DWS Group GmbH & Co. KGaA

DWS Q4 2019 Investor & Analyst Conference Call

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Speakers:

Asoka Wöhrmann

Claire Peel

Oliver Flade

Oliver Flade

Yes, thank you very much, Emma, and good morning, everybody, from Frankfurt. This is Oliver from Investor Relations and I would like to welcome everybody to our Fourth Quarter 2019 Earnings call. Please be reminded again that the upcoming Deutsche Bank analyst call will outline the asset management segment results which have a different perimeter basis to the DWS results that we are presenting today.

I am joined by Asoka Wöhrmann, our CEO, and Claire Peel, our CFO. And as always, Asoka will start with some opening remarks and then Claire will take us through the presentation. For the Q and A afterwards, I would ask everybody to limit yourselves to the two most important questions.

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 now let me hand over to Asoka.

Asoka Wöhrmann

Thank you, Oliver. Good morning and welcome, everybody, to the Quarter Four and Full Year Results for DWS. Today, we can report our strongest quarterly financials, completing a year of really strong performance for our firm. During 2019, we completed a substantial turnaround, reported net inflows in every quarter totalling an impressive 26 billion for the full year and almost 30 billion excluding cash.

This represents a swing of nearly €50 billion of flows between 2018 and 2019. This is also the highest annual net inflow number since 2014. We were able to gather net inflows in all three regions and all our focus strategies, reflecting a strength and the depth of our global diversified platform. Our strategic partnerships contributed nicely to these flows, accounting for a quarter of annual net new assets.

Strong investment outperformance was also a big game changer for our improved flow performance in 2019. After intensifying our focus on product performance, we saw 73% of our active retail investment funds outperform their respective benchmark on a three year basis, and 89% on a five year basis.

This led also to a positive external recognition, reflected in 193 funds now rated four and five-stars by Morningstar. For us, this is a significant achievement, as strong investment performance is super important and the number one driver for success in the challenging market environment for the asset management industry.

And we are gaining more and more traction with our product innovations and ESG related products as we are increasingly being recognised for our capabilities, product quality and performance as a standalone fiduciary asset manager. This traction was also reflected in our institutional business where we saw very good inflows, in particular with insurance clients.

Moving to costs. Throughout 2019, we accelerated our cost measures so we can operate more efficiently going forward. We achieved the high end of our medium term cost savings one year early by considerably lowering our third-party vendor costs across the entire firm and by optimising our real estate footprint.

These cost actions were complemented by healthy revenue top line which was driven by market and product performance and by net new assets, resulting in a lower cost-income ratio of 67.6%, thus significantly beating our target of full year 2019. This has put us well on track to achieve an adjusted cost-income ratio below 65% in 2021.

These strong results make it possible for the DWS executive board to propose a dividend of €1.67 per share to the Annual General Meeting, an increase of more than 20% from 2018 and in line with our pay-out ratio guidance of 65% to 75%. With that, I will pass now over to our CFO, Claire Peel, to talk about the financial results in detail. Claire, please.

Claire Peel

Thank you and welcome, everyone. Today, I will present the results and activities for the fourth quarter and full year 2019, starting with the key financial highlights. Adjusted profit before tax increased to €266 million, up 56% quarter on quarter, and 24% in the full year, driven by increased performance fees. Adjusted cost-income ratio improved to 61.3% in Q4, mainly driven by higher revenues. The full year ratio was 67.6%, outperforming our guidance of approximately 70% by year end 2019.

Net inflows were €13.2 billion for Q4, our highest quarterly inflows of the year, and supporting a 4% net flow ratio in the full year. This is in line with our target of 3% to 5% of net flows on average. Last year, we benefited greatly from our global and diversified investment platform, particularly targeted growth areas and with significant contributions from our strategic partnerships.

Let’s move to our financial performance snapshot in Q4. Starting at the top left, AUM increased 2% from Q3 to €767 billion in Q4, supported by stronger net inflows. Moving to the top right, adjusted revenues were €687 million, up 23% quarter on quarter, driven by the recognition of a significant active multi-asset performance fee in Q4.

