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Q4/FY 2022 results with Investor & Analyst Conference Call

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Transcript

Speakers:

Oliver Flade

Stefan Hoops

Claire Peel

Oliver Flade

Thank you and good morning, everybody, from Frankfurt. This is Oliver from investor relations, and I would like to welcome everybody to our earnings call for the full year of 2022. As always, I hope you're keeping healthy and safe, and before we start I would like to remind you that the upcoming Deutsche Bank analysts call will outline the asset management segment's results, which has a different perimeter basis to the DWS results that we are presenting today. I'm joined by Stefan Hoops, our CEO, and Claire Peel, our CFO. Stefan will start with some opening remarks, and Claire will take you through the financial presentation afterwards. And for the Q&A, 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 as always, I would also like to remind you that the presentation may contain forward-looking statements which may not develop as we currently expect, and I, therefore, would like to 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 hand over to Stefan.

Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen. Welcome to our Q4 and Full Year 2022 Earnings Call. Together, Claire and I will take you through our key developments in the fourth quarter and the full year, and we will provide some guidance on what to expect in 2023 and beyond. Before we get into the details, allow me to set the context. If you had to design an ultimate super-bear scenario for an asset manager, it would look like our 2022. On the one hand, we were dealing with one industry challenge after another. You start with all asset classes dropping, on top of that a war in Europe, plus specific concerns about the German economy. On the other hand, we were facing our own DWS-specific issues, with a raid on our headquarters, plenty of negative newsflow, not to mention a very visible and abrupt CEO change.

To call last year challenging would be an understatement of what we went through. Yet, if you look at our 2022 results, you will see that this remarkable franchise did not just survive the battle with the ultimate super-bear, we actually came out looking pretty healthy. Total adjusted revenues remained in line with record levels achieved in 2021, driven by even stronger management fees, year on year.

The adjusted cost-income ratio was in line with our guidance of approximately 60% for the full year, leading to full year adjusted profit before tax of €1 billion in 2022, slightly lower compared to 2021 but still up 33% from 2020. And although net flows were negative, as investors de-risked their portfolios, we continue to attract client demand in alternatives and multi-asset. All in all, a pretty solid outcome considering the circumstances.

The same could be said about Q4, which was a complicated quarter on many fronts. In the last summer, we saw a steep decline in asset prices which resulted in weakened client sentiment and, hence, led to Q4 outflows. In the last quarter of the year, markets were down initially and then reversed. At the same time, the euro strengthened substantially versus the US dollar, which in turn lowered the euro value of our US assets. In addition, our great CFO department was very busy concluding a number of projects to ensure we start the year ready for our 2025 financial plan, for example, the reversal of carried interest, which already led to a cost credit in Q4. We also started a large restructuring programme to reduce our cost run rate.

Claire will provide more insights shortly, but before she does, let me provide an update on the important topic of ESG. In relation to the greenwashing allegations, I would like to start by giving you transparency on where we stand with our own investigations. We're now at a state where we can draw conclusions. As we've already said, we stand by our financial disclosures and prospectuses. We can also say that DWS, like the rest of our industry and beyond, should have great sensitivity when it comes to ESG communication. We've learnt from the investigations and from our internal reviews, and we can obviously always improve. So we are in the process of ensuring that we have ever more robust ESG governance, processes and controls going forward. We already communicated some changes in our ESG governance in the past months, and we'll share more details in the coming weeks.

When it comes to the external investigations, as we have said before, we are fully cooperating with the authorities. We are fully transparent and are sharing everything that was requested plus anything we deemed relevant. For example, we have so far reviewed and shared around 3 million documents. Nevertheless, you will care about timelines and potential outcomes. On timing, we are in active discussions with all the authorities and are hopeful we are moving to a resolution. I can assure you that our board and I are strongly focused on resolving the matters as quickly as possible, but we obviously cannot control the process of resolution with the authorities, and we operate on their timeline.

On potential resolutions, our goal is to arrive at an appropriate and satisfactory resolution of the matters. You have seen that others have been investigated and sanctioned for certain misleading statements and practices around ESG in the US. However, all cases are different and there are no precedents in Germany. Therefore, as we've already indicated in our last annual report, we cannot exclude that the outcome may be adverse and could involve financial penalties. However, as I said, we stand by our disclosures and our prospectuses and look forward to a speedy resolution.

As mentioned, we are fully transparent with the authorities. In the interest of transparency with you, we have taken an unconventional step and will share with you the key outcomes of our internal ESG governance process and policy review on our website as soon as possible. You will not see us bragging about ESG in the future, but one thing is clear, we will remain committed to ESG and to the clearness and fairness of our ESG disclosures.

Now, coming back to the purpose of today's call, our results and the year ahead, looking forward we will focus on executing on our refined strategy as presented at our capital markets day in December, and we will do this while honouring our fiduciary responsibility to serve our clients as well as we can, deliver the best possible investment performance, and create shareholder value. To demonstrate our commitment to shareholder value, the DWS executive board is pleased to propose a higher dividend of 2.05 euros per share for 2022, subject to approval at our 2023 Annual General Meeting. I look forward to providing an outlook for 2023 later, but for now, over to Claire to explain our results.

Claire Peel

Thank you, Stefan, and welcome to everyone. Today, I will present our financial results and activities for the fourth quarter and full year 2022, starting with our Q4 financial snapshot. Starting at the top-left, AUM remains stable at €821 billion, supported by positive market developments in the fourth quarter. On the top-right, adjusted revenues totalled €634 million, down from Q3 due to lower management fees in Q4. On the bottom-left, adjusted costs fell to €380 million, down 13% quarter on quarter, due to lower quarterly compensation and benefits costs. This resulted in an improved adjusted cost-income ratio of 60%, and a solid adjusted profit before tax of €254 million in the fourth quarter.

Moving on to the full year snapshot, 2022 has been an extremely challenging year compared to 2021. Markets remained turbulent due to a range of factors, from geopolitical tensions, the European energy crisis, rising interest rates and high levels of inflation. Collectively, these created great industry pressures which are reflected in our full year 2022 results. AUM decreased to €821 billion, down 11% year on year, mainly due to €108 billion in negative market movements, but up 4% from full year 2020.

