DWS Group GmbH Co. KGaA

Q1 2024 Earnings Call

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Transcript

Speakers:

Oliver Flade

Stefan Hoops

Markus Kobler

Oliver Flade

Operator, thank you very much, and good morning to 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 2024. 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're presenting now.

I'm joined by Stefan Hoops, our CEO, Markus Kobler, our CFO, and Stefan will start with some opening remarks, and Markus will take us through the presentation. For the Q&A afterwards, please limit yourself to the two most important questions, so that we can give as many people a chance to participate as possible.

I would also like to remind you that the presentation may contain forward looking statements, which may not 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 for this quarter, we would also like to make you aware of the following.

In the interest of increased transparency, and due to the different nature and dynamics of the businesses, DWS has decided to separately show assets under management and flows from cash products and advisory services on the one hand, and other assets and flows from the active, passive, and alternatives areas that are comparatively more long term orientated than the former.

Going forward, DWS will therefore disclose, within total assets under management, the separate categories, long term assets under management, cash assets under management, and advisory services assets under management. In terms of net flows, the corresponding categories within total net flows will be long term net flows, cash net flows, and advisory services flows. And with that, I will now pass on to Stefan.

Stefan Hoops

Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q1 2024 earnings call. In the last few quarters, the opening statements of any asset managers' earnings calls could have been written by ChatGPT, using terms, such as uncertainty, volatility, geopolitics, and central bank action. Now, we need to recognise that the last two quarters, including Q1 of this year, were quite different.

We have seen a much welcome tailwind from market appreciation. However, given that investors remain in risk off mode, there has been a greater appetite for passive than for active strategies. Given this new environment, our key focus at DWS has been twofold. One, don't allow higher management fee revenues to get in the way of our continued cost discipline.

And two, attract net inflows that will help offset margin pressure attached to the current active to passive flow mix. For the latter, we see continued progress, as reflected in our Q1 financial results. We reported another quarter of substantial net inflows in Q1, driven by passives, including Xtrackers. Notably, we remain the number two ETP provider in EMEA by net inflows, with growth outpacing the market, and hence, gaining further market share.

In addition, we reported net inflows into active fixed income and SQI, which helped to offset net outflows from active equity, multi-asset, and alternatives. To be clear, we are mindful that this flow mix is a challenge, but we draw comfort from our diversified product offering, which allows us to counterbalance the active to passive industry trend.

And we also believe that we are well positioned for a turnaround in alternatives. Furthermore, this positive flow momentum supported our quarterly increase in total global AUM, which is now at a record €941 billion. Markus will provide further details on our financials later on, but for now, allow me to briefly highlight two points, our ongoing transformation programme, and the resolution of the ESG matter.

Let's start with our transformation programme. As indicated in our Q3 results call last year, we have been assessing the progress of our multi-year transformation programme, with the aim of improving our operational setup and standalone capabilities. The assessment has now concluded, and we've agreed on the following solution.

We've decided to focus our efforts on areas that are differentiating factors for us, as an asset manager. That includes a policy framework suitable for asset manager, and our own corporate functions for almost all areas, where we've made significant progress. When it comes to IT infrastructure, we agreed on adopting a hybrid model. On the one side, we continue with our cloud migration into our separate DWS cloud environment.

Again, a differentiating factor for us, as an asset manager, as this enables us to faster deploy our own asset management specific applications. At the same time, on the other hand, we will take advantage of economies of scale by partnering with Deutsche Bank, and continue leveraging the bank's capabilities in areas that are well functioning, while not being differentiating, such as data centre operations, networks, or hardware.

This hybrid model is in the best interest of DWS, and offers the best level of security and stability in the IT landscape, as we seek to avoid solutions that are needlessly complex in areas where things currently work well. At this stage, we have to acknowledge that the initially targeted cost saves are not achievable, due to a variety of reasons, ranging from inflation to enhanced cybersecurity threat landscape.

And while we do not expect the outlined hybrid option to generate cost savings, compared to our current run rate, this option is, in fact, cheaper than a full separation, due to Deutsche Bank's scale, and reduced transformation costs. Another area that I would like to update you on is the ongoing ESG matter. As you know, the US authorities closed their ESG related investigations last year.

With that, the investigation by the Frankfurt Public Prosecutor's Office is the only remaining ESG investigation. However, as stated previously, the timeline for completion is not in our hands. As we've said before, we provided documents and information to the Frankfurt Public Prosecutor's Office at their request.

Recently, we increased our inventory of other provisions, effective year end 2023, which also includes provisions required for matters, such as the Public Prosecutor's investigation into the ESG allegations. While the outcome of this is yet to be concluded, this means that we are making progress with regards to the Frankfurt Public Prosecutor.

We will continue to cooperate fully to come to a resolution of this investigation as quickly as possible, but we are dependent on the timing of the prosecutor's office. Now, coming back to the purpose of today's call, our financial performance and the way forward. Overall, we had a solid first quarter of positive net inflows, as well as continued cost discipline and focused implementation of our strategic plan.

And as we approach the halfway point towards our financial ambitions, as announced at our Capital Markets Day, we will provide more clarity and transparency on how we assess our progress, and outline a bridge towards our 2025 targets. But for now, I would like to hand over to my partner Markus to explain our Q1 results.

Markus Kobler

Thank you, Stefan, and also, good morning and grüezi mitenand from my end. Our first quarter 2024 results indicate that we are on track to achieve our 2025 strategic targets, with a quarterly increased adjusted profit before tax, totalling €231 million. The adjusted cost income ratio further improved to 64.7%, being down, quarter-on-quarter and year-on-year.

Long term net flows were at €7.9 billion, strongly supported by passive, including Xtrackers. Total assets under management increased to a record level of €941 billion, and our alpha creation for our clients was underlined by further improved three and five year outperformance ratios of 71% and 80%. Moving on to the financial performance snapshot in the first quarter.

