DWS Group GmbH Co. KGaA

Q4 & Full-Year 2021 Preliminary Results Call

27th January, 2022 | 10:00 CET

Transcript

Speakers:

Oliver Flade

Asoka Wöhrmann

Claire Peel

Oliver Flade

Yes, Operator, thank you very much, and 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 2021. As always, I still hope that 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 have different perimeter basis to the DWS results than we're presenting now.

And also, as always, I'm joined by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO. Asoka will start with some opening remarks and Claire will then 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. And therefore, I ask you to take note of the disclaimer and the precautionary warning on forward-looking statements at the end of our materials. And with that, I will now pass on to Asoka.

Asoka Wöhrmann

Thank you, Oliver. Good morning, and welcome to the Quarter 4 and Full-Year 2021 Results for DWS. I hope you are keeping healthy and safe, two years into this pandemic. Today, Claire and I will review our strategic and financial successes from last year, and we will outline the path forward for DWS in 2022 and beyond.

Let us start by looking back on 2021, which marked, not only the start of the phase two of our corporate journey to transform, grow and lead, but resulted in our third consecutive year of positive financial performance with records achieved across all our major financial matrix. Full-year net inflows totalled €48 billion in 2021, outpacing our previous record high of €30 billion in 2020, and comfortably above our annual net flow growth target of above 4%.

This supported record AUM levels of €928 billion in full-year 2021 resulted in a record adjusted profit before tax of €1.1 billion in the same period, as well as an adjusted cost/income ratio of 58% in the full year, our best ever. The success of 2021 is a testament to the efforts we have made as a globally integrated firm, investing into transformation for further efficiency, targeting growth and aiming differentiated leadership.

In particular, our growing range of innovative ESG products have performed very well, attracting €19 billion of net inflows in a full year 2021, accounting for approximately 40% of our total annual inflows. And in the fourth quarter alone, we saw €6 billion of net inflows into ESG products after 5 billion in the third quarter and 4 billion in the second quarter. This is obviously a very pleasing result, given the unfounded allegations we faced.

Our clients have spoken loud and clear. During the last quarter of the year, we also set ourselves a 2030 net zero interim target as a part of our commitment to the Net Zero Asset Managers Initiative. And for the second year in a row, we voluntarily participated in the annual CDP assessment, improving our score in late 2021 to a B rating, which is awarded to companies that demonstrate coordinated management action on climate issues, as proven by data disclosure.

As part of ongoing efforts to transform, grow and lead, we also made significant progress to further organically scale our passive business, while targeting growth into high-margin strategies in 2021. We attracted a record €26 billion of passive net inflows in full-year 2021, up from €17 billion in 2020, with positive contributions from our growing range of ESG ETFs.

We also reported stronger net inflows into our high-margin strategies last year, including from alternatives, active multi-asset and active SQI, reflecting growing demand for such products, as investors increasingly seek higher-yielding strategies.

As we highlight every year, partnerships continue to be fundamental to moving DWS forward. 2021 was no exception with existing partnerships being deepened and new partnerships formed to strengthen our capabilities, target new growth opportunities and increase our global brand visibility.

We entered a long-term strategic partnership with BlackFin Capital to further develop and build out our digital investment platform, IKS. We accrued a minority stake in Smart Pension Limited, a retired tech firm based in the UK, to target growth in UK pension market and participate in the shift from defined benefit to defined contribution plans.

And we partnered with one of the most notable global, iconic sport brands, the Los Angeles Lakers, becoming their official global investor sponsor, offering us an opportunity to increase brand visibility and recognition in our targeted growth markets across the globe.

And finally, as we look back at the year that was, from a shareholder perspective, we want both our stake/shareholders to participate in the record results we were able to achieve, while at the same time, keeping our focus and flexibility to look for opportunities for further growth. With that in mind, the DWS Executive Board is proposing a higher dividend of €2 per share for 2021, up 10% from last year and the third consecutive increase since our IPO, subject to approval at our 2022 annual general meeting.

Now, let me pass over to our CFO, Claire Peel to talk about our financial results for the fourth quarter and the full year in detail. Claire, please?

Claire Peel

Thank you, Asoka, and welcome, everyone. I hope you're all having a happy and healthy start to the new year. I will provide further context to our financial results and activities from the fourth quarter and the full year 2021, starting with our key achievements. Looking back, 2021 was an exceptional year, driven by a combination of strong investment performance, innovative products unwavering client trust and constructive markets.

This is evident in our annual net inflows, which reached record highs of €48 billion in 2021, as well as our lowest adjusted cost/income ratio of 58%. As a result, we remain firmly on track to achieve our medium-term targets for both net flows and adjusted cost/income ratio, reflecting our ongoing commitment to grow our business, increase efficiency and create shareholder value.

We are, therefore, pleased to propose an increasing absolute dividend to our shareholders for 2021, subject to approval at our 2022 Annual General Meeting. Overall, 2021 proved to be another year of financial success for DWS, supported by a quarter of solid performance in Q4.

Let's look at our financial performance snapshot for the quarter. Starting at the top left, AUM increased to a record €928 billion in Q4, up 5% quarter on quarter, driven by market performance and strong inflows. On the top right, adjusted revenues grew to €797 million, up 20% from Q3, reflecting an exceptional performance fee, recognised in the fourth quarter.

