Beteiligungs GmbH

Q1 Earnings Call

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Transcript

Speakers:

Asoka Wöhrmann

Claire Peel

Oliver Flade

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Oliver Flade

Morning, everybody, from Frankfurt. This is Oliver Flade from investor relations, and I would like to welcome everybody to our earnings call for the first quarter of 2021. I hope everybody is keeping healthy and safe, wherever you are. And before we start, I would like to remind you that the upcoming Deutsche Bank analyst call will outline the asset management segments results, which have a different parameter basis to the DWS results that we are presenting today.

I'm joined, as always, by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO. And Asoka will start with some opening remarks, and Claire will take you through the presentation. And for the Q&A afterwards, also as always, please could you limit yourself to the two most important questions, so that we can give as many people a chance to participate as possible.

And 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 now, I would like to pass over to Asoka.

Asoka Wöhrmann

Thank you, Oliver, and good morning, everyone, and thank you for dialling in today. Let me say that I genuinely hope you are all staying healthy, one year now into a global pandemic. Following a unique and unprecedented 2020, during which we were able to achieve our IPO targets one year ahead of schedule, we started the New Year by launching phase two of our corporate journey as a listed company.

During the second phase, we will, in the midterm, transform DWS, invest in the firm's growth, in order to become a leading asset manager with global reach. We will invest into a dedicated standalone infrastructure, designed for a fiduciary asset manager, and we will invest in technology and growth opportunities wherever we see them. We will do so in order to take a leadership position in our industry, on both sides of the barbell. In passive, on one side, in high-margin, active and alternative strategies on the other side, and vertically, in ESG products and ESG investing.

Ladies and gentlemen, during the first three months of 2021, we were focused on delivering profitable growth, and we were successful doing it. Net inflows, excluding cash products, totalled $0.7 billion in quarter one, our second highest level ever, driven by continued flow momentum into

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targeted growth strategies. Our assets under management increased to €820 billion amid improved market performance and favourable FX movements. And the firm's adjusted cost-income ratio improved substantially in the first quarter, as we were able to book higher revenues, especially from performance fees and also our holding in China, Harvest.

What makes this a truly successful quarter is that we were able to deliver this profitable growth while starting to execute our medium-term phase two strategy to transform, grow and lead. Our barbell strategy worked well, with growth coming from both sides of the scale and profitability equation. We saw very strong inflows into our passive franchise DWS Xtrackers, and also substantial inflows into high-margin strategies, especially alternative products and active fixed income.

During the quarter, we laid the foundation for our own technology platform as we move more and more into a standalone asset management-dedicated infrastructure. The project, jointly executed with our majority shareholder, is now in full swing. Furthermore, we implemented our new functional role framework, removing corporate titles and strengthening our firm's corporate culture of performance and fiduciary responsibility.

It is the ambition of our entire executive board to position DWS for further growth and shaping our firm into a true leading asset manager on the global stage. This is precisely why we have even further strengthened the importance of ESG for the firm by pulling together responsibility not only for ESG strategy but also for the execution across our organisation, as me as CEO. Going forward, I will work closely with my direct team to ensure we are taking the clearest possible action and decisions to integrate the best ESG practices for our clients, our shareholders and our employees.

Sustainability in general is an area we continue to focus on, including in this quarter. As we look to lead the asset management industry in its transformation and modernisation, we teamed up with our strategic partner, Arabesque AI, to launch our first joint fund that uses artificial intelligence to support better and more sustainable investment decisions.

We also partnered with the Asset Management Exchange in the UK, to develop an investment solution that allows pension plans to express stewardship preferences in pooled funds. This is an industry-first innovation, and one that we

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believe will be a game-changer for pension clients in Europe. We are pleased that DWS can play a part in finding solutions and improving the market, demonstrating our ability to innovate in the ESG space.

So in summary, we have made significant progress during the first quarter of 2021, delivering profitable growth for the firm and its shareholders, while diligently executing our longer-term strategy to transform, grow and lead. With that, allow me to pass over to our CFO, Claire Peel, to talk about our financial result in more detail, before I give you an outlook of our road ahead. Claire, please?

