CREDIT OPINION
16 July 2024

New Issue

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RATINGS

DWS Group GmbH & Co. KGaA	
Domicile	Frankfurt am Main, Germany
Long Term CRR	Not Assigned
Long Term Issuer Rating	A2
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the *ratings section* *at the end of this report* *for more information. The ratings and outlook shown reflect information as of the publication date.*

Contacts

Vanessa Robert +33.1.5330.1023
VP-Sr Credit Officer - Financial Institutions
vanessa.robert@moodys.com

Alexandra Aspioti +44.20.7772.5315
VP-Senior Analyst
alexandra.aspioti@moodys.com

Niyati Shah +44 207.772.5698
Sr Ratings Associate
niyati.shah@moodys.com

Robert M. Callagy +1.212.553.4374
AMD - Financial Institutions
robert.callagy@moodys.com

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DWS Group GmbH & Co. KGaA

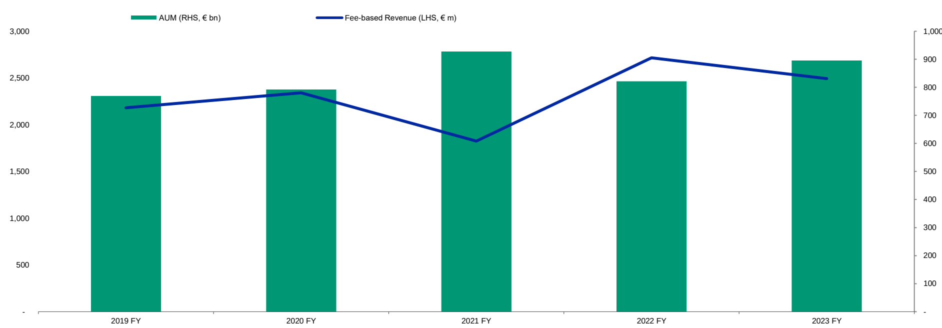
Growth of passive products and market appreciation drive record level AUM

Summary

The A2 long-term issuer rating on DWS Group GmbH & Co. KGaA ("DWS" or "Group") reflects its leading position in its domestic market, its global geographic footprint, along with robust financial flexibility, which is supported by very low leverage and strong liquidity. The company's breadth of products and capabilities also reinforces its credit profile by adding diversification. DWS also benefits from a long-standing relationship with its majority shareholder, Deutsche Bank AG (DB) (senior unsecured A1 stable, BCA baa2), which remains one of the key distribution partners.

These strengths are partly mitigated by lower pre-tax income and EBITDA margins compared to other A-rated global peers. On the ESG investigations associated with greenwashing allegations, we acknowledge that the SEC's investigation concluded and did not result in any material finding or financial damage. While the investigation with the German prosecutor is still ongoing, we think that the risk of financial or reputational damage has diminished.

Exhibit 1
Market appreciation and positive flows supported DWS's AUM expansion in 2023



Note: Fee based revenue is the sum of net management fees and performance fees
Source: Company reports, Moody's Ratings

Credit strengths

» Firm with organic growth and leading position among asset managers globally, especially in managing insurance assets

» Broad set of investment capabilities, including alternative investment products

» Strong geographic diversification outside its core market

» Low leverage appetite and strong liquidity

Credit challenges

- » Lack of captive distribution hinders full benefits of control and cost, albeit partly mitigated by a global, diversified distribution network including well-established partnerships
- » Achieving its medium-term targets of cost income ratio of sustainably below 60% against a backdrop of challenging operating environment for asset managers
- » Some remaining uncertainty around the outcome of ongoing investigation associated with greenwashing allegations but risk of financial or reputational damage has diminished
- » Increased regulatory scrutiny of European asset managers

Rating outlook

The stable outlook reflects our expectation that DWS will maintain its strong market position in its selected segments and will pursue opportunities to grow in selective areas, while managing its expense base in a disciplined manner. It also reflects our expectation that leverage appetite will remain low and liquidity position will continue to be strong.

Factors that could lead to an upgrade

- » Significant increase in scale, as measured by revenues net of distribution expenses, while maintaining good business and geographic diversification
- » Pre-tax income margin sustainably above 30%, coupled with good revenue stability
- » Improved AUM resilience metrics and consistent positive organic growth

Factors that could lead to a downgrade

- » A material financial or reputational impact from the outcome of the ongoing investigations
- » Significant deterioration of investment performance, leading to outflows and negative organic growth
- » Loss of key distribution partners, leading to loss of new business, resulting in deterioration in AUM resilience metrics
- » Material increase in leverage, with debt/Adjusted EBITDA consistently over 1.5x

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

DWS Group GmbH & Co. KGaA (Consolidated Financials) [1]

