DWS Group GmbH & Co KGaA

DWS Q4 & FY 2025 Preliminary Results Investor & Analyst Conference Call

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Transcript

Speakers:

Stefan Hoops

Markus Kobler

Oliver Flade

Oliver Flade

Yes. Thank you very much, Lorenzo, and good morning to everybody from snowy Frankfurt. This is Oliver Flade from Investor Relations, and I would like to welcome everybody to our earnings call for the fourth quarter and full year of 2025.

Before we start, my usual reminder that the upcoming Deutsche Bank analyst call will outline the asset management segment results, which have a different parameter basis to the DWS results that we are presenting now. So I'm joined, also as usual, by Stefan Hoops, our CEO; and Markus Kobler, our CFO.

I'm pretty sure you have seen our notification yesterday evening and the material that we published this morning. So Stefan will start with some opening and some closing remarks, and Markus will take you through the main part of the presentation as usual. For the Q&A afterwards, please could limit yourself to the two most important questions, so that we can give as many people a chance to participate as possible.

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

And with that, I will now pass over to Stefan.

Stefan Hoops

Good morning. So this happens when you have Live TV. My Head of Investor Relations just put me on mute. So let's start over. Good morning, ladies and gentlemen, and welcome to our Q4 and full year 2025 earnings call. Even though today marks not only the end of our 2025 financial year, but also of our three-year strategic plan, we would like to spend most of our time looking forward and where we see DWS heading over the next three years.

But let me begin with a brief recap of our financial plan before handing over to Markus to walk you through the numbers in more detail. This is not intended as a victory lap. That is not our style. Rather, it is a fact-based assessment of what we delivered, what we learned and how that shapes our priorities for the next phase.

When we announced our last three-year plan in late 2022, the chips were not exactly stacked in our favor. We faced a difficult environment for asset managers alongside DWS specific challenges, requiring us to reduce costs, drive organic growth and address structural issues.

As you've seen in our release, we exceeded our EPS target reaching EUR4.64 which represents an increase of 56% over the three-year plan. We also delivered well below our cost income ratio target of 59%, even on a reported basis, increased the share of funds with more than EUR1 billion in AUM and made tangible progress in building and scaling our digital business with the launch of our Stablecoin joint venture and crypto ETPs. We closed the year with a strong Q4 with positive inflows across Active, Xtrackers and Alternatives as well as being positive across all regions and client types.

Since our Capital Markets Day in 2022, management actions across both costs and revenues has played a material role in our performance. We focused on structural measures that we took early, combined with disciplined planning and consistent execution. That approach allowed us to deliver through different market phases. As with every multiyear plan, some things turned out better than expected and others less so.

Clearly, the market provided helpful tailwind to the industry, while margin compression and inflationary pressures were tougher than we anticipated at our Capital Markets Day in 2022. While our organic growth has been solid, client demand skewed primarily towards Xtrackers with less momentum in Active and Alternatives developing below our original expectations. In terms of client progress, we feel good about our wholesale partnerships while recognizing there's still room to grow with institutional clients.

On costs, discipline has been strong overall. At the same time, we continue to see opportunities for further simplification, automation and efficiency gains across the organization. Compared to three years ago, DWS is now recognized for the right reasons, our market views, innovation and business relevance. But we continue to see strong upside potential in our brand awareness outside of Continental Europe.

Look, I could go on with areas for improvement, but rest assured, we grade ourselves tougher than any of you would. The past three years have been hard work, but they have strengthened our execution credibility and give us the confidence to be bolder in our targets, which brings me to how we have designed our game plan for the next couple of years.

In Q4, also informed by feedback from you, analysts and shareholders, the Executive Board stepped back to reassess whether the financial targets we communicated one year ago still fully reflect the opportunity set for DWS today. This led to a comprehensive internal strategic review supported by a rigorous planning process, focused on reassessing our priorities, challenging assumptions and allocating capital and resources to the areas with the highest return potential.

The outcome is a refined and more ambitious set of financial targets compared to what we communicated a year ago, reflecting both the progress we've made and confidence in what we can achieve going forward. Our new targets include an EPS growth of 10% to 15% per annum until 2028, a cost-income ratio below 55% by year 2027, performance fees in the range of 4% to 8% per annum, and net flows of more than EUR160 billion over 2026 to 2028.

I will walk you through the thinking behind these targets in a moment. But before that, I will hand over to my partner, Markus, for a closer look at the 2025 numbers.

Markus Kobler

Thank you, Stefan, and good morning, ladies and gentlemen. As Stefan already highlighted, we clearly outperformed the financial targets we set for the full year 2025.

Let me briefly walk you through our key financial highlights. Our EPS increased to EUR4.64, representing a year-on-year improvement of more than 40%. This reflects a combination of operating leverage from higher revenues and continued cost discipline across the organization. Total revenues increased to EUR3,155 million, representing top line growth of 14% year-on-year. Driven by our disciplined cost management, our reported cost-income ratio improved to 58%.

Turning to flows. Our long-term net flows reached EUR33.7 billion with total net flows of EUR51 billion. This demonstrates our diversified product offering and our strong access to clients and distribution partners. Based on these strong results, we are proposing an ordinary dividend of EUR3 per share, consistent with our dividend policy and reflecting our confidence in the sustainability of our earnings profile. Together, these results demonstrate that DWS can grow, improve efficiency and deliver attractive returns for both shareholders and clients.

Let's look at the financial performance snapshot for the full year. Total assets under management increased by 7% year-on-year to EUR1.085 trillion, mainly driven by long-term net flows as well as favorable markets. On the top right, revenues totaled EUR3,155 million, representing a 14% increase versus 2024 and the highest level since IPO.

The main drivers were higher performance fees and increased management fees as a result of higher average assets under management. Total costs remained flat year-over-year and totaled EUR1,831 million, resulting in an improved reported cost-income ratio of 58% for the full year 2025. And as a consequence of operating leverage, we reported a 42% net income increase versus 2024, reaching EUR928 million.

Moving to the financial performance snapshot for the fourth quarter of 2025. Starting at the top left, both total and long-term assets under management increased by 3% quarter-over-quarter, predominantly driven by net flows and market depreciation.