Starting at the top left. Total assets under management increased by 5% quarter-on-quarter to €941 billion, a record level for DWS, mainly driven by inflows and positive market impact. On the top right, adjusted revenues totalled €653 million, being essentially flat versus the fourth quarter. Increased management fees were levelled out by lower performance and transaction fees, which follow a seasonal pattern.

On the bottom left, adjusted costs decreased quarter-on-quarter, and totalled €423 million. This resulted in an adjusted cost income ratio of 64.7%. Thanks to the positive operating leverage, the adjusted profit before tax increased, on a quarter-on-quarter and year-on-year basis, and stood at €231 million. Let's recap on the market environment.

The year continued with tailwinds from the market environment with stock indices being at new highs. European stocks, specifically, having more than eight consecutive weeks of gains, the longest winning streak since 2018. The rate environment has experienced some volatility since the beginning of the year, as better than expected US economic data, coupled with persistent high inflation, led markets to scale down expectations for rate cuts.

The rise in the higher for longer rate sentiment had some positive impact on yields, which started to pick up at the end of the quarter. All in all, market appreciation had a favourable impact on our quarterly AUM development, which I will now outline. We reported €941 billion of total assets under management at the end of the first quarter, up to 5% quarter-on-quarter, and being at a record level.

The increase was supported by all three components, €30 billion of positive market impact, €8 billion of net inflows, and €7 billion of Forex movement. Total net inflows of €8 billion were predominantly driven by our passive products, which grew by 12% quarter-on-quarter to €275 billion. Our passive business has grown by almost €80 billion, around 40%, since the Capital Markets Day, where we announced a refocus on passive as one of our strategic priorities.

Our active asset classes benefited from the continued market tailwinds and net inflows, which led to assets under management of €443 billion. The market sentiment for alternatives continued to be challenging, with assets under management remaining flat at €109 billion. Moving to our flow development.

In the first quarter, we generated total net inflows of €7.8 billion and €7.9 billion of long term net inflows. We are reporting net inflows in active, and continue to see strong momentum in passive, with both asset classes overcompensating the net outflows in alternatives. Our passive business remains the key flow contributor, with €9.3 billion of net inflows in the first quarter, driven by Xtrackers and our institutional mandate business.

We continue to attract flows with our thematic ETFs, such as Xtrackers artificial intelligence and big data, with around €800 million of inflows, and Xtrackers, MSCI World Healthcare with around €400 million of inflows. The continued strong performance led to an increase in our overall EMEA ETF market share of 10.5%.

The year to date growth, again, continued to outpace our market share, which is helping us to narrow the gap and getting closer to the number two position for ETPs in Europe. For the active business, we have returned to net flows of €0.9 billion in the first quarter, being driven by active fixed income with €1.7 billion, and active SQI of €1.5 billion.

This development was partly offset by the continued low customer risk appetite, and the ongoing trend to move from active to passive, hereby specifically in equity, resulting in net outflows of around €1.8 billion in active equities. Despite the trend in active equities, we also see positive examples where we generate inflows, thanks to our investment performance, innovation, or distribution alpha.

Like our DWS ESG Akkumula fund, with around €300 million of inflows, which benefited from a strong investment performance and retail clients moving back to global equity blend strategies. The rate environment and challenging market conditions in real estate and liquid real assets led to €2.2 billion of net outflows in eternities.

Overall, Q1 marked a solid start in terms of flow performance, further supported by new product launches, which continue to be important flow drivers for DWS, as I will now explain. To sustain our market flows, and grow revenues, we have given product innovation a high importance level within our organisation.

For the first quarter, we would like to highlight the following product launches. In alternatives, we have launched Xtrackers RREEF Global Natural Resources ETF, our first active ETF in the US, and launched a fourth series in our private European infrastructure strategy.

We have enlarged our ESG offering by launching DWS Invest Net Zero Transition, and DWS Invest ESG Euro Corporate Bonds Long on the active side, and expanded our passive ETF offering to provide investors access to the next generation of thematic trends by launching MSCI Global SDGs Social Fairness Contributors UCITS ETF and Xtrackers the MSCI

World ex USA UCITS ETF.

Furthermore, our partnership with our strategic ally, Galaxy Digital, has delivered another important milestone in our digital asset strategy. We have launched our first two Xtrackers cryptocurrencies ETCs, giving investors easy access to bitcoin and Etherium.

Looking ahead, for the second quarter of 2024, we continue to meet our client needs by expanding our ESG offering in the liquid real asset space with the Xtrackers Developed Green Real Estate Fund launch. In addition, we will be completing our active product offering with a Japanese value equity fund, the DWS Concept Nissay Japan Value Equity.

Since the capital markets day in 2022, we have managed to grow the number of our flagship funds by just above 20%, which was roughly driven by about one third of flows and two thirds, as a result of positive market performance over that period, and especially, during the last quarter. Our efforts to match our clients' needs with the right product offering are underlined by a solid €61.6 billion inflow through new funds since the IPO.

The demand for sustainable products continues, and is reflected in around 41% of our new fund flows generated by ESG products. The ESG inflows amounted to €1.7 billion in this quarter, of which, €2.2 billion were article eight and nine products. Moving on to revenues.

Total adjusted revenues amounted to €653 million in Q1, essentially flat versus the fourth quarter, but up 7% year-one-year. Our management fees stood at €592 million, up quarter-on-quarter and year-on-year, benefiting from a 5% increase in our average total assets under management, which amounted to €917 billion.

In the first quarter, we reported a flat total management fee margin of 26 basis points, versus the fourth quarter, leading to a quarterly margin, which is slightly below our full year 24 guidance of one basis point margin compression per year. The margin development, in general, will be impacted by three major factors. Firstly, fee cuts. This quarter, we had no material fee cuts for active and passive products.

Secondly, market development. We experienced an uplift in the margin, thanks to the higher average total assets under management levels, driven by market tailwinds, especially seen for active equity products. And lastly, the flow mix. In this quarter, our product flow mix had a detrimental impact that offset the market appreciation driven development. Here, the flow impact was twofold.

