DWS Group GmbH & Co KGaA

Q4 & FY 2024 Preliminary Results Call

30th January, 2025 | 10:00 AM CET

Transcript

Speakers:

Dr Stefan Hoops

Dr Markus Kobler

Oliver Flade

Oliver Flade

Yes, Operator, thank you very much, and good morning to everybody from Frankfurt. This is Oliver from Investor Relations, and I would like to welcome everybody to our earnings call for the fourth quarter of 2024. And before we start, I would like to remind you that the upcoming Deutsche Bank analyst call will outline the asset management segment result, which has a different parameter basis to the DWS results that we are presenting now.

I'm joined as usual by our CEO, Stefan Hoops, and Markus Kobler, our CFO. And Stefan will start with some opening remarks and also with some closing remarks, and Markus will take you through the presentation in between.

For the Q&A afterwards, please could you limit yourself to the two most important questions as usual so that we can give as many people a chance to participate as possible, although we have also allowed for a little bit more time than usual in case it is needed.

And 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 ask you to take note of the disclaimer and the precautionary warning on the forward-looking statements at the end of our materials. And with that, I will now pass on to Stefan.

Dr Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q4 and full year 2024 earnings call. As we wrap up the year and look into what is ahead of us, we have a pretty packed agenda for today's call. In addition to the Q4 and full year 2024 results, we will also provide an updated outlook for this year and will share our new medium-term targets. Let me start by recapping on 2024.

After the character-building episode in 2022 and the following turnaround in 2023, we view 2024 as the year which paved the way for strong, disciplined growth in the second half of the 2020s. For that, we set ourselves short and medium-term objectives 12 months ago, and I will try to provide an honest self-assessment of how we have done so far. But before we get there, let me summarise the key numbers for 2024.

Overall, we are pleased with today's full year 2024 results, as they show the success of our disciplined strategy implementation, with gains in our flow picture as well as on the profit side. Thanks to the continued trust of our clients, we were able to record strong long-term net flows of €14.4 billion in the quarter, and €32.9 billion for the year. This also helped our assets under management cross the psychologically relevant threshold of €1 trillion.

One of the key drivers was again our strength in Xtrackers and Passive, which delivered a record high for the year with €41.8 billion net inflows. We are also pleased that the flow picture in Alternatives moved into positive territory with the return to net inflows in the second half of 2024.

Adjusted revenues were at a record level for the full year, driven by higher management fees as well as additional performance and transaction fees. Together with our continued cost discipline, we were able to improve the adjusted profit before tax to over €1 billion. This has translated into an increased net income, which is up 19% year on year. All in all, this resulted in an adjusted cost-income ratio of 62.3%, which is at the lower end of our guidance for the full year.

As part of our strong commitment to creating shareholder value, we will propose an ordinary dividend of €2.20 per share at this year's AGM, an increase of 5% versus last year.

Now let's come to the self-assessment. Looking back, we set ourselves three short-term goals, solve self-inflicted issues, continue showing strong organic growth and ensure a high level of alpha creation.

On the first item, we feel that we did pretty well in reaching our aspiration of boring is the new sexy. We resolved our transformation programme with a hybrid solution, we reintroduced corporate titles, and we mostly succeeded in not creating any new adverse headlines. In that sense, we feel unleashed from the non-business items that were holding us back in the past, and used the momentum to deliver on our strategy.

On the second item, we continued to show strong organic growth by doubling our long-term net new assets. In Xtrackers, we again grew above market share. We are, however, not satisfied when it comes to ensuring a high level of alpha creation. In a continued difficult market environment for active asset managers, we had to recognise a decline in the relative performance of some of our strategies.

We reacted to that with a couple of changes, including a new head for fixed income in EMEA as well as fund-level changes and equities. Most notably, we also announced a new CIO, with Vincenzo Vedda taking over in December last year. It is our clear goal to deliver performance for our clients, and you will see us being self-aware and disciplined to make sure we successfully do so.

Let's turn to the medium-term aspirations we communicated 12 months ago, namely, becoming the gateway to Europe, aiming for top five in the top five, and helping to shape the future of finance. Since those goals are slightly less tangible, you may accuse me of being a generous grader.

However, we made solid progress on becoming the gateway to Europe as we continued to offer successful strategies for our clients globally to benefit from pan-European infrastructure projects. Another area of focus is to increase our client relationships in the Middle East, where we will open an office in Abu Dhabi.

Our plan to become top five in the top five particularly focuses on growing our business in Japan, China and India. Over the past year, we delivered the strongest net inflows in Japan since our IPO. In China, we are seeking to increase our stake in Harvest, and in India, we're working hard on building a new strategic partnership.

When it comes to future of finance, you may remember us talking about digital assets before it became fashionable lately. In 2024, we successfully launched our crypto ETCs, and are now on track to issue a euro stablecoin through our AllUnity joint venture with our partners, Galaxy Digital and Flow Traders.

I will not go as far as suggesting a school grade, but to sum up, we are pleased with the year, as we've made further progress on our way to reach our 2025 targets and also strengthen the base for the years to come. More on that later. But for now, I will hand over to my partner, Markus, to explain our Q4 results.

Dr Markus Kobler

Thank you, Stefan, and good morning, ladies and gentlemen. Before I begin with our financial performance snapshot for the fourth quarter of 2024, I would like to emphasise that we fully understand the importance of reported figures to our shareholders, and we aim to strengthen their trust in our disclosures.

Going forward, we will exclusively focus on reported financial figures, evaluating our progress towards our financial targets for 2025, which include our most important target, reported earnings per share of €4.50. Today's disclosure marks a transition, and we will present both reported and adjusted figures throughout the presentation.

Starting at the top left, total assets under management increased to a new record level of 1 trillion and 12 billion euros, up 5% quarter over quarter, benefiting from long-term net flows and exchange rate movements. On the top right, adjusted revenues totalled €731 million, which is a 7% increase quarter on quarter.

On the bottom left, adjusted costs increased by 4% quarter on quarter and totalled €439 million, resulting in an improved adjusted cost-income ratio of 60%. The adjusted profit before tax continued to benefit from a positive operating leverage, with a 12% increase to €293 million quarter on quarter.