Claire Peel

Thank you, Asoka, and welcome, everyone. I hope you're all keeping well. Today, I will present the results and activities for the first quarter of 2021, starting with the key financial highlights. Adjusted profit before tax increased to €249 million, up 17%, quarter on quarter, reflecting strong revenue growth in Q1. Adjusted cost-income ratio improved to 60.7%, driven by both higher revenues and lower costs over the quarter. Net inflows totalled €1 billion in Q1, including significant contributions from our ESG-dedicated funds. Excluding cash, net inflows were €9.7 billion, driven by inflows into targeted asset classes.

Moving on to our financial performance snapshot in Q1, starting at the top-left, AUM increased to €820 billion in Q1, up 4%, quarter on quarter, driven by market performance and favourable FX movements. On the top-right, adjusted revenues grew to €634 million in Q1, up 5% from Q4, reflecting higher performance fees and other revenues. On the bottom-left, adjusted costs were down 2%, at €385 million, due to lower general and administrative expenses, quarter on quarter. Together, this supported an adjusted cost-income ratio of 60.7% in Q1. Adjusted profit before tax increased to €249 million, up 17%, quarter on quarter, and up 39%, year on year, as a result of higher revenues in Q1.

Let's recap on the market environment. All major equity indices rallied strongly in the first quarter, reflecting the progress made in vaccination campaigns worldwide. The continued accommodated fiscal and monetary policies of central banks and governments also contributed to the overall improvement in the macroeconomic backdrop in Q1, with inflation once again playing a role in the markets.

In currencies, we saw the US dollar appreciate against the euro, which also contributed to our higher AUM base this quarter. For now, market momentum remains positive, and we expect this to support an optimistic outlook for markets in 2021.

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Moving on to AUM development, after reaching a record high in full year 2020, assets under management continued to grow to €820 billion in Q1, up 4%, quarter on quarter, and up 17%, year on year. The quarterly increase was driven by positive market performance and favourable FX movements in Q1, and net inflows also contributed to overall asset growth, which I will now explain in more detail.

In Q1 2021, we reported net inflows of €1 billion and €9.7 billion excluding cash. This result reflects broader investor sentiment, especially in Europe and the Americas, where institutional investors are increasingly shifting out of cash safe havens, amid improving market conditions. In addition, retail demand continues to grow amid our strong three and five-year investment performance, at 75% and 77% respectively.

Once again, passive remains a key driver of our flow success, attracting €7.4 billion of net inflows in the first quarter. This was supported by continued demand for ESG ETFs. Total European listed ETPs accounted for a significant contribution of our quarterly passive total, helping us to continue winning market share in the region. Active fixed income inflows improved to €1 billion in Q1, driven by insurance mandate wins. Alternative flows remained in positive territory in the first quarter, with €1 billion of net inflows. This was primarily driven by liquid real assets, including strong inflows into DWS RREEF Real Assets fund.

Active SQI reported €0.6 billion of net inflows in Q1, representing the first positive flows into the asset class since 2019, amid growing European retail demand for such offerings. Altogether, these inflows more than compensated for active multi-asset outflows, which continue to be impacted by investors shifting away from broad-based, multi-asset portfolios in the first quarter. Overall, ESG-dedicated funds contributed €4 billion to our total net inflows in Q1, and continue to play an important role in our growing portfolio, which I will now outline in more detail.

Since Q2 2018, new product launches have attracted €26.4 billion of cumulative net inflows, and reported an overall management fee margin of 44 basis points. This includes a €4.6 billion contribution to our Q1 2021 net inflows. The growing flow momentum into our new fund launches is testament to a product innovation which can also be seen in Q1 product launches. In the first quarter, we collaborated closely with our strategic partner, Arabesque AI, to jointly launch the DWS concept ESG Arabesque AI Global Equity Fund. This product is designed to address three key industry megatrends over the coming decade, sustainability,

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digitalisation and low interest yields, and it uses artificial intelligence to drive stock selection, support better investment decisions, and mitigate common behavioural biases.