Firstly, the impact from very strong passive net inflows, and secondly, we continued to experience outflows in some high margin products. Let me reiterate, we are comfortable with changes in the overall DWS magin, if it is driven by faster growing lower margin asset classes, under the premises that those flows are accretive to overall revenues, i.e., additional revenues are above incremental costs.

And lastly on margin, our total fee margin guidance of one basis point dilution remains unchanged in 2024. Performance and transaction fees stood at €17 million. The first quarter is typically a quarter with seasonally lower performance fees, as they are normally recognised in the fourth quarter, which explains the quarter-on-quarter development. Other revenues were flat quarter-on-quarter, including a €14 million contribution from our Chinese investment harvest. Moving on to costs now.

Total adjusted costs stood at €423 million, down 2% quarter-on-quarter, resulting from lower adjusted general and administrative expenses. The cost components were driven by the following impacts. Adjusted compensation and benefits amounted to €222 million. The quarterly increase was driven by the normalisation in variable compensation levels, as there are usually some adjustments in Q4, and impacted by the positive share price development.

Despite further investments in our targeted growth areas and inflationary pressure, we managed to keep our fixed compensation stable. Adjusted channel and administrative expenses strongly declined quarterly, and amounted to €200 million, thanks to the usual seasonal effects in Q4, and stayed unchanged from Q1 2023.

Our adjusted cost income ratio decreased on a quarter-on-quarter and year-on-year basis to 64.7%. That is in line with our full year 2024 guidance range of 63% to 65%. This reflects our focus on sustaining cost discipline, especially in a continued high inflationary environment. The total adjusted cost base excludes €17 million of investments into our infrastructure platform transformation in Q1 2024.

Thank you. I will now hand back over to you, Stefan, for closing comments.

Stefan Hoops

Thank you, Markus. While we have been called a show me story, and understandably so, we are highly appreciative of the trust and faith our shareholders have shown us in recent months. Continuing in the spirit, we will provide transparency on what has been working and what has not been working so well. We remain laser focused on delivering our four strategic categories of reduce, value, growth, and bid, which will help pave the way forward towards our 2025 financial targets.

As a reminder, our financial targets are straightforward and ordered, in terms of hierarchy, of what we consider a key to creating stable shareholder value. Firstly, our commitment to deliver an earnings per share of €4.50 is the most important target for us, as it is simple, honest, and clearly, our top priority, as it is what we do for our shareholders.

Generally speaking, we aim to grow all businesses that are EPS accretive, even if the management fee margin is below the DWS average. Therefore, we are happy with our strong growth in Xtrackers, even as the flow mix dilutes our average margin. Adjusted cost income ratio is second in the rank of targets, as it enables us to measure profitable growth.

We believe that the cost income ratio is, for asset managers, what leverage ratios are for banks, a measurement for how well companies are prepared for a weaker market environment. A high EPS, but with a high cost income ratio, is dangerous, as market volatility can quickly impact the bottom line. Hence, we're targeting a sustainable adjusted cost income ratio of below 59%, and are confident of achieving this goal.

Finally, our AUM CAGR targets for Xtrackers and alternatives were designed to demonstrate how we are investing into growth businesses, as part of our overall strategy, as outlined at our Capital Markets Day. Now as we are close the halfway point of our 2025 financial targets, allow me to attempt a self-assessment of our strategic plan so far, starting with the reduced category.

As you know, we started taking out costs early to create self-funded investing capacity, with the bulk of our reduced strategy already concluded last year. We will obviously always be cost conscious, and have ongoing initiatives to focus on our core competencies and businesses, ensuring we only compete when we are able to add value to our clients.

Looking at the value part of our strategy, our active fixed income, equity, multi-asset, and SQI, there's always some work to be done in what we consider to be the pumping heart of our franchise. We remain encouraged by the developments we've seen in recent quarters, notably, the positive turnaround in our fixed income investment outperformance is a testament to the ongoing efforts we've made to adopt a positive performance culture within our investment teams.

In addition, several of our flagship funds, active equity, and multi-asset a holding up well in what is currently a difficult environment for these asset classes. Looking at our growth strategy, we see progress, but also, room for improvement. On the one hand, our Xtrackers business is going from strength to strength, as the team has executed exceptionally well.

As a result, Xtrackers AUM growth is significantly ahead of its CAGR target, as investor appetite for ETFs has been far more favourable than we originally anticipated in 2022. On the other hand, we have a steep hill to climb to achieve our AUM growth target and alternatives, as investor sentiment has been more muted for the asset class than expected.

Nevertheless, we see investments in alternatives as a longer term growth case, which requires stamina and focus, and believe that a turnaround for alternative flows is on the horizon. In the bid component of our strategy, we are laying the foundation for future revenue streams. In this respect, our partnership with Galaxy Digital is paying off. You may have seen that we have just launched our first two cryptocurrency ETCs.

And we've also announced the incorporation of AllUnity, our joint venture with our partners Galaxy and Flow Traders, as part of broader efforts to create a euro stable coin. In the spirit of transparency, allow me to further outline how we expect the path towards our 2025 financial targets play out. While doing so, please take a look at page 11 of our Q1 results presentation, which shows the bridge I want to walk you through.

Take our 2023 as a base, when we reported a profit before tax of €777 million in the full year, and an earnings per share of just under €3. This results in an approximate difference of €1.75, compared to our targeted EPS of €4.50. Given that we have roughly €200 million shares outstanding, this means we need to grow our net income by roughly €350 million, and a profit before tax of between €450 million and €500 million, compared to 2023.

And while there are many small initiatives we have in place to help us achieve this, they all ultimately lead up to three big buckets of profit before tax contributions. First, a reduction in one-off items. Second, a higher level of performance fees. And third, an increase in management fees. Let's look at each of these more closely.

Thinking in rough numbers, and with the obvious caveat that we assume stable markets and that numbers can and will deviate to each side, the following scenario can help understand how we can hit our 2025 targets. In the first bucket, we expect to reduce our one-off cost items by approximately €125 million versus 2023.