Adjusted revenues remained resilient at €2.7 billion, broadly in line with record levels in full year 2021, and supported by stronger management fees, up 20% from full year 2020. Adjusted costs have increased compared to full year 2020 and 2021, as we continue to invest. And this resulted in a full year adjusted cost-income ratio of 60.6%. Adjusted profit before tax exceeded €1 billion in 2022, down 7% from full year 2021 but representing a compound annual growth rate of 15% from full year 2020.

Let's recap on the market environment. After a volatile start, we saw investor risk appetites increase in Q4, amid news of better inflation data, a milder European winter, and China easing its zero COVID policies. Major equity indices also began to rally while government bond yields declined and the US dollar weakened. However, this was short-lived as central banks remained hawkish and, overall, US government bond yields remained unchanged at the end of Q4, while European rates were slightly up and the US dollar lost almost 10% against the euro. Collectively, these developments had a wider impact on the asset management industry as well as DWS, as reflected in our AUM, which I'll now outline.

We reported €821 billion of assets under management at year-end 2022, almost flat quarter on quarter but down 11% year on year. In Q4, market performance was positive for the first time this year, helping to offset unfavourable FX movements and small quarterly net outflows. It's also marked reversal from the first three quarters, in which negative market movements accounted for the majority of our AUM decrease since the end of 2021.

Looking at our targeted growth areas of passive and alternatives, these asset classes combined continue to represent approximately 39% of our total global AUM in 2022, slightly up from 2021. In particular, alternatives AUM increased slightly to €118 billion, supported by full year net inflows, while passive assets decreased to €199 billion due to a mix of negative market performance and net outflows. Overall, net flows remained negative in the fourth quarter and the full year, due to weaker investment sentiment, which I will now explain.

In the first quarter, both retail and institutional investors continued to make portfolio allocation changes in response to ongoing volatility. This resulted in Q4 net outflows of €1.6 billion, and €9.5 billion excluding cash inflows of €8 billion. The largest quarterly redemptions came from active fixed income, especially from institutional investors in the US. Overall, 2022 has been a difficult year for active fixed income, as the asset class has come under greater pressure amid record levels of inflation, rising interest rates, and the prospect of further quantitative tightening.

Alternatives has also shifted into negative territory for the first time in Q4, reporting €2.9 billion of net outflows following three consecutive quarters of net inflows. This is partly due to planned capital distributions from one of our pan-European infrastructure funds, coupled with outflows in liquid real assets. To note, capital returned is often reinvested into successor funds in the same alternative asset class, helping support net new revenue growth.

Passive continued to report outflows in Q4, albeit at a lower level compared to Q3. This was mainly due to mandate losses in Europe which were partly offset by significant mandate wins in APAC. Furthermore, European listed Xtrackers attracted net inflows in the fourth quarter and have continued to report positive flow momentum into the new year. Despite reporting overall outflows in Q4, DWS attracted net inflows into active equity. Active equity inflows of €0.3 billion were driven by European retail investors, including inflows into our flagship top dividend fund and the DWS Invest ESG Equity Income fund.

In short, Q4 concluded a challenging year of slow performance in 2022. Total net outflows were €19.9 billion in the full year, and €13.9 billion excluding cash, as investors took greater action to reposition and de-risk their portfolios in challenging economic environments. This investment behaviour has been persistent throughout the year, especially across lower-margin asset classes of active, fixed income and cash, which jointly accounted for the majority of total annual net outflows. While passive has reported outflows for most of 2022, we are seeing positive flow momentum at the start of 2023. In addition, we've continued to attract positive flows across other areas of our diversified investment portfolio.

In full year 2022, active multi-asset recorded €5.9 billion of net inflows, driven by both institutional and retail investors, with our flagship fund, Concept Kaldemorgen, reporting strong annual net inflows. Alternatives sustained positive flow momentum from 2021, with €0,6 billion of net inflows in the full year, driven by continued client demand for liquid real assets and real estate. Alternative net inflows excluding capital distributions totalled €3.4 billion in 2022. Inflows into these high-margin alternative strategies have been important to sustain top line revenue growth, and will continue to do so in the new year. Furthermore, ESG products attracted €1 billion of net inflows in 2022, driven by both active and Xtrackers ESG funds. In addition, new product launches have continued to contribute net inflows in 2022, reaffirming the importance of product innovation to deliver our financial targets, which I will now explain in more detail.

New product launches are fundamental for supporting clients' investment needs in ever-changing markets. Looking ahead to 2023, we are strengthening our Xtrackers and alternatives offerings, in particular to ensure we remain on track to achieve our AUM growth targets of more than 12% and 10% respectively by 2025. This is reflected in our new product launches in the first quarter of 2023. To continue growing our Xtrackers business globally, we are aiming to complete our range of UCITS ETPs this year, as well as roll out more specialised passive products in the US. At the same time, we are planning to leverage existing and new alternative funds to drive European transformation, which is one of our top strategic priorities in 2023.

We will expand our flagship Vintage series and open-ended funds across infrastructure and real estate in response to growing investor demand. Finally, we aim to capture inflows into our value asset classes by developments actively managed products based on market dynamics, strengths and innovation, and we will build that capability in uncapped markets, piloting digital asset use cases.

Overall, new product launches since our IPO in Q2 2018 have attracted €1 billion of net inflows in the fourth quarter, and approximately €9 billion of inflows in the full year. In particular, growth asset classes of Xtrackers and alternatives have been consistent key flow drivers, jointly accounting for more than three-quarters of our €50 billion of cumulative net inflows from new product launches since 2018, and this has helped to support top line revenue growth.

Moving on to revenues, total adjusted revenue stood at €634 million in the fourth quarter, down 8% from Q3, and excluding the gain on sale relating to our digital investment platform in Q4. The quarterly decline in total adjusted revenues included two key developments within the Other revenue category, firstly, a significant tightening of spots and spreads, especially in December, which resulted in an unfavourable change in the fair value of guarantees provision, and, secondly, negative mark-to-market valuations of co-investments in Q4, predominantly from real estate funds. Together, these more than offset the €20 million contribution from our Chinese investment Harvest, as well as positive deferred compensation hedge and net interest revenues.

