at this time, and I'll hand back to Oliver Flade for closing comments.

Oliver Flade: Thank you very much, everybody, and please reach out to the IR team in case there are any open questions. Otherwise, I wish you a fantastic day, thank you very much, and goodbye.