As we should not be impacted by the elevated levels of one of items we face in 2023, which included transformation costs, legal provisions and organisational delayering. In the second bucket, we generally anticipate a higher level of performance fees, as we expect an extra €100 million from our alternative infrastructure product, PEIF II, where the majority of assets have already been sold, but performance fees are only expected to kick in during 2025.

And in the third bucket, taking into account the reduction in one-off items, combined with higher performance fees, we need roughly €250 million from management fees to keep us on track to achieve our EPS targets. Let's only look at our long term assets.

If we use 2023 as a jumping off point, and base our management fee calculations on current average margin of about 29 basis points for long term assets, minus custody costs, so say roughly 25 basis points net, this would require the equivalent of an additional €100 billion of long term assets above our 2023 average.

In other words, €100 billion of extra-long term AUM times 25 basis points gets you an extra €250 million of management fees after custody costs. As we had €751 billion of average long term AUM last year, and with a current long term AUM of €827 billion, we believe we are on course to achieve this. Clearly, there are many more details to consider, such as market conditions, and running a company is more complex than a few big picture numbers.

Yet, this combination of cost discipline to ensure a flat adjusted cost base, fuel one-off costs, expectation of higher performance fees, and AUM growth gives us comfort to reconfirm our 2025 financial targets of €4.50 of EPS and an adjusted cost income ratio of below 59%. Overall, we consider our financial targets to be a mere milestone on our path to finally punch our weight in the longer term.

Obviously, we remain disciplined on cost control, and we'll do our utmost to avoid any negative surprises. We appreciate our constructive exchanges over the last few quarters, and look forward to continuing this dialogue in the spirit of transparency and clarity, as we focus on further implementing our game plan. Thank you, and over to Oliver for Q&A.

Oliver Flade

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

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question, may press star and one on their touchtone telephone. You will hear a turn to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested choose only handsets, when asking a question.

Anyone who has a question, may press star and one at this time. Our first question comes from the line of Jacques-Henri Gaulard, Kepler Cheuvreux. Please go ahead.

Jacques-Henri Gaulard: Good morning, everyone, and thank you for the transparency. I'm going to also have a rather transparent question. When you mentioned the fact that you had given up the idea of becoming completely independent from Deutsche Bank, that's actually a big announcement, because if I remember well, it was a pillar of the IPO targets. And in a way, it was to build an independent asset manager, etc.

So, at this point, and I'm not asking the question to the shareholders of DWS, but to you, doesn't it make sense to actually ask your shareholders at that point? It doesn't really make a lot of sense to remain listed, and why don't you take as private?

Because in a way, isn't that going to make it easier for you to actually get big assets, be able to actually grow by acquisition, grow the assets simply, rather than just being the independent company that you aspire to be, and that you're not now? So, the question to you, Stefan, is do you still want to remain listed? Does that make sense, even something you feel is sustainable in the future? Thank you.

Stefan Hoops: Thank you, Jacques-Henri, and I think that's exactly the sort of strategic exchange that we value. So, I think we need to be clear that out of four components that we assessed, when it comes to the transformation project, three out of four were independent. I am happy to have a constructive discussion on it, but firstly, when you look at policies, previously, we had policies essentially designed for a global universal bank, which obviously includes a trading orientated investment bank.

And we reviewed all of the policies, and for those, where we feel it's relevant and differentiating, we aligned our policies with those of our competitors. So, in a variety of areas, we now have policies in line with the Amundis, BlackRocks, Schroders and so on, and not a global universal bank. Second, we have our independent corporate functions.

So, we have our own graduate programme, our own commerce department, our own finance, and so on. So, previously, all of that was essentially DB central, and we got allocated cost. And the vast majority of that, with a couple of exceptions, like tax, we are completely independent, from a corporate function perspective.

Third, when you look at software, we have our own DWS cloud environment, we have our own applications, there are plenty of areas in which we have apps different to Deutsche Bank. Also, when it comes to software, we are completely independent, and we have what we feel is differentiating. Now, the fourth component is hard, when I'm simplifying a little bit, that's network. So, who operates the Wi-Fi in this building?

It's the data centres for backup. It's the printers, the screens. All of that has been delivered by Deutsche Bank, up until now. And so, the question is simply, is it sensible for us to buy all of that and create substantial transformation cost? Or is it simply in the best interest of our shareholders of DWS, specifically, to continue getting that from a master vendor?

Now, don't tell Deutsche Bank that I called them master vendor, in this in this regard, but to some extent, they are that for those hardware components. So, all of that basically implies that we're not changing what's currently working, and we simply don't invest to move away.

I think the one additional comment I would make, given that I have spent four years being the plumber of Deutsche Bank, and running custody, and essentially, tech and ops for transaction banking, I've had a lot of paranoia of breaking things that work, because sometimes, when you try to optimise a little bit, you start spending lots of time on things that are not differentiating.

So, never break a working system that has scale, and that's why, in this fourth out of four components, we decided to continue getting what we got from Deutsche. But I think, and again, I will let you decide, Jacques-Henri, but when it comes to all the things that I think people would like to see from us, meaning strategy on flows, client strategy, M&A strategy, driving investment, out performance, and all of that, we are independent, and essentially, define own our own destiny.

Jacques-Henri Gaulard: Thank you, Stefan.

Operator: Our next question comes from line of Nicholas Herman with Citi. Please go ahead.

Nicholas Herman: Thank you taking my questions, and for the presentation this morning. Thank you for the transparency on the last question, that was helpful. Just returning to numbers, please. Can I push you a little bit on the outlet for alternatives? So, firstly, I have two questions, just on cost. Could you just please help us understand how much higher share price drove the increased compensation costs this quarter? That would be helpful.

And then and then on the alternatives side, I think you've said that you've launched PEIF IV now. Can I confirm that that means a formal fundraising launch, rather than fund activation? And can you please confirm when you expect to have a first close of that fund, and when will that fund start generating fees? And then as part of that, you have mentioned a couple of times that you're well positioned for a turnaround in alternatives.

Are you talking about, effectively, the infrastructure fundraising, or is it broader than that? So, more detail would be appreciated, given pretty bleak trends in NRA and real estate? Thank you.