Let's look at the financial performance snapshot for the full year 2024. Total assets under management increased by 13% year over year to 1trillion and 12 billion euros, mainly driven by long-term net flows as well as favourable markets.

On the top right, adjusted revenues totalled 2 billion and 747 million Euros for the entire year, which is a 6% increase versus 2023. Reported revenues for the 12-month period stood at 2 billion and 765 million euros,and marked the highest number since IPO.

Adjusted costs increased by 3% year over year,and totalled 1 billion and 713 million euros resulting in an improved adjusted cost-income ratio of 62.3% for the full year 2024. Year over year, reported costs decreased by 2% due to significantly lower cost adjustments versus full year 2023.

The adjusted profit before tax increased further to 1 billion and 35 million euros , which is a double-digit percentage increase versus the prior year. Reported profit before tax even increased by 23% year over year.

Let's recap on the market environment. In the fourth quarter, markets reflected cautious optimism, balancing hopes for AI-driven growth and potential rate cuts against persistent inflation and continued geopolitical risks. Post-election clarity in the US supported equity markets, which showed mixed performance, with German indices experiencing volatility throughout the quarter.

The US dollar appreciated against the euro, driven by diverging monetary policies and stronger US economic data. The equity volatility index remained elevated during key events such as central bank decisions as well as geopolitical uncertainties. It normalised towards the end of the year.

With inflation prices abating less than anticipated in the US and Europe, interest yields on longer-dated bonds increased over the course of the year. Overall, markets reflected resilience amid geopolitical risks, which positively impacted our total assets-under-management development, which I will now outline.

Our total assets under management increased to over €1 trillion for the first time in DWS history to 1trillion and 12 billion euros at the end of 2024. In the fourth quarter, our AUM was supported by strong long-term net flows and positive exchange rate movements amounting to €44 billion.

The Passive business continued to thrive and stood at €335 billion assets under management at the end of 2024, accelerating 9% quarter on quarter and a notable 36% versus 2023, which marks a growth level significantly above our 12% CAGR target.

Our Active AUM increased moderately, benefiting from continued market tailwinds, which resulted in assets under management of €456 billion. Assets under management in Alternatives stood at €110 billion, slightly higher versus the third quarter of 2024, showing a turnaround versus the previous quarters.

Moving to our flow development. In the fourth quarter, we reported total net flows of €18.4 billion, including long-term net flows of €14.4 billion. Alternatives experienced a positive turnaround, reporting a return to positive net flows of €1 billion in the fourth quarter. This was primarily driven by inflows into high-margin infrastructure products.

Our passive franchise continued to see strong momentum, with €14.5 billion of inflows reaching a record level in the fourth quarter, predominantly driven by UCITS ETFs. We further successfully increased our European ETP market share to 10.9%, positioning us well on track to regain the number two spot by AUM in Europe. Our top five selling Xtrackers alone generated over €10 billion of net inflows in the fourth quarter.

The development in our Active business is more nuanced. There is a number of ongoing industry pressures which continue to weaken investor sentiment. This can particularly be seen in Active Equity, which is shaped by a low-risk appetite by clients, a trend being in line with the broader asset management industry. In full year 2024, this trend in Active Equity continued, which is reflected in net outflows. The prevailing volatility in interest rates has also impacted our Active Fixed Income business, influencing both client demand and flow picture.

A remarkable turnaround versus 2023 can be seen at our systematic solutions, SQI, with €2.4 billion of net inflows in 2024, with significant net flows such as in DWS Funds Invest Zukunftsstrategie, driven by positive market developments. This underpins the ability of our strategic product suite in SQI to benefit from positive market developments and to capture flows.

In this context, let me elaborate on why we regard our SQI business as highly relevant for our DWS strategy. Our Systematic and Quantitative Investment, SQI, is a data-driven, systematic and rule-based investment approach which combines quantitative methods with advanced technology. Its strategies respond dynamically to changing market conditions and play a crucial role in pension fund investment strategies, with scalable, transparent and risk-controlled investment solutions.

With increasing longevity and a growing need for stable long-term returns, SQI strategies provide customised portfolio solutions tailored to the specific liability profiles of pension schemes. SQI also has significant potential for Active ETFs by using its quantitative approach, and at the same time preventing from the cannibalisation of traditional actively managed funds. A more detailed picture on our AUM and flow development can also be found on slide 20 in our result presentation.

Let us turn to our product launches, where Active ETFs play a pivotal role within our innovative product strategy. Our commitment to product innovations within the organisation remains high. Since our Capital Markets Day, the number of our funds greater than €1 billion AUM grew by almost 30%, already exceeding our Capital Markets Day ambition of 20% until 2025.

New product launches are fundamental to supporting clients' investment needs in ever-changing markets. In Q4, much of our product innovation focused on ETFs, where we had several product launch highlights. Active ETFs provide opportunities for both our Active and Passive business to demonstrate innovation and generate additional net flows. They complement our classic ETF range and increase the frequency of launches, which underpins our aspiration also to become a leading Active ETF provider in Europe.

Making our active investment platform available using an ETF wrapper provides a great opportunity to wrap investment strategies which sometimes may be managed externally, and to tap digital distribution channels in order to capture net inflows at superior margins. With the launch of two actively managed ETFs in Q4, we are further providing exposure to companies leading the green transition.

Additionally, with the launch of the scalable Xtrackers MSCI All Country World UCITS ETFs, our passive franchise, Xtrackers, continues to develop its suite of partnership products, primarily catering to retail investors looking for global exposure to equities from developed and emerging markets. This innovative ETF is the first product on the UCITS market that allows hybrid replication, meaning the fund can both physically and indirectly replicate segments of the reference index using OTC derivatives such as total return swaps.

Overall, we continued to grow our inflows through new funds since the IPO to €74.2 billion, with ESG products accounting for 41% of the fund launches. In Q4 2024, we attracted around €1.8 billion ESG net flows, which were mainly driven by the EMEA region, where the ESG demand remains strong, especially from retail clients. Article eight and nine products reported inflows of over €2 billion. We further have a strong pipeline across all our major asset classes for the first quarter of 2025. Moving on to revenues.

Total adjusted revenues amounted to €731 million in Q4, a 7% increase quarter on quarter, driven by additional performance and transaction fees as well as higher management fees. Our management fees stood at €647 million, up 3% quarter on quarter, benefiting from a continued increase in our average total assets under management, which amounted to €994 billion.