Moving to the top right. Revenues increased to EUR902 million, marking a 20% rise compared to Q3 2025. On the bottom left, costs amounted to EUR486 million, up 12% quarter-on-quarter, resulting in an improved cost income ratio of 53.9%. This marks an improvement of 3.8 percentage points quarter-over-quarter and 10.7 percentage points year-on-year. As a result, our net income reached EUR296 million representing a 35% increase versus Q3 2025.

Let me now share some insights into the client dynamics during Q4. In Q4, the overall picture remained constructive, but client behavior remained cautious in the light of macroeconomic and political uncertainties. We were able to retain positive flow momentum across all client segments and regions capturing client demand for risk management and diversified strategies.

Overall, we reported net flows of EUR10.5 billion and long-term net flows of EUR8 billion underscoring the enduring strength and resilience of our diversified product suite. Long-term retail flows stood out with EUR6.9 billion of net flows marking the 12th consecutive quarter of positive flows.

Germany was a key driver of retail success with flows skewed towards SQI as well as active equity. Long-term institutional flows were positive at EUR1.1 billion, mainly focused on high-margin strategies, including infrastructure and LRA. As we move into the start of 2026, we continue to see clients reassessing allocations in the institutional space.

Looking at regions. Long-term net flows into our home market Germany amounted to EUR4.2 billion, driven by an ongoing demand for Passive including Xtrackers. EMEA, excluding Germany, saw EUR2 billion of long-term flows, demonstrating strong client engagement across the region as clients are increasingly receptive to European investment opportunities.

The U.S. region recorded EUR1.1 billion in long-term net flows. Client demand further shifted towards highly liquid, short-duration products especially in the U.S. fixed income. In APAC, the flow picture turned positive with EUR0.8 billion in the fourth quarter.

Moving to the quarterly highlights within our Active business. The fourth quarter marks a positive turnaround in Active supported by SQI, where client demand remains structurally strong as well as a positive contribution from Active equity.

Active assets under management stood at EUR460 billion, up 1.5% quarter-on-quarter. We continue to report positive flows into SQI, our bright spot reporting EUR0.9 billion in the fourth quarter with new product launches as well as retirement products being a key contributor. Active equity reported positive net flows of EUR0.2 billion, mainly driven by retail.

Fixed income maintained its positive momentum and saw net inflows of EUR0.2 billion mainly driven by net flows into credit strategies as well as our top-selling DWS Floating Rate funds, which continue to attract strong inflows, partially offset by institutional outflows.

Multi-asset saw minor outflows, which were largely driven by a change in sales focus in certain distribution channels. However, the segment remains overall well positioned to deliver performance and support client demand.

Product innovation continues to support the Active franchise. Recent launches include our Xtrackers Floating Rate notes Active UCITS ETF based on a proven and successful strategy.

Moving to our Xtrackers business. Passive, including Xtrackers a solid quarter and delivered net flows of EUR6.6 billion, marking 12 consecutive quarters of positive flows. Assets under management increased to EUR395 billion, up 5% quarter-on-quarter. The main flow contribute was our UCITS business which delivered net flows of EUR6.1 billion. This was mainly driven by equity UCITS ETFs with good momentum in MSCI Emerging Markets, MSCI Japan and EURO STOXX 50.

Our mandates and solutions business delivered EUR1 billion in net flows driven by major mandate wins in Germany and Switzerland. These wins support the continued expansion of our Xtrackers institutional footprint and our core equity exposure.

Our U.S. domiciled ETFs saw outflows of EUR0.6 billion in the fourth quarter, mainly driven by outflows in forex hedged ETFs. Xtrackers remains one of our core strategic growth pillars. As mentioned in previous quarters, our Xtrackers multiyear growth plan is focused on accelerating digital distribution, expanding our regional footprint and scaling our active ETF offerings.

To support this, we have now 42 digital partnerships. While our initial focus was Germany, we are progressively expanding across EMEA driving further expansion across key European markets. The contribution of these digital partnerships to our overall Xtrackers flows continues to increase.

Q4 concluded a year of innovation and significant activity for the Xtrackers platform with more than 100 product events across the UCITS and U.S. 1940 Act business. We further launched a partnership product in the Middle East region to address growing demand for Shari'a-compliant investment solutions in the GCC region and Southeast Asia.

Let me turn to our Q4 highlights for our Alternatives platform. In Q4, our assets under management totaled EUR108 billion remaining stable versus the previous quarter. Our Alternative business delivered overall net flows of EUR0.3 billion in the quarter with infrastructure remaining the growth contributor within our Alternative platform, followed by liquid real assets.

Infrastructure contributed EUR0.8 billion of net flows largely supported by fundraising efforts across various strategies such as PEIF IV fund and our infrastructure debt strategies. They continue to generate positive momentum and position us for future growth.

We further continue to benefit from strong investor appetite for the European transformation. In Liquid Real Assets, flows remained positive in the quarter, recording EUR0.1 billion. We saw a momentum shift in client sentiment with increasing levels of renewed interest in core tailored strategies, particularly in listed Real Estate and Infrastructure.

The sentiment for Real Estate remains challenging. We reported outflows of EUR0.9 billion in Q4 as traditional real estate strategies faced continued pressure this quarter. However, overall momentum continues to build slowly.

On the private credit side, our platform build-out is progressing steadily, benefiting from strong origination capacities with our Deutsche Bank partnership. DWS and

Deutsche Bank recently signed a memorandum of understanding with Al Mirqab Capital, a Doha-based family office to launch a German opportunities mandate, underscoring continued interest in transformational investment themes.

Let me now move on to our Q4 revenue development. Total revenues reached EUR902 million, marking a 20% increase quarter-on-quarter. Management fees increased by 3% quarter-on-quarter to EUR673 million. This was largely due to higher average assets under management mainly driven by rising markets and net flows.

Performance and transaction fees totalled EUR173 million and include a substantial contribution from our flagship multi-asset fund Concept Kaldemorgen, with EUR93 million as well as the fee recognition from PEIF II with EUR60 million.

Other revenues amounted to EUR56 million which reflect the EUR24 million contribution from Harvest, EUR22 million for net interest income and EUR12 million from fair value of guarantees.