On the bottom left, adjusted costs totalled €424 million, up 8% quarter on quarter, due to higher seasonal effects in Q4. Despite this, the adjusted cost/income ratio improved to 53.1%, down six percentage points from 59.2% in Q3. Adjusted profit before tax increased to €373 million, up 30% quarter on quarter, sorry, up 38% quarter on quarter, supported by stronger revenue growth in Q4.

Moving onto our full-year financial performance, despite the ongoing pandemic, markets remained strong for most of the year, enabling us to continue executing our strategic priorities and deliver our strongest year of financial performance to date. In 2021, DWS reported record new highs in net inflows, AUM, revenues, adjusted profit before tax and net income, as well as a record low for our adjusted cost/income ratio.

AUM increased 17% year on year, driven by €47.7 billion of annual net inflows, positive market performance and favourable FX movements. Adjusted revenues grew to €2.7 billion, up 22% from 2020, with growth reported across all revenue categories. This supported an improved cost/income ratio of 58.1% in full year 2021, down from 64.5% in 2020.

Excluding the single exceptional performance fee, the adjusted cost/income ratio stands at 60%. Adjusted costs increased due to ongoing investment into growth over the year, and adjusted profit before tax increased by 43% to €1.1 billion for 2021. After tax, net income of €782 million increased by 40% on 2020 results.

Let's recap on the market environment. The fourth quarter of 2021 was more volatile, compared to previous quarters, as concerns over coronavirus and its newly detected variants once again dominated markets. However, as we have seen throughout the year, the majority of equity indices have remained strong in Q4.

In addition, the US dollar continued to appreciate by 2% against the euro, and overall market conditions supported positive AUM growth, which I'll now outline. Assets under management increased to €928 billion in Q4, up 5% quarter on quarter and up 17% year on year. Since the IPO in 2018, assets have grown at a compound annual growth rate of 12%.

The full-year 2021 increase in AUM can be attributed to exceptionally strong market performance and favourable FX movements, and with stronger contributions from net inflows, which peaked to a new high in 2021.

Moving on to this flow performance, DWS reported €15 billion of net inflows in Q4, generating net flow growth of 6.8% in the quarter and concluding a successful end to the year, even as investor sentiment started to become more cautious. In Q4, we saw institutional investors react to news of the latest coronavirus variant by derisking their portfolios, a trend we saw prominently at the start of the pandemic.

This can be seen clearly in our cash inflows, which totalled €7.2 billion in the fourth quarter, as institutional investors in EMEA sought safe havens amid increased market volatility. We also saw a similar trend play out in the passive market. Quarterly passive inflows totalled €3.9 billion in the fourth quarter, supported by mandate wins in EMEA. Our European-listed ETPs continue to contribute to passive inflows, but at a lower level, compared to previous quarters in 2021.

This trend is not unique to DWS, but has been observed in markets globally, as institutional investors adjusted risk appetites in the fourth quarter. The full-year 2021 passive remains a significant flow driver, attracting a record €25.9 billion of net inflows, up from €16.6 billion in 2020. This includes significant contributions from passive ESG products, which account for more than a third of total annual passive net inflows in 2021, and which we expect to remain a critical flow driver in 2022.

While investors are looking to derisk their portfolios, rebalancing asset allocations is also a priority, and this is translated into strong client demand for high-margin strategies. Alternatives had a strong end to the year, reporting their fourth consecutive quarter of positive and consistent flow performance in 2021, with 1.7 billion of net inflows in Q4 and €6 billion in the full year.

Both quarterly and annual net inflows have been driven by stronger client interest in real assets and infrastructure and with positive contributions from all three regions, EMEA, Asia Pacific and Americas. This demonstrates growing global interest in alternative investments to diversify portfolios and generate higher returns in the long term, a trend we expect to continue in 2022, in response to inflationary pressures.

We have also observed greater investor interest in active multi-asset in 2021. In the fourth quarter, we reported €1.3 billion of active multi-asset inflows, driven by a combination of institutional mandate wins and continued inflows into our flagship retail fund, Concept Kaldemorgen. This quarterly flow performance contributed to total multi-asset net inflows of €3.8 billion in full-year 21, marking a reversal from 2020 outflows as investors return to the asset class.

Active fixed income also reported a positive turnaround, attracting net inflows of 1 billion in the fourth quarter and €4.6 billion in the full year, compared to redemptions the year before. Quarterly fixed-income inflows were contributed by large institutional mandate wins in EMEA and with further support from flagship retail fixed-income funds.

Active equity delivered positive net inflows of €0.1 billion in the fourth quarter, driven by continued demand for active ESG equity products. This is a trend we have seen throughout 2021, resulting in €2.2 billion of active ESG equity inflows in the full year, despite overall outflows in the asset class. Overall, DWS has had an exceptionally strong year of flow performance in 2021. We reported €47.7 billion of net inflows in the full year, our highest annual net inflow to date, including €41.7 billion, excluding cash.

This is significantly stronger than €30.3 billion of net inflows in 2020 and €26.1 billion in full-year 19, and resulted in a net flow rate of 6% in full-year 2021, keeping us firmly on track to achieve our medium-term target growth of above 4% on average. In particular, ESG products have proven to be critical to our flow performance, which I will now outline in more detail.