Performance and transaction fees stood at €108 million, resulting from the sizable contribution of our Multi Asset flagship fund, Concept Kaldemorgen. Other revenues decreased quarter on quarter and stood at minus €24 million, which is mainly attributable to the negative contribution from the Fair Value of Guarantees.

Now turning over to full year 2024, adjusted revenues reached a record level of 2 billion and 747 million euros in 2024, being up 6% versus the prior year, mainly driven by rising assets under management. Performance and transaction fees for the full year accounted for 5% of total adjusted revenues, in line with our guidance of 3% to 6%.

Let me explain the year-on-year development on management fees and our margin in more detail. Overall, management fees increased for all Active asset classes and Passive year over year. Among all asset classes, Alternatives, alongside with Equity, remain our key contributing products to the asset management fee, with €775 million and €495 million, respectively.

Passive management fees increased by 26% year over year, which underpins the exceptional growth of this asset class. SQI management fees improved by nearly 20% year over year, benefiting from net inflows with higher margin. This positions SQI as the fourth largest contributor to overall management fees.

For full year 2024, our management fee margin was 26.1 basis points, around one basis point lower compared to 2023 and in line with our guidance of a one basis point per annum decrease. Moving to other revenues.

Let us have a closer look at the breakdown in other revenues,and let me elaborate on how those components are contributing. Whereas net interest income and Harvest show a stable contribution throughout the year, others are more volatile and sensitive to specific dynamics such as the Fair Value of Guarantees and other items. This can be seen in the fourth quarter, as other revenues declined to minus €24 million, down €70 million versus the previous quarter.

We were able to maintain a relatively stable contribution from net interest income as well as from Harvest, which stood at €29 million and €7 million, respectively. The revenue contribution from Harvest was below prior quarters, which I will explain further in a moment.

Our Fair Value of Guarantees, which decreased significantly to minus €37 million, were caused by movements in Bund-Swap spreads. Let me provide some further context. Guaranteed products are an important component for our pension offering, which is highly profitable. We record changes in accounting shortfalls which are impacted by movement in Bund-Swap spreads through other revenues.

Going forward, if the Bund-Swap spread widens again, we would expect a positive impact on our Fair Value of Guarantees, which may balance out the negative impact which we experienced in 2024. Lastly, miscellaneous items were affected by some one-offs. Let me move on to the contribution from our Chinese investment, Harvest.

For two decades now, we have owned a 30% stake in Harvest Fund Management, providing us access to one of the world's fastest-growing asset management markets. Harvest successfully grew to become the fourth largest mutual fund manager in China in 2024.

In full year 2024, Harvest generated €49 million of revenues, including €7 million in Q4, which is a decline compared to prior quarters. This resulted mainly from a one-off impairment item in the fourth quarter. At the end of 2024, Harvest’s assets under management stood at €214 billion, up 9% year on year, mainly due to material inflows into Passive products, positive market performance, as well as favourable forex movements. Moving now to my favourite topic, which is costs.

In Q4, total adjusted costs stood at €439 million, being 4% up quarter on quarter. This increase is mainly due to Adjusted General and Administrative expenses. They amounted to €236 million, being up 11% due to volume-based costs and seasonal impacts.

Looking at Adjusted Compensation and Benefits of €203 million, being down 4% quarter on quarter thanks to lower deferred compensation and reduced benefits, hence our Adjusted Cost-Income ratio decreased to 60% in the fourth quarter.

Within our Q3 2024 results, we introduced a framework explaining our cost management approach and distinguishing between three cost categories, each with a distinct nature and impact on our business. We spoke about costs being externally driven, volume-based or discipline-based.

For the full year 2024, the total adjusted cost increase by 3% was mainly volume-based. It was driven by growth-related General and Administrative expenses and share price-driven compensation and benefit costs. This results in an Adjusted Cost-Income ratio of 62.3%, being at the lower end of our guided range of 62 to 64%. As stated previously, cost adjustments will decline over time, which is reflected in lower reported costs for the full year 2024, implying lower cost adjustments. And now moving to our financial outlook for 2025.

First of all, we reiterate our 2025 financial targets, anchored by reported EPS of €4.50 and an adjusted cost-income ratio of below 59%. Let's look at the financial outlook for 2025. Reported revenues are expected to be higher versus 2024. Let me briefly outline our underlying assumptions.

Management fees are expected to benefit from higher average assets under management and a stronger outlook for Alternatives. Performance and transaction fees are projected to increase, contributing 4% to 7% of total revenues. Other revenues are also expected to see improvements.

Reported costs are forecasted to remain essentially flat versus 2024, with essentially flat Compensation and Benefit costs, while General and Administrative expenses are expected to be slightly higher, and cost adjustments are expected to be significantly lower.

These components, stronger revenues and disciplined cost management, will enable us to deliver on our EPS and Adjusted Cost-Income ratio targets for 2025, reflecting both growth and improved efficiency. I will now hand over to Stefan again for our medium-term targets.

Dr Stefan Hoops

Thank you, Markus. Let me now provide some background on the thought process around our strategy for the next couple of years, as well as break down our mid-term financial targets for you.

It has been a good two years since our last comprehensive strategy deep dive, which concluded in our 2022 Capital Markets Day. After a number of tough decisions, we communicated our portfolio optimisation strategy, including financial targets, and have been operating under this framework since then.

While we see no point in constantly announcing new strategies or doing Capital Markets Days for the sake of it, we believe it is important to assess what changed over the last couple of years and whether we have missed something. Additionally, we must self-reflect and evaluate whether we are implementing as swiftly as we should, and whether any pivots or double-downs are required. In doing so, we can fortunately refer to the excellent industry outlook reports many of you provide, as well as numerous consultant analyses and input from shareholders.

Interestingly, the key trends summarised are all quite similar, the move from Active to ETF, growth in Alternatives, and particularly Private Credit, expansion in APAC, especially China, India and Japan, the relevance of distribution, including the increasing importance of digital channels, technology as a differentiator, margin compression and cost inflation, and industry consolidation through M&A.

The good news is that our strategy continues to be broadly aligned with these key trends, two of which we covered in the deep dives in our last two earnings calls. While this hopefully provides some confidence that we are moving in the right direction, it obviously does not mean that we are yet operating at maximum potential or that we have implemented our game plan to perfection.