Let me move on to the contribution from our joint venture, Harvest Fund Management in China. For over two decades, we have owned a 30% stake in Harvest Fund Management, providing us with access to one of the world's fastest-growing Asset Management markets. Harvest is ranked as the sixth largest mutual fund company in China in 2025.

In full year 2025, our stake in Harvest generated EUR67 million of revenues, including EUR24 million in Q4, which is a strong increase compared to prior quarters. This resulted mainly from a one-off tax item in the fourth quarter.

At the end of 2025, Harvest assets under management stood at EUR219 billion, up 2% year-on-year driven by positive flows into Passive equity funds and fixed income retail products. This was coupled with currency appreciation and partly offset by negative market performance.

Moving to our cost development in the fourth quarter. In Q4 2024, our cost-income ratio declined remarkably. This outcome once again underlines the disciplined way of managing our resources and our cost base at DWS, something which we are extremely proud of.

In Q4, total cost stood at EUR486 million being 12% up quarter-on-quarter, but almost unchanged year-over-year despite higher volume-based costs and ongoing investments. Compensation and benefits increased to EUR248 million.

It is important to stress that this figure should not be taken as the future run rate. It contains several non-recurring items, including performance fee-related carry costs, share price-related effects and some severance expenses.

Excluding this Q4 specific items, our compensation and benefit costs are below both the previous quarter as well as Q4 2024. General and administrative expenses totaled EUR238 million, up 9% quarter-on-quarter but down 6% year-over-year.

This reflects some seasonal adjustments, which typically occur in the fourth quarter. Active cost management means that in the light of positive revenue development in Q4, we took some measures, which triggered these additional costs. As a result of these concerted efforts, our reported cost-income ratio improved by 10.7 percentage points versus Q4 2024, standing at 53.9%.

Once again, this result demonstrates disciplined cost management alongside strong revenue growth. It gives us substantial capacity to invest in future growth initiatives while maintaining our profitability.

Let me now elaborate on our financial targets before handing back to Stefan. Let me briefly build on what Stefan already said regarding our refined financial targets and provide some context.

After thoroughly reassessing our strategic priorities and challenging the key assumptions, we agreed to set ourselves even more ambitious financial targets in order to reflect the progress we have made over the past year and emphasize great confidence in our strategic direction, particularly in the areas where we see sustainable competitive advantages and attractive growth prospects.

Our intentionally ambitious targets until 2028 include an uplift in our EPS growth to 10% to 15% for the next three years which is driven by three elements: disciplined cost management, improved operating leverage and a more dynamic revenue profile.

Correspondingly, our cost income ratio will improve over the next years. More precisely, we expect it to be below 55% by 2027. For performance and transaction fees, we guided towards the upper end of 4% and 7% of total revenues in 2025.

Going forward, we expect contribution to be between 4% and 8%. We maintained our target of at least EUR160 billion cumulative long-term net flows over 2026 to 2028. As already communicated at Deutsche Bank's Investor Day in November 2025.

And finally, we will continue to manage capital in a shareholder-friendly manner, consistent with our disciplined approach to capital allocation and a payout ratio of around 65% for our ordinary dividend.

As per our disclosure, we also updated you that our excess capital stands at around EUR1 billion at the end of 2025. You might remember that you consistently reiterated that organic growth and M&A are an important part of our strategic agenda.

In addition, since the IPO, we said that we will give capital back to shareholders if we don't find adequate options to deploy our excess capital in a shareholder value-accretive way.

Recognizing the excess capital position, we are committed to propose to use a substantial part of our excess capital for the payment of extraordinary dividend in 2027, subject to capital commitment for organic and inorganic growth initiatives.

With that, let me hand over to Stefan to address the specific cost and growth priorities supporting our increased ambition.

Stefan Hoops

Thank you, Markus. You've now seen our new financial targets. While our strategic direction remains unchanged, let me walk you through the logic behind these targets and the specific cost and growth priorities that underpin our increased ambition.

Starting with costs. As discussed in previous quarters, we continue to distinguish between volume-based costs that grow with the business and discipline-based expenses. The measures I will outline are all designed to further reduce the disciplined cost base.

First, human capital management. While the term may sound technical, it reflects a simple reality in asset management. People are the key differentiator. Over the past few years, we have invested heavily in training and talent development, quadrupled our graduate intake, strengthened performance management and clarified functional roles.

Internal mobility remains a core focus, and we will continue to invest to ensure that DWS is a place where the best people want to build their careers. Going forward, the focus is on deploying talent more effectively, thereby rebalancing workload and aligning skills where they create the most value.

This includes targeted senior restructurings and a disciplined approach to external hiring with limited replacement of levers. Together, these measures are designed to improve workforce cost efficiency while maintaining talent quality.

Second, target operating model adjustments. This sounds straightforward, but in practice, it really is. Every few years, organizations need to reassess but our structures remain fit for purpose. Regulatory requirements, client needs and technologies evolve. Yet there's often inertia when it comes to updating our charts and value chains.

As part of our strategic review, we identified areas where simplification and consolidation are warranted. As in previous transformation phases, we intend to take the pain early with the bulk of these restructuring measures implemented by the end of Q1.

Third, IT and operations optimization. You may recall around 18 months ago, we updated you on our transformation program focused on areas that differentiate DWS as an Asset Manager. Since then, we've exited our own cloud migrated applications into Deutsche Bank's environment. And by doing so, freedom resources for automation and AI.

In parallel, this work is accelerating further through operating initiatives including the development of a nearshore hub in Spain aimed at strengthening resilience and efficiency as teams refocus on higher-value automation network.

Turning to growth. What has worked well will continue. We will further invest in Xtrackers, build up our private credit capabilities and continue to scale infrastructure, while we'll deploy the capital already raised. In Active Equities, we are encouraged by recent improvement in flows and we'll continue to prioritize this pumping heart of our company.

There are a number of growth initiatives that cut across our franchise, asset classes and client types. Several are already embedded in our strategy, well advanced. And as these early investments are now bearing fruit, we are confident in raising our ambitions.

Gateway to Europe is one. We've invested here for some time and market sentiment towards Europe has clearly improved. Recent examples include the opening of our Abu Dhabi office in December, and a EUR1 billion mandate from a Middle Eastern investor illustrating growing client engagement. With expanded alternatives capabilities and increasing engagement from sovereign wealth funds, we see tangible upside and will track progress transparently.