Last year, we continued to meet growing client demand for sustainable investment solutions by making ESG a greater feature of our portfolio. As a result, ESG products attracted €18.9 billion of net inflows in full-year 2021, accounting for 40% of total annual inflows and 42%, excluding cash. Our 2021 ESG flow performance was predominantly driven by active and passive funds, with further contributions from alternatives.

Last year, we saw particularly strong client interest in ESG ETFs, most notably into Xtrackers ESG, MSCI, USA, world and Japan UCITS ETF, as well as the Xtrackers ESG Euro Corporate Bond UCITS EGF. We will aim to capitalise on this momentum with new ESG ETF launches in 2022, which I'll outline shortly. In addition, we continue to see greater client demand for actively managed ESG funds, especially in the XG asset class.

This is reflected by positive flow momentum into the DWS Invest ESG Equity Income Fund and the DWS Invest SDG Global Equities Fund, which saw its AUM almost double to €1.7 billion in 2021. Meanwhile, the newer DWS Invest ESG Blue Economy Fund is also performing well, with client demand reported across regions and with support from our partnerships with the World Wildlife Fund and Healthy Seas.

Client interest in ESG also spans other active asset classes, including our multi-asset offering, DWS ESG Dynamic Opportunities Fund. Altogether, the 2021 success of our ESG funds reinforces the need for such strategies in 2022 and beyond to ensure that DWS is well-positioned to meet the ever-changing needs and expectations of our clients.

Moving on to product launches, Since our IPO in the second quarter of 2018, new product launches have continued to gather strong momentum, attracting €40.7 billion of cumulative net inflows and an overall management fee margin of 38 basis points. This includes 18.9 billion of net inflows from new fund launches in 2021, up from €12.1 billion in 2020. To ensure we sustain our flow success in the year ahead, we will intensify our focus on product innovation by accelerating new fund launches while making improvements to our current range of products.

We will further leverage existing investment strategies that offer clients protection against expected inflationary pressures in 2022, most notably in alternatives. As a result, we will continue to expand our alternatives range with a focus on real assets and private market offerings, which are likely to be in strong demand for investors seeking higher-yielding strategies.

We will also continue to scale our passive business. As we enter 2022, we aim to double our ETF launches to ensure we remain competitive and sustain our position as one of the leading ETF providers in Europe and capitalise on the strong AUM growth reported in full-year 2021. And we plan accelerated thematic launches across all asset classes in 2022, with a particular focus on climate as part of our recently defined net zero commitment.

For example, in Q1 2022, we will launch the Xtracker Net Zero Pathway Equities ETFs and the DWS Invest STG Corporate Bonds Fund. In addition, we recently launched the DWS Invest ESG Women for Women Fund last week, which champions gender and wealth equality. To summarise, product innovation remains very high on our strategic agenda in 2022, as we seek to capture new growth opportunities, continue our positive flow trajectory and achieve top-line revenue growth in the medium term.

Moving on to revenues, total adjusted revenues grew to €797 million in Q4, up 20% quarter on quarter and 32% year on year. This was primarily driven by the recognition of a significant multi-asset performance fee in the fourth quarter, together with higher management fees and other recurring revenues, as a result of positive market performance and net inflows.

A quarterly uptick in other revenues includes a 20 million contribution from our Chinese investment, Harvest, in addition to strong investment income gains. In full-year 2021, total adjusted revenues grew by 22% year on year to a record €2.7 billion. This reflects growth in all revenue categories, including an 11% increase in annual management fees and other recurring revenues.

We also benefitted from stronger-than-expected performance and transaction fees, especially in the fourth quarter, as well as consistently strong contributions from Harvest, which totalled €86 million for the full year.

Moving on to management fees and margins, at 27.8 basis points, our overall management fee margin remained resilient in the full year 2021, marking a contrast to 2020, when margin was impacted by investors derisking portfolios in response to the pandemic. In full-year 2021, management fees have grown 11% year on year, supported by constructive markets and higher levels of average AUM.

This is most evident in active equity management fees, which increased significantly, enabling us to sustain a management fee margin of 72 basis points. Our strong flow performance also contributed to this annual increase in management fees, most notably in passive and alternatives. In 2021, passive management fees revenues grew by 26% year on year, driven by stronger annual net inflows and despite ongoing margin decline, amid pricing pressure and mix.

Alternative management fee revenues were also up year on year, growing by 7% as a result of stronger net inflows. A decline in the alternative management fee margin can be attributed to a specific fee event in 2021, notably, the temporary fee suspension of an infrastructure fund due to be liquidated in the first half of 2022. In addition, positive flow momentum also contributed to higher management fee revenues in both active multi-asset and SQI, helping to balance that management fee revenue reductions in active fixed income and cash.

As we progress into 2022, we anticipate industry headwinds that continue to challenge the management fee margin, but we will strengthen our well-diversified portfolio with continued product development. Moving on to costs, as expected, total adjusted costs have increased in the fourth quarter and full year, as we continue to shift our focus from efficiency to growth.

In Q4, total adjusted costs were €424 million, up 8% quarter on quarter, reflecting seasonal effects in adjusted compensation and benefits costs and an uptick in adjusted general and admin expenses, including investments into growth and increased year-end activities. In full-year 2021, total adjusted costs grew to €1.6 billion, up 10% year on year. This increase reflects a combination of higher compensation costs, including hiring and variable compensation, higher asset servicing costs due to the increase in assets under management, as well as investment into growth initiatives.