Key Indicators					
DWS					
DWS Group GmbH & Co. KGaA [1]	2023 FY	2022 FY	2021 FY	2020 FY	2019 FY
Assets Under Management (AUM) (EUR b) [2]	896	821	928	793	767
Net Flows (EUR mm)	28	-20	48	30	26
Revenues (EUR mm) [3]	3,695	3,853	3,819	3,309	3,402
AUM Retention Rate (%)	79%	77%	78%	73%	73%
AUM Replacement Rate (%)	115%	93%	127%	105%	117%
EBITDA (EUR mm)	814	1,043	1,042	802	597
EBITDA Margin (%)	22%	27%	27%	24%	18%
Total Debt (EUR mm)	160	160	211	--	--
Total Debt/EBITDA (x)	0.2x	0.2x	0.2x	--	--
Total Shareholder's Equity / Self Managed Investments (x)	5.2x	6.0x	2.7x	2.7x	--
Pre-Tax Income (EUR mm)	777	934	1,086	762	732
Pre-Tax Income Margin (%)	21%	24%	28%	23%	22%
Stability of Revenue Growth (%) (20 qtr) [4]	24%	18%	20%	--	--

[1] Fiscal year end December 31. [2] AUM (including cash and advisory services) as of 31 December. [3] Gross revenue is all operating revenue reported by the company. [4] Stability of revenue growth = the average of quarter over quarter revenue growth rates divided by the standard deviation of revenue growth rates, (using the past 20 quarters of growth rates).
Sources: Moody's Ratings and company filings

Profile

DWS, a leading European asset management firm domiciled in Germany, is a global publicly traded investment management firm with €941 billion of assets under management ("AUM") as of 31 March 2024. The company, previously 100% owned by Deutsche Bank AG, was listed on the Frankfurt Stock Exchange on 23 March 2018. Since the IPO, Deutsche Bank AG – via its subsidiary, DB Beteiligungs-Holding GmbH – remains a majority stakeholder, holding a stake of 79.49%. The company has approximately 4,600 employees and offices worldwide, serving clients in countries across the globe. DWS provides a broad range of investment products and solutions, including active, passive, and alternatives to institutional and retail clients worldwide, through a global distribution network, including Deutsche Bank.

The A2 long-term issuer rating takes into consideration the independent nature of DWS and the progress made by the asset manager, since its IPO, to disentangle from DB. While DWS's corporate structure entails influence from its majority shareholder- for instance, in appointing DWS's management and in approving key strategic decisions, we expect DWS's financial policies to support profitable growth initiatives and a robust financial profile, as a standalone entity. Should DB's influence lead to a deterioration in DWS's credit fundamentals – for instance, by pursuing large dividend payouts – we may reassess the gap between DWS's rating and DB's standalone profile.

Detailed credit considerations

Figures as of 31 December 2023, unless otherwise indicated.

Market Position: Global reach and leading position in managing insurance assets

DWS is one of the leading European asset managers, with a very strong presence in Germany and a global footprint. The Group is also one of the leading investment firms in managing assets on behalf of insurance companies globally. The company's product mix along with its geographic and client diversification support revenue stability, even at times of market volatility; we expect its diversified revenue base to remain a key credit strength.

While the industry continues to suffer from muted growth, DWS recorded robust organic growth. During 2023, DWS recorded positive net flows of €28.3 billion (€22.6 billion excluding cash) and its assets under management (AUM) increased by 9% to €896 billion. Positive flows also continued in Q1 2024, which together with favorable markets, boosted AUM to an all time high of €941 billion [1]. Historically, AUM resilience - as measured by retention and replacement rates - has been somewhat low for the rating level but we expect it to gradually improve, as evidenced also in 2023, in the absence of another wider market sell-off.

The Group's strategy involves maintaining and further reinforcing its position in areas of strength, such as active equity, multi-asset, and fixed income. Additionally, the Group will pursue selective growth in segments where it already has an established position and can benefit from tailwinds. In particular, DWS has been looking to enhance its competitive position and pursue growth in alternative and passive segments, by reinforcing its distribution network, strengthening its collaboration with DB, and launching innovative products to serve clients' evolving needs. Digital is expected to be another enabler; in 2023, DWS entered into a strategic alliance with a financial services and investment management company specializing in digital assets and blockchain, Galaxy Digital. Together, they already launched two exchange traded commodities (ETCs) and are further exploring other digital asset solutions, including Euro stablecoin.

The conclusion of the SEC's investigation marks an important step towards reducing uncertainty for DWS regarding potential reputational or financial damage associated with misstatements about ESG investments. Although the investigation by the German authorities has yet to conclude, to date, the investigations have not led to any notable adverse impacts on new business. DWS's ESG offering has been consistently attracting positive inflows.