Future of Finance is another. We provided an update at the last quarterly call and the focus is now firmly on revenue generation, particularly across embedded investment solutions and digital assets. We will continue to provide updates and are assessing whether this should evolve into a dedicated business line.

Our ambition to be one of the top 5 foreign Asset Managers in the world's top 5 economies is gaining traction, both organically and through selective partnerships. The intended joint venture with Nippon Life India Asset Management that we announced at the end of last year is a platform in one of the fastest-growing asset management markets globally and supports growth across Active, Passive and Alternatives.

This collaboration will build on a well-established franchise with strong local capabilities and will allow us to combine on-the-ground expertise with DWS' global reach. We remain constructive on China, and we are exploring selective partnerships in the U.S. Germany remains our home market and a core pillar of the DWS franchise, attracting strong interest from shareholders and analysts.

As Germany's number 1 Asset Manager by assets under management, we are well positioned to benefit from the current momentum and structural developments in our home market driven by the ambitious reform packages of the German government.

Even in our largest market, we see further growth opportunities across pension reform, infrastructure investments, subsidized schemes, such as the Deutschland Funds and insurance runoff platforms, reinforcing our constructive and increasingly bullish view on Germany.

Finally, collaboration with Deutsche Bank. We identified the partnership as a source of additional value creation at our 2022 Capital Markets Day, and the opportunity is now being addressed more clearly from both sides. Being part of Deutsche Bank Group represents a significant competitive advantage for DWS, giving us access to origination and distribution capabilities that few asset managers can replicate at scale.

The private bank is already our number one distribution partner globally with further upside across joint product development and discretionary portfolio management. Beyond that, through collaboration with the investment bank and the corporate bank, we see significant additional opportunities to expand our offering to institutional and corporate clients including comprehensive pension solutions across all pillars.

Hopefully, this gives you a sense of what we've been working on for quite some time and why we felt encouraged to improve our financial targets. Managing costs requires discipline and consistency. It is not always easy, but it typically delivers results relatively quickly. Sustainably growing revenues is more complex.

It requires a rigorous assessment of opportunities, honesty, about where we truly have an edge, disciplined resource allocation and then patients. Sales capabilities need to be built, investment platform scale and track records established over time. We have laid much of that groundwork over the past few years.

This gives us increased confidence in our growth trajectory, translating into EPS growth of 10% to 15% per annum until 2028. Performance fees are expected to play a more prominent role with updated guidance of 4% to 8% and while operating leverage will drive the cost income ratio below 55% by 2027.

We will continue to manage capital in a shareholder-friendly manner consistent with our disciplined approach to capital allocation. At DWS, we believe in being paranoid-optimist. Optimistic about the future, but uncompromising in execution.

That means continuously challenging assumptions, learning from experience and staying focused on delivery. This is what you can expect from us and it is the approach we'll continue to take as we move into our next chapter.

With that, I will hand back to Oliver, and we look forward to your questions.

Oliver Flade

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

Operator

We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered in the queue.

If you wish to remove yourself from the question queue you may press star and two. Questioner on the phone are requested to disable the loudspeaker mode while asking a question. Anyone who has a question may press star and one at this time.

The first question comes from the line of Hubert Lam from Bank of America. Please go ahead.

Hubert Lam

Good morning and thanks for taking for my questions. And thanks for the new ambitious targets for the next few years. I guess the first question is on that, can you maybe just discuss a little bit more on the EPS bridge from 2025 to get to your 10-plus percent EPS growth. 2025 has obviously benefited a lot from performance fees and other revenues, which almost doubled year-on-year.

Just wondering how sustainable this is? Or you probably need that to grow even further. At the same time, you're seeing headwinds from fee margin pressure, but you've obviously done a very good job around the cost. So just wondering how we all should think about cost growth over the next few years. I think previously, you guided to 2%. Could that be better? That's the first question.

Second question is on your Alternatives, particularly on the credit side. I just wanted an update in terms of your initiatives around there. And just to the product launches over the next year. Thank you.

Stefan Hoops

Hubert, thank you very much. So let me start on the EPS bridge. A couple of comments. So firstly, the jump-off point is the EUR4.64. So I just want to clarify is the EPS achieved in 2025 that we suggest you use at least we use it as a jump-off point. Now then when it comes to the bridge the way we think about it, to get to at least 10%, and obviously, we want to get higher than 10%. I mean, otherwise, we wouldn't have increased the guidance. But at the baseline, look at 10% that would get you to at least EUR5.10 which would be 10, 20 of net income, which would translate roughly to EUR1.46 billion of profit before tax.

I'm sure Markus -- I'm sure you sensed his passion for capital discipline and cost discipline, we'll say something about cost. But honestly, we don't see costs going up from here, meaning the 18, 30 we had this year wouldn't expect this to be higher in '26. If you then assume that our other revenues are typically EUR50 million a quarter, so 2025 was a bit higher than usual and you accept our guidance on performance fees of 4% to 8% and 2026 should be at the upper end, which would add EUR260 million.

It sort of requires us to generate EUR2.83 billion of management fees, right? So the bridge is sort of EUR2.83 billion of management fees, EUR2.60 billion performance fees, EUR200 million of other revenues and then it's like flattish costs, that would get you to 10%. And again, obviously, we want to get higher and can speak about upside.

Now in order to get to that level of management fees, at 25 basis points would require roughly EUR1.13 trillion of AUM. And then just for reference, the average AUM in 2025, was 1,038 so EUR1.38 trillion. So it need to be roughly EUR100 billion higher in the average of 2026. Now we're currently at 1.1 and whatever market you assume probably doesn't look too difficult to get to 1,130 on average. So your question will be around average margin, I would imagine.

One thing to keep in mind is that PEIF IV which obviously is well known to all of you, will have essentially catch-up fees for those coming into the final close, which will be end of Q2. We currently stand at roughly EUR2.5 billion when active fundraising, which is why I can go into any deeper, but want to get to EUR4 billion to EUR5 billion, so you can sort of kind of do the math of how much should come in, in Q1, Q2 and how much catch-up fees will help us keep the average margin stable in 2026.