Despite growing costs, the adjusted cost/income ratio has improved to a record low of 53.1% in the fourth quarter and 58.1% in the full year, driven by stronger revenues in 21. Excluding the exceptional performance fee recognised in Q4, the full-year adjusted cost/income ratio would be 60%. In 2022, we will intensify our focus on transformation and will continue to implement a DWS-owned and managed infrastructure programme, using cloud-based technology.

As a result, transformation expenses are expected to increase in 2022, as we shift into the execution phase. As a reminder, the adjusted cost base excludes 9 million of investments into our infrastructure platform transformation in Q4 and €30 million in the full year. Platform transformation will support us in achieving a sustainable adjusted cost/income ratio of around 60% by 2024.

To conclude, DWS reported its best year of financial performance in 2021, marking a strong start to phase two of the corporate journey to transform, grow and lead. Net inflows reached a record €48 billion in full-year 2021, significantly higher than the previous year's €30 billion and generating net flow growth of 6%, keeping us firmly on track to achieve our medium-term target.

Positive flow momentum supported record revenues in 2021, with passive and alternative net inflows contributing to this result, and this enabled us to improve our adjusted cost/income ratio to a record low of 58% and maintain a resilient management fee margin year on year. DWS has delivered profitable growth without compromising efficiency, and looking ahead, we aim to sustain our growth momentum from 21 into 22 by intensifying product innovation and executing our transformation strategy.

In 2022, we anticipate normalised performance fees of 3 to 5% of adjusted revenues and an adjusted cost/income ratio of around 60%. We also remain committed to delivering our annual net flow growth target of more than 4% on average in the medium term. And we remain on track to achieve our target of a sustainable adjusted cost/income ratio of 60% in 2024. Thank you, and I will now hand over to Asoka for strategic outlook.

Asoka Wöhrmann

Thank you, Claire. Without doubt, DWS can be proud of its achievements in 2021. Despite the ongoing pandemic, we have remained focused on delivering profitable growth without compromising our efficiency, and this can be seen clearly in the strength of our financial results. Also, importantly, ever, since unfounded ESG allegations surfaced, our clients have spoken, reflected in our ESG net flows in September and the entire fourth quarter.

Now, as we look, year ahead, we cannot and will not let our momentum slip. While the global economy is likely to grow above potential in 2022, we also anticipate a number of industry headwinds that will challenge the market no more than inflation. All three inflation levels are expected to moderate to a certain degree in 2022. They are also expected to remain higher than before, despite in 2021, and more persistent due to surfacing energy prices, supply chain disruptions, including by the prioritisation of domestic markets and second-round effects, such as the higher wage dynamic we see in many markets around the world.

As a result, we expect central banks to remain and/or maintain their hawkish tone from the end of 2021 into 2022. We also expect to see greater volatility in capital markets than we have seen in recent years, especially as investors react in response to these headwinds. In any case, despite the challenges that, without doubt, lie ahead of us, the wider asset management industry, we are confident that DWS is strongly positioned with its phase 2 strategy of transform, grow and lead, to withstand the challenges in the market and continue to prosper as a leading European asset manager firm with global reach.

In 2022, we built on progress made last year to transform our firm into a truly standalone asset manager with our own dedicated infrastructure platform, executing on crucial milestones along the way. We will remain committed to developing and evolving the best possible ESG products and solutions for our clients, while engaging with variety of stakeholders and organisations to help shape better ESG practices and results for our society and economy.

We will continue our quest for further organic growth in the markets and businesses that we believe we can lead, especially in high-margin strategies, and in passive asset management. We will continue our diligent and active approach in looking for partnerships and in organic growth opportunities, especially in the number one growth region in the asset management industry, Asia.

And finally, we will amplify our brand through campaigns and major partnerships to raise visibility and awareness of the DWS brand globally in our key markets. Our focus is firmly and squarely where it needs to be to keep DWS on its

	growth trajectory and achieve our ambitions during the phase two of our corporate journey by working with our trusted clients, expanding our business further and making it even more efficient and self-reliant.
	We hope you will continue to accompany us on this exciting journey. Thank you for listening. I will now pass on to Oliver for Q&A. Please, Oliver?
Oliver Flade	Thank you, Asoka, and, 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. To withdraw your question, you may press star followed by two. If you're using speaker equipment today, please lift the handset before making your selections.
	Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question is from the line of Hubert Lam from Bank of America. Please, go ahead.
Hubert Lam	Hi, everybody. Good morning. I've got two questions and maybe a short extra one if Oliver allows me to. First one on dividend of the €2. I know it's up 10% year on year, but still implies a payout of just over 50%, so it seems relatively low. So, what are you going to do with excess capital, as it's such a strong year? Is this for M&A or additional buffer or something else? That's the first question.
	Second question is on the cost/income ratio target of around 60%. What does that imply about the G&A costs year on year? Should we G&A to still go up year on year, just given inflation, investment, etc, and should we also assume comp to be up year on year? Because I assume that, with the higher costs and market levels faced off, that 60% cost/income ratio could be harder to achieve.
	And I guess, tied to that, what market growth are you expecting in that cost/income ratio? I'll start off with those two.
Asoka Wöhrmann	Hubert, thank you for both questions. The first question on dividend, I would divide into two parts. I will talk about the strategy, and Claire will go into the numbers and how we look into the future on a dividend path. Within the second phase, as you know, of our corporate journey, we focus on our ambition to grow and lead, and market consolidation will define the competitive landscape for our industry for sure, and which is why we emphasise the dividend payout ratio in 2020, as we have a clear commitment to profitable growth, which potentially requests capital.