As committed, we also launched the DWS Invest SCG [?] European Equities fund in Q1, which aligns 66% revenues with UN Sustainable Development Goals. And we launched the DWS concept ESG Blue Economy fund as part of ongoing efforts to proactively address water risks in our investment portfolio.

As we advance further into Q2, we maintain strong focus on ESG and ensuring we develop products in line with client demand and market expectations. We are continuing to expand our range of ESG ETFs in response to greater interest in such products, and we are meeting growing investor demand in fixed income ESG strategies, with the upcoming launch of the DWS Invest Low Carbon Bond fund. The objective of this product is to reduce carbon emissions in line with the long-term global warming objectives of the Paris Agreement. And in addition, this fund has been completely designed in accordance with article 8 and 9 of the EU SFDR regulation, which we expect to play an increasingly important role in our product development going forward into 2021.

Moving on to revenues, total adjusted revenues grew to €643 million in Q1, up 5%, quarter on quarter, and up 21%, year on year. Management fees and other recurring revenues were positively impacted by higher average AUM of 797 billion, amid stronger market and currency performance in the first quarter, and with the management fee margin of 27.9 basis points in Q1. Performance and transaction fees increased by 21% from Q4 2020, driven by non-recurring real estate performance fee. Performance and transaction fees are expected to represent 3% to 5% of adjusted revenue per annum, with opportunity for upside in a continuing strong-performance environment.

Other revenue also contributed strongly to our revenue growth in the first quarter. This included the €27 million contribution from our Chinese investment, Harvest, together with a favourable change in fair value guarantees and higher investment income.

Moving on to costs, total adjusted cost declined by 2%, quarter on quarter, to €385 million in Q1. This was driven by lower adjusted general and admin expenses, which fell by 16% from Q4, reflecting reduced [unclear 00:16:20] spend as well as the sustainable impacts of our cost-efficiency initiatives. This more than offset adjusted compensation and benefits costs, which increased in the quarter due to higher variable compensation and seasonal uptick in benefit costs. A continued decline in adjusted costs, together with the higher quarterly revenues, supported an adjusted cost-income ratio of 60.7% in Q1.

To conclude, DWS has sustained its strategic and financial success of 2020 into the first quarter of 2021. This is reflected in adjusted profit before tax which grew 17%, quarter on quarter, and grew 39%, year on year. And in a continued improvement of our cost-adjusted income ratio, which remains below the 65% level, as committed. Higher revenue growth was a key driver of our strong quarterly financial result, further supported by lower costs, and in spite of continued investments into our growth and transformation projects.

While total net inflows were lower compared to previous quarters, we continue to track strong flow momentum into our targeted growth areas, including ESG, passive and alternatives. And our retail funds continue to outperform peers, as reflected by our strong three and five-year investment performance at 75% and 77% respectively. Thank you, and I will now hand over to Asoka for the strategic outlook.

Asoka Wöhrmann

Thank you, Claire. Without doubt, the first quarter marks a strong start to phase two of our corporate journey as a listed asset manager. In quarter one, we delivered profitable growth, including an adjusted cost-income ratio of below 65%, as committed for the full year 2021, and with the clear and achievable path to a sustainable adjusted cost-income ratio of 60% in 2024.

We also continued to develop products in line with client demand and market expectations, with a strong focus on ESG, as we are convinced these strategies are vital for our future growth. And this is precisely what we are focused on at DWS in the future. Our sights are firmly fixed on how we can sustain our success in the years ahead, in the long term, especially as our industry continues to evolve amid growing social and regulatory pressures. So consequently, our ambition for phase two of Transform, Grow and Lead is substantial and based in the medium to long term.

In this respect, we are working towards a number of key milestones to ensure DWS is strongly positioned for any potential industry challenges, as well as opportunities. First, we will continue to develop and build our dedicated infrastructure platform as part of ongoing efforts to establish ourselves as a standalone asset manager. Second, we will advance further and faster with our ESG First principle in our fiduciary and corporate actions.