On the bottom left, adjusted costs increased by 8% to €421 million, reflecting the seasonal uptick in compensation and benefits costs, and the adjusted cost-income ratio fell to 61.3% in Q4, a significant improvement from 69.6% in Q3. This resulted in an adjusted profit before tax of €266 million in Q4.

Moving to our full year performance. This year, markets have been constructive, enabling us to execute our strategic priorities effectively and deliver positive financial performance in 2019. AUM increased 16% year on year, driven by favourable market and FX movements as well as improved inflows across most asset classes.

Adjusted revenues were up 6% at €2.4 billion, driven by higher performance fees over the year. Adjusted costs were down slightly at €1.6 billion with accelerated efficiencies partly offset by a number of non-recurring cost items, such as the carried interest relating to one of our alternative investment performance fees in Q2. As a result, the adjusted cost-income improved to 67.6%, below our guidance of approximately 70% for the full year 2019. Adjusted profit before tax increased to €774 million in 2019, driven by stronger revenues.

Let’s recap on the market environment. At the start of 2019, we were cautious but constructive on equity markets following a challenging and turbulent 2018. Last year, market conditions were less volatile, helping to drive improved investor risk appetite, particularly in the retail space. In contrast to last year, the fourth quarter was the most positive of 2019. All major equity indices traded at higher levels in Q4, resulting in improved investor risk appetite, particularly in the European retail market.

Bond yields also bottomed out after deteriorating in the third quarter, while fixed income interest rates started to trend upwards, which had a positive impact on the fair value of guarantees. In the fourth quarter, we also saw the US Dollar depreciate against the Euro but remain positive for the full year. Overall, market conditions were more favourable compared to 2018, helping to contribute significant AUM growth at DWS in 2019.

Moving more closely onto AUM development. Assets under management grew to €767 billion in Q4, an increase of €15 billion in the fourth quarter and an increase of €105 billion in the full year. Market performance was the primary driver of the annual increase, further supported by positive FX while net inflows were a key contributor of quarterly asset growth, and in the full year making a significant turnaround from 2018 redemptions.

Let’s look more closely at the composition of net flows. The fourth quarter marked our strongest quarterly flow performance of 2019 with €13.2 billion of net inflows and €14.8 billion, excluding cash. Passive was a key flow driver with inflows accelerating to €6.2 billion in Q4 and €19.1 billion in the full year, more than double 2018 inflows.

ETFs and ETPs accounted for the majority of quarterly inflows, driven by positive momentum in the European and US markets, while mandates significantly contributed to the full year inflows, reflecting successful continued efforts in expanding our institutional client base.

Alternatives have been and will continue to be a key growth area for DWS. Inflows in alternatives more than doubled to €3.7 billion in Q4 versus Q3, and reached €10.2 billion in the full year, up significantly from 2018 inflows. Quarterly and annual alternative inflows were driven by illiquid alternative products, mainly from real estate and infrastructure funds which continue to attract investor interest in the low yield environment.

We have seen this through a continued demand for our new pan-European infrastructure investment fund which had its first close in the fourth quarter, and our flagship real estate fund family, Grundbesitz, which sustained positive flow momentum with €3 billion of net flows in 2019.

In light of stronger equity markets, the fourth quarter was also positive for a number of our active asset classes. Active multi-asset completed a year of solid flow performance, contributing €3.3 billion on inflows in Q4 and €7.2 billion of inflows in the full year, reversing the 2018 outflows.

Flagship retail fund concept, Kaldemorgen, was the key driver of Q4 and full year inflows, reflecting strong investment performance and increased investor appetite in the low interest rate environment. Dynamic opportunities and champions funds also reported strong inflows and we saw a number of sizable institutional mandate wins throughout 2019.

Active SQI also shifted into positive territory with €2.5 billion of inflows in Q4 and €1.5 billion in the full year, driven by increased institutional demand. And for the first time this year, active equity recorded positive flows in Q4 as equity markets strengthened over the quarter, driving increased retail risk appetite. This includes inflows into flagship, Top Dividende, and inflows reported across Germany, France and Spain. And also in equities, positive flows into a couple of our ESG equity funds and into US retail active equity.

In the full year, equity redemptions were driven by institutional outflows, offsetting European retail inflows, although these have stemmed significantly compared to 2018. Overall, Q4 inflows concluded a very strong 2019 flow performance at DWS.