To address areas of improvement, we decided against a gigantic strategy project. Instead, we aim to focus with an increased sense of urgency on those parts of our franchise where we are not yet operating at full steam. This includes our Alternatives franchise, collaborating with Deutsche Bank on Private Credit, the performance in equities, as well as our solution offering to institutional clients. And in the spirit of transparency, we will continue to provide quarterly deep dives on these topics and answer specific questions you may have.

Now let's move to our new mid-term financial targets. In our guidance for the next two years, we are keeping the financial targets that most align with our aim to create shareholder value, Earnings per Share and reported Cost-Income ratio.

We are confident that we can deliver a reported EPS growth of 10% per annum in 2026 and 2027, with our actual EPS at the end of this year as the jump-off basis. In other words, take our outlook of an EPS of €4.50 for 2025 as a starting point, then growing 10% per annum in each of the next two years.

We also aim to further reduce our Cost-Income ratio as we move along. In line with what we have always focused on, going forward, we will communicate the reported Cost-Income ratio, since we are considering our transformation as almost concluded. And we want to keep the dividend payout ratio at approximately 65%.

Let me break this down. We expect to further grow positive net flows in the future, leading to €150 billion of long-term net flows in 2025, 2026 and 2027, cumulatively. Given the continued trend towards passive investments, we expect our Xtrackers business to be one key driver.

And based on the expected market recovery in Real Estate, our strong momentum in Infrastructure, as well as our new Private Credit offering, we also expect increased flows into Alternatives. This composition of net flows should enable us to hold the fee margin decline below one basis point per year.

Our CIO team expects equity markets to show a low to mid-single-digit index growth per annum. Together with a positive flow momentum, this will lead to further increased assets under management, with accordingly higher management fees. Lastly, we expect performance and transaction fees to grow to a range of 4% to 7% of total revenues.

On the cost side, we will remain vigilant. This means that we will continue with our strict management of discipline-based costs. And while we like the drivers of volume-based and growth-driven costs, namely that our clients trust us with more of their assets, and our portfolio management delivers strong investment performance, we will continue to strictly manage those expenses as well. This will allow us to further improve our Cost-Income ratio, pursuing the path we are on.

Our plan for the years to come is based on a joint understanding of the leadership team of DWS. We take pride in being fiduciaries for our clients. At the same time, we also honour the responsibility to be fiduciaries for our people. While we want to continue meeting ambitious financial targets, you will not see us trade investments into long-term growth for short-term financial benefits.

To sum up, 2024 was a good year for DWS, with various record numbers and significant progress on our strategic path forward. For 2025, we are confident that we can reach our financial targets and develop our company further.

And for the years to come, we are convinced that we have the right strategy in place to create attractive shareholder value, reflected through reported EPS growth of 10% per annum in 2026 and 2027, a further decreasing reported Cost-Income ratio, as well as a dividend payout ratio of around 65%. Thank you. We recognise this was a lot. And over to Oliver for Q&A.

Oliver Flade

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

Operator

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

Questioners on the phone are requested to disable the loudspeaker mode and eventually turn off the volume from the webcast while asking a question. Anyone has a question may press star and one at this time. The first question comes from the line of JH Gaulard, Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard

Yes. Good morning, everyone. Two questions for me then. The first one, it was announced yesterday that I think the discussions around the joint venture with the Postal Bank of China had been terminated. You mentioned in your opening, Stefan, that you were considering, I would say, owning a majority stake in Harvest. When can we expect anything around this, would be the first question.

And the second is around the cost-income ratio on a reported basis, which is a really good discipline. You had about €172 million of cost adjustment in 23, about €100 million this year. And I know you said materially down. Is it €50 million, roughly, to actually continue over the years, because you always have restructuring costs? Or should we aim for something a bit lower than that? Thank you very much.

Dr Stefan Hoops: Hey, Jacques-Henri. Long time no speak, since last week. I think I will start with the first question, and then, as you would expect, Markus will not allow me to talk about his favourite topic of cost, so he will take the second one.

So we don't like to talk about M&A. As you know, we'd like to potentially do it at some point. And it's always difficult to give too-deep insights into discussions. Now, what we can confirm is that we had great constructive discussions with PSBC for quite some time. That started long before I arrived at DWS, continued.

The thesis was to set up a wealth joint venture. And when you look at the wealth joint ventures that exist in the market, it's typically the foreign partner having the majority, and the Chinese partner having a significant minority. Now, that was simply not possible for DWS and DB Group, because that would have required DWS to consolidate, and therefore DB to consolidate. And when you look at the other people having such wealth joint ventures, it's typically not bank-owned asset managers.

So without going into detail, we liked our discussion, like the partner. They're a great partner for Harvest, for example, so they will continue to be good partners. But this avenue just didn't work out, without this featuring prominently in our internal discussions. So this was not a major challenge on the way.

Now, I think what is much more important and what we've always talked about is our 30% stake in Harvest. That is something which we have been proudly reporting on for the last couple of decades. I think as you know, and probably most people know, I sit on the board, so we take that very seriously. I think I'm the only Western CEO sitting on the board of a Chinese, I think, financial institution of that size. We'd like to increase our stake.

Now, these things require many, many, many discussions, as you would imagine. And unfortunately, there's nothing I can do but say that we're interested. We are going through all the required steps. But it's simply not in our hands to if and when that would be possible. With that, handing over to Markus for the second question.

Dr Markus Kobler: And thank you, Jacques-Henri, for asking a question on costs and expenses. I'm referring to page 19 of the analyst presentation that shows the line items of our P&L. And you are referring to the line items below. And when you look at the components there, which includes severance, litigation, and transformational charges, what we can say is that in 2025, we're no longer going to have any transformational charges. We also don't see any litigations at the horizons, and also do not plan for any restructuring programme. So that again gives you an outlook on what you expect on the below-the-line cost items. Thank you.

Jacques-Henri Gaulard: That's great. Thanks a lot.

Operator: The next question comes from the line of Hubert Lam, Bank of America. Please go ahead.

Hubert Lam: Hi, good morning. Thanks for taking my questions. I've got two of them. Firstly, in the asset management sector, you're now seeing more consolidation creating larger and larger players, which makes your €1 trillion assets doesn't seem that big anymore. So how do you think about M&A and the need to gain further scale? And the core question is, are you big enough?