Markus Kobler: I'm happy to start with the first question on compensation and benefit costs, and referring back to page ten of the of the analyst presentation. The increase we see, in terms of comp and ben costs over the quarter of close to 30 million is driven by variable compensation. It's very important to state that our fixed remuneration costs remain flat.

On the variable compensation side, there are two factors playing into that. The first one, and that is impacting us, but obviously, it's positive news, what we call retention, an increasing share price reflects positively or increases the VC cost, as our employees participate in that, as well. And the second one is a seasonal effect one usually has in variable compensation.

Because variable compensation is set in the fourth quarter, but we accrue, like everyone else, these expenses over the year. And so usually, one has then, and which we had now a downward adjustment in the fourth quarter, but now in the first quarter, again, we are accruing. So, that's the difference. These are the two factors explaining the 30 million. So, nothing we worry about, from a cost management point of view.

Nicholas Herman: Can I ask you to provide a bit of a broad mix split between the two, please?

Markus Kobler: I would say about two thirds, quarter-on-quarter, about two thirds is the adjustment, cash bonus adjustment, and about one third is retention, increasing share price.

Nicholas Herman: Very helpful, thank you.

Stefan Hoops: So, Nicholas, on your second question, a quick addition to the first one, we probably wouldn't typically disclose the retention, essentially, the impact of the share price, but we're proud of the share price appreciation over the last 12 months. So, on that page ten, if you compare Q1 2023 to Q1 2024, more than 15 million of that increase in just comm and ben, is just the share price.

So, it does not carry any seasonality in variable compensation, just the retention costs, which hopefully, you would agree, it is what it is, it's probably a positive thing. But I think most important, as Markus outlined, fixed pay, we remain stable. Now, on alternatives, and I will give a slightly broader answer, because I suspect plenty of people do have questions, and then people can ask follow-up questions, if I need to go into mor detail.

I think one of the things is simply, it is what it is, three quarters of our alternatives AUM is exposed to real estate, either because it's real estate equity in the US and Europe, or within LRA, it’s a REIT. So, three quarters is exposed to real estate, and that has been quite rough.

I don't want to sound defensive, because I'm reasonably bullish on the business overall, and we recorded growth, but that was just a difficult market sentiment. I think three months ago, we were probably slightly more optimistic on rates in the US coming down. Obviously, the last quarter, it has reversed, to some extent. But we feel that client interest is now stabilising.

So, when we talk about turnaround on horizon, that’s based on feedback we get from clients. The question you asked on new funds, you specifically asked about PEIF IV, but let me just quickly walk you through different components, and what we're currently actively raising, because the number of fund launches is roughly twice what we had last year. And then, again, people can ask follow-up questions, if it's of interest.

I'm basically doing it in the order of how difficult the market sentiment is. So, in LRA, we have the funds that we have. What Markus mentioned earlier, we launched an active ETF with our global natural resources folks managing it. So, we combined our LRA capabilities, and essentially, the wrapping capabilities of passive and have launched an active ETF for global natural resources.

I think probably second most difficult is European real estate. There, we have a variety of discussions on specific solutions. There's a lot of turmoil in the German real estate market, and we have been completely unexposed to any of those big brand names that went into difficult territory, so I think we are in a good position to advise clients that have some challenges. But there are no big fund launches.

In US real estate, we have a couple of fund launches. So, we had our first close of our core plus residential fund in Q1. We are actively marketing our logistics fund. So, I think there, we see, and I think the first close in core plus residential shows that the people are starting to, I don't want to call it the bottom, but to differentiate between office and large city, and let's say, residential or logistics.

For infrastructure, the PEIF IV is currently in active marketing. We expect the first close this year, I would like to say Q3, that's what we're aiming for, it could slip into Q4, potentially, but we have very high confidence that it's in the second half of this year. Activity marketing, I'm involved in that, so I think that we will accrue, or start accruing, management fees in 2024.

We have a variety of other smaller things in the infrastructure space. Our retail oriented infrastructure fund that, essentially, allows small retail investors to invest in it. It's going fine, and we've added to that in Q1. We have a sustainable growth. We have a variety of other smaller things, but the PEIF IV active marketing, we expect to start accruing.

Lastly, in private credit, and I would assume that a couple of people have questions on private credit, a couple of things with marketing. I think we're getting closer to the first CLO that should come this year. We are marketing the second series of our European direct lending fund, and expect the first close of that this year. And a couple of others, like more solutions orientated bespoke mandates that we have visibility on.

So, that's why when I said that a turnaround is on the horizon for a combination of client sentiment, which seems to have stabilised, and is probably more differentiated, meaning office is different than resi, or infrastructure and so on. And essentially, doubling of font launches and good feedback from the marketing phase. Thank you, Nicholas.

Nicholas Herman — Thank you. That's helpful.

Operator — The next question comes from the line of Angeliki Bairaktari, JP Morgan. Please go ahead.

Angeliki Bairaktari — Good morning, and thank you for taking my questions. If I may just first touch on the costs, and the message that you delivered at the beginning of the call with regards to the savings. I think you said that they initially targeted cost savings, which, from memory, was 100 million, presented at the Capital Markets Day, they are not achievable, due to inflationary pressures.

But at the same time, I heard you reiterate your target for a cost income ratio of below 59%. And I think I also heard you say that you have assumed, in those 2025 targets, to get to an EPS of four and a half, you have assumed flat adjusted costs. So, I just wanted to, first of all, cross check that what I heard is right, that the assumption is for flat adjusted costs versus 2023 in 2025.

And then the second question, with regards to the sustainability of the cost trajectory and the cost income ratio, I do hear you with regards to PEIF II performance fees, that those should be higher, and that's going to help 2025 numbers. But what is the total carrier potential from this fund? And for how many years and we expect this elevated level of performance fees? In other words, is there a risk that after 2025, we then slip back again towards 65% cost income ratio? Thank you.