But that's sort of what you have to believe, if you believe 10%. Now we see we have given with those growth priorities, a bunch of levers that we feel could lead to even more upside on AUM, therefore, management fees. But I would just leave it at that -- happy to take more questions on that Hubert or your colleagues, but that's how we look at the EPS bridge. Markus looks eager to add something on cost.

Markus Kobler

I'm happy to do so. As a side remark, it's Stefan's birthday today. And besides famous Swiss soft drink, which I brought to him this morning, I also told him that he's allowed to answer all questions, but happy to step in.

On the cost side, we expect to remain essentially flat in 2026. And there are a few reasons behind and Stefan has alluded to them all. We have added on a net base, about 260 FTEs in terms of our workforce, we expect to remain stable in the current year.

We're also benefiting from investments which we have been taking in the past, which should help us on the productivity side. We have pretty much completed most of the remediation work, which is also freeing up resources that makes our processes more productive and robust.

And lastly, we are also much better in terms of managing projects to stay within budget, within time and deliver the scope. And so you have two counterbalancing effects. We have volume-driven costs, which we see as good costs. We have also investments, which we increased in '26 compared to 2025. But on the other hand, we also benefit from efficiency improvements. So costs remain flat or expect to remain essentially flat in 2026. So back to you, Stefan.

Stefan Hoops

Hubert, coming back to your question on private credit, I would differentiate between capabilities, essentially the team and then fundraising. Team is now mostly complete. We'll have a senior person or Managing Director join us to run asset-based finance in mid-February, so that person's currently in guarding leave, but then the team is complete.

We are currently actively fundraising for direct lending fund, which is why I can't go into detail. We'll then raise money from an asset-based finance fund where we see good interest. In the last earnings call, I basically implied that there are a couple of specific large mandates we worked on.

You've seen one being announced in both markets and I spoke about it from a Qatari investor. There are more such projects or larger mandates in the works. So we are quite optimistic on the capabilities of the team, but also on fundraising capabilities and fundraising progress to have like a meaningful impact in 2026 revenues.

Hubert Lam

Great. Thank you and happy birthday.

Stefan Hoops

Thank you, Hubert.

Operator

Next question comes from the line of Nicholas Herman from Citi. Please go ahead.

Nicholas Herman

Morning, gents. Thanks for the presentation and for taking my questions and many happy returns, Stefan. Can I just come back to the guide, please? I think 2026 is pretty clear and as you said, given the strong markets that we saw last year given catch-up fees. I think that's all pretty clear.

I'm just trying to understand -- I'd like to clarify that the drivers for the growth outlook beyond '26. And kind of what is driving the uptick in growth outlook versus what you previously guided and whether it's revenues or costs?

As part of that, can you clarify whether you're assuming similar levels of fee margin compression? And I guess the reason I'm asking that is my interpretation is that the strong growth outlook is maybe not due to management fees because the guided annual flows are relatively similar to the previous targets.

And I guess, finally, does the guide include anything for your digital and crypto initiatives? And in which case, if it does, could you please quantify those? Thank you.

Stefan Hoops

Thank you, Nicholas. So the way I understood your question is what changed from when we communicated 10% EPS growth 12 months ago. So a couple of reasons why we felt more ambitious. I mean, 12 months ago, the German government was not yet -- I mean it was pre-election. And when you look at the progress, most of the things that happened in 2025 gives like a nice fiscal boost, which is nice for DAX, nice for corporates, but wasn't specific to asset managers.

Most of the things which they are now deciding or have already decided will directly translate into opportunities for us. I think the biggest one being the Riester reform that I think most of you have probably seen, which will come into effect in 2027. You will have the early starter pensions. I mean, so a variety of things on the pension side. You will have seen the announcement on the Deutschland fund.

I guess the point I'm trying to make, Nicholas, much more bullish, Germany and much more bullish the opportunity set. Most of that will be in 2027 and beyond. So many things happening this year. But for example, the pension reform would really kick in '27.

When it comes to DB partnership, again, a lot more optimistic now than 12 months ago when you listen to my partners for Fabrizio and Claudio speak at the Deutsche Bank Investor Day back in November, all of them essentially gave themselves specific targets for collaboration with DWS, which previously we simply didn't have, right?

So before that, we are all friends but it was essentially friendly engagement. And now there's much more accountability on both sides to deliver. So that's why we're more optimistic.

I think the gateway to Europe, again, 12 months ago, it was like a neat idea. That was before Liberation Day before Euro strengthened all of that. So the gateway to Europe, which maybe 12 months ago was like nice idea into something nobody wanted to invest in. Now seems to be much more investable.

So we are more optimistic on that. I could continue, right? But you see that most of those growth levers, growth priorities, we've spoken about before had invested in before and are much more optimistic simply based on market circumstances, development mandates, so on and so on.

When it comes to the market outlook, we sort of remain constructive, but there are no heroic assumptions in our updated guidance, right? So this is if you will, alpha over beta. So we assume sort of constructive markets, but nothing compared to 2025 or 2024, right? We're obviously market appreciated significantly.

When it comes to margin, we do think that margin compression at DWS will be less than 1 basis point going forward, given the outlook on alternatives, right? I mean, I think as all of us know and like we probably speak about more than any of you would.

We feel that we've underperformed in Alternatives capital raise over the last three years, which is something where we're more optimistic for the next couple of years, which is why we're seeing margin compression will be less than that.

On your final point, like future of finance, that is something which I do think will contribute probably '27, '28, less so from digital assets and more what we call embedded investment solutions. So that's essentially a fancy term for engaging with platforms in an embedded way or any other type of digital distribution channel.

One of the stats I had mentioned in the past is the percentage of Xtrackers sold through digital platforms, which if you recall, was like 30% when I started talking about it, then it was third, it was almost 40% in Q4.

So we feel that we're doing pretty well with those new brokers and platforms and embedded investment solutions is essentially our technical build in order to be even more relevant to those important distribution partners. So that will start to contribute, but probably more 2027-2028 than before. Thank you, Nicholas.

Nicholas Herman

That's very helpful, Stefan. If I could just follow up with that, please, just quickly. But I think everything that you said makes total sense to me. I guess, though, I look at that and say, on the growth outlook, but your guide for long-term flows is still about its EUR53 billion per annum. It was EUR50 billion per annum.