The second question is on private debt. I guess we've been reading about how challenging the growth has been in your private debt business, and the growing pains you're going through. How do you see this business growing in the near term? And how do you differentiate yourself in the market? And what kind of growth outlook do you expect in 25? Thank you.

Dr Markus Kobler: Thank you, Hubert. Let me start with answering your first question on M&A, and then I'm going to hand over to Stefan. We have mentioned before that we do not regard size as a target. For us, it's important, and we reiterate that again and again, that we look at EPS and EPS growth. That is our fundamental, under-fundamental target.

And in the light of that, when we look at M&A and M&A opportunities, it must meet the ambition to add to accretive value. And that's a very high watermark which we must meet when we look at targets. And we spoke about why we're doing that. We do not see any need in the Western world. For us, the focus is rather in the East.

And we also do not see a lot of opportunities in so-called bolt-on acquisitions, where we would add additional investment capabilities. We prefer to grow them organically. And lastly, we do not speculate and comment on any speculations on any particular targets which are part of the discussion. Handing back to Stefan.

Dr Stefan Hoops: Yes, and Hubert, one more almost philosophical comment on scale, or actually question to you and your colleagues, and then I'll come to Private Debt. So here's the philosophical part. Over the Christmas break, I spent probably two days thinking about scale in asset management, philosophically. My wife thought that I was weird, because that doesn't sound like an interesting topic.

But here are my questions. And the analyst out there that give the best answer, and please send us your views, I will invite to a nice dinner at a place of your choice. Because it's unclear to me what scale actually means for different asset classes, different regions, different client types.

So if scale was all that mattered, there would be a closer correlation between size and cost-income ratio, which simply isn't the case. BlackRock's Cost-Income ratio is great. But globally, when you look at asset managers and you depict AUM and cost-income ratio, you would see some correlation, but it's not that clear.

If scale was all that mattered, then somebody like a State Street, which is really, really strong in ETF, fixed income and money markets, so clear scale asset classes, and it's a pretty simple product offering, they should have a cost-income ratio much lower than ours. And they don't.

So I think what Markus and I, and again philosophically, are trying to understand is, for different asset classes, what does it actually mean? And how should we steer the company?

So arguably, for those asset classes where the marginal cost-income ratio is much lower than the as-if cost-income ratio that probably defines scale, then how do you allocate resources in asset classes like, let's say, infrastructure, where you simply need more humans if you want to add, I don't know, utilities, if you want to buy more assets? The marginal cost-income ratio is probably closer to the as-if cost-income ratio.

So any smart thoughts beyond scale is important, we would honestly appreciate, because I don't think it's well understood or well talked about, and I haven't found any smart research on it. And all of you are smart, so please don't take offence.

Now, on Private Debt, how do we see outlook for the market? And then what does it mean for us? So I think it's moving from direct lending to more asset-based, asset-backed finance, which I think most of you are writing and would agree with. We certainly agree with that. It seems that in direct lending, a lot of the large institutional investors have allocated what they want to invest in direct lending and are now much more interested in other parts of Private Credit.

Now, when you look at what that means for us, I think it makes our potential collaboration with Deutsche Bank even more appealing. So when you think about the vast origination channels of Deutsche Bank's Corporate Bank, but also Deutsche Bank's Investment Bank, who are very, very good in originating asset-based finance, and then securitising it or doing a variety of things with it, that's almost stronger origination for us than in direct lending.

Now, I think your next question, fair question, would be, great, you have been speaking about that for some time, why don't you have it yet? I would give two answers. One is really good work by the team, and one is not very good work by myself.

So I think what the team has done quite well is set up and hire the management capabilities. So we now, since last summer, so for six, seven, eight months, now have a proper team in place. You know that we have an open CLO warehouse, so the team is busy, and they're ready to manage those assets being originated.

Now, what I haven't done, and I should have done it, I was just unfortunately busy on many other things, was to agree an origination partnership with my partners around, Nayak in FIC, with David Lynne in the Corporate Bank, with Mark Fedorcik in DCM. And we're close. It's something that I have to do. So I think some of the reports saying that I will spend more time, it's more that I need to do this, because that's a negotiation between those senior folks and myself. And that is something which we will get done.

So I think, again, I'm choosing a lot of words or using a lot of words, but the outlook remains interesting. I think where the market is moving towards, it makes our origination through DB even more relevant, because I don't think that too many sponsors, or those people covering sponsors, will actually have access to asset-based finance. And it's just something which we have to now deliver on. Thanks, Hubert.

Hubert Lam: Thank you.

Operator: The next question comes from the line of Arnaud Giblat, BNP Paribas. Please go ahead.

Arnaud Giblat: Yes, good morning. Can I ask two questions then, please? First, if we could start on ETFs. Clearly, you've been outperforming your peers there from a flow perspective. I'm just wondering if you could drill down and unpack that a bit for us. Is this a case of better geographic exposure, better product mix, something else?

And specifically looking forward, if you could give us a bit more granularity around the pipeline. Specifically, I'm interested in Fixed Income. Are you thinking about bringing more bond ladders, or anything else you're doing there?

And secondly, if I could come back to Private Credit, I heard what you're saying. I'm just wondering, in the case of the asset-based finance, if you could expand a bit more about where you see a strength in distribution. The asset-based finance seems to be quite well-geared into insurance. How well are you set up for that? I think as well, ELTIF seems to be quite a big opportunity in Europe. Is there any plans there just to beef up your distribution for ELTIFs? And would you agree that ELTIF is a big opportunity there? Thank you.

Dr Stefan Hoops

Thank you, Arnaud. And I promise to be a bit crisper and quicker on the answers. So Xtrackers and then distribution, Private Credit. So I see, in ETF and Xtrackers, the team is simply really, really good. We've tried to understand why the team is implementing so much better than we had thought or we had expected. And I think it's probably the dedication.

So we have dedicated sales, dedicated structuring, dedicated portfolio management. They all get along really well. Sometimes, it simply helps. And for quite some time, they had always been pitching for resources and didn't really get them.