Performance and transaction fees were also lower, quarter on quarter, as we benefited from the recognition of strong real estate performance fees in Q3. Management fees and other recurring revenues also declined compared to the third quarter, mainly due to unfavourable FX movements in Q4. In the full year, adjusted revenues totalled €2.7 billion in 2022, in line with record levels from 2021, and representing a compound annual growth rate of 9.5% since 2020.

This was supported by performance and transaction fees, which accounted for 5% of total full year adjusted revenues, in line with our guidance for 3% to 5% in 2022. Together with stronger management fee revenues, this enabled us to sustain a resilient management fee margin in 2022. For full year 2022, management fee margin was 28.1 basis points, demonstrating the strength of our diversified portfolio. Management fee revenues grew to €2.5 billion in 2022, up 3.6% year on year, driven by growth areas of alternatives and passive. Together these represented approximately 40% of total management fee revenues at the end of 2022, compared with approximately 37% at the end of 2021. This growth was driven by a 22% increase in alternatives management fee revenues, supported by strong net inflows over the past two years. As a result, the alternatives management fee margin increased to 50 basis points in 2022, up from 48 basis points in the prior year.

Passive also reported positive management fee growth year on year, enabling us to achieve a stable management fee margin of 18 basis points in the full year. This is due, in part, to strong management fees generated from passive inflows in 2021, which overcompensated for net outflows in 2022. Meanwhile, active equity management fees were down slightly year on year, mainly due to negative market movements throughout the year, although the management fee remains resilient at 71 basis points.

As we progress into 2023, we anticipate potential revenue pressures to continue amid ongoing market uncertainty and sector valuation, but expect our diversified assets to continue providing some protection against this. In particular, we expect growth asset classes of Xtrackers and alternatives to make up a greater proportion of overall revenue composition by the end of 2025.

Looking more closely at the contribution from our Chinese investment, Harvest, for more than a decade, we have owned a 30% stake in Harvest Fund Management in China. This joint venture continues to be fruitful, delivering recurring revenues for DWS which is captured in the Other Revenue category. In full year 2022, Harvest generated €69 million of contributions, including €20 million in Q4, and helping to support overall revenue growth. At the end of 2022, Harvest AUM stood at €190 billion, down slightly year on year, mainly due to unfavourable FX movements. This more than offset positive flow momentum in the full year, which has been supported by Harvest's new product launches during 2022.

Moving on to costs, in Q4 total adjusted costs decreased to €380 million, supporting an improved adjusted cost-income ratio of 60% in the fourth quarter. This decrease is mainly due to a reduction in adjusted compensation and benefits cost in Q4. As noted in the third quarter, we have restructured a fund vehicle to enable us to better align recognition of mismatched carried interest and performance fees. This has resulted in a reversal of incurred carried interest in the fourth quarter. Adjusted general and admin expenses included higher marketing spend and other year-end activities. And in the full year, total adjusted costs increased year on year, but with an adjusted cost-income ratio of 60.6%, in line with our guided ratio of around 60% for 2022, and supported by revenues.

As a reminder, the total adjusted cost base excludes €58 million of investments into our infrastructure platform transformation in full year 2022. It also excludes other non-recurring expenses, most notably an impairment of amortised intangible assets of €68 million in Q4. This specifically relates to US mutual fund retail contracts, where the value was established from a historic acquisition and measured periodically at fair value.

To conclude, Q4 marks the end of a challenging year, but also a year in which DWS demonstrated its ability to deliver profitable, disciplined growth in spite of ongoing market volatility. In 2023, we expect to face many of the industry pressures we faced in 2022, but this year we are working harder and faster to recalibrate the way we work to strengthen our ability to navigate markets and geopolitical dislocation, but also to ensure that we are well-positioned to deliver growth in an ever-evolving environment.

We expect a slightly higher adjusted cost-income ratio in 2023, but below 65%, as we reach the peak of our transformation costs to optimise our business operations. In addition, we forecast total adjusted revenues to stay essentially flat in 2023 compared to 2022, supported by expected positive flow momentum in our targeted growth areas of Xtrackers and high-margin alternatives. Thank you, and I will now hand over to Stefan for closing comments.

Stefan Hoops

Thank you, Claire. The last 15 minutes must have sounded like the attempt of a victory lap. And to be clear, we do take pride in our 2022 results because they reflect the strength of our franchise even under exceptionally challenging circumstances. That said, we are under no illusion that we enter 2023 from a difficult position, our starting AUM being €15 billion below our 2022 average, ongoing inflation pressures, and ever-greater competition. Fortunately, all of these conditions have been factored into our refined strategy that we outlined at our capital markets day back in December. This is also why we've hit the ground running in the new year, focusing on developments that enable disciplined portfolio optimisation, and that align with our four key categories of reduce, value, growth and build.

In keeping with the spirit of greater transparency and accountability, allow me to update you on where we currently stand, starting with reduce. We're taking active action on our cost base to help us achieve our refined adjusted cost-income ratio target of below 59% by 2025. One of the levers to get us there is to de-layer our organisational structure and right-size headcount. We've started a sizeable restructuring programme in Q4, and will continue to prioritise this effort in 2023, to ensure we remain on track to achieve our targeted run rate efficiencies as outlined at our capital markets day.

In addition, we've recently completed the transfer of two businesses, our digital investment platform, IKS, to BlackFin Capital Partners, and our private equity solutions business to Brookfield Asset Management. The colleagues in those businesses have done a great job while at DWS, and I would like to personally thank them for their service. At this stage, it was in the best interest of our clients and investors to transfer these sub-scale businesses into better hands. Together, these divestments will enable us to make savings but to also reallocate our time and resources to areas where we want to build and grow.

At the same time, we are strengthening our value franchise, so that we can maintain our strong position in mature markets. Right now, we are in the process of changing the compensation framework for our portfolio managers in line with the risk and regulatory guidelines. The goal is to ensure we continue delivering strong investment outperformance for our clients. One area I will be personally focused on is our offering in institutional fixed income.