In the full year, we reported €26.1 billion of net inflows and close to €30 billion, excluding cash, reflecting the strength and depth of our diversified business model in the current market environment. We recorded positive flows across all of our core regions and across retail and institutional channels, further supported by our strategic partnerships, who accounted for a quarter of the annual inflows.

By product, we saw consistently strong inflows into our targeted asset classes of passive, alternatives and active multi-asset, as well as improvements across all other asset classes, including fixed income, which has seen outflows slow significantly compared to 2018.

The turnaround in 2019 flows was partly driven by the recovery in our active retail investment performance, resulting in stronger inflows into a number of our flagship funds as well as positive flows in our insurance and US businesses, which were negatively impacted by US tax reform in 2018. This is a great success for DWS and is reflected in the 4% net flow ratio for the full year, in line with our medium term guidance of 3% to 5% on average.

Moving onto product launches. ESG continued to be a prominent theme in our Q4 product launches, in line with every other quarter of 2019. This included ESG versions of existing equity and fixed income funds, reflecting the growing demand for sustainable investments, particularly from institutional investors. We also successfully completed the first close of the new pan-European infrastructure investment fund, reaffirming continued strong interest in the asset class.

Looking forward to Q1, we have a solid pipeline of products, reflecting the outcome of excellent collaboration and innovation at DWS. We have worked closely with our strategic partner, Nippon Life Group, to develop a new equity ETF designed to target institutional investors in Japan.

And we have harnessed our internal capabilities to bring the best of ESG and illiquid alternatives to create the new DWS Invest ESG Next Generation Infrastructure fund, which is expected to offer an attractive combination of growth and quality real asset exposure in the current low yield environment.

Moving onto revenues. Total adjusted revenues increased to €687 million in Q4, up 23% quarter on quarter, Quarterly management fees and other recurring revenues increased by 2% quarter on quarter, benefiting from positive market conditions and net inflows, while performance and transaction fees increased by €87 million due to the recognition of a significant multi-asset performance fee in the quarter.

Other revenues were also up in the fourth quarter, reflecting a €14 million contribution from our Chinese investment, Harvest, and a positive change in fair value of guarantees with the improved interest rate environment in Q4.

In the full year, total adjusted revenues increased by 6% to €2.4 billion. This was contributed by higher management fees and other recurring revenues which grew by 2% over the year, while performance and transaction fees represented 8.6% of this total, primarily due to the significant fees recognised in the second and fourth quarters.

The recognition of the alternative investment performance fee in Q2 is non-repeating as the fund has reached a final close. And the active multi-asset performance fee in Q4 was significant amid stronger equity markets.

While there is always potential for our funds to recognise performance fees in certain periods of the year, this can be impacted by the market and is also subject to set investment and performance hurdles which may not always be achieved. As a result, we expect performance and transaction fees to contribute 3% to 5% of total adjusted revenues in the medium term.

Moving to management fees and margin. At 29.6 basis points, our overall management fee margin declined by one basis point compared to full year 2018. This is primarily due to the impact of non-controllable effects on the existing AUM. Broader industry pressures such as margin compression and greater fee transparency have had a significant impact.

This can be seen in our passive management fee margin, which has declined year on year, as expected, despite reporting higher management fee revenues from stronger inflows. This is a contrast to active equity, which was able to maintain stable management fees and margin in 2019, supported by positive market movements, particularly in the fourth quarter.

This year, we have also benefited from a number of specific fee events. For example, the liquidation of our flex pension fund had a negative impact on the active SQI management fee margin and revenues. However, the breadth and product mix helped us to counterbalance some of these effects.

In particular, our alternatives business is a key driver of our total revenues and overall management fee margin, and this was evident in 2019 as alternatives reported higher management fee revenues year on year, driven by stronger inflows across all of our alternatives products.

In general, we expect margin compression to remain a key feature in our industry but our well diversified portfolio provides some mitigation against this. Going forward, we will report our management fee margins on an annual basis, by asset class.

Moving onto costs. Total adjusted costs were up 8% in Q4, reflecting the uptick in compensation and benefit costs, including the effects of our performance related compensation framework. Adjusted general and admin expenses were higher as a result of increased non-compensation costs in the fourth quarter, such as intensified marketing efforts and volume related expenses.