We feel strongly about the change needed in the global economy to ensure prosperity and sustainability for our future generations. And it is our declared ambition to help lead this change in every way we can, through stewardship, dedicated products, corporate action and much more. We understand this is a long-distance race, so we will continuously stay on our front foot, never settling for the status quo and never resting on what we have achieved.

Third, we will play to our strengths in passive, targeting efficient organic growth to further expand our market share, especially in the European space. Fourth, we will intensify our focus on high-margin strategies, to ensure we remain focused on profitability with a particular focus on thematic equity and active and liquid investments.

And finally, fifth, we remain committed to capturing growth opportunities, especially in Asia-Pacific, by tightening our collaboration with our existing partners, and also by finding new ones. Without a doubt, there is a lot of groundwork we will need to cover to ensure we are strongly positioned for the future, so over the next quarters we will focus on these topics, keeping our eyes on the longer-term horizon. We will transform our organisation, the way we operate and the way we work together, for our clients, our shareholders and our employee base, and we will invest where we feel we can grow and where we know we can lead. Equally, we remain laser-focused on making sure we are constantly heading in the right direction, as exemplified by the strength of our results this quarter. Thank you for listening. I will now pass on to Oliver for Q&A. Oliver, please?

Oliver Flade

Thank you very much, Asoka. And, operator, we are ready for Q&A, now. Again, I would like everybody in the queue to limit yourself to two questions. That would be fantastic, thank you very much.

Operator

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

Hubert Lam

Hi, good morning. I've got two questions. Firstly, on M&A, you said you were willing to do more M&A, can you discuss

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your view of transformation deals versus bolt-on deals? Is increasing your size a big target of yours? And what will you be looking for specifically in a deal, particularly in a larger type of transaction? That's the first question. Second question is on flows. You've had very strong passive flows while active flows remain quite muted. Is there much interest in active funds, or is it just lagging? Or is it attributed to weak performance of certain funds that you're not seeing active inflow? Thanks.

Asoka Wöhrmann

Hubert, good morning, and thank you, I will take the M&A question, and Claire will come back on the flows. M&A, I think we have never changed our opinion on that. We always phrase it that we want to grow organically, and on the way of our organic growth path, we would like to do a bolt-on acquisition if that fits to enrich our asset classes, our offering, our footprint and also the client bases. And also, I think I always mentioned, Hubert, the cultural fit is important, not to lose shareholder value in this transition of mergers.

And transformational ones, I know there was a lot of rumours in the market, as you also know, I never comment on rumours on M&A. But I do think I am expecting now, after nearly one and a half years of COVID, we are going to enter into a consolidation momentum in the M&A area and asset management, so therefore we are actively looking around. But again, at the moment we can't comment on any M&A rumours. And our path of organic growth, and enrich our strategies by bolt-on strategies, we are always active. So with that, I think I will hand over to Claire.

Claire Peel

Thank you, Asoka. And good morning, Hubert. Just to answer the question on flows, 9.7 billion of inflows in the first quarter, very strong in terms of trend, the barbell is driving that. So passive, 7.4 billion, is our strongest quarter, and we expect to continue to see that growth in passive and ETF space, and of course that's an investment area for us.

On the point of active, I think we can say that the scale of growth is not to the scale that we see in ETFs, but we do see inflows in active equity, in active SQIs, in active fixed income in the first quarter, and indeed we did also in the fourth quarter. So we continue to see growth and inflows in active, albeit not at the pace that we see in passive. But the key theme that we observe in our active space is the shift to ESG thematic funds, and we are participating very actively there, ensuring that we are launching products that meet client demand in the active ESG space, as demonstrated in the first quarter, and that's where we see a lot of attention in our net flows in active. I would also point to retail overall, where we see an increasing net flow contribution in Q1 compared to prior quarters last year in the retail space in general.

Hubert Lam — Great, thank you very much.