Business Diversification: Broad product and geographic diversity key strengths underpinning the credit profile

DWS's asset mix consists of active equity (12% of AUM as of Q1 2024), multi-asset (6%), systematic and quantitative investments (7%), fixed income (22%), alternatives (12%), passive (29%), liquidity (9%), and advisory services (3%). Similarly, geographic diversification is robust, with over half of its AUM being sourced outside Germany, the Group's main market. Furthermore, DWS is one of the leading asset managers in managing assets on behalf of insurance companies. The relationships with these clients are typically long-term in nature, supporting stickiness of assets, albeit lower margin compared to wholesale. As part of its distribution model, the Group sources a sizable amount of assets through partnerships via a small number of selective important partners. DWS also benefits from a good balance between institutional (53% of AUM as of Q1 2024) and Wholesale clients (47%).

The business and geographic diversification, along with a broad client base, provide revenue protection. As the Group pursues potential inorganic growth, we anticipate an expansion in its product and geographic diversification. Furthermore, we expect it to maintain a balance between retail and institutional business, a credit positive.

Strong financial flexibility with no long-term debt; limited appetite for leverage

DWS' financial flexibility is strong, with very low leverage (small amounts of debt like liabilities and short-term debt) and a strong balance sheet, supported by a significant base of tangible equity. As of year-end 2023, DWS had €160 million of Moody's adjusted debt, mostly consisting of operating lease commitments. Moody's adjusted EBITDA (including standard adjustments) was €814 million as of 31 December 2023 and adjusted debt-to-EBITDA was 0.2x. Given its unlevered balance sheet, the Group has some flexibility to issue long-term debt to support organic or inorganic growth initiatives, without adversely impacting its credit profile. However, given its low appetite for leverage and ample liquidity, we do not expect the Group to materially increase debt. In addition, in the absence of any sizable inorganic opportunity, we expect that growth initiatives will be largely self-funded. We think that even if DWS were to gradually increase its debt levels, leverage would remain relatively low, with debt/adjusted EBITDA hovering below 1.5x.

An additional measure of financial flexibility is the equity coverage of potential losses from self-managed investments. Our view is that DWS's balance sheet risk associated with co-investments and seed investments is contained. This ratio is high at 5.2x at year-end 2023. In the calculation of the ratio, Moody's includes DWS's liquidity management invested assets, excluding cash. A mitigant to the risk of these assets is that they are mostly short-term in nature and of high credit quality.

DWS also manages guaranteed retirement accounts ("Riester Products") and guaranteed funds, which have a full or partial guarantee at maturity. An added risk here is that if the net asset value of the underlying funds at the respective guarantee date is less than the guaranteed amount, DWS is liable for making up the difference. Although these products are a large contributor to the financial risk, they are hedged, actively monitored, and stress tested. Additionally, this portfolio is in run off as DWS is no longer actively marketing these products.

Disciplined cost management; business diversification supports profitability

DWS's profitability, as measured by pre-tax income and EBITDA margins, is somewhat weaker than other A-rated global peers. In 2023, its five-year average annual pre-tax income margin was 24% (21% on a one-year basis). However, the Group has made significant progress in becoming more efficient and this is reflected in its cost/income ratio, which was at 64% in 2023 (adjusted for one-offs and transformational charges) and, although somewhat higher than in 2022, it remains well below the ratio of 72% at the time of the IPO. The increase in the cost/income ratio in 2023 was anticipated as DWS reached the peak of its multi-year transformation program; we expect adjusted cost/income ratio to gradually decline to levels closer to its stated target of below 59% from 2025. This targeted ratio compares favorably with that of other asset managers in Europe.

We think that asset managers continue to face numerous challenges affecting profitability, including weak organic growth, structural margin erosion, and increasing regulatory costs. Although DWS will not be immune to the industry challenges, it is well placed to navigate this operating environment as it benefits from a diversified business profile, which can help offset pressures in certain asset classes. Another profitability strength is the quality of revenues, which is good given the limited reliance on performance/transaction fees, which are more volatile in nature.