Stefan Hoops — Thank you, Angeliki. I will start, because Markus, obviously, is well aware of what we said at the Capital Markets Day, but he wasn't there, so let me start. At the Capital Markets Day, we spoke about a variety of cost components, we spoke about we take out costs to reinvest, and then we gave a number. We said that we would reduce the running cost, meaning, essentially, the allocations from DB, because we do things ourselves.

We spoke about transformation cost of 100 million that will appear for a couple of years. And I think what we sensed, at some point, is that it's probably easiest to refer to what you see, which is the 2023. So, when I made the comment that we do not expect cost saves, versus what you've seen in 2023, it's just in order to simplify because things have obviously evolved since then.

So, therefore, when it comes to the transformation project, if you look at what we paid in 2023, that is what we expect as running costs in 2025 and beyond. Now, what you saw in 2023, was also high transformation cost, so about 100 million, and that we expect to disappear in 2025, or materially disappear. I think if you dig into the numbers in Q1, you will see that the one-off items in Q1 were, I don't want to say only, but were about 20 million.

So, if you compare that to the 170, which we had in 2023, you already see a reduction because of no further litigation, no restructuring, or much less restructuring, but also, lower transformation costs. But I think, to confirm, at the Capital Markets Day, we were quite hopeful that if we discontinue getting certain services from DB, and simply do it ourselves, that we could operate it cheaper than DB.

And that, unfortunately, doesn't hold true. There's inflation. It was very difficult, as you would imagine, to renegotiate licence fees in 2022, 2023. It was more complex for a variety of reasons. I'm simply saying that we don't expect costs to go up, but we also don't expect them to go down, from what you see in the 2023 run rate.

But on the adjusted cost, I think the way I would phrase it is anything, which is not volume based, we aim to remain flat. So, Markus and I, the whole company, is very disciplined on fixed pay, very disciplined on G&A, as you have seen. If AUM growth, I think there's a good chance that total costs will go up, simply because of custody fees. But again, what we can control, we aim to keep flat in 2025 versus 2023.

Now, PEIF II, and I probably wouldn't want to disclose specifics, essentially, fund documentation, but the easiest way to think about it is we have an approach to booking the performance fees, which is all of the investors get repaid in full, and get to a pref rate, that's essentially the cash flow definition. After the pref rate, we get our carrier, we essentially get to catch up on performance fees, and then it's split in a certain way.

Now, the way that we've been accounting for it is to simply show zero during the phase of investors getting their money back and getting the pref rate, and only then, we would do the, let's call it, true-up. Now, at this stage, we essentially add the money. So, at this stage, we've sold enough assets that I think the investors are satisfied with repayment and their pref rate, and the next sales will essentially generate the performance fees for us.

Now, that should be a couple of hundred over a couple of years, meaning this is not going to lead to. Essentially, an extra revenue stream for eternity. However, expect this for 2025, 2026, maybe a bit in 2027, and at that point in time, we are obviously working on a variety of other vehicles creating performance fees. PEIF III will come at some point, and other things in private debt and real estate.

So, that's why we are reconfirming our performance fee target of 3% to 6% of revenues, expected to be elevated, because of those extra kickers in 2025 and 2026. But obviously, working hard to also increase it afterwards. I hope that answers your question, Angeliki, otherwise we can go into more detail.

Angeliki Bairaktari: Maybe just one follow-up on this one, and that's very helpful, thank you very much. In terms of their long term sustainable cost income ratio that you think DWS should operate there, is that 59%? Because I would argue that 2023, if we look at markets, obviously, we had quite a lot of market appreciation. And Q1 2024, similarly, the market indices were quite constructive.

And you've operated at 64% under this environment. And I would imagine we will continue to see passive gained market share over the next few years in the industry, as a whole, and for DWS, as well. So, I'm just wondering is 59% what we should have in mind as a sustainable cost income ratio for you? Or is 64%, 65% more the run rate?

Stefan Hoops: You're right. I have just remembered that you asked specifically about that, and I didn't answer that. So, firstly, I think what you will have seen in Q1 is that there is substantial compression between adjusted and reported. So, by us bringing down the adjustment items, we don't have this, like last year, we had, in Q4, nine percentage points difference between adjusted and reported.

And obviously, we feel for our shareholders, and want to make sure that what's reported, what's actually payable, is what we're targeting. Being called a show me story, we've aimed to under promise and over deliver, so I don't think we would want to change any guidance for the 59.

But I'm obviously speaking to an elite group of mathematicians with all of you, so if we're able to keep cost flattish, and keep disciplined cost and continue growing the business, then there is no reason why we should get back into the 60s after 2025.

Angeliki Bairaktari	Thank you.
Operator	The next question comes from the line of Bruce Hamilton with Morgan Stanley. Please go ahead.
Bruce Hamilton	Hi there. Thanks for taking my questions, and for all the colour so far. Maybe two from me, or three even. On the alternatives business, how do you think about the asset mix evolving over the next three to five years? So, you're currently three quarters real estate, so how ambitious should we be, in terms of the growth potential in private credit, and in terms of the broadening out? Secondly, on the Asian opportunity. I think, in the past, you've mentioned that Japan, obviously, there's a lot of focus on Japan for many of your peers at the moment. You said that you have a good, but perhaps under managed or undervalued franchise there. So, how are you thinking about that? And what's your degree of excitement? Or is it more elsewhere, India, continued growth in China, that would be your focus? And then the very last one, on the equity performance. For three years now it’s drifted a bit below 50%. How much of a risk is that, do you think, to ongoing flows, or in terms of your client engagement, from what you're picking up with institutional and other clients? Thank you.
Stefan Hoops	Thanks, Bruce. And because we like all of those questions, we'll answer all three, even though everybody's only getting two, but we will make an exception for you. I think I'll start, and Markus will jump in, if I'm forgetting any points. So, I think it depends on what horizon you look at. We have the ambition of being the largest provider of alternative credit in Europe over the next couple of years. We are young, we are ambitious. Is going to be until 2025? Definitely not. 2027? Probably not. 2030? Hopefully. And when you look at how much the largest have right now in Europe, that should be meaningful. I would expect it to be larger than infrastructure over time, and infrastructure is 15. But again, now we're talking about late 2020. But that's, essentially, the ambition that we have, and the ambition that got pretty senior, well known people in the market to join DWS. I would imagine real estate to continue to feature pretty prominently in our alternative mix. We like real estate. We're actually quite good. If you recall in Q2 last year, we won a substantial mandate in the US, because people like the traditional REIT setup and like what they do. It’s an incredibly out of favour component of alternatives. But we actually like real estate, so I think it will go down, this share, because private credit goes up, and infrastructure probably

grows faster than real estate. But I would imagine it always being 60% of contribution, even in five years. I think the rest is probably too hypothetical.