Oliver Flade — Operator, I think we can go on with Jacques-Henri.

Jacques-Henri Gaulard — Oh, sorry, Oli. Can you guys hear me? Apologies.

Oliver Flade — Yes, your line is open.

Jacques-Henri Gaulard — Sorry, I didn't hear anything at all. Thank you very much for taking two quick questions, there. I was looking at the outlook just for the year, which is a little bit muted, let's face it. At pre-tax profit, I notice that if the idea is to maintain the pre-tax profit flat, let's call it 800 million for the year, you've already reported 250. It means that you would need to actually deliver 180 for the remain three quarters, which is okay but is not necessarily, on average now, none of the best quarters we've seen. So the question is isn't your outlook for 21 a little bit conservative, in light of that? That's the first question.

And maybe the other question would be on the other income, and maybe have an idea about where the fair value of guarantees are now. Is it basically an offset of what we had in Q1 last year? And where should we put this line? Is it going to have an impact now, on the growth, in revenues going forward, or should we assume that the volatility of this line is going to remain pretty much flat? Thank you.

Claire Peel — Thank you for the questions. I'll take those two. The first one, on outlook, we did publish our outlook in March, and we did indeed state there that we expected 2021 revenues to be slightly higher, costs to be slightly higher, which would lead us to have a profit before tax which would be essentially flat. I think it's very fair to say that we've had a strong start to 2021, we have seen a strong growth in the markets and a strong growth in revenues, and we certainly remain optimistic in the equity markets, but cautiously so.

So yes, I think we are conservative in our outlook, we'll observe that very closely in the coming weeks and months, but it is early in the year for us to immediately adjust away from that. But as I mentioned earlier, I think certainly we could see some upside if we continue to operate at these levels on a sustainable basis.

If I come onto the questions about other revenue income, within other revenue income we've done well in Q1 from three key factors, one of which is the guaranteed portfolio that you pointed to. Our joint venture in Harvest has performed particularly strongly in the first quarter. We've

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also seen investment income from our co-investment investments in our alternative space, and we saw a positive return in the change in our guaranteed portfolio. We did see the opposite side of that in Q1 of last year, but we haven't seen the full return in the first quarter, given it's a nonlinear growth that we see in the guaranteed portfolio. But in terms of the forward guidance around the other revenues, I wouldn't expect to see a substantial increase in the fair value guarantees, I would expect that to be largely flat from where we are now, subject to interest rate environment.

Jacques-Henri Gaulard — Thank you very much, Claire.

Claire Peel — Thank you.

Operator — The next question comes from the line of Shamoli Ravishanker with Morgan Stanley. Please, go ahead.

Shamoli Ravishanker — Good morning. I have two questions, please. Firstly on the margins, was the decline in margin mainly due to mix of flows, [unclear 00:30:49] to passive, or were there any other pressures within each asset class, for example within alternatives more flows into liquid also which might be lower margin than the overall asset class? And the second question is on the cost-income progression through the year. How should we think about the phasing of investment over the rest of the year, and what areas would this focus on? Do you maintain your previous guidance of getting to below 60% by 2024 being more back-end loaded within that period? Thanks.

Claire Peel — Thanks for your questions. On the first one, on the management fee margin, we saw a fee margin of 27.9 basis points compared to 28.3 in the fourth quarter. The net flow and the market environment has been net positive in the first quarter. We've seen some other effects within the quarterly margin decline, which are threefold. One is related indeed to the passive space, where we see a change in the mix of the assets overall, and the average margin within passive, that is certainly a contributory factor.

Also, in alternatives we had a closing in the fourth quarter of an infrastructure fund, which gave us effectively a higher effect in our margin in the fourth quarter, which we don't see in Q1, but we may indeed see again in the second quarter, as we move into another closing. So some volatility that we always see in alternatives. And to a lesser degree, there's an effect from the cash mix which we see in the first quarter as well. So those would be the three effects. In the second quarter, as I say, the alternatives effect could go in the other direction.