However, general and admin expenses declined by 10% in 2019, supporting the overall reduction in total adjusted costs in the full year. This reflects accelerated efficiency initiatives in 2019, including saves from strategic vendor management and also lower charges from DB Group, in line with our expectations and with potential for further save as we move into 2020.

Our adjusted cost-income ratio fell to 61.3% in the fourth quarter, and 67.6% in the full year, driven by stronger revenue development in 2019. This ratio is better than our guidance of approximately 70% in 2019 and puts us firmly on track to achieve our target of below 65% by 2021. This will be supported by an additional €150 million of gross cost savings identified for the next two years, with efficiencies being weighted towards 2020.

Taking a look at our capital position in 2019. In the full year 2019, we saw our CET1 capital increase to €2.8 billion, up from €2.7 billion at the end of 2018. This increase was mainly from the recognition of half one 2019 profits, and from smaller other impacts, including FX.

Half two 2019 profits are not yet reflected in CET1 capital, as this requires prior regulatory approval, which we will seek in due course. Our Pillar One requirements are stable year on year, with €9.2 billion of risk-weighted assets at the end of 2019. And our CET1 ratio stood at 31% at year end, remaining comfortably above requirements.

So to conclude, 2019 was the milestone year for DWS. We stabilised our business, returned to positive flows and sustained a lower cost base, enabling us to deliver all of our financial targets successfully. As prioritised, the adjusted cost-income ratio fell to 67.6% in 2019, supported by accelerated efficiencies and higher revenues. Annual net inflows increased to 26 billion at the end of 2019, generating 4% net flows, in line with our medium term target and reversing 2018 outflows.

Overall, we have increased shareholder value in 2019 with the DWS executive board proposing a dividend of €1.67 per share, subject to approval at the 2020 Annual General Meeting. This represents an increase of more than 20% from the dividend we paid out in 2018 and is fully in line with our pay-out ratio of 65% to 75%.

Looking forward to this year, we will continue to build on the hard work from 2019. As outlined at the investor update in December, we will continue our journey to become more efficient. We have identified a further €150 million of cost efficiencies to help us achieve our targeted cost-income ratio of below 65% in 2021. And while revenues were higher in 2019, we still expect performance and transaction fees to account for 3% to 5% of total adjusted revenues in 2020. We therefore expect revenues to remain in line with 2019.

We remain committed to sustaining the strong flow momentum from 2019 to achieve our net flow target and to create stronger shareholder value in 2020 and beyond. Thank you, and I will now hand back to Asoka for strategic outlook.

Asoka Wöhrmann

Thank you, Claire. We are indeed very pleased and satisfied with the performance of the firm in 2019 as reflected in our full year numbers. By achieving all our targets and returning DWS back to a positive path, we were able to lay the groundwork for our success in the future. And that is exactly the path we will stay on, further building on our operational and investment excellence to remain successful in an environment that is pushing asset managers out of their comfort zone.

Looking at the market environment in 2020. And while it is still too early to make full year predictions, we expect moderate but constructive growth. And we expect upside potential in equity markets in particular, as we believe we have seen the low point of interest rates, although we expect them to remain at very low levels.

To ensure DWS sustains its positive momentum in this environment, we have identified strategic initiatives focused on efficiency, growth, protection, capability and culture, as outlined during our investor update in last December. As we stressed time and time again, efficiency will remain critical in the challenging revenue environment, which is why we will continue our laser-focused cost control also in 2020.

This will include ensuring that we have efficient globally integrated structures, further removing siloes across our organisation. And while we have to be more efficient, it is equally important for us to grow and protect our business. For us, organic growth is very much a key priority and we will aim to achieve this by continuing to concentrate on our targeted product areas and regions.

High performing active products, especially in multi-asset, will be an important driver for us. Meanwhile, passive will remain an area of significant market growth. And in the low interest rate and low yield environment, alternative assets will remain in high demand with our clients globally.

At the same time, the ongoing world shift towards Asia provides new growth opportunities for asset managers, and as global demand for sustainable investments continue to grow, we will advance our strategy to become a leading ESG integrated asset manager, both as a corporate citizen and as a fiduciary investment manager.