So I don't really see that being translated in terms of the financial targets. And then the other thing I kind of noticed is that your guidance, your assumptions on fee margin compression seem kind of fairly similar to before. But since you set the prior targets a couple of years back, one thing that has changed is we have seen an acceleration in active ETF growth.

And I think -- and you've talked a couple of times about how active ETF fees are notably below your active fee margins. So why is it reasonable to assume a similar level of fee margin compression compared to the past? Thanks.

Stefan Hoops

Thank you. So flows first and then margin. So in flow, look, we have given the guidance of 10% to 15%. I think if we want to get to 15%, flows need to be more than the 160 cumulatively over 3 years. That's the simple answer. I think there are plenty of reasons to be more optimistic.

I mean right now, pension reform in Germany could be a significant driver of highly profitable inflows starting in 2027. So the bunch of levers of why we aim to outperform the target. But again, I think the 160 translates into the 10. And then we would want to get higher in order to get to the upper end of that range.

When it comes to margin compression, I think a couple of things, which make us optimistic. If you look at our presentation, the trajectory of equity of active equity flows, you will see that essentially every quarter we improved over the last six quarters or so and finally had positive inflows in Q4.

Now Q4 has some seasonality. So I'm not saying that every quarter will now be positive, but you definitely see the trajectory which is why when you think about the sort of destructive contribution from active equity outflow on margin over the last couple of years, we feel that this is going to be less going forward.

We really like our inflows in SQI, which is above our average margin. So that's something that you see like drove EUR4 billion of inflows last year. And then again, Alternatives didn't really contribute over the last couple of years and should contribute going forward. So our hope is that Xtrackers is going to continue outgrowing a growing market as they've done over the last 3 years.

So that's obviously our aim and there's essentially some margin dilution because of that. But going forward, we think that the Active high margin products plus Alternatives is going to counterbalance that.

Now as you rightly said, Active ETF will have an average margin below Active, but a margin higher than Xtrackers, so probably more or the typical Passive business. So therefore, that I would imagine having sort of a neutral impact on average margin overall. Hopefully, Nicholas, that's clarified.

Nicholas Herman

No. That’s really helpful. Thank you very much.

Stefan Hoops: Thank you. But I suspect that your peers will have similar questions. So therefore any of that is unclear, please?

Nicholas Herman: Don't suspect so. Thanks.

Stefan Hoops: Thank you. Nicholas.

Operator: The next question comes from the line of Oliver Carruthers from Goldman Sachs. Please go ahead.

Oliver Carruthers: Good morning. Oliver Carruthers from Goldman Sachs. Thanks for the presentation and thanks for taking my question. So Stefan, I know this was not intended to be through that, but I think you're pretty well within our rights to do so. You've grown revenues EUR500 million over the last two years and held cost flat.

So could you perhaps zoom out -- and this is really a backward-looking question, but can you give us a sense of over the last two or three years, where the key net cost savings have come from? Because you've -- as you've highlighted, you've been fighting asset-linked or volume-linked costs and inflation and investing for growth? So that's the first question.

And the second question really interesting to hear your remarks on the German pension reform. Can you really frame what the opportunity is here for DWS? Is it just that the average effective exposure of the German saver to equity is likely to rise, given this reform and then you should be well placed to capture this or are there other components to this that we should be thinking about? Thank you.

Markus Kobler: Hi, Oliver, I'm happy to start with the cost question first. And looking back over the last few years where we have been pretty stable at around EUR1.8 billion. We have been disclosing the way we manage costs a few quarters ago, and then we see basically three different types of costs which is about -- I mean, the three items are external costs, then volume-based costs and then the discipline based cost.

The external costs have been pretty stable. On the volume-based cost, they keep increasing with increasing assets under management, but also then the share price is going up. So that has again, probably increased by a few percentage points. And that has been balanced by the discipline-based cost base.

And what has helped us over the last three years is in particular, what you quite often call below the line cost items. We have concluded with Proteus as a transformation project. So the transformation charges went to zero.

We concluded with bigger investigations and have no further litigation costs at the moment. And we also hardly have any larger restructuring program. So severance costs remain very much in the low double digit. And so these items have been going down.

And then at the same time, we have also reduced quite significantly our external workforce, which have been -- which is one of the big driver in addition to banking services cost on the non-comp cost item because we believe, again, the philosophy, it's not just cost driven, but given our workforce being the most important resources and appreciating asset for us we prefer to have the know-how in-house.

So we have been replacing external workforce and we keep doing that and have our own workforce, in particular, in near-shoring and smart shoring centers in India and the Philippines. And that's where you also bring them down cost because you no longer have the profit markup, you don't have VAT, but you can immediately compensate your own people properly. So that's basically behind it.

And then, the last one, again, even if we have been increasing our workforce, the workforce cost remains stable again for the same reason because we have not been hiring in hubs. We have brought in graduates and we're upgrading our own workforce.

Stefan Hoops

And Oliver, just one thing to add on cost before I come to your question on pension reform. I think what you saw over the last couple of years was disciplined and quite a few like technical measures where we simply stop doing certain things, optimize some things which could be done short-term.

I think the big levers that we have long-term, those we invested in over the last couple of years, and you will only see going forward. Allow me to make one more comment on the human capital management also because just in a recent news article, it was basically summarized as hiring freeze.

Now what we had to do over the last couple of years was, first, quadruple graduate intake to make sure that we have enough smart young folks coming in. Secondly, we are to significantly expand our training curriculum and then announced that we have unlimited training budget for everyone at DWS.

And thirdly, we had to map everyone from a functional role framework. So everyone at DWS essentially has a corporate title, plus a description functionally of what they do, which you need if you really want to push internal mobility.

So you need to understand why that person can do ABC which is why they can also do DEF if you want to have internal mobility. Now these things took time, but you cannot expand the greater program 4x overnight, you have to essentially write the curriculum, hire more interns next year, more graduates and so on, but that we now have.

So the reason why we're now saying, "I don't think we need external folks. I mean, lot of external folks, but we probably like our own talent more is because of all of those investments. So when Markus and I look at our cost base, I want to stay flat at 1,830.