And then in the Capital Markets Day, we didn't just give them their base case, but they had one pitch for what they called Infinite Growth. That was the title of their request. And we simply said, fine, you'll get it, but then we want to see really, really strong growth.

Now, I think they have delivered. We feel that they will deliver more. I think there's a chance that we will double down and deploy more resources. It's not a secret that this is an attractive asset class or, probably, an attractive format of distributing various asset classes. And competition is obviously all over that market.

I think what we will see going forward, and you've heard Markus talk about active ETF, you will see that we are now delivering an Active ETF of another active asset manager. So we're basically wrapping other active managers, which is an interesting way to think about it. So there's a variety of things that that team is focused on.

And you will always have a couple of big themes. In Q4, it was S&P Equal Weight, it was Chinese A-shares, obviously the Euro Overnight. There will be different themes this year, and we have full confidence that the team will anticipate

	that.
	In Private Credit, distribution is important, there's no question about it. However, I think distribution follows credible origination. So all of the big investors, they're smart. They will simply ask the question, fine, why will you see units of risk before anyone else sees it? And if you have a credible explanation, then I think, to some extent, I don't know, the demand creates itself.
	It's not quite as simple, as my salespeople would tell me. But we have access to the large insurance companies. We're still one of the top five third-party insurance asset managers, typically managing Fixed Income. So we feel we have access. We simply need to have the proper products, which we're now quite close to.
	ELTIF, you also asked. So wealth is important. Again, at this stage, I think we need to have the proper origination in place. I think the distribution through our existing channels into private banks, and then ELTIF would be essentially the format of choice, is something which is then more the logical next step. But key is for me to spend adequate time to actually get the origination partnership now live and running.
Arnaud Giblat	Thank you.
Oliver Flade	Thanks, Arnaud.
Operator	The next question comes from the line of Angeliki Bairaktari, JPMorgan. Please go ahead.
Angeliki Bairaktari	Good morning, and thank you for taking my questions. I think you've put out an ambition to have cumulative net flows of around €150 billion between 2025 and 2027. Can you give us some colour on which asset classes are going to contribute the most to generate this big cumulative flow number?
	And secondly, I hear you on Private Credit. More broadly, with regards to your expectations for Alternative net flows in 2025, what should we expect there? We've had a first sign of inflows in the fourth quarter, but that's not a huge number, just €1 billion. What should we expect, and how do you expect the different moving parts to progress, Infrastructure, Real Estate? And I don't know whether we can expect some Private Credit flows as well from the CLO. Thank you.
Dr Markus Kobler	Thank you, Angeliki, for asking your questions. I would start answering the first one and then hand over to Stefan on the Alternatives, some comments on alternatives flows in 2025. The €150 billion target is not a number, a top-down number which we put on the table, but it is very much based on our

strategic outlook and a broader planning, both across investment strategies, products, as well as our markets.

When you look at the €150 billion, as I also said in the statement, it is predominantly a continuation of our success on Xtrackers. But evenly important is that we expect both Active as well as our Alternatives business to contribute to a large extent as well. So if you use a ballpark figure, I probably would say two-thirds Xtrackers, and the other one-third, Alternatives plus Actives.

Dr Stefan Hoops

And when it comes to your second question, Angeliki, Alternatives overall, beyond just Private Credit, let me go from the one with the best momentum, and then work my way through the other parts.

So in Infrastructure, they had around €3 billion of net inflows in 2024. So you see the Alternative number overall. But they had €3 billion overall, roughly evenly split between the European offering, so our PEIF IV, which raised about €1.5 billion in 2024, and our infra debt offering in the US, which was the other roughly €1.5 billion.

Both are going well. So in both cases, I would expect more inflows in 2025. Cannot really talk about PEIF IV because we're in active fundraising, but you know our target size there is €4 billion, maybe €5 billion. On infra debt, you may have seen that we've just signed a partnership with MUFG. More to come. But I think that's going well.

When you look at our Real Estate business, then they had outflows in 2024. But I think underlyingly, I think there's an interesting trend. So the US is almost even for the year. We've seen people actually reverse their redemption requests into additional investments.

So I think as long as the ten-year stays, I don't know, ideally doesn't go above 5%, but I think as long as it stays in the current range and doesn't go up much, I think valuations are now reflecting the higher rates environment, and I would expect Real Estate in the US to be a net contributor to inflows.

When you look at the European Real Estate business, obviously you know that we have those retail funds where we know well in advance of the outflows. And the cancellations that came in in 2023 that we always talked about, they actually then led to outflows in 2024. So there was about €2.5 billion overall in European Real Estate in 2024.

Now, we had inflows in the sense of dry powder. So one large institutional mandate that we spoke about, I think a couple of earnings calls ago, that's essentially dry powder, because we only recognise it as AUM as we deploy it. So I would also expect Real Estate EMEA to be a small, but a positive contributor of flows in 2025.

Liquid Real Assets had some performance challenges in 23 and was probably not the most favourite asset class because it was quite easy to take money off the table in REITs or listed infrastructure and so on. So there was a difficult market environment in 24.

That performance has reversed spectacularly. So when you look at the investment performance of the liquid real asset team, that had a very distinct positive performance in 24. And we've won a couple of mandates lately. I would expect there also them to contribute positively when it comes to inflows in 25.

I think then Private Credit, there will be inflows in CLOs. We have a bunch of things planned in funds. Allow me to do a bit more work in the first quarter, then update everyone. But I think when you look at the different contribution or contributing parts of our alts franchise, I would expect all of them to be either slightly positive, like European Real Estate in 25, or reasonably largely positive, like infrastructure in 25.

Angeliki Bairaktari: Thank you very much.

Oliver Flade: Thank you.

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

Bruce Hamilton: Morning. Thank you for taking my questions. I'm going to follow up with two fairly popular topics. So firstly, on the Private Credit, thanks for the colour you've given so far. So do you feel you have the need for a formal ownership of an insurance stake, or full ownership of an insurance company? Or can you just do this through your existing relationships? Obviously, one of the consolidation themes has been this convergence between insurance and asset management. So I just wondered how you thought about that.

And then on the Active ETF side, could you give us a sense of how big that is in AUM terms today? And to check I've understood your approach, it's basically being driven through your systematic offering, rather than anything that might run the risk of cannibalising your active product. And are you selling it through different distribution channels, are you more digital, or is it the same as your Active and other products, just to understand the nuances there? Thank you.