As already discussed at our capital markets day, our recent fixed income performance has not been to the standard our clients deserve. And obviously, I didn't like our Q4 outflows either. That said, we see great opportunity for growth, especially now that interest rates are rising, which is why we will make targeted investments in this space. Furthermore, we have reorganised and announced new leadership for our multi-asset, equity and research teams, to leverage existing expertise and strengthen our capabilities.

This leads me nicely on to our growth category, in which we are focusing on Xtrackers and alternatives. As Claire noted earlier, both asset classes combined accounted for approximately 40% of total management fee revenues in 2022, up from 37% in 2021. Obviously, we are further intensifying our focus on Xtrackers and alternatives, to ensure we deliver on our AUM growth targets of more than 12% and more than 10% respectively by 2025.

To keep us on this trajectory, we are concentrating on product innovation in both business areas. In alternatives, our focus on European transformation is gaining momentum with multiple funds in marketing. In addition, we will be supported by new hires, such as Paul Kelly who will join us in a couple of days as global head of alternatives. I very much look forward to having him on the team. And in Xtrackers, we are building a pipeline of targeted and bespoke ETFs to sustain the positive flow momentum we've seen at the start of 2023.

Finally, looking at the areas where we want to build and develop new capabilities. On this front, our teams have already started to assess strategic partners and commence due diligence on potential targets. The drop in market prices for digital assets could present interesting opportunities that bring us to the next level, and we're actively preparing to address the likely legal and regulatory challenges associated with such new opportunity. I expect to provide an update on this in the coming quarter.

In the meantime, we remain laser-focused on accelerating our strategy implementation across all four categories throughout 2023. And now, with markets moving in the right direction, we are even more confident in the strategy we presented at our capital markets day, and our ability to deliver on our new 2025 financial targets. Thank you. I will now pass over to Oliver for Q&A.

Oliver Flade — Thank you, Stefan. Operator, we're ready for Q&A now.

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. If you wish to remove yourself from the question queue, you may press star followed by two. Anyone who has a question may press star followed by one at this time. Now, our first question is from the line of Jacques-Henri Gaulard from Kepler Cheuvreux. Please, go ahead.

Jacques-Henri Gaulard — Good morning, team. Just two questions, maybe three because you answered one, Stefan. First of all, on the cost management and the accumulation of one-offs you had, I was wondering if this was something that you had planned for a while, or, looking at Q4, not turning up necessarily, you thought, okay, I might as well gain a little bit of time on 2023 and just kill as much as possible to actually clear the pathway. That's the first question.

The second I think you answered. You confirmed the outlook for 2025 as well as the commitment to the 1 billion dividend, even if this was not specific, so I'll forward, very quickly, to the third one. I think, Claire, you mentioned a one-off revenue in Q4 which is not into the adjusted revenue? If we could have a bit of detail, because I probably bypassed it, I'm sorry. Thank you very much.

Claire Peel — Hi, Jacques-Henri, thank you for the questions. I'll take the first couple there. Firstly, on Q4, yes, we do have some exceptional cost items there, and the item that is specifically unplanned for is the impairment of intangible assets, which was €68 million in the fourth quarter. And this relates to US retail mutual fund contracts. We have to do a fair value validation of the value of that intangible asset periodically, and in the fourth quarter we had a €68 million impairment on that. So very much something that's unplanned, but equally represents the valuation of that portfolio, if you like.

Otherwise, what was planned is the transformation charges. We've been very clear on the IT transformation programme that we have. Those were in line with expectations. And also, we took, in Q4, €23 million of severance and restructuring costs, which is obviously setting us up for restructuring activities to deliver against efficiencies that we've committed to going forward, and to take us forward on our future cost-income ratio target.

The second question, related to the extraordinary dividend that we committed to at the capital markets day of up to 1 billion in 2024, obviously subject to pipeline for capital commitments. That commitment is still very much in place, and we further have announced today the dividend proposal for 2022. And on the adjusting revenue item, if I heard the question correctly, in Q4 we reported €30 million of revenues which is outside of our adjusted revenues, so that would obviously be in on top, and that €30 million represents a gain on sale from the deconsolidation of our IKS platform, and now the joint venture partnership that we have with BlackFin.

Jacques-Henri Gaulard: That's lovely, thank you so much.

Operator: The next question is from the line of Haley Tam from Credit Suisse. Please, go ahead.

Haley Tam: Morning, thank you very much for taking my questions. If I can ask two, please? First of all, in terms of fund flows, you did mention you'd made some changes in your investment division, personnel, I think we saw announced yesterday the departure of Tim Albrecht and the integration of the German equities team to the European equities team. So I just wondered if you can confirm what conversations you've had with your institutional investors and your wholesale fund allocators ahead of this change, and if you anticipate any alteration in the recent positive momentum you've seen in equity fund flows as a result of this?

And then the second question, if I can just follow up on those significant cost adjustments in Q4? If I think about the severance and restructuring, the transformational changes and the other cost elements, is there any guidance you can give us for 2023? Because it seems to me that if we are doing more restructuring of personnel, there could be more changes there, and I think I heard you say that 2022 is going to be the peak of the transformation spend, so if you could just remind us of what to expect, that would be much appreciated. Thank you.

Claire Peel: Hi, Haley, thank you for the questions. I'll start with the second question, on the adjusted items. Firstly, on severance and restructuring, for the full year of 2022, we've reported €37 million of severance and restructuring costs. We do need to continue restructuring the platform to right-size and de-layer as we come into 2023. So difficult to be really specific on the size of that, but something around the levels of 2022 for severance and restructuring should be appropriate.

On the transformational charges, we presented at the capital markets day a slide which showed that we would indeed expect to see our transformation charges reaching a peak in 2023, and I think we continue to see that outlook for transformational charges. So just to recap on that, we said expenses will reach their peak in 2023 because we'll be operating a dual platform. We will continue to establish our own capabilities while still operating on Deutsche Bank's operated services, and we will see upward cost pressure from that DB charging structure this year. Approximately half of those 2023 transformation expenses relate to licence costs associated with the new cloud-based technology and associated platforms, so we will see those costs increasing in 2023, but then of course declining as the programme comes to a conclusion in 2024.