Markus always said he likes 1,800 more. But overall, it will be like flattish going forward. And that's why I think there's still a lot more room to essentially be disciplined on those discipline-based costs.

Now on pension reform, and I will keep it somewhat high level because just like I'm listening to all of our peers, they also listened to us. And I think we probably are slightly closer to the decision makers in Berlin than some of our foreign competitors, which is why I probably wouldn't want to reveal everything we've worked on.

But when you look at the third pillar, what you previously had in Germany was called the Riester products, but I'm simplifying slightly, but it was essentially fully capital-guaranteed products which, therefore, were essentially pretty low risk, but also low yield.

What has not changed is that you can have yield-oriented products without a capital guarantee which are yet still subsidized by the government, right? So a big significant distinction to what we previously said, which was just announced a couple of weeks ago by the government.

So higher risk yield-oriented, no guarantee, but still subsidized. So it's essentially a savings plan into attractive products for the retail investor, right? I mean folks in Germany similar to folks in the U.S. should be long-term investors in the equity market. And the government has clearly seen that.

The consumer protection groups have pushed for that. And that is something which is going to be implemented by early 2027, which I think is going to be a significant opportunity for us to help our many distribution partners in Germany create such products, right? And if you look at research in the market, that should be like millions of new accounts.

Similar or additionally in the third pillar, you also have what's called the early start-up pension, where it's essentially a subsidized scheme for kids, right? And this basically rolls up -- I'll go into detail, but it's a high level for kids below the age of 18 to start investing early.

Again, subsidized, there will be contributions possible from grandparents and so on as also something which will essentially lead to a lot more savings plan like products in Germany.

Now when it comes to the second pillar, and that is something that they are currently working on. As you probably know, most of the German corporate pension funds are essentially pay as you go.

So they're not funded like pension funds in the U.K. or in the U.S., but they are pay as you go, which is not great for some pensioners, actually many pensioners. So there will also be changes which I think will set incentives, but also potentially make it mandatory to fund some or all of your pension obligations.

And again, that should also lead to a lot of opportunities for something like DWS to assist those corporates in collaboration with Deutsche Bank's corporate bank that obviously have been covering those corporates forever.

I mean, I could go on all of them, but I think that sort of covers Pillar 2 and 3, where we see significant opportunities in the coming years. Thank you.

Oliver Carruthers: That’s really helpful. Thanks for the detail. Very clear.

Operator: Our last question for today comes from the line of Pierre Chedeville from CIC Market Solutions. Please go ahead.

Pierre Chedeville: Yes, good morning. Thank you for taking my call. One question regarding the development of net inflows. Maybe could you give us a little bit more color in terms of geography out of the EUR160 million net inflows?

What do you see in Asia, for instance? What is the amount in Asia or in U.S? How do you see things there? And regarding retail versus institutional, I wanted to know what is your appraisal regarding risk aversion in the retail networks for individuals.

Because, of course, you mentioned the plans in Germany in terms of defense, etc., but at the end of the day, we could see that the economic situation is not so fantastic. You have geopolitical risk, of course, things like that.

And it seems that you're maybe a little bit optimistic regarding, in particular, the development in active equity. So I wanted you to elaborate a little bit more on that. Thank you very much, and happy birthday.

Stefan Hoops

Thank you, Pierre. I probably would have hoped for easier questions on my birthday, but thank you. So look, the distribution across asset classes, client types and regions of the 160, which again, I see as a minimum over the next 3 years.

I probably wouldn't want to share, like I wouldn't want to specifically say how much we want to grow with insurance companies in Asia in 2028 in fixed income, but we have plans for that.

Big picture, the way I would look at it is that between two-thirds and three quarters will likely come from Xtrackers from passive, which also implies that we will have significant contributions from Active and Alternatives over the next 3 years, right.

If you look at the last couple of years, in some years, the total flows in Xtrackers were larger than overall flows, meaning the rest was sort of negative. We think that that's going to be between a quarter and a third of flows from other asset class and Xtrackers going forward.

Regional distribution, I mean, Germany has been strong. Germany will stay strong. It was interesting to see contribution from U.S. equities, for example, in the fourth quarter, right? It was nice to see retail demand for active equity in the U.S. So the team there is doing a great job.

Asia has been growing. And when you look at our various regions, then Asia percentage-wise has outgrown the other regions, albeit from a lower starting position.

So I think overall, I would bet that Germany continues to be by far the largest contributor, but with a growing contribution from Asia and EMEA. And then in the U.S., we're working really, really hard. So I would like that to also contribute.

Now I think your second question, can you just clarify, was it essentially whether I'm too optimistic on Germany or active equity and equity outlook? Can you just clarify, Pierre?

Pierre Chedeville

No, generally speaking, in terms of risk aversion for individuals. You mentioned in the last year, in the past years, that we could see kind of risk aversion from individuals in retail networks. And when we listen to you, we have the feeling that your view is a little bit changing regarding this risk aversion sentiment. So I wanted to clarify that with you.

Stefan Hoops: I got it. Okay. Thank you. Well, I mean, I think that's going up so like 20% in 2025 and looking really, really strong, especially for foreign investors who also then benefited from the euro appreciation that probably helped sentiment in what we know very well, which is managing equities, but then specifically European or German equities.

When you look at the performance of our funds, I mean, our flagship funds to dividend had a phenomenal 2025, but it's like 14.7% return beating its key benchmark by like 7.5%. So therefore, I think that strong performance has helped.

I think overall, the -- I think inflows going forward from equities for the pension products will really be long-term in nature. So even if people are maybe short-term risk averse, if you contribute monthly for something that you will get in 30 years, then you probably don't care about timing as much.

So guess what, I would say, we are probably more constructive on the sentiment of retail investors than we were 3, 6 months ago based simply on market performance and in the performance of our funds.

Look, I think everyone is watching what's happening geopolitically, but so far markets are holding up. I think our outlook probably in line with most competitors is for global growth to continue in 2026. But again, I just want to be clear. When you look at our increased growth targets, this is really much more alpha driven than beta. So we do assume sort of constructive markets, but no heroic assumptions in our underlying plan. Thank you, Pierre.

Pierre Chedeville: Thank you. Very clear.

Operator: We have a follow-up question from Hubert Lam from Bank of America. Please go ahead.