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	On the second question, on the cost-income ratio progression, we still very much hold our guidance of a target of 60% by 2024. At the end of last year, we of course met our original target of below 65%, and we committed to stay below 65% cost-income ratio in a sustainable way, and that's what we see in the first quarter. We do intend to invest in growth, and we haven't seen the full pace of that in the first quarter, hence the 61% that we see in Q1, but we would expect to see that investment develop as we go through subsequent quarters of this year.
Shamoli Ravishanker	Thank you.
Claire Peel	Thank you.
Operator	The next question comes from the line of Nicholas Herman with Citigroup. Please, go ahead.
Nicholas Herman	Good morning, thank you for the presentation. Two from me, please. Just firstly, on the 27 million Harvest contribution, presumably there were some one-offs or performance fees, is there anything you can quantify, please, and just what drove such a big step up there? And then, secondly, on ESG, could you just clarify, or any colour you can provide, on the average margin on the 4 billion of ESG inflows, please? That would be helpful, thank you.
Claire Peel	On the first question on Harvest, yes, you're right, we saw an exceptionally high recognition of income from our JV, and there were some one-off effects in that from one-offs that we saw in Harvest that followed through to the net income that we gave. So I would expect that to normalise in the second quarter, but at the same time I think we see a very strong performance in our JV in China, and we would expect to see a higher return this year compared to last year. But clearly not at the same run rate of Q1. On the second question of ESG, of course there is a range, mix across ETFs, across active within the ESG portfolio of investments. I cannot give you a specific fee, I'm afraid, against the 4 billion, but if we look at all of our new fund launches since 2018, the cumulative effect there is 44 basis points. But the range of ESG would depend on asset class.
Nicholas Herman	Okay, thanks very much.
Operator	The next question comes from the line of Julia Varesko with J.P. Morgan. Please, go ahead.
Julia Varesko	Good morning, thank you for taking my questions. The first question I have, on slide 17, is there anything to drive the lower relative performance recently in active equities? And then when it comes to regional performance, in the US you

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saw some outflows, so I was just wondering was that mainly driven by cash product, or was there anything else? And also, do you expect to see some further outflows in cash in the coming quarters, or has that rebalance now largely happened?

Asoka Wöhrmann: Thank you, Julia, for the two questions. I think the second question, I will start with that. I think there is a cycle always in the market on cash, and I do think we have seen unbelievable cash injections last year into the market. And I think we have also seen our peers have collected a lot of cash. Last year, we collected a lot of cash. And as I'm always mentioning, this is a kind of service and it is not a really dedicated franchise we are looking for, but again I am seeing further cash to equity and fixed income, and asset classes that have to be recycled into investments at some point. So we are seeing a strong momentum. That's the second question.

And the first question, I think active equity and general equities, I do think we had a fantastic market this, it's a stunning market, and I think the first reaction is always the first players are allocators and they are playing in the ETF space. That's what we have seen very strongly this year, especially in Europe, now that we have seen a very strong equity play through the ETFs, but also we have seen in the thematic equities now declines are coming back.

And I would say we are not seeing ESG as a thematic but we have seen a lot of strong inflows into the SCG equity type funds, also portfolio and also that now more and more clients are going to thematic types of equities. This is what we have seen overall, but at the same time we have also seen, like not ESG equity income, great inflows but, at the same time, we have also seen in other top dividend fund outflows. So that is why our picture looks like in net not very strong equity flow. But we have seen a very strong shift into the equity area, and that's what I am expecting to continue, because this year will be very much clients willing to go into equities because of the performance, and especially in the retail area.

Julia Varesko: Thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star followed by one. The next question comes from the line of Jochen Schmitt with Metzler. Please, go ahead.

Jochen Schmitt: Thank you, good morning. I have one question on your net asset flows in Asia-Pacific. Could you please comment on the growth posted in Q1? That's my question.