	Claire, if you can go into the number part and financial part, would be great.
Claire Peel	Yes, hi. Thank you for the question. So, on the dividend, we have an increase in the absolute dividend year on year, and as we've outlined, we look to have a competitive and attractive dividend, and increasing dividend, going forward. On the capital side, we ensure that we are well-capitalised and we are in a position, with excess capital, to manage any inorganic opportunities, should they arise. I know we don't disclose our excess capital, but on that, I think, to consider the retained earnings that we have delivered over the time since the IPO is a good guide and estimate on the excess capital position. On the second question on the cost/income ratio, we give guidance for 2022 to be around the 60% cost/income ratio mark, which is in line with the medium-term guidance to be at a sustainable 60%. On the compensation and benefits costs, we would expect to see some increase on that in the overall cost space, so, yes, and we do expect to see some impact to remain competitive on the compensation cost side. And also, as we invest into growth investments and we build out our platform where we're insourcing more activity and more headcount into DWS organisation, and all of that will be reflected on the comp and ben line. But overall, we are committed to remain efficient, as we have done in the past, and hence, we give guidance to a 60% cost/income ratio in 2022.
Hubert Lam	Is there assumption for the market levels? Like, if there's a market correction, do you think you can still achieve the cost/income ratio of 60%?
Claire Peel	On our planning for 2022, on the market outlook, we do remain constructive, and we do expect to see around, I'd say, mid-single-digit levels of equity market growth across the entire year of 2022, and that's the base assumption that we have for planning.
Hubert Lam	Okay, thanks, and if I'm allowed an extra one, Asoka, sorry to ask you this question, hopefully it's not too sensitive, but recently there've been Articles in the press, talking about some personal allegations against you. I don't know if you want to address this issue or not?
Asoka Wöhrmann	Hubert, happy to do. Allow me to address this point once and for all. Since April last year, DWS, and I, myself, have been the subject of various attacks against our company reputation and my reputation, and also my wellbeing. Let me

be very clear on this in two simple points. First, I emphatically reject all these allegations and insinuations. They are obviously borne out to motive and designed to leave a mark.

Second, I will not be intimidated. I will not be deterred from doing my job, working with clients, managing DWS, along with my fellow Executive Board Members and senior management and delivering shareholder value. I am extremely proud of what DWS, as a firm, with its almost 4,000 employees, has been able to achieve over the past three years. This is a true success story. They are in a family for me, and my commitment to this family has never been higher.

I have, and I do think we have, as a firm, an ambitious journey ahead, and we have a lot to do, and side-line noise will not keep us from doing what we have to do to stay successful. And also, in our second phase, as you know, to transform, grow and lead. And that is my clear view. Thank you, Hubert, for the question.

Hubert Lam — Thank you, Asoka, and thank you, Claire.

Operator — The next question is from the line of Arnaud Giblat. Please, go ahead.

Arnaud Giblat — Yes, good morning. It's Arnaud Giblat from BNP Exane. A couple of question then, please. Firstly, could I come back on your cost guidance? You mentioned that you're planning a single-digit equity market raise. What does your cost/income ratio look like if markets do correct, say, 10%? Is there a certain amount of costs you can flex in that scenario? And if I can attach to that question, could you break out the variable costs that are associated to that exceptional performance fee, linked to Kaldemorgen? How much of the performance fee of Kaldemorgen goes to staff, for example?

My second question is with regards to Harvest. Could you discuss a bit more the trends there, the KPIs? It's a big contributor to your profit, so an update on flows, on operating margins, would be helpful. Are you considering increasing your stake? Is that an opportunity there? Thank you.

Claire Peel — Hi, Arnaud. Thank you for the questions. I'll try to cover those. So, on the cost guidance and your question specifically on the market guidance, I would point to the market sensitivities that we see there. So, for a 1% movement in equity markets, we would expect to see 10 to 12 million impact on our annualised management fees. And so, in order to maintain to our cost/income ratio guidance, we would obviously take that into account in our cost base as well.

Some of our cost base is, of course, linked to AUM levels, and we have some variability attached to AUM levels where we have external service provisions, custody activity, index pricing, etc. So, there is some up-down benefit from market volatility that we may see there in the cost space as well. On the question on the exceptional performance fee that we saw in the fourth quarter, we still expect to see, on average, a 3 to 5% of performance fees as a percentage of adjusted revenues going forward when we normalise for that, going forward.

And on the question of the link into compensation, there's no specific link in compensation for the exceptional performance fee that we saw in Q4, but is, of course, taken into account in the overall compensation expenses, which are increasing. Our variable expenses for compensation are increasing in 2021. So, we carry forward that higher level of compensation into 2022 and into our 60% guidance.