In addition, we will enrich our capabilities to further expand our investment excellence and client offerings. We will further improve our product management across the entire lifecycle, from innovation and time to market to fund closings along our clients' needs.

We are also increasing our use of technology as artificial intelligence supported by important partnerships, such as our minority acquisition in Arabesque AI, in order to sustain and increase our investment excellence and client experience for the digital age. And in an industry facing greater pressures of consolidation, we will also continue to evaluate potential M and A opportunities, considering only deals that create shareholder value, not disrupt our fiduciary duty for our clients, and fit well into our culture.

Which brings me to my last point, that culture is super important for DWS to deliver on these strategic priorities. Through our new functional role framework, we are transforming DWS into a leaner, more agile organisation, reinforcing a culture of performance, innovation and entrepreneurship.

We will also roll out ESG initiatives across our entire value chain, embedding it into our culture and making it core to everything we do. All these initiatives share the same goal – to deliver long-term shareholder value as we fulfil the purpose of DWS, ensuring the best possible foundation for our clients' future.

DWS has a clear path to achieve this. Of course, there will be some headwinds along the way, but for 2020, the outlook is positive. After a strong 2019, we have a solid base of financials, as Claire has shown, on which we can build – a global high performing investment platform, high quality products, skilled and dedicated people and the right fiduciary culture to take our business to the next level. Thank you for your attention. Now let me hand over to Oliver for Q and A.

Oliver Flade — Thank you very much, Asoka. Emma, we are ready for Q and A now. And again, if I could remind everybody in the queue to limit themselves to two questions, please.

Operator — Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. To withdraw your question, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question comes from the line of Hubert Lam with Bank of America. Please go ahead.

Hubert Lam

Hi, good morning. Just a couple questions. Firstly, on the passive fee margin, if you can please explain the reasons for its decline over this quarter as well as the last quarter. I guess last quarter, in Q3, it fell by three basis points, this quarter close to two. What's going on there? And is it maybe due to mix, competition, discounts you're giving to clients? And how should we think about the run rate, going forward, by quarter?

Second question is to do with capital. If you can just give us the update in terms of your excess capital position. And related to that, your dividend pay-out is at the low end of your 65% to 75% range. Is the reason why it's at the low end of that range due to you possibly increasing or wanting to increase your excess capital position or is there any other reason for that? Thank you.

Claire Peel

Hi. Thank you for your questions. Let me address the first one on the passive fee margin. So we look at that more on an annualised basis where we have seen a two basis point drop year on year, which is in line with our expectations and guidance.

And that one to two basis points of margin compression in passive is something that we do anticipate in the outlook. It's a combination of the mix of inflows/outflows that we see, the mix between retail and institutional, and the mix of the value on the fees that we get from inflows versus outflows. It's all contributing to the overall passive management fee margin.

What I would point out in passive is that we're very focused on growing revenues. So revenues are up 7% year on year. Net new assets are a 17% growth ratio. And AUM, of course, in passives is up 40% year on year. So despite the management fee dilution that we naturally see, we are very much focused on revenue growth in passive.

On the excess capital question, at the point of IPO, we pointed to excess capital in the region of €0.2 billion. Since then, we have made some investments and provided seed money and co-investments alongside our clients in the alternatives fee class in particular, and we also see some volatility in capital demand as a result of interest rate changes and market volatility.

However, we have been able to build on our excess capital position which is higher at this point in time. But we don't intend to disclose the exact position regularly in future, given the frequent changes that we do see in capital demand as a result of the market environment.

Asoka Wöhrmann

Thank you, Claire. And I think you asked two questions but it was a third one, I think, the dividend pay-out ratio question. Let me explain that to you. I think we had an extraordinarily strong year for performance fees which we do not expect to repeat to the same degree. We had a substantial year-on-year increase also in adjusted PBT. And we have set ourselves a range in order to have some flexibility in years when stated [? 00:35:46] net profits are positively or negatively impacted by extraordinary effects.

Apart from the pay-out ratio range, our aim is to pay a steadily growing dividend per share over the time. And that is absolutely the case this time. We have a 20% up compared to 18, what we outlined today, Claire and myself. So we will decide next year again about the pay-out ratio, depending on net profit, capital availability and expected investments. The final dividend amount is subject always, as Claire also said, to the Annual General Meeting's approval on June 18th, 2020.