Dr Stefan Hoops	Thank you, Bruce. I think the first question is a very, very smart way of trying to get us to talk about M&A, which even though we've been now quite focused for an hour, I don't think that we'll fall for that. So I think it's helpful to have insurance liabilities, to ideally have captive insurance liabilities, but I think that's probably not something that we would like to discuss at this point in time. But we recognise the advantage that insurance-owned or insurance-aligned asset managers have in Private Credit. Active ETF does not yet feature prominently AUM-wise. So we have a few offerings, but when you look at our total €335 billion end of the year AUM in Passive, including Xtrackers, it does not feature prominently. It features more prominently when it comes to our product pipeline. And I think there are a variety of ways of thinking about it. I think one smart point that you made was that when it comes to certain distribution channels, they only take ETFs as the format they buy. So they would like active strategies, but the only way for them to buy it is through ETFs, some of the neobrokers, the platforms, and so on. So therefore, when you think about the percentage of it being distributed digitally versus traditional distribution methods, I would expect the Active ETF share of digitally distributed to be higher than for ETF overall. So we feel we have the access to the right distributors. We now need to… And you saw my partner speak pretty passionately about active ETFs, but we now simply need to have a proper product pipeline.
Dr Markus Kobler	Yes. Just to add, what we currently have, we have about €1 billion already in Active ETFs available.
Bruce Hamilton	Very helpful.
Dr Markus Kobler	That's the number.
Bruce Hamilton	Thank you.
Operator	The next question comes from the line of Nicholas Herman from Citi. Please go ahead.
Nicholas Herman	Yes, good morning. Thank you for the presentation and for taking my questions. Two from me, please. Just for the outlook for 2025, just are you happy with consensus expectations for other revenues of €170 million? And would it be fair to say that your targets imply a 2027 Cost-Income ratio in the mid-50s, say, 56-57%? Are those numbers that you can broadly associate with? Second question, please, was on pipeline. Just, you mentioned that there's a strong pipeline. I thought I heard

you say you have a strong pipeline across all major asset classes into the first quarter of this year. Can I just clarify, does that also include active equities, when momentum has been weaker and the five-year performance is now 20%? Thank you.

Dr Markus Kobler

Thank you, Nicholas, for the question. Let me answer the other revenues line. And we deliberately decided to provide more transparency on other revenues, which we also plan to do going forward. And when you look at the four components, as of end of 2024, we have around €3 billion of liquidity. And if you apply a yield, that is delivering our net interest income. So that, again, stable other revenues.

We spoke about Harvest, and Harvest had that one-off item, but they're really growing in terms of assets under management. They have also a positive flow outlook. So again, we expect that to go in one direction.

With regard to the Fair Value of Guarantee, we have seen over the last two years a tightening of the swap spreads. And again, we do not project what the swap spread may be in six months' or 12 months' time. But when you look at the history, that may normalise again. And as soon as it's going to normalise, it's going to provide positive tailwind on other revenues. And then all the other one-off items, they usually balance out.

So when you look at these four components, that gives you already an outlook where we are. And we said we're going to expect in 25 other revenues to be higher than in 2024.

Dr Stefan Hoops

And Nicholas, when it comes to strong pipeline, and then your question was specifically for Active Equity, I think I would probably look at it slightly differently. When you think about the heritage of DWS, meaning what are we known for in active equities, and what sort of funds do we manage, the large funds, what are they focused on, we are mostly value-based.

So clients like us because we have the Top Dividend, and simply by the name of it, you can see that it's much more focused on value companies. We have large exposure to Germany, as you would expect. So when you think about the heritage of DWS, that wasn't the best place to be in for the last couple of years.

So in an environment in which growth stocks, momentum stocks, the US is on fire, and actually the DAX performed reasonably well, but the MDAX or the SDAX didn't, I think our funds did as advertised, meaning you wouldn't have expected NVIDIA or Amazon to feature prominently in our

Top Dividend. And obviously, when you look at performance, that showed. However, they basically fulfilled the purpose for which they were set up, and it seems that the investors are satisfied because they got what they bought.

I would imagine the environment to be more favourable for our capabilities. So when you think about the performance of the DAX just year to date, year to date, the DAX is up 7%, 8%, much more than the S&P 500, I think when you look at the DAX over the last 12 months versus S&P, the DAX has outperformed.

So I think that while not all news about Germany are positive, in fact most are not so positive, but German companies are doing really well because they are much more exposed to global trends. And I would imagine, just like our S&P 500 Equal Weight has been getting a lot of attention, I would imagine value stocks to have a better 25, better 26, than 23 and 24.

So I think when it comes to Active Equity, it is not so much a pipeline of new things, but simply those capabilities that we have, we would expect them to be more relevant from a market environment perspective in 25 and beyond.

Nicholas Herman: Fair enough. Thank you.

Oliver Flade: Thank you.

Operator: The next question comes from the line of Isobel Hettrick, Autonomous Research. Please go ahead.

Isobel Hettrick: Good morning. I have two questions, please. So the first is on the cumulative €150 billion long-term flow target. So is it fair to assume that we should expect this to be more back-end loaded towards 2027, given it will probably take time for Alternatives and Active flows to improve?

And then my second question is on the 2025 reported EPS target of €4.50. Consensus remains quite below this. So what are we missing? Or to put it another way, what is most misunderstood or underappreciated about DWS? Thank you.

Dr Stefan Hoops: Thank you, Isobel. I will start. And then I think, to take the punchline away, I think the cost part is, I think, where the market, where all of you are not yet trusting us. So I will hand over to Markus for that.

So when it comes to the long-term flows, I would not expect them to be back loaded. I think they will probably go up from 25 to 26 to 27, simply in line with market recovery, probably slight market appreciation and so on. But when you simply look at the fact that our Xtrackers delivered €42 billion of net new assets in 24, why would that be lower going forward? And they had a very good start.

And then when you look at some of the asset classes which didn't have a strong 24, 23, we would expect them to do better. Alternatives, for example, but also Fixed Income is another example. So I wouldn't expect a back loaded nature of the flows, maybe a slight increase, but we have, I think, realistic but ambitious targets for 24.