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Claire Peel	Hi, thank you for the question. Yes, in Asia we saw net inflows in the first quarter of 1.3 billion overall in Asia-Pacific. We saw that across the asset classes of passive, ETFs and fixed income mandates.
Jochen Schmitt	I'm sorry, maybe just a follow-up from me, what are your expectations for the next quarters in this regard? Thank you.
Claire Peel	Overall, I would say, when we look at this globally, we focus on a greater than 4% net flow rate over the medium term. We stay committed to that and we think that's very achievable. We expect to see all of our channels and our regions contribute to that, recognising of course there's always room for some volatility. But we do expect Asia-Pacific, as with our other regions, to contribute to a greater than 4% net flow rate.
Jochen Schmitt	Thank you.
Claire Peel	Thank you.
Operator	The next question comes from the line of Luke Mason with Exane BNP Paribas. Please, go ahead.
Luke Mason	Good morning. Just a couple of questions. Just following up on Harvest, so seeing very good progress in terms of the financials, both this quarter and in 2020, I just wondered if you could any more high-level commentary on net flows, the revenue margins and profit margin and the trends there at Harvest, and what would you see as a run rate level of growth in the medium term for that business? And then, second question is on the IKS platform. I think it was reported that this was potentially up for sale a few quarters ago. Possibly can't comment on that, but I'm wondering if you can give any update on thoughts and any strategic rationale for keeping it in the group?
Claire Peel	Hi, thanks for the questions. Yes, our Harvest JV has been performing very strongly, both last year and this year. Within Harvest itself, they have just below 170 billion of assets under management and has attracted inflows in the first quarter, and indeed last year. So our 30% JV holding is obviously taking a share of that and represented in our financials. We saw a strong and, I think, the best contribution from Harvest last year, and we expect that to continue to grow and develop. Harvest itself is very focused as well on product launches. They have 13 new product launches in the first quarter, which was contributing to their success. So we're very happy with JV and partnership there that we have with Harvest. On the second question, I'm afraid we can't comment, obviously, on any specific market speculation. As we do with

our entire portfolio, we will always look very closely at how we can optimise and develop strategically, both organically and inorganically, to look to get the best return for DWS.

Luke Mason — Okay, thanks.

Operator — The next question comes from the line of Adriaan van Otterloo with Intrinsic Value Investors. Please, go ahead.

Adriaan van Otterloo — Good morning. First of all, Asoka, congratulations on your extension of your CEO role. As shareholders, we are very happy with that. But I have two questions, and one is related to the technology platform. I assume that you're going to make those investments this year, but once they have been made and you're able to turn off the relationship with Deutsche Bank, what do you think your net-net cost savings will be?

My second question is on the guaranteed projects, with interest rates rising, your guaranteed products are rather becoming a liability, they will probably become an asset, it will generate more excess capital, what do you think you will do with your excess capital which it will generate? Thank you.

Asoka Wöhrmann — Adriaan, thank you again, and thank you for the nice words. And you know our business well, and I think the first question, that is a part of what we have triggered, as I said we are in full swing with our major shareholder to get a standalone infrastructure platform. That is not only infrastructure, that is also all the services. And I think Claire can give you not a precise number but our planned numbers in one second.

And the second question, if I may give you an insight, you're right I am afraid, Adriaan, to the inflation sprint. What we can see, I don't think that it's a sustained one, but I do think that will happen, we will see a steeper curve. As always, it's creating excess capital situation, or more favourable for the excess capital situation, but we have also done very good actions last year to manage the downturn of the long-term rates in the last one and a half years.

So I do think we are happy to look over also for our investors how can we invest at best, as I said, organically, because we have to invest into our platform, we have to invest into our growth projects, because exactly like you said, Adriaan, to make you all happy we have to invest in the second phase, to grow and to become a leading asset manager in Europe, with a global reach. And the second thing, I think we are also not actively screening the market, what is fitting to us in an organic way. And I think for that, it's good to have