Obviously, private credit has a large group of fans, and it's very difficult to find an asset manager not excited about private credit, which is why we stay disciplined on Europe. But that's probably how I would look at it. In Asia, and you asked specifically about Japan, we currently rank, I think it's 32nd out of the foreign asset managers in Japan, and that's probably not where we should be.

I think I know most of my peers, but there is a couple of names ahead of us that I had difficulty remembering, or knowing what they do, so that simply shouldn't be the ranking of DWS in the market, in which Deutsche Bank is a top three international franchise or foreign player. So, I think Japan and Germany have pretty good relations at a country level.

I think the Deutsche Bank brand is liked. Fun fact, in the circle of trust, the DWS name in Japan hasn't changed in the last six or seven years, so I think they are still called Deutsche Asset Management, but seem to profit, or benefit, from that name recognition, and so, we simply shouldn't be 32nd.

We changed, the country has a pretty young, ambitious, but still, very versatile person at seat, and are pretty ambitious when it comes to organically growing in Japan, especially given that Nippon, our 5% shareholder, can obviously open doors. So, when I say exciting, I'm definitely not excited about our ranking.

It's probably too easy to say, well, there's so much upside, because there's a reason why we're ranked where we're ranked. But I think that there should be substantial organic upside in Japan. I think on equity, and hopefully, I don't come across as defensive, but the story is not dissimilar to alternatives, that we simply exposed, not exposed, but what we can do well at DWS is essentially the out of favour component of equities.

So, we have very strong on income, very strong value, very strong German, and The Magnificent Seven didn't help. So, when you when you think about why people give us money, €1 in €3 that is invested in active German equity comes to DWS. €1 in €4 that is invested in income strategies comes DWS. But while I'm a proud German, I think our country is probably not hyped right now, so there's not a tonne of demand for Germany.

And look at what has happened over the last couple of quarters, for income value hasn't really been the name of the game. So, therefore, I think, when you look at our strategies, I think we've suffered a bit from being really good in areas that were a bit out of favour. We're not changing our style. But I think when I said that those funds that have held up well, they've held up well from an investment performance.

Sometimes, their peer group is quite mixed, meaning the peer group includes competitors with a different strategy, and just all bundled together, so that's why performance is somewhat misleading in equities. And funds like top dividends, track differently. But therefore, I think people give us money, because they know what we do for them.

And I'm optimistic that value will return, and that income will feature prominently going forward. So, that's why there's no change in how we look at our equities franchise.

Bruce Hamilton: Very helpful. Thank you.

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

Hubert Lam: Good morning. I've got two questions. Firstly, on your passives or Xtrackers business. I know Markus mentioned there was no pricing cuts in passive, but what are your feelings around pricing over the near and medium term? Should we expect more prices to come, in terms of how many basis points you expect per year to come through there?

And also, obviously, we know about the structural shift towards passive, but I'm just wondering what you view as to your strengths for your strong growth there. Is it your distribution? The product lineup, etc.? I just wanted to get your thoughts around the passive business.

And secondly, on your alternatives business. I know in your targets, you expect to grow from over 10% AUM CAGR. And now that does not seem that achievable, unless you tell me otherwise. What do you think is more of an achievable growth rate for 2025, compared to the 10% that you had originally targeted? Thank you.

Stefan Hoops: Thank you, Hubert. While we were on mute, Markus joked and said, apparently, he's much more clear in what he says than I am, because I'm getting all of the follow-up questions. So, maybe Markus should do my part next time. So, passive and alts. On passive, firstly, when you look at the average margin of passive, it actually increased a little bit in Q1.

Meaning we had gross inflows in higher margin strategy that many had gross outflows in. So, to give you an example, Markus referred to our AI in big data ETF, which we raised about 800 million in Q1. That has 35 basis points. Our Eth and bitcoin ETPs also have 35 basis points. So, when you look at our passive, we will aim to continue being creative, and not just do index replication.

And I think for creative strategies, where you simply allow people to get exposure to, I don't even want to call it niches, I think AI and big data isn't a nice, but in something somewhat innovative and flavour of the year, people are paying for it. So, therefore, I think in passive, I'm actually reasonably optimistic that we don't have to make price cuts for existing strategies.

I'm also reasonably optimistic that we will be able to continue designing strategies that allow us to, essentially, ask for fees in line with the numbers I just quoted. So, you asked about the strength in the business, I think we're pretty strong, when it comes to digital distribution. Roughly a quarter of our inflows in Q1 stem from digital distribution channels, which is up quite a bit.

So, we are close to the new brokers, we are close to platforms and so on. I think, in the past, we once spoke about what we are doing in asset management, as a service. Maybe in the next couple of quarters, we will give an update. Obviously, we have been more focused on stable coin and the crypto ETPs, but that's the third thing that that team is working on.

So, that's something that has been additive to have those channels. So, I think the strength of our Xtrackers passive franchise is really a combination of very, very good people. So, when we said they've executed exceptionally well, it's the combination of creating creative new strategies, being good in selling it, but also, being pretty strategic in new distribution channels, like the ones I just mentioned.

Secondly, I think our tech is really good. I think, on active ETFs, it's sometimes underestimated. Sometimes, when I hear people talk about active ETFs, it appears as if you can take a mediocre asset manager, just wrap it, and you have Warren Buffett. That's obviously not the case. You need to have good, competent, active asset managers, like us and LRA, and then the competency to actually wrap that, which we have.