Finally, on the other cost adjustments, we would anticipate that we would see those decline in terms of legal expenses as we come into 2023, but regarding litigation expenses, of course I just have to refer to the statement that those can be higher, they can be lower, it's difficult to predict any litigation expenses on the forward. So same statement that we have on that. Hopefully, that clarifies on the other costs.

Haley Tam: Thank you. Can I just quickly check, the transformation charges in 2023 then being a peak, they should be more than the 58 than we see in 2022? Just so I understand the scale. Thank you.

Claire Peel: Yes, absolutely. They should be, yes.

Stefan Hoops: And, Haley, it's Stefan, on your first question, quickly on the org chart in the investment division, and then answering your specific questions on flows and whether that was discussed with coverage and clients before. Going forward, we will have four asset class heads report directly to me, meaning we want to put much more emphasis on the specificities of the different asset classes.

So we're going to have head of active, a CIO, head of Xtrackers, and head of alternatives going to me. What we've done, over the last couple of weeks, is really have clarity on all of the org chart essentially underneath those four individuals as quickly as possible. And one of the things I dislike is uncertainty for too long, and clearly you want to make sure that everybody's fully focused on markets and clients and investing.

So what we've announced, over the last couple of weeks, are changes in our equity set-up, so we now have reconfirmed two global cohorts of equity going into our head of active. We announced changes to our multi-asset set-up last week. We announced changes to research. So that is really it on the changes. I refer to fixed income, which both Vincenzo Vedda and myself spend a lot of time on.

And then, when it comes to your question whether it was pre-discussed, yes, it was. Some of those changes now involved new people stepping up to manage funds. We have some super-talented people that, so far, were supporting the senior person managing a fund, we promoted a bunch of really senior women yesterday, or over the last couple of days, to manage key funds for us. And all of that was discussed with coverage and with our key clients beforehand. So to answer your question specifically, we do not expect any negative impact on the recent positive flow momentum. I think, on the contrary, I would expect even better momentum going forward because of that.

Haley Tam — That's very clear, thank you very much.

Stefan Hoops — Thank you, Haley.

Operator — The next question is from the line of Tom Mills from Jefferies. Please, go ahead.

Tom Mills — Hi, good morning. I had three questions, please. And I missed the beginning of the call, so apologies if I ask something that's already been covered. I was going to ask around NII gearing. Could you maybe speak a little bit about how you see that playing out in 2023, particularly the benefit that it might provide to the top line, given the guidance you're providing for 2023?

On the fixed income outflows, a lot of your US peers are talking up expectations of significant fixed income inflows over the next 12 to 24 months, given the change rate backdrop, to what extent do you think that you can start to be a beneficiary of that turnaround in terms of sentiment towards the asset class in 2023 and beyond? And then on the alts side, could you give us a bit of an idea on the pipeline coming through this year, given you're talking up that as one of the drivers of a return to net inflows? Thanks very much.

Stefan Hoops — Hey, Tom. So we definitely understand there are a lot of competing quarterly calls or full year calls right now, so today's a busy day for all of you, so thank you for joining. On your three questions, the net interest income gearing is something that I'm spending time on. I spent the last four years in cash management. I will not be able to give you specific numbers, but the markets are quite different.

In the US, you tend to really get the benefit of interest hikes, minus a spread for the bank, Europe is a bit different. In Europe, it's much more bilateral negotiations. So we expect substantial enough upside to make up for potentially lower management fees, and therefore getting us to stable revenues in 2023, as per our previous guidance. But I would not be able to give you specific numbers. But given the quantum of cash that we have in multiple currencies, that should be a substantial tailwind for us in 2023. Granted, the weakest type of revenues, we're not a bank, we're an asset manager, but at the same time obviously revenues that we like.

Secondly, on flows for fixed income, yes, I think this year was one of the tougher years for fixed income, not just for DWS but overall. We could go on for some time to discuss trajectories of years of spreads, potential defaults. Generally speaking, I think we're constructive on the rates picture stabilising. The Fed will probably go up a bit more, ECB will probably go up, but I think that's stabilising, meaning people will probably not fear asset price losses if they enter the market now. I think on spreads, we probably like investment grade better than high yield, which is fortunately how our franchise is geared, so I would expect there to be upside.

When you look at our 2022, I think we had some weakness in fixed income performance. I think we can probably improve on our offering for institutionals. I grew up being a fixed income to institutional persons, so I think that's something that we can do better, and that's why we'll be investing in that space and I do see upside, specifically with insurance companies. I feel alternatives I would keep at a high level. Maybe Claire wants to add?

We have multiple funds in marketing. I think the ones that I'm personally most excited about is we have an infrastructure fund for retail which will start being marketed in a couple of weeks. Everybody's talking about retail distribution for alternatives. There aren't really that many offerings in Europe, so that should be one of the first for infrastructure, and I think that it's going to be in high demand, given that everybody sees massive investments in infrastructure across Europe.

We have a couple of funds in the real estate space which are in active marketing, we have our normal vintage funds, and then Paul will join on Feb 13th, and you will definitely see us increase our focus on private credit. And we have always been pretty strong in the equity version of real estate and infrastructure, and we've started to have decent debt for infrastructure and real