On Harvest, I can report there that Harvest closed with AUM of €195 billion at the end of 2021. They had net inflows of 12 billion in that result, and market performance and FX was also positive to make up the difference in that result. Our share, our 30% share, of the JV in Harvest increased by around 30% year on year to 86 million that we saw of effective equity pickup, or still net income result, attached to Harvest. And we plan it around the same level, going into 2022.

Arnaud Giblat — Can I just check your answer on the variable parts on the exceptional performance on the cost side? All else equal, if that exceptional fee doesn't recur, how much of a step down is that on costs, going into 2022?

Oliver Flade — Arnaud, can you repeat the question? Sorry, it was difficult to hear.

Arnaud Giblat — Oh, sorry. Yes, so you answered that there were some exceptional compensation linked to the exceptional performance here. I'm just wondering how much that is. Thank you.

Claire Peel — Thank you. Sorry, we didn't quite hear the question. There is no specific compensation linked to the exceptional performance fee. It's not like an alternative carried vehicle, for example, so no exceptional one-off compensation to link to the performance fee in Q4.

Arnaud Giblat — Great, thanks.

Operator	The next question comes from the line of Jack Gaulard from Kepler. Please, go ahead.
Jack Gaulard	Yes, it's Jack Gaulard here from Kepler Chevreux. Thank you very much for your clarification, Asoka. On the ESG allegation in particular, I have the feeling that the way you express yourself is definitely more, I would say, aggressively positive than it was, because you're mentioning the fact that the allegations are firmly unfounded, which, personally, I never doubted. But do you think that, in particular, on the US side, this is something, on which you will have a conclusion quite soon? That would be the first question, and the second question, obviously, what is a really impressive feature of the result is the 40%, I think, weight of inflows coming from ESG product. Do you have an Article 8 and 9 SFDR classification, just here that we could use to have an idea about where all that is coming? Thank you very much, guys.
Asoka Wöhrmann	Thank you for the question, and I do think, as you know, on ESG matters, with regulators and all other things, we are not commenting. As you know, that was our approach also since these allegations came up and rumours. But I think one thing you should always be clear, and that is what the numbers are showing and our results are showing. Our clients have spoken. The commitment beside all this, let me say, unfounded allegation, is… They are drawing a clear picture. The commitment is remarkable from our clients and speaks to the trust we share with our client relationships. And since middle of last year, we really, and that is what we constantly said in the last meetings, we were able to engage with our clients in deep and meaningful conversations around the topic of ESG, became more or less, also, really an educator in the market. But also, I think that is really showing also, and this allegation has shown, that clients are taking ESG in a very important way and also want to communicate with us in existing and future standards, regulation and principle. And we are happy to see both the trust we share with our clients as our firm's effort in the ESG space reflected in our results. And, as I always said, and I think, Claire, we obviously cannot and will not comment on the ESG matter, but we do, however, welcome the ruling by the German Labour Law Court earlier this week. And with that, I think, I give my view to you, and I do think I will hand over then to Claire.
Claire Peel	Thank you, Asoka, and, yes, I can pick up on the question

	on the composition of our ESG flows. The majority of those come under Articles 8 and 9, under SFDR regulation. But we do also have non-EU inflows within that population, which, of course, is not covered by SFDR regulation, but a different definition outside of the EU, specifically in the US and Asia. But the majority is certainly categorised under SFDR Article 8 and 9. And more details will follow on that in due course, in terms of the specific classifications.
Jack Gaulard	Thank you.
Operator	The next question is from the line of Michael Werner from UBS. Please, go ahead.
Michael Werner	Thank you. Mike Werner here from UBS. Two questions, one a bit of a follow-up. On the dividends, I think, historically, your target was a 65 to 75% payout ratio. Again, this one was a little bit above 50%. It seems like you're adopting a bit more of a progressive dividend approach, aiming to grow the dividend on an absolute basis year on year. How should we think about this, going forward? That's the first question.
	And then the second question, in the press release this morning, you indicated that the non-comp expense increase that we saw in Q4 were driven both by growth investments, as well as increased professional fees. On the increased professional fees, I was just wondering if you had a magnitude there, either quarter by quarter itself, or how it compares versus previous quarters and whether that increase in professional fees is likely to be one-off or more event-driven and likely to decline as we go out over the next couple of quarters? Thank you.
Oliver Flade	Okay, thank you very much, everybody. Sorry for the technical issues, and we're now continuing, hopefully with a better sound, with a question from Mike. Claire, please.
Claire Peel	Thank you. I'll repeat the answer without the feedback on the line. The first question was around the dividend. Indeed, in the past, we had a guidance of a dividend payout ratio of 65 to 75%, which we no longer follow the specific dividend payout ratio guidance, but we instead commit to an attractive and competitive dividend that we target to increase in absolute terms each year. And that underpins the 10% increase that we've seen in our dividend proposal for 2021.
	The second question was on general and admin expenses and the growth that we saw in the fourth quarter, which was indeed linked to investments into growth initiatives, as outlined. And there is also a question around professional fees and activities, which pertains to external consultants