Liquidity analysis

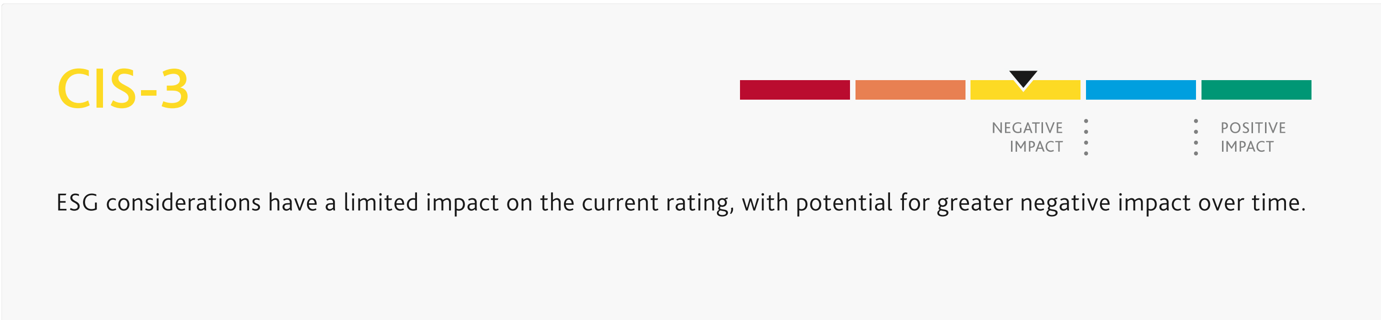
The group's strong liquidity profile is supported by €1.4 billion of cash and bank balances as of 2023 (YE 2022: €2.0 billion) and an additional €2.2 billion (YE 2022: €1.6 billion) in other liquid assets. DWS also maintains a €500 million revolving credit facility (currently undrawn) which provides further financial flexibility. If needed, DWS has the authorization to issue additional equity shares totaling approximately €2.5 billion.

DWS paid an extraordinary dividend of €800 million in 2024. Even though the excess capital and surplus liquidity have reduced through this dividend payment, Moody's believes the group will continue to operate under comfortable levels. From 2025 onward, DWS is expecting a dividend payout ratio of ~65%.

ESG considerations

DWS Group GmbH & Co. KGaA's ESG credit impact score is CIS-3

Exhibit 3
ESG credit impact score



Source: Moody's Ratings

DWS's **CIS-3** indicates moderate impact of ESG considerations on the current rating, reflecting high social and moderate governance risks. The risks mainly stem from the ongoing ESG investigations associated with greenwashing allegations - which could have financial or reputational implications - should they result in material findings. There are also risks associated with the numerous management changes recently. The company's diversified product and geographic mix as well as its strong balance sheet and liquidity help partly mitigate its exposure to these risks. In addition, to date, the ongoing ESG investigations have not been translated into any notable new business and /or reputational damage.

Exhibit 4
ESG issuer profile scores

Source: Moody's Ratings

Environmental

DWS's exposure to environmental risks is low, consistent with our general assessment for asset managers. DWS has low direct corporate exposure to environmental risks, and its fund exposures are well diversified.

Social

DWS has high exposure to social risks, in particular industry wide customer relations risks, related to the marketing and distribution of financial products. Ongoing ESG investigations could result in financial or reputational damage. This risk is somewhat mitigated by DWS's product and geographic diversification. DWS has exhibited awareness of societal trends , such as the shift to passive products.

Governance

DWS faces moderate governance risks. The group has experienced numerous management changes, notably following the ESG allegations. Notwithstanding the potential strategic risks associated with the number of changes in key management positions, the group has communicated a clear strategy and operates with strong corporate governance practices. It also maintains a strong balance sheet and robust liquidity management policies.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

Exhibit 5

DWS Group GmbH & Co. KGaA

Asset Managers Scorecard (weights)[1]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adjusted Score
Business Profile								**A**	**A**
Factor 1: Market Position (25%)								**A**	**A**
Scale and Franchise Strength			X						
AUM Resilience				X					
Factor 2: Business Diversification (25%)								**Aa**	**Aa**
Geographic and Product Diversification		X							
Distribution			X						
Financial Profile								**A**	**A**
Factor 3: Financial Flexibility (30%)								**A**	**A**
Debt / Adjusted EBITDA	0.2x								
Total Shareholder's Equity / Self-managed Investments						5.2x			
Factor 4: Profitability & Revenue Stability (20%)								**Baa**	**Baa**
Pre Tax Income Margin (5 yr ave)				23.6%					
Stability of Revenue Growth (20 qtr, YoY)				24.4%					
Operating Environment								**Aa**	**Aa**
Stand-alone Credit Profile Before Qualitative Notching Factors								**A2**	**A2**
Indicated Instrument-level Outcome									**A2**

[1] The scorecard in this rating methodology is a relatively simple tool focused on indicators for relative credit strength. As described in the methodology, there are various reasons why scorecard-indicated outcomes may not map closely to actual ratings.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
DWS GROUP GMBH & CO. KGAA	
Outlook	Stable
Issuer Rating -Dom Curr	A2

Source: Moody's Ratings

Endnotes

1 This figure includes cash and advisory services assets

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