	estate offerings. I think our private credit, we need to have more on the shelf, and that's something that Paul will focus on. We'll update you over the next couple of quarters.
Tom Mills	Thanks, Stefan, that's super-helpful. Sorry, can I just ask one follow-up? On the alts outflow in Q4, appreciate a lot of it was capital return but I think you mentioned that there were outflows in the liquid real assets, could you just say a bit more about where those came from? Was that on the real estate side?
Claire Peel	Yes, you're right, in alternatives certainly we did have planned capital redistributions from our pan-European infrastructure funds, so that was over €1 billion in the fourth quarter, so that's obviously returning capital to investors, with a strong, positive return. And then separately, we saw some outflows in liquidity real assets, particularly in some US funds in that example. So we've seen strong flows actually in liquidity real assets in quarters one to and three, that was the first quarter that we saw that move into negative territory.
	As we come into 2023, I would just add that on the planned capital distributions, we do see a final distribution back to our investors maybe in the second quarter, but offsetting that we are starting to market further series in that range, hopefully to see that capital being returned.
Tom Mills	Thanks very much, Claire.
Stefan Hoops	Thank you, Tom. And also, thank you, Jacque-Henri, we actually got muted before we could thank you for your question.
Operator	The next question is from the line of Arnaud Giblat from BNP Paribas Exane. Please, go ahead.
Arnaud Giblat	Good morning. I'd like to come back to your revenue balance. You're guiding for flat revenues in 2023. There's a major market assumption in there, I wonder if you could share that with us? Also, I suppose another big part of that guidance is performance fees and, as you mentioned earlier, NII, so are you looking for a step up in performance fees and NII? I said they were going to step up, I just wondering, for NII, could you give us an indication of how much of a contribution that was in Q4? So that's the first big question.
	My second one is on cost guidance, you're talking about 65% cost to income. Again, what sort of step-up should we be looking for 2023 particularly? I think you have to unwind the comp reversal you saw in Q4, some investments, some inflation. I was just wondering if you could put some numbers or some orders of magnitude onto that side. That'd be helpful, thank you.
Claire Peel	Yes, I can take that question. Thank you, Arnaud, for the question. Starting on the 2023 guidance for revenues, we're

guiding for broadly flat revenues coming into 2023, and I think from what we've seen the closing of year-end 2022 and the entry point into 2023, that does meet our market outlook. We obviously saw markets perform quite strongly at the end of the year. We guided at the capital markets day to single-digit market growth assumptions during 2023. We have seen some of that achieved as we've come into the year, but we do expect to see some volatility.

I would point to the fact that our average AUM for 2022 was €873 billion compared to closing at €821 billion. We're aware of that difference. We have seen some of that already being made up with a strong start coming into January, but the market assumptions that we have made are holding in the outlook that we see.

On the performance and transaction fees, we increase our guidance to be 3% to 6% of our management of our total revenues, and again we consider that still to hold. And in the other revenue items, some of the exceptions that we saw in Q4, we should see some positive offsetting effects coming into 2023, net interest income being one, the fair value of guarantees being another. But as noted previously, co-investment valuations of course can move up or down, so we're conscious of the real estate risk factor that we potentially have there. But taking all that into account, we are still comfortable with the market guidance of broadly flat revenues.

And that takes me to costs. We're targeting below 65% cost-income ratio this year. We do see costs increasing. That is in part due to the transformation project which reaches its peak as we start to finalise the onboarding of all activity there, and that will lead to an increase in our adjusted expenses, and hence the higher level of cost-income ratio that we expect for 2023. Hopefully that addresses…

Stefan Hoops: Thank you, Arnaud.

Arnaud Giblat: And just the NII contribution in Q4?

Claire Peel: In Q4, the NII contribution is 7 million.

Arnaud Giblat: Great, thank you very much.

Stefan Hoops: Thank you, Arnaud.

Operator: The next question is from the line of Michael Werner from UBS. Please, go ahead.

Michael Werner: Thank you very much for the presentation and the opportunity to ask some questions here. I've got two, please. Just looking at your targeted guidance for passive growth of 12%, I think it is, per annum. I think you mentioned that you're expecting a no-beta world I think is the term you used, going forward. I'd just love to know your thoughts on how you get to that 12% growth. Is that all coming from new launches, is that coming from flows from existing products, and if there are any tailwinds coming from markets included in that figure?

And then secondly, I just wanted to get a little bit more clarity on the valuation adjustments with regards to your co-investments. Just wondering if you have a magnitude number, and actual number, for the adjustments in Q4, and ultimately how much you have co-invested, i.e. what percentage that decline represents of the total principle. Thank you.

Stefan Hoops

Hey, Mike. Thank you for your questions. I will start with one and then hand over to Claire for two. A couple of things. Within the 12%, about two-thirds are expected from new flows, and one-third from market. That's what we said at the capital markets day. I think we are probably slightly ahead on where markets moved, we hadn't expected the DAX to be at 15,000 that quickly, but broadly speaking two-thirds flow, one-third market appreciation.

I think when you look at what we have, strong brand, strong leadership and all the capabilities, a pretty diversified offering, the things we have to spend more time on is our distribution channels. I think that we have a bit too much reliance on private bank channels, who we like, but we also like to essentially disintermediate. So therefore we like our partners but I think we probably have to diversify a bit more.

I think we are reliant on some large clients in the institutional space. Again, we like them a lot but also need to go a bit broader. And we probably have some gaps in our fixed income offering, which historically was relevant, maybe not super-relevant, but obviously as you have seen with some of our very large competitors, they have strong inflows in fixed income on the passive side. So I think, Mike, we're on track when it comes to what we expect in terms of flows, I think probably slightly ahead of track, probably a little bit better than expected when it comes to market, and a pretty clear gameplan that we expect the culmination of product, coverage and then the investment division to focus on.

Michael Werner

Thank you.

Claire Peel

And on the question of the mark-to-market that we saw on co-investment balances, we saw, in Q4, a markdown overall across the portfolios of 13 million, and that compared to actually positive marks that we saw in the first three quarters and in the prior year. So we're anticipating that we could see some of those markdowns on co-investment balances, particularly in real estate, and we did indeed see some of that in Q4.