So, I think that tech is very good. And I think, thirdly, we have German engineering in the processes, so we win passive mandates, because people just trust us to be able to deliver what we do, what we've promised. We have low tracking errors, so I think the processes are quite good, and that's why they have been growing quite nicely.

We had about 17% market share of inflows in Q1, and they've now grown market share to 10.4%, so I think we like what we see. Now, in alternatives, that is the more challenging part. When we said that we expected a 10% CAGR over three years, obviously, we didn't expect to shrink in the first year. We didn't design a path, which is down in the first year, and then up 15 for two years in a row. So, we are behind that.

I think, if you remember, at the Capital Markets Day, Hubert, we said that we expect about three quarters of the 10% to come from flows and one quarter from markets. There's definitely been no help from the market. But also, no real inflows. We had positive inflows last year, because of, in Q2, the one portfolio we took over. But obviously, also, the inflows were much lower than then we'd expected.

I am still optimistic that second half of 2024 is going to look better, that 2025 is going to look better. I think it's a stretch to assume that we will get to the 10% CAGR, but then again, we assumed a 12% CAGR for Xtrackers, and they're substantially ahead. So, that's why I think in the script, when I tried to say that the two important metrics are EPS and cost income ratio, and the other two, more designed to explain how we invest those self-funded capacities. I think that's how I would look at it.

And there are always things that turn out better than expected, which is sentiment for ETF, and some are tougher, which is the muted interest in alternatives. But we definitely continue to push on both sides.

Hubert Lam — Very clear. Thank you, Stefan.

Operator — Just as a reminder, if you wish to register for a question, please press star and one on your telephone. That's star, followed by one. Our next question comes from the line of Arnaud Giblat, BNP Paribas Exane. Please go ahead.

Arnaud Giblat — Good morning. I have got a couple of questions. The first, if I can check on what's been said. In terms of the cost guidance that you're giving, if we look at absolute adjusted costs from 2023, that's going to broadly stay flat in 2025, is that right? And just a question to that, with a pickup in performance fees, what is the variable component that is attached to it? That would be helpful to know.

And secondly, a quick housekeeping question. Could you tell us when we should expect the payments of the special div. And a proper second question now, in terms of alternatives, great to see you make progress in credit. I'm just wondering, if I'm looking at a traditional asset management with a good distribution franchise, where is an obvious place to be hitting to leverage that distribution in private assets?

And I suspect secondaries is a good place to be looking at. A number of traditional managers have built out that franchise organically and inorganically. I'm just wondering, is that, at all, on the radar? Thank you.

Markus Kobler — Let me take the first couple of questions, let me start, then you step in. Again, in terms of expenses, as Stefan explained, it is about stable, except the volume based contributions. And we have that both with regard to comp and ben, as well as G&A. On the comp and ben, I said before, an increasing share price is also pushing the variable compensation cost up.

Then you have an increase, also, of assets under management, that again, is a trigger for banking and banking services expenses. And that is, again, an important component of the G&A costs. But excluding that, we focus on all cost items, obviously. We continue to analyse all areas, we are very, very disciplined.

And what is also important is that by doing that, that allows us, afterwards, to self-fund investments, be it especially in the growth end and build area. With regards to the carry component of performances, that's not information which we will disclose, Arnaud. And then the other one on the dividend, and again, the dividend procedure is as follows.

We have the AGM on 6th June 2024, and then there will a very structured process afterwards with the pay date expected on the following Tuesday, on 11th June. That's the process But obviously, depending on the approval by the AGM on Thursday. And probably, Stefan, if you take up the last one.

Stefan Hoops

So, a quick addition to the performance fee question. So, for transaction fees, we obviously have no carry, nothing. And then performance fees, as Markus said, we wouldn't disclose specifics. But there are some that we like a lot, like the Kaldemorgan performance fees, because there's no real split.

And I think all of you know the Kaldemorgan structure fairly well, so they have been doing fine this year, as you would expect, with the appreciation of markets. So, we're pretty optimistic about the Kaldemorgan component for this, and maybe future, years. But then anything alternatives related will have a typical split between house and the team.

But we typically think of it, in terms of net contributions. So, the way it's been calculated internally. For private credit, so your last question. The reason we feel we need to be very disciplined in saying that we want to focus on Europe, is because, to the point you made, we feel we have some positive differentiation, both in origination, which I think is more key, and distribution.

So, I think, in the origination side, and we could speak about for hours, but I think most of the private credit competitors are mostly hunting, or fishing, in the LBO pond. So, they can look at private equity owned companies, and then if they need private credit, then it’s open to all, and that's where they can originate. And when I say originate, in many cases, it's through banks.

I think our approach is originated risk is, I think, differentiating, because it will benefit from DB origination through the Corporate

Bank. It could potentially benefit from DB origination through the Investment Bank. But it could also benefit from origination, frankly, through BNP, Commerzbank, or others, because those are, I think, people we understand, and understand what they will be able to take on balance sheet and what not.

So, we feel, Arnaud, that we are more differentiated on the origination side than distribution. But then again, on distribution, everybody hears about it, we are strong in the retail space. So, we feel that with retail being interested in alternatives, we have the mechanism, meaning the wrappers, potentially also, blockchain based, and there's a lot of hype around distributing alternatives to retail through blockchain and so on, being represented there.

So, we feel that we have the mechanisms to, essentially, represent access to those funds, but then also, the distribution channels through our normal wholesale distribution. So, we feel we are competitive, but again, very disciplined with a focus on Europe.

Arnaud Giblat	Thank you.
Operator	Ladies and gentlemen, that was the last question. I would like to turn the conference back over to Oliver Flade for any closing remarks.
Oliver Flade	Thank you very much, everybody, for listening in, and please reach out to the IR team, in case there are any open questions. Otherwise, I wish you a fantastic day. Thank you very much, and bye, bye.
Stefan Hoops	Bye, everybody. Thank you very much, everyone.
Markus Kobler	Thank you.