	a cushion on excess capital. With that, I will hand over to Claire, and if you can give, Claire, an insight to the first question, that would be great.
Claire Peel	Thanks, Asoka. Yes, just to add a little bit more on the technology platform transformation that has been kicked off and commenced in the first quarter of this year. We see this to be a two to three-year investment project, with benefits coming through in years three and four. We have a 60 million investment over that time horizon, and a 50 million run rate benefit on the other side. We would expect some of those benefits to come through in 2023, with the full effect in 2024, and of course, supporting our cost-income ratio target on a sustainable basis. Again, we're working in earnest on the projects, and of course there is always room for upside as we develop, so I think those efficiencies would be the minimum that we would expect.
Adriaan van Otterloo	And can we assume that from 2023 the service contract with Deutsche Bank will be terminated?
Claire Peel	We would expect to see a phased approach of the external vendor services that we are consuming today, as we go through a three to four-year horizon. There are a number of service spanning both corporate function activity and infrastructure activity that we will phase down as we on-board our independent capability. So it will be a phased approach.
Adriaan van Otterloo	Thank you.
Claire Peel	Thank you.
Operator	The next question comes from the line of Angeliki Bairaktari with Autonomous. Please, go ahead.
Angeliki Bairaktari	Hello, thanks for taking my questions, just two on my side, please. First of all, out of the 4 billion in [unclear 00:46:53] net flows that you recorded in the first quarter, could you let us know how much went into active funds? And second question, we had the announcement earlier this month of Amundi entering into discussions to acquire Lyxor, which is effectively changing a little bit the landscape in the ETF space in Europe. Do you expect this deal to increase pricing pressure in passive strategies in the industry overall? You have guided for around two basis points margin erosion in your passive franchise, year after year, should we expect that to remain, or could things actually get worse? Thank you.
Asoka Wöhrmann	Claire, I will start with the second question. Again, I think there were a lot of rumours, that is why we are never commenting on M&A activities. Yes, I think Amundi is now

involved in the Lyxor acquisition, as we see, and we have always said we have a very strong brand and franchise with DWS Xtrackers, we have a very strong momentum, as you can see also in the first quarter in passive. We don't want too much involvement in the next two, three years on restructuring and bring our energy into this area.

So we are quite confident. I do think that we can really compete in Europe with the Amundi-Lyxor platform, and I do think, from this perspective, for us it was important that we're investing into our passive platform. And again, I'm also not going to judge on the valuation, how that… discussed. So therefore, we still have a clear view for 2024, 2025, we want to become one of the leading ETF players in Europe, and next best to the top American one. So that is our declared view.

Margin erosion is an ongoing topic, and I said that on the first day I came back, and that is not only in active but that is also in passive. That is a scale play, that is why we have to invest into our platform to get the margin erosion counterbalance. And that is why we need a scaled approach there, and we are going to play this scale game knowing the margin will go also in Europe down. We have seen it in the US, we will see it in Europe. But this is the biggest growing market in Europe in the asset management area, and we want to be a key player. So therefore I want to say we have a clear expectation in our plans of margin erosion, it is already there, I think Claire has already outlined in the last quarterly analyst meetings, and I do think, with that, I will hand over, Angeliki, to Claire.

Claire Peel: Thanks, Asoka, and just to come onto the question of the net inflows from ESG in the first quarter of 4 billion, it's split approximately half-and-half between passive and active funds, more heavily weighted towards active in that 4 billion. And of the active funds, equity is the majority share. So I think this is where we see a very strong thematic in the ESG space, and again testament to the product launches where funds that we are launching we are attracting flows in the active ESG space. That is supportive of the general fee margin guidance that we hold to, which is that we expect to see approximately 1 basis point of dilution across DWS as a whole per year.

Angeliki Bairaktari: Thank you very much.

Claire Peel: Thank you.

Operator: There are no further questions at this time. I would like to hand back to Oliver Flade for closing comments.

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Oliver Flade	Thank you very much, and thank you, everyone, for great questions as always, and also for dialling in. Any follow-up questions, as always feel free to contact the IR team. And otherwise, we wish you a fantastic day and a healthy time. All the best. Bye-bye.
Asoka Wöhrmann	Thank you.

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