But the important thing is for us, we gave a forward guidance between 65% and 75% and we are absolutely in this range, and we have a substantial hike compared to 18. And I do think you guys can expect we want to have a robust pay-out, but also the total magnitude of dividend should go along, hand in hand, with our net income and adjusted PBT.

Hubert Lam

Great, thank you.

Operator

The next question comes from the line of Arnaud Giblat with Exane. Please go ahead.

Arnaud Giblat

Hi, good morning. I've got two questions, please, first on costs and… Well, let me start there. So on costs, your marginal increase in costs versus your marginal increase in performance shows a 21% cost-to-income on that increase. Of course, there are other moving parts. What I'm trying to understand is what is the costs associated to the increase in performance fees.

And the reason why I'm trying to understand that is, looking out into the future, given that we should expect a normalisation in performance fees, what is the cost reduction associated with that? And how do we strip that out, put that into context with your general guidance of €150 million of cost cutting and reinvestment into the business and inflation? So that's my first question.

My second question is on Harvest, 14 million of earnings from Harvest. Thanks for disclosing that. Is that a run rate level of earnings that we should expect, or what's the outlook there on net contribution going forward? Thank you.

Claire Peel

Hi. Thank you for your questions. Let me address the question, first of all, on costs and specifically the performance fee question, I think. So we had an extraordinary performance fee in the second quarter of 2019 which had an expense attached to it. We disclosed that that expense was 26 million, which is non-repeating, so that's something that you can adjust when you look forward in the outlook.

We don't anticipate seeing carried interest attached to anticipated performance fees in the near term horizon of that magnitude, so that would be an exceptional event to adjust for. Otherwise, we expect in absolute terms therefore that our costs will be declining year on year in 2020 compared to 2019 as we look to continue driving forward on efficiencies.

On the question of Harvest, we had 14 million of net income effectively recognised in revenues in the fourth quarter, and the full year representation of revenues was 44 million, so there is some hike that we saw in the fourth quarter. We do anticipate that that will sustain or grow, so I would more look at the full year 44 million and consider a growth on the full year value.

Arnaud Giblat — Thank you.

Operator — The next question comes from the line of Hayley Tam with Credit Suisse. Please go ahead.

Haley Tam — Morning. So a few questions from me, please. First of all, could I ask you, you mentioned about the Asian opportunity, Asoka. I noticed the flows there continued to be strong in Q4 and I just wondered if that reflects the benefits of your partnership with Nippon Life already, or if that's still to come. And I guess connected to that, any comments you can make on your plans for Harvest, given the changing regime in China and the fact that foreign investors can now take majority control of joint ventures?

And then at the risk of incurring Oliver's wrath, there were a couple of quick follow-ups. On the passive fee margin, the one to two basis point decline on an annual basis, obviously you were at 19 bps in Q4 versus 21 for the full year, but was there anything unusual about Q4 that we should be aware of when thinking about your full-year guidance for margins, going forwards? Thank you.

Asoka Wöhrmann — Shall I take the first question? Thank you again also for your questions. I think regarding Asia, let me outline that, first of all, at DWS, the great inflow story in 2019 was also due to our strategic partnership, participation in these high numbers of NNAs. And Nippon Life has contributed considerably also to these numbers.

And I do think it's a very strategic and important partnership, not only in NNA but also in developing products together, addressing some strategy pieces in Asia – all that is very close collaboration with our Nippon Life strategic relationship and partners. And I do think important is also Harvest. Harvest is our really strongest