	and external professionals that we have in the organisation, supporting us on various growth initiatives, product launches and activity across the platform.
	So, we saw an increase in that in Q4. As we go into full-year 2022, we will anchor on a guidance of around 60% cost/income ratio.
Operator	The next question is from the line of Jochen Schmidt from Metzler. Please, go ahead.
Jochen Schmidt	Thank you, good morning. Two questions on alternatives, please. Firstly, on the quarter-on-quarter hike in alternatives under management, which you reported for Q4, you have disclosed the net inflows, but how does the remainder split between market value development of the assets and FX movements, just for alternatives?
	And, second, also in this context, could you briefly comment on the value development of your alternative assets? What have been the main drivers here in Q4? These are my questions. Thank you.
Claire Peel	Thank you for the question. On the alternatives net inflows that we saw in the fourth quarter, we saw 1.7 billion of net inflows in Q4, and that was, obviously, driving an uptick in our management fees, which we also saw in the fourth quarter and beyond. The €1.7 billion of net inflows was coming specifically from real asset and infrastructure funds. And those inflows, together with the 6 billion of inflows that we saw over the year, were contributing to the 7% increase in management fees overall.
	Separate to that, and not in the management fee revenue line, we have other income on our other revenue line, which is linked to investments and mark-to-market gains that we have in our alternatives portfolio. And we saw a strong increase in those valuations and that mark-to-market income in the fourth quarter, in the other revenue line.
Jochen Schmidt	And, sorry, just to follow up, when just looking at the market, or at the values of assets under management in alternatives, there was a remarkable increase in Q4, and that's what I was referring to. Could you maybe briefly comment on the market development of the underlying asset? Thank you.
Claire Peel	Yes, the underlying value of the assets is also representing strong upward market valuations in the real estate portfolio in particular. So, we see that in the AUM levels in alternatives, and we also see a revenue impact through the investments that we have in those portfolios in our other revenue line.

Jochen Schmidt	Thank you.
Operator	The next question is from the line of Haley Tam from Credit Suisse. Please, go ahead.
Haley Tam	Morning, thank you. Congratulations on a strong set of 21 results. Can I ask just two quick follow-up questions, please? I think, Claire, just now you mentioned the other income and the mark-to-market on the fair value of guarantees. Is there anything in your 60% guidance for next year, which includes some positive impact from that this year? And in terms of the trending compensation costs, I think you said it had stepped up and should stay at that sort of level. Just checking, obviously, that's a Q3 to Q4 statement? I think H1 conversation costs were actually a lot higher, so if you could maybe clarify for me which sort of level I'm starting from, that would be great. Thank you.
Claire Peel	Thanks for the questions, Haley. On the first question on the fair value of guarantees, the impact in our other revenues in the fourth quarter was very small, not a significant movement that we saw. And indeed, across the full year, has been relatively low in the full year of 2021. As we go into 2022, we do plan for incremental negative revenues for the fair value of guarantees, which is linked to incremental contributions we have into those funds and drives some negative effect. But we don't plan to see significant movements in the fair value of guarantees as we go forward, also taking into the fact that we ensure that we have a balanced risk position and we hedge our positions throughout the year to ensure that we can avoid large volatility.
Operator	Mrs Tam, have you finished your question?
Claire Peel	On the compensation costs, sorry, Haley, if I move onto the second question, I think the question was about what we saw in Q4 and what we anticipate in the full year 2022. In the fourth quarter, in compensation costs, we did see some seasonal effects, particularly in the benefits area where we saw some year-end adjustments in our compensation costs. And we also saw adjustments to the variable element of compensation in the fourth quarter. And that led to an uptick that we saw, quarter on quarter, in the compensation costs overall. As we come into 2022, I think the level that we see in the fourth quarter is probably about right, as we have a jump-off, coming into Q1, but again, we are focused on the guidance of a 60% cost/income ratio. But as mentioned earlier, we will see

upward pressures in compensation as a combination of growth, of hiring, and of general compensation increases that we'll see year on year.

Haley Tam

Thank you, Claire. That's very clear on the compensation costs point. Just if I can clarify then on the guarantees, the fact that we maybe have higher rate expectations in Europe, going forwards, that should not have a big positive mark-to-market impact, is what you're telling me?

Claire Peel

That's correct, yes.

Haley Tam

Thank you.

Operator

The next question is from the line of Angeliki Bairaktari from Autonomous Research. Please, go ahead.

Angeliki Bairaktari

Good morning. Thanks for taking my questions. On the retail flows, we see a very big jump in 2021, relative to 2020 and also 2019, so I was just wondering if you could give us some colour on which retail channels were the ones contributing most of the growth? Is it Deutsche Bank's network in Germany? Is it some other networks outside of Germany? And also, can you split the retail flows between passive and active for us, please?

And a second question on ESG AUM. If I understand correctly, you want to wait until the publication of your Annual Report to give us the total ESG AUM for 2021, but if we look at the Morningstar data, those point to a very big increase year on year, primarily driven by fund conversions. So, I was just wondering if you could give us an indication of what is the AUM billion amount that you have converted from generic funds into ESG funds, funds with ESG benchmarks, in 2021? Thank you very much.

Claire Peel

Thanks for the questions. If I take the first one on the net flows, so indeed, we've seen strong performance in our net flows across both retail and institutional in 2021, with retail being particularly strong. So, we saw 32 billion of net inflows coming from retail channels in 2021 and 16 billion coming from institutional. And really, we see, across all of our jurisdictions and all of our retail channels, we have a number of strategic partners, and all of those are contributing to a strong result that we've seen in 2021.