I think your second question, and where I will hand over to Markus in a second, I think it would be dangerous for a CFO and a CEO to challenge all of you in how you assess us. It's like perception is reality, especially in markets. However, I think when you look at where you seem to believe us, and areas in which we probably still have more to prove, or you maybe think we should prove more, it appears that in management fees, we are probably above, or we have shown that we can deliver what you expect, and maybe even more.

And when you think about the fact that in 2024, our average AUM was 950, but we're now at €1.010 trillion, our average long-term AUM was at 840 in 24, we're now at 900, you see that we have a nice, I don't know what you call it, tailwind from management fees year on year that I think you seem to believe… Or maybe are slightly underappreciating.

I think in performance transaction fees, I think consensus is also in line with what we now expect. You have seen us increase our target from 3% to 6% to 4% to 7% of revenues, in line with what we have done in the past. I think where the market still doesn't fully believe us is on cost discipline, and I'm handing over to Markus for that.

Dr Markus Kobler

No, and happy to talk a bit about that. And thanks, Isobel, for asking the question. When you look again in the presentation on page 19, which shows the financial statement, and you look at 2024, what we're saying in our outlook with regard to 25 is that the reported expenses, which are indicated there as the total non-interest expenses, are essentially flat. That is around €1.8 billion. And we provided some additional guidance and insights on the below-the-line items, in particular that we're no longer going to have transformation charges in 2025.

That, again, what we discussed in detail a few months ago, how we manage costs, which is much more comprehensively and diligently, through human capital management, through a very strong grip on non-compensation costs, and also an improved way of how we do change projects, that is going to result in our other cost items above the line being, G&A, slightly higher, and compensation benefit, flat.

And whether you're going to believe that, we've started. We're not saying anything new today. We're reiterating the message on how we aim to achieve the €4.50 and the cost-income ratio below 59%. We started doing that 12 months ago, when we, for the first time, explained the bridge from 23 to 25. And again, every quarter, we talk about that again. And the results prove that we are on the right track.

Dr Stefan Hoops — And the only slight thing to add, I think you're still not trusting the uncommon discipline that we have. I think so far, everything that we've spoken about and promised that is discipline-based, which costs are, investments are, it's discipline around not overspending in some areas or trickling to everyone but being very distinct, I think that's what we've done. So frankly, I think we still have to probably document or demonstrate more the uncommon discipline that I think Markus and I and the whole company are standing for.

Isobel Hettrick — Thank you.

Operator — The next question comes from the line of Pierre Chédeville, CIC. Please go ahead.

Pierre Chédeville — Yes, good morning. One follow-up question regarding passive management. I was wondering if the ESG policy, strict ESG policy from one of your competitors benefited you in the global competition. More globally, how do you see ESG policy, from the commercial point of view, with your clients, whatever the kind of products?

And my second question is about the framework of your deferred compensation. I was surprised to see that to be lower this year, while your performance is very good. So why is that? Because normally, we could see a correlation between both elements, and I was wondering if you have changed your framework on this item. Thank you very much.

Dr Stefan Hoops — Thank you, Pierre. So ESG more broadly, and then specifically for Xtrackers. So we think that there are two facts around sustainability, one, that climate change is real, and secondly, that we are a fiduciary. So those are two facts. Because of those two facts, we believe in offering choice.

So we have a diverse range of products, including climate-related products. We have plenty of products which are not climate-related for those investors that like that. And we have a broad range of climate-related products for those that like that. So we simply believe that we should offer choice. And then all of our products are doing as advertised.

I'm not sure that we really benefited from that offering choice. Maybe. If other people offer less choice, then that's probably a slight advantage. But I think when you look at the ones that we feel we did reasonably well against, in terms of gaining market share, I think they also have a broad offering. I think sometimes it's really more timing, that if you're the first to bring a certain strategy to the market, then maybe you have a slight advantage.

But I do not see any systematic benefit we have because of our ESG policy or somebody else's ESG policy. Again, I think it's important for fiduciaries to not have their world views be reflected in how they manage clients' money, that we are all fiduciaries, but we should offer choice.

Dr Markus Kobler	And I'm happy to take the other question on the lower deferred compensation. The mechanics works that you accrue for variable remuneration over all quarters. And the fourth quarter is usually where you then do the adjustments, when you set the actuals for variable remuneration items. That meant the statement is that we had lower provisions for variable remuneration in the fourth quarter compared to Q3, in particular due to lower deferred component. That's the simple answer.
Pierre Chédeville	Thank you.
Operator	We have a last question from Michael Werner, UBS. Please go ahead.
Michael Werner	Thank you very much. Just one question from me, please. You guys paid out a special dividend last year. I was just wondering if you could update us on the excess capital position for the firm as of year-end 24. Thank you.
Dr Markus Kobler	We do not disclose excess capital information.
Michael Werner	Okay. Thank you very much.
Dr Stefan Hoops	And just to make sure that… I love the clarity and brevity of my partner. But just to make sure that the last question or answer isn’t that brief, again, M&A should be done not talked about, and I think that probably includes excess capital. Maybe in conclusion, because this was the last question, just a couple of thoughts. Firstly, I quite enjoyed my interaction with all of you for the first three years. You may have seen that exceed in my contract. We will be spending more time together over the next couple of years. But thank you for the first couple of years.

Secondly, that question around scale I meant seriously. I would highly appreciate your thoughts on how we should think about scale, particularly for which asset classes, how to think about marginal Cost-Income ratio, what should you factor in, but then most importantly, how should you steer a company based on those thoughts?

And then last one, and this is really probably the last philosophical statement, I think if you had no idea about the AUM or market cap of asset managers, and you simply looked at all asset managers, you landed from the moon and looked at them, and you looked at DWS's capabilities across asset classes, the global nature, being 50-50 institutional-retail, not being dependent on any captive distribution, which I think is good, the variety of methods by which we can distribute products, and then you had to guess our positioning, AUM-wise or market cap-wise, I don't think you would think that we are that small. It's almost a miracle that we are as small as we are.

And what the whole company is really focused on is to get us on the path that we should have been on, to really get into that range, profitability-wise, market cap-wise, AUM-wise, where, based on our capabilities, we should be. And that requires uncommon discipline. And we will continue to demonstrate that we have that. Looking forward to more difficult questions, always fair but constructive questions. And with that, thank you very much from Team DWS.