	partner in mainland China, 30% stake ownership of DWS. That has worked out. And Claire has more or less outlined the dividend.
	But we are… And as I addressed, the future compounded growth rate in the asset management industry is in Asia, more and more. We will have a strategic discussion, how we're going to work and collaborate with these partners in Asia. And I know there is expectation and I do think also, in this regard, we will come back in 2/20 with our clear strategy piece for Asia. And I think both these partners are core, at the centre also of this strategy.
Claire Peel	And coming back to the question on passive fee margin, we were indeed at 19 basis points in the fourth quarter. I think we've often said that we do see volatility across the quarters for various timing events that take place. So we would expect that to sustain at that kind of level in Q1. So it is a good guide for going forward. And hence the one to two basis points guidance for the forward. Always down to the mix that we see between both retail and institutional inflows that we will anticipate throughout 2020 in the passive portfolio.
Haley Tam	Thank you.
Operator	The next question comes from the line of Bruce Hamilton with Morgan Stanley. Please go ahead.
Bruce Hamilton	Thank you for the presentation. So yes, two questions for me to follow up, one on the cost side, just to make sure I heard correctly. You were saying of the gross €150 million savings over the next two years, we should expect those to be weighted in 2020 – just to confirm.
	And then on this Arabesque AI investment, where do you expect this has most impact? Is it in the investment process, say, in portfolio construction? Or is it more around your interaction with clients? Just to understand where this may have most impact, longer term. Thank you.
Claire Peel	Just to address the question on costs and the forward €150 million of future savings that we anticipate. We do indeed guide to having that weighted more heavily towards 2020. And that's because there's a number of foundational choices, decisions, actions that we have taken in 2019 that always already lead us forward to achieve some of those savings in year 2020.
	So that would include, for example, changes that we've made into our real estate already at the end of 2019, change we've made to vendor negotiations in the latter part of 2019, and renegotiated consumption charges from across the platform. So we have comfort in being able to weight the savings more heavily in year 2020.

Bruce Hamilton | Great, thanks.

Asoka Wöhrmann | Bruce, I think your question regarding AI, participation in the Arabesque AI subdivision, let me outline two things there. I do think AI will come, in the next years, very strongly on the investment platforms, but also in client interactions. And I do think the world will also move in the asset industry more strongly into data mining approaches. I do think AI will become a centre technology, in my opinion, in the asset management industry.

But what is our first step with Arabesque AI? We will build up a strategic approach with them to enrich our investment platform. The second step is client front ends. And I do think also, as you know, we have participated also in Arabesque S-Ray because I think combining data with AI will be a key success factor in the asset management industry. So therefore, we are going to start first on the investment side, and then we are going to build up also into the client interactions.

Bruce Hamilton | Very helpful, thank you.

Operator | As a reminder, if you'd like to ask a question, please press star followed by one on your telephone. The next question comes from the line of Mike Werner with UBS. Please go ahead.

Mike Werner | Thank you very much. Just one question from me. Particularly with the institutional mandates in the fourth quarter, I was just wondering in terms of the pipeline. Were you seeing interests replenish across the board as ultimately these inflows came in and accelerated into the end of the year? I was just trying to get your gauge on what the pipeline looked like at your end. Thank you.

Asoka Wöhrmann | Thank you for the question. And again, compared to 2018, we had a complete turnaround in institutional flows and especially also insurance flows. We are well positioned to get… With our already known pipeline, we are well prepared for 2020 also, but also product wise. The P3 fund will go into a direction to really cater to the demand of our institutional clients, but also the whole active offering. And also, more and more, the passive fund offering is going to cater exactly to the institutional demand.

And I think we are expecting, this year, very strong flows in this area because the reinvestment needs of different types of institutional clients will trigger very much demand for these kinds of products. And I do think, from this perspective, we are very positive. And again, the fourth quarter was a great quarter of inflows, but I think we are expecting further great momentum in this area and we have seen already a healthy start into the first quarter. So that is the only thing I can only frame so far.