Hubert Lam: Hi. Sorry, just one last question, given that we have time and nobody else has asked about it. I think you talked about possibly having a special dividend in 2027 with your surplus capital. I'm just wondering what does it mean for M&A?

Is this less likely that M&A is going to happen, do you think, over the next year. And we've seen -- like recently seen deals within the space, particularly on the Alternative side. I'm just wondering what your thoughts are on M&A at least in the near term?

Stefan Hoops: Thank you, Hubert. So our incredibly gifted Investor Relations team is always prepping us and they had vetted that M&A would be one of the first questions. So I'm glad it is being asked. So look, I think the way we thought about the potential for an extraordinary dividend is similar to 3 years ago in a sort of nonchalant way. We just wanted to communicate that, of course, we want to be as shareholder-friendly as we can with excess capital.

And similar to a couple of years ago, we just wanted to be clear, crisp, transparent in how we are thinking about it. So essentially, that is probably in line with what we -- how we've set three years ago. Now I think the possibility of us doing something organically -- sorry, inorganically is probably slightly higher than three years ago. So three years ago, almost ruled out M&A because I said, look, there's so much we have to do.

And I always said that we just have to grow organically before you even deserve to think about doing something inorganically plus obviously some of the overhang we had, some of the IT challenges we had. So therefore, it's probably slightly higher than then. However, the way we think about M&A is sort of -- there's a pretty high threshold for us to even contemplate it simply because we feel that there's plenty of organic growth levers we have.

When I could continue talking about our institutional business and so on, where I feel we can grow much more. So we want to be disciplined essentially with your money, but at the same time, management attention is something that we also need to be disciplined on.

Now the way we think about M&A is sort of three types: consolidation, product capabilities and access. I think when it comes to consolidation, we -- like all of our competitors, we now trade in line with the market, but we have a higher organic growth rate than most of our competitors. So just mathematically, it's not easy to consolidate without diluting the organic growth rate, right?

So simply, if we are growing faster, but we trade in line, then unless we can buy some of the discount, it's going to be destructive for shareholders. That could change if markets become slightly wobbly with all the respect to all of you listening. But right now, when you look at price earnings, you do not differentiate for cost-income ratio, right?

So when you look at banks, banks with similar net income but one being much less levered, that would trade higher. In asset management, there is no distinction between us having nice EPS growth, at a cost income ratio is sub-60 and competitors having a cost income ratio in the 80s, which because I'm not an expert, but I don't comprehend because

I think when it comes to the downside if markets became bubbly, we will benefit, others may struggle a bit more.

But I think unless you have that kind of market environment, I do not see scope for big consolidation. Which brings me to product capabilities I think most things in a trend is, we would probably want to grow organically. Some are difficult to grow. I think that you had in real estate difficult to grow. So that's something we look at.

And then something which I think is more and more differentiating sort of client access in the institutional space being called OCIO in retail model capabilities. So essentially, that's something that clients more and more expect essentially as the interface or what they see and then all of the asset management is behind that. That's probably something difficult to build and something we would potentially look at inorganically. But in both cases, there's not a lot in the market.

And then finally, when it comes to access, we look at potentially increasing access to client types and potentially getting access to captive liabilities. I think captive liabilities -- not that easy to buy an insurance company because of the accounting implications. But there, we look at a variety of a couple of things.

When it comes to access to clients, that's really just in Asia, what we're interested in. I mean you saw our joint venture in India, which is going to be a real acquisition, but with a purchase price in the double-digit million. So not like breaking or really impacting excess capital. Like China, maybe there's something to be done.

But overall, I think our -- communication continues to be, we're incredibly mindful and disciplined on only doing things which would increase the earnings growth or be accretive to growth to shareholders, otherwise would just return the capital. That's how we look at it.

Hubert Lam — Great, very clear. Thank you.

Operator — We have a follow-up question from Nicholas Herman from Citi. Please go ahead.

Nicholas Herman — Yes. Thank you. Like Hubert, I thought given the call was relatively short, I couldn't miss an opportunity for a follow-up. Just a question, just I guess conceptually, access to captive liabilities. Is that -- would that -- could that occur and actually also be accretive to growth? Just curious there.

And then the other one I wanted to ask was on flows. It looks like you have lost a bit of market share in Passive versus

	your large European competitor. Just curious if you could explain what drove that and if you have any visibility of that reverting at all anytime soon? Thank you.
Stefan Hoops	Thank you, Nicholas. Let me start with Xtrackers and then come back to the captive liabilities. So we love the Xtrackers business, and the team is really good. What is true is that they had a strong Q1 and Q3 last year and mediocre Q4 and the weak Q2 right? The weak Q2, we spoke about when we spoke about Q2 results and explain what happened.
	But overall, that combination led to us growing slightly below our market share in 2025. I think most of that if you differentiate between low-fee core products, and higher fee value-add products, most of that market growth that we did not participate in 2025 was the low fee core equity.
	Now to be clear, this is not meant in a defensive way. We want to grow everywhere but it wasn't really, let's say, revenue relevant to have lost that market share because, again, that was in very low fee core products. I think when it comes to that, we quite like what the team has done in ETF as a service, launching six Active ETFs in '25.
	So we're now at 11, signing up new partnerships. We signed off on Xtracker is extinction case so that team is growing in Central Eastern Europe, in Italy and Asia, in the U.K.
	So again, really trust in the team and the team will continue to outgrow a growing market. When it comes to access to captive liabilities, I probably almost violated my rule of M&A should be done and not talked about by kind of conceptually walking you through our thought process on consolidation, product capabilities and access.
	So I think I'll probably leave it at that. But I mean, we're not going to buy a Life Insurance company for a variety of reasons. But there are potentially other things one can look at in sort of like the captive liability space.
Nicholas Herman	Very good. Okay, thank you.
Stefan Hoops	Thank you, Nicholas.
Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Oliver Flade. Please go ahead.
Oliver Flade	Yes. Thank you very much, everybody, for listening in. And really good questions as usual. And please reach out to the IR team in case there are any open questions left. Otherwise, we wish you all a fantastic day and talk to you soon. Bye-bye.

Markus Kobler	Thank you.
Stefan Hoops	Bye, everybody.