In terms of the portion that we co-invest in, it really varies across

	the different portfolios. We tend to follow market standard and expectations at the point of launching funds, so we co-invest at the entry point of a fund being launched. And, as I say, it does very much vary. We do expect to potentially see some volatility in the first half of the year around those co-investment balances, and that again takes us back to the real estate guidance that we gave in December.
Michael Werner	Thank you. And just a quick follow-up, is it possible to get the nominal total investments that DWS has in those funds in aggregate? Thank you.
Claire Peel	Yes, we can get that number. I'll come back to you on that during the call.
Michael Werner	Okay, thanks.
Stefan Hoops	And, Mike, the one thing to add is… I do not even want to say so far, what we have not done is invest our capital with the intention of really making money in co-investments. We've only done what was necessary to launch, what was necessary because of essentially industry convention on that type of fund. So I think unlike some of our peers that are more focused on alternatives and therefore really invest their own money, we haven't really done that.
	I'm not sure that we would change that, going forward. I would imagine that Paul Kelly has quite a bit of experience in how to do that, but also what sort of risk management you would need. So I just want to make sure that if people hear that we distributed the 1 billion in 2024 subject to pipeline, please do not misunderstand that, we're not starting to invest essentially prop into alternatives, if that was part of your question, or the background of your question.
Michael Werner	Understood, thank you very much.
Operator	The next question is from the line of Bruce Hamilton from Morgan Stanley. Please, go ahead.
Bruce Hamilton	Hi, good morning, and thanks for taking my questions. A couple from me. On flows, I guess, to summarise, you're got your structural growth focus, Xtrackers and alternatives, and then tactically it sounds like the biggest opportunity would be fixed income. I just want to check if there were any other areas, tactically, emerging markets or other, that you think could be helpful? And then, as we think about the shape of flows, is it going to be very much second-half weighted, any sort of pick-up, given your fixed income performance, or do you see it coming through more quickly?
	And then the second question, really around some of the changes that have been announced. I guess it is understandable

that where there have been performance challenges there should be perhaps some PM changes, but I'm interested in the broader point on how you're managing key risk around the important PMs driving growth, so Kaldemorgen, top dividend fund. How do you ensure that doesn't become a problem? And how locked in are those? And then just to clarify, on the point you made about opportunities to sell infrastructure into retail, what product vehicle would you be doing that with, and how do you avoid problems around liquidity mismatch? Thank you.

Stefan Hoops

Hey, Bruce, thank you for your questions. I think I will start. I think with flows I will probably stay high-level, but then if you want us to be more precise, my super-capable partner will have to jump in. When it comes to flows, I think equity, super-stable, that's by far our biggest revenue contributor. I think everybody knows the numbers. Our equity revenues are two times Xtrackers and three times what we make in fixed income, and the fact that that's stable in a pretty tough year for equity is great. I would love to see inflows in top dividend, and I will come back to your third question in a second, but I think equity, we're quite happy.

I think multi-asset, you saw that we had nice inflows last year, Kaldemorgen but also other total return funds have done quite well. If you just look at our investment performance, they had a good start to the year. I spoke to them yesterday. So I think, there, we should also have inflows. I think on the last quarterly call somebody asked whether multi-asset is over now that you have 3%, 4%, 5% in risk-free fixed income. I don't think so. I simply feel that the baseline for multi-asset, meaning what they have to beat, certainly went up by a couple of percentage points, and that needs to be the ambition to also beat that.

I think fixed income, yes, we have upside. You may have seen, when you look at where our flows came from, that the retail side was essentially flat and the outflows were on the institutional side. Institutional clients tend to be faster to react. The majority of outflows were in fixed income in cash. Cash is what it is. I think fixed income, we simply need to add a couple of solutions. Specifically, when it comes to pension funds and insurance companies, everybody's talking about collateral management, after what happened to UK pension funds, so working on a few things.

Your question whether those flows will be back-ended in 2023, have no idea. I think it sort of depends on the market. Markets have been friendlier than expected in the last couple of weeks. Let's see. But there's definitely plenty of interest from clients, we have many discussions.

I think alts we've covered. I will come to your question on the specific vehicle, which actually will be an open-ended fund to retail. The structure, at high level, is that you need to be invested for two years, then you have 12 months' notice to get your cash out, meaning it's not as liquid as a money market but liquid enough to be considered open-ended and catering to retail. I will actually invest in it myself. I shouldn't declare those things on calls, but I think so far it's been quite difficult to invest in infrastructure as a retail person, and it's something that we want to address.

I think Xtrackers flows we have addressed. Happy to pass onto Claire to go into more details, but essentially on the flow side, Xtrackers, as Claire said, we saw a nice change in momentum with inflows over the last two months. I covered your question on the infrastructure for retail vehicle. It will be called Infrastruktur Sondervermögen Europa, for those of you who speak German and care.

And then your third question, on some of our star PMs, a long discussion we had with the leadership team whether we want to have star performers with all of the upside and downside that it brings. I think that we have been blessed with some really strong performers. And to be clear, Tim has been one of them. Tim is really essentially leaving the industry. He has plenty of kids, plenty of interest, so the discussion was one where he simply wants to do something different and feels he's still young enough to change path, but leave the industry.

Some of our other star performers we like, and we tie to us, long term. I think when it comes to Concept Kaldemorgen, I think people know that he is reasonably seasoned, meaning we probably won't have him for another few decades, which is why, just specifically for that fund, we actually introduced a co-manager, Christoph Schmidt, in the middle of last year, and have already been talking to key clients and distribution partners, saying that, over time, Mr Kaldemorgen will likely become more of an advisor, and Christoph will take a more active role. And we have similar back-ups for all of the key funds. So therefore we continue to like, in a high-performance culture, star PMs. That's what inspires young talent but, at the same time, we also need to have a proper, long-term succession plan.

Bruce Hamilton: Brilliant, that's very helpful, thank you.

Stefan Hoops: Thank you, Bruce.

Claire Peel: Perhaps I can just add on the previous question around co-investment balances that we have on the balance sheet, that was around €500 million at the end of 2022.

Operator: The next question is from the line of Pierre Chedeville from CIC. Please, go ahead.

Pierre Chedeville: Good morning. Can you hear me?

Stefan Hoops — Hey, Pierre. Yes, we can.

Pierre Chedeville — Okay. First question is regarding the transfer of your digital investment platform to BlackFin Capital. I know them quite well, and in my view they will not stay in the company for a long time because it's a private equity company. So I was wondering, first, I don't see the strategic reason why you transfer this investment platform. Do you want to sell it to other partners to leverage the investment? And at the end of the day, when BlackFin Capital Partners will sell it, are you sure that you want to keep 30% stake? How do you see the future of this investment platform? That would be my first question.