Mike Werner	Thank you very much.
Operator	The next question comes from the line of Roberta De Luca with Goldman Sachs. Please go ahead.
Roberta De Luca	Hi, good morning. I have two questions. One, if you can give us a bit more colour on your passive product demand in terms of both products and channels, what you are seeing in the market. And then the second question is if you have already set a target for your ESG integration plan, especially in light of the recent regulatory changes.
Asoka Wöhrmann	Let me take the ETF topic. I do think we are expecting the ETF market, especially in the passive market in Europe, to get more momentum than in the last years. I think, as you know, in the US we are now beyond the 50% mark in the total asset market. And I do think for us now core is also the European ETF market. The reason is for two reasons. First of all, the European especially fixed income market is massively under pressure because of the negative interest rates. I think we will see, more and more, ETFs will substitute the active product offering in this area. And people are looking. Because the total return perspective in Europe is quite low for many asset classes to tap into this market, so therefore the momentum is strong. And I think especially the reinvestment topic, as I raised before, will be an important driver for the European ETP market. And I do think there is a clear second area that's going to build up around the world – in the US but also, in my opinion, in Europe. As you know, we have launched last year the biggest ESG ETF global equity type in the US ever launched, the biggest launched product in the US, for a Scandi institutional client. And I do think again, we are expecting Europe will see much more offerings on the ESG ETF market. And we are very well positioned to that, because our proprietary approach on ESG – and, in my opinion, also leading and cutting edge in our investment process and also in our concept – will create very, very much demand. And so therefore, we felt we are very well positioned. We will come in soon to explain to you the total roll out of the ESG, as I outlined in my part. As you know, DWS is going to… Our aim is to become a leading integrated ESG asset manager. So that means also the European regulation change in 2021. Even if we are going to miss on the taxonomy, but I do think the regulation will change first quarter 2021 and that will trigger huge change into the ETF and ETP market in Europe towards ESG. We are well prepared to go into this market. Is that answered or is there any…?
Roberta De Luca	Yes, definitely. Thank you.

Asoka Wöhrmann	Thank you.
Operator	The next question is from the line of Christoph Blieffert with Commerzbank. Please go ahead.
Christoph Blieffert	Yes, good morning. Christoph Blieffert, Commerzbank. One question on concept Kaldemorgen, please, which is an important cash cow for you. Given that Mr Kaldemorgen is already close to retirement age, could you please give us an update when his contract will expire or whether it has been renewed recently? Any indications for how long he is going to stay with DWS would be helpful. Thank you.
Asoka Wöhrmann	Yes. Thank you for the question. Again, Klaus is since decades with DWS and I do think, yes, we can also say Klaus will stay also the course of 2021 very, very active. And by the way, we have more cash cows than one product, as you know. There are several products. I am not going to mention every product. But Klaus had a fantastic performance last year. The multi-asset whole product range and the team behind Kaldemorgen created a fantastic performance, and also in different kinds of products. But definitely, your question regarding contract – DWS will be always interested to keep the best people around us, independent of their age and all their… Let me say that, besides the age, and Klaus Kaldemorgen will be very close to stay with us for long, and all of you will be surprised. And again, I want to say, age is not a criteria. Think about Klaus as, minimum, equal or better than Warren Buffet, and he is the Warren Buffet of the European asset management industry. And as you know, I've worked very long with him, and I think he will stay with us and we will stay also. His contractual prolongation is… In due course, we will also communicate it to the market. And I want to say, the important thing is Klaus built up over the years a very strong team behind him. This is not only a one-man show. Even if Klaus is our shining star and the legend in our fund management industry and us, but everyone as a senior knew the firm needed a team approach, and he did it best [? 00:55:42].
Christoph Blieffert	Very clear, thank you.
Operator	The next question is a follow-up from Hayley Tam with Credit Suisse. Please go ahead.
Haley Tam	Morning. Sorry, I am being greedy. Two quick follow-ups please. Just on the strong alternatives flows in Q4, could you clarify for us if there was any impact there from any return of capital to investors in the original pan-European infrastructure fund? And then the second question just in terms of the potential impact of future staff costs. Has there been any impact already in 2019 from the removal of job titles and a move to perhaps a different

	culture, or is that still to come? Thank you.
Claire Peel	Hi. Just to clarify firstly on the Q4 flows that we saw for alternatives. There were no exceptional items that you're referring to related to other versions of PEIF One and so on, so no events to point to in the fourth quarter there. And on the staff costs, also no extraordinary events that have taken place with regard to their functional role title change at all. I think Q4 is just a function of the general performance compensation framework that we have in place that has a seasonal correction in the fourth quarter.
Haley Tam	Very clear, thank you.
Operator	At this time, there are no further questions. I had back to Oliver Flade for closing comments.
Oliver Flade	Yes, thank you very much, Emma, and thank you, everyone, for dialling in today. For any follow-up questions, please feel free to contact the IR team. Otherwise, we wish you a great day. Bye-bye.
Asoka Wöhrmann	Thank you.