And again, I think we've commented a lot of strategic partnerships, which we nurture to ensure that we're very much aligned on ensuring we have the best product shelf and the best product offerings to offer through those channels.

On the question of ESG AUM, yes, indeed, we will be publishing our Annual Report in early March, and we will give details of our ESG AUM in that publication. We had, in our interim report in the middle of the year in 2021, an ESG AUM of 70 billion, and will report the final number in our report coming up in early March.

That will take into account, obviously, the strong net inflows that we've seen in the second half of the year, in addition to what we saw in the first half of the year, market movements, and you've commented on FSDR Article 8 and 9 conversions where the full definition and description of the environment will be outlined in the upcoming report.

Operator: Mrs Bairaktari, have you finished your question?

Angeliki Bairaktari: Yes, thank you very much. If I understand correctly, with regards to the retail flows, you're saying that all the network, there was no extraordinary geography or distribution network this year?

Claire Peel: Nothing extraordinary that I would point to. I would say that Americas and Europe has contributed to retail. Obviously, retail is stronger in Europe across our portfolio than the Americas, so Europe does weight more heavily in our AUM and our net flows, but nothing exceptional to point to.

Angeliki Bairaktari: Thank you very much.

Operator: Last question is from the line of Tom Mills from Jefferies. Please, go ahead.

Tom Mills: Oh, good morning. I just wanted to ask a couple of questions on ESG as well. Just firstly, looking at some of the industry data, we see a macro slowdown in ESG open-ended flows year to date, versus the same period last year, and I was just wondering if you're seeing any dampening in demand from your own client base in the last month or so?

And then, just back on the issue of reclassification activity, I guess we've seen, probably, about 3,000 funds in Europe reclassify in 2021. Do you think this is all legitimate reclassification activity as part of SFDR 8 and 9, or do you think there's any poor industry behaviour going on around this issue to try and capture the client demand dynamics of ESG at the moment? Thank you.

Claire Peel: Thank you for the questions. So, firstly, on the ESG macro slowdown dampening question, obviously, I can point to the momentum that we have seen across the quarters last year, and we've seen a continued positive momentum in the levels of inflows from quarter two, three and four. So, certainly, we've seen continued momentum, and also, I point to the fact that that's across all asset classes. It's not just ETFs or passive.

It's also across active equity, multi-asset, SQI and fixed income. So, I think all of those areas have seen positive momentum in the second half of the year. And we've also seen a positive start so far into the new year of 2022. So, at this point in time, no indicators that we have for a slowdown, and we expect ESG to be a strong feature of our product portfolio and also of our net flows as we come into the new year.

On the question of reclassification, indeed, I think, across the industry, there is a lot of conversion activity taking place to convert funds to meet the new SFDR regulation under Article 8 and 9. We have, of course, participated as well in reclassifications between both Article 8 and 9, but recognising Article 8 is broader in its definition than Article 9, and hence, we will give more disclosure and depth on that in our Annual Report that's coming up in March.

Tom Mills: Thanks, Claire.

Operator: Next question is from the line of Johan Schultz from Morningstar. Please, go ahead.

Johan Schultz: Hi. Good morning, guys. Thanks for the opportunity. Two questions from my side. Firstly, you did indicate that you expect to ratchet up new fund launches this year. How should we think about incremental capital requirements and incremental costs relating to new fund launches?

And then, secondly, a bit of a broader question, in the current environment where we're seeing inflation picking up, expectations are for rates to increase, how do you anticipate that that will impact client behaviour and changes in your fund mix? Thank you very much.

Claire Peel: Thank you for the questions. Yes, taking the first one there on product launches, we have indeed been very focused on that last year and before, but have commented that we want to accelerate the product launch activity that we will commit to, coming into this year across both active thematics, across ETFs and also across our alternatives space. There is, indeed, a cost attached to that. We've taken that into account in our growth initiatives, in our growth budget.

And we've had momentum on that effort already throughout the course of 2021, which is represented in a higher cost base. And on the capital side, we do have provisions for seeding or coinvesting into funds. And we do have capacity within our own targets and within our capital to enable us to seed funds where required.

Asoka Wöhrmann

I will take the second question. I think it's an interesting question. I think this year, 2022, will be a challenging year. As we said, inflation is there. Financial repression is a big story, and I do think, also, sector rotation, what we have seen already in the first weeks was quite dramatic, from tech to real economy-type sectors. I do think that's a challenge, but I do think for, especially financial repression, will stay in the market the whole year and might be also the next year.

And we felt really, with our broad business model, with the three product layers, active, alternatives and passive, we are well-positioned to capture the clients' demands and to serve it. And I do think, with this standpoint, we have seen, also, 2020 in the very heightened of the COVID, we really weathered nicely this very difficult year, and I do think, also, this year will, from the economic perspective, be quite a challenge for the market.

I do think we are well-positioned to this environment, and this is what we can see and what, also, with our client conversations, we are experiencing. With that, thank you for the question, and I have to also say, really sorry for the technical inconvenience, but I do think I'm really thankful for your questions. And I will hand over to Oliver.

Oliver Flade

Yes, thank you, Asoka. Recognising that this was the last question, so thank you very much. Again, apologies, and if there was anything left on the table, then please, let me know, or the IR department, and we're more than happy to help, as always. Thank you and stay healthy. Bye-bye.