My second question relates to China. From an opportunistic point of view, regarding your conservative views on the markets for 2023, do you see any opportunity to accelerate in China, through Harvest or any other things in China, or maybe elsewhere in Asia?

And last question, regarding ESG, I'm not clear about your introductory remarks on that subject. Would I say to investors that your introductory remarks were more or less nothing new under the sun, or is it a reassuring statement compared to what you previously said, for instance in your capital markets day? I'm not sure about the tone of these introductory remarks on ESG. Thank you very much.

Stefan Hoops — Hey, Pierre. Thank you for your questions. The way that Claire and I divide labour is that anything specific she will cover, but some of the questions on China and ESG are probably more in my camp. Starting with IKS, maybe we should have spoken to you before because you seem to have really deep insights into them. It was also following. There are plenty of investments from competitors in digital investment platforms, and it is difficult if you have a mono-channel, meaning if you only do it for yourself, to justify the same quantum of investments as platforms, or people that have multiple things to sell on the platform.

So our view is simply that we would never be able to invest as much as somebody who would have us as a client but would also be open to others. So therefore the strategic rationale of this project, which was started long before my time but which I liked and obviously fully supported, was to really increase funding in that platform by having us remain as the largest partner or largest provider of clients and products. And by the way, we have a first right to repurchase if BlackFin wanted to exit. But in addition to us, they have other people on the platform and would simply be in the best interests of all clients because there would be more investments.

On China, as you know, we are not super-large in China. We have Harvest, we have a few people in Beijing, in Hong Kong, but it's not a sizeable standalone part of our strategy, which is why, if you're interested, I will actually spend a full week in Hong Kong and Beijing in three weeks, and maybe we can have the same question at the next quarterly call where I will have probably more insight into what we will do specifically in China.

When it comes to ESG, to some extent I should simply reread what I said. I fully understood your question, but, as you would imagine, what I said was pretty scripted and went through our legal department. I think what we wanted to do is simply give transparency on what we've done. Our view was that after the pretty visible on-site visit in June, all we have done visibly is to say that we stand by our disclosures and prospectuses, but nobody really knows what we've done internally or externally. And we haven't really been able to speak about timeline or the potential resolution.

So I think what we wanted to do was simply give you comfort that it's of utmost management priority, give you comfort that we are really fully cooperating, having reviewed and shared 3 million documents just to show that. I think the point about us taking the pretty unconventional step to, as soon as possible, share on our website the outcome of our internal reviews is hopefully also something which will give you comfort in what we've done, but also comfort to other asset managers, on what they may want to do, given that we are kind of the guinea pigs in the public eye of how asset managers should set up the governance for ESG.

Pierre Chedeville: Okay, thank you.

Stefan Hoops: Thank you.

Operator: The next question is from the line of Angeliki Bairaktari from JP Morgan. Please, go ahead.

Angeliki Bairaktari: Good morning, thanks for taking my questions. First of all, we have seen some headlines over the past few weeks about a potential ban on inducements in Europe, so I just wanted to hear your view on what you think is the probability of a ban, and how much would that impact DWS? In particular, how much of your group management fees are linked to inducements in your retail distribution networks today? If you can give us the euro-million amount, that would be very helpful.

And secondly, you spoke about divestment contributing to your ambitious cost-income target for 2025 at the capital markets day, and you have today announced the sale of your secondaries business, but the perimeter of that looks rather small, at 500 million AUM, I think a seven-person team, so I presume the cost savings on the back of this are rather limited. Is it fair to assume that the bulk of divestments is still to come? Thank you.

Claire Peel: Hi, Angeliki. Thanks for the questions. On the first one, referring

	to the European Commission's retail investment strategy, we know that that is in consultation with the EU, and has been since 2021, and we've of course been involved in that consultation to look at all of the details of what is being proposed. Of course, it is still in the early stages, anything that would be finalised is still some time away, but we will continue to be very involved in understanding what that looks like in terms of distribution and product structuring requirements. But there is no detailing around that at the moment.
	It's clear to see, of course, there could be a high impact for the industry, and that would certainly put pressure on margins if there was to be a complete ban on so-called inducements, and we have seen that in other jurisdictions in the past, but there is really much work to do to understand what the scope of that is. Within our portfolio, of course, we are split between both retail and institutional. This is focusing more on retail channels and, more specifically, in Europe, but we're not at a point really to establish the specific details for disclosure purposes and what that would look like, but something that we're very much participating in. So we'll track that and perhaps more to come.
	On the second question, around divestments, yes, we have concluded in 2022 obviously the IKS platform deconsolidation, which we've just referred to. We've always indicated that that has a neutral impact on the cost-income ratio separate to gain on sale, but does have a different mix effect between costs and revenues.
	And you rightfully say, the announcement that we've made on the private equity platform is small in absolute size, it's a single-digit number of people, so not something that's, large-scale, going to contribute to efficiencies in the future. That's more for the purpose of enabling the focus on the alternatives growth plan and focus areas. So yes, we do have more restructuring to do, and we do have more opportunities that we are investigating. We can't give specific details of course on elements of what those are, but we do have restructuring in front of us, as indicated.
Stefan Hoops	Thank you, Angeliki.
Angeliki Bairaktari	If I may just follow up on my question on inducements, I appreciate that you don't want to give the absolute number but can I just confirm that you are paying back inducements or rebates not just to, say, the Deutsche Bank retail network, which is standard practice, but potentially also to other distributors in Germany, Italy, Spain, etc.?
Claire Peel	Yes, in the European landscape outside of the UK and the Netherlands, which have got different structures in place, that is the European structure that is in place today. And hence it's a really broad industry topic that would certainly take some years

	to really understand, document, legally implement and execute against. But yes, it's an EU-wide topic.
Angeliki Bairaktari	Thank you very much.
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, everyone, for your good questions and for dialling in today. As always, if there are any follow-up questions, please feel free to contact the IR team, and otherwise I wish you a great day and a healthy time.
Stefan Hoops	Thank you very much.
Claire Peel	Thank you.
Oliver Flade	Bye-bye.