DWS Group GmbH Co. KGaA

Q1 2023 Earnings Call

27th April 2023 | 10:00 CEST

Transcript

Speakers:

Stefan Hoops

Claire Peel

Oliver Flade

Oliver Flade

Operator, thank you very much and good morning everybody here 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 2023.

Before we start, I would like to remind you that the upcoming Deutsche Bank analyst call will outline the asset management segment's results, which has a different parameter basis to the DWS results that we're presenting today.

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

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

Stefan Hoops

Perfect. Thank you, Oliver. Good morning, ladies and gentlemen, and welcome to our Q1 2023 earnings call. Given that every quarter seems to have its own source of volatility, let me skip the usual part on markets were tough and jump right into what we've been focusing on.

Overall our Q1 numbers are in line with what we've guided and with what you can expect in such an environment. Revenues were a bit lower than we would have liked as transaction and performance fees were below normal levels given the market circumstances.

At the same time, costs were better than expected, which is something we took active action on in Q1. Adjusted profit before tax and cost-to-income ratio were in line with what we had planned. Hence, we are able to reconfirm our financial targets for 2023.

As promised during our Capital Markets Day and full-year 2022 earnings call, we are committed to disciplined portfolio optimisation in our four key categories of reduce, value, growth and build. We are fully focused on implementing this with a sense of urgency.

In the first quarter, we intensified our efforts on reduce, given our intention to save first and then invest in growth and build. We completed the sale and transfer of our private equities secondaries business and we accelerated our

restructuring programme from Q4.

Since June 2022, approximately 15% of our managing directors have left or are in the process of leaving us in due course. In addition, we've continued to streamline and delayer our organisation. Over the last few quarters, two-thirds of the managers reporting to the executive board have either moved into a new role or have a significantly changed mandate.

As you can imagine, it takes a lot of work to engage in such a significant restructuring while also ensuring the stability of our franchise. We did so with a huge focus on culture and communication and our colleagues seem to buy into our strategy as we only faced three resignations amongst our 200 most senior people in the last nine months.

Overall, a lot of the heavy lifting has been done, but it will obviously take some time for these changes to be fully reflected in our cost base. Claire will go into more detail, but let me reiterate that while we cannot control the markets, we can control our costs and you can rest assured that we have the utmost discipline to take active action where we can.

While the reorganisations and majority of the restructuring are behind us, we can now fully focus on growing our business. There are early signs that this is working, as reflected in our flow performance with Q1 net inflows of €8.8 billion, excluding cash.

This marks a positive turnaround from 2022 for which I would like to thank our team for the hard work in blocking, tackling and winning mandates. A special thank you also to our distribution partners for a solid start to the year. Not easy given the greater competition we are facing from plain vanilla savings accounts in the current yield environment.

As outlined at our Capital Markets Day, we see further upside in working more closely with Deutsche Bank's corporate bank. This collaboration has enabled us to secure significant mandate wins in the first quarter.

In addition, our flagship funds have received a lot of external recognition. Thomas Schuessler was awarded the Golden Bull for German Fund Manager of the Year 2023 for the DWS Top Dividend, while our flagship multi-asset fund, Concept Kaldemorgen, won several Morningstar awards.

It was also nice to see Xtrackers bounce back in Q1, reporting positive net inflows. In alternatives, we launched the DWS Infrastructure Europa as part of our European transformation programme, offering German retail investors the opportunity to invest in infrastructure projects in Europe

for the first time.

All in all a constructive first quarter in which flows shifted back into positive territory and in which we continued to implement what we promised with a sense of urgency, delivering financial performance in line with our guidance. With that, I will now hand over to Claire for the details.

Claire Peel

Thank you, Stefan, and welcome everyone. Today I will present our financial results and activities for the first quarter of 2023, starting with the key financial highlights.

Net flows returned to positive territory in Q1 with €8.8 billion net inflows, excluding cash, driven by strong demand for Xtrackers and active multi-asset. Adjusted cost-to-income ratio stood at 66.3%, mainly impacted by lower quarterly revenues. We remain on track to achieve our guided ratio of below 65% for the full year. Adjusted profit before tax totalled €206 million, also mainly due to the decline in adjusted revenues in the first quarter.

Moving on to our Q1 financial performance snapshot. Starting on the top left, AUM increased to €841 billion, up 2% from Q4, supported by positive market developments and Q1 net inflows. On the top right, adjusted revenues decreased to €610 million, reflecting lower management fees and performance and transaction fees in the first quarter.

On the bottom left, adjusted costs increased to €404 million as compensation and benefit costs normalised after reversal of carried interest in the fourth quarter. This resulted in an adjusted profit-to-income ratio of 66.3% and an adjusted profit before tax of €206 million, reflecting again the lower revenues in Q1.

Let’s recap on the market environment. Following a turbulent 2022, investor risk appetite is showing signs of improvement. Major equity indices were strong in the first quarter, driven by the falling US ten-year yields and the prospect that the Fed will stop rising rates in May.

While there was some volatility in the first quarter, this was relatively short lived. Overall, both US government bond yields and European rates remained relatively unchanged at the end of Q1, while the US dollar continued to weaken. Collectively, these developments were constructive to the asset management industry as well as to DWS as we saw improvement in our AUM development, which I will now outline.

At the end of Q1, assets under management increased to €841 billion, up 2% quarter on quarter. This quarterly

increase can be attributed to €19 billion of positive market impact, which was more than offset by unfavourable FX movements in Q1. This is supported by quarterly net inflows, marking a reversal from 2022 outflows, as I will now outline in more detail.

Following a difficult 2022, investor risk appetite showed signs of improvement, which we can see clearly in our flow performance. In Q1 we reported total net inflows of €5.7 billion and €8.8 billion, excluding cash, driven by contributions from both retail and institutional investors and with inflows across active and passive Xtrackers.

In addition, our ESG funds performed strongly, attracting €1.4 billion of net inflows in the first quarter, mainly from retail investors in AMEA. The positive turnaround in our flow momentum is a testament to our strong relationships with our clients and distribution partners. This was evident across our active management investment strategies in Q1.

Active multi-asset reported €5.6 billion of net inflows in the first quarter, including a significant institutional mandate win through our distribution relationship. Active fixed income also shifted into positive territory with €0.5 billion of net inflows, marking a reversal from 2022 outflows.

This reflects intensified efforts to improve our performance in the asset class after a difficult 2022 and with a particular focus on institutional clients. In the first quarter, we saw signs of this focus paying off with two insurance fixed income mandate wins in the Americas and in AMEA.

Meanwhile, active equity sustained its positive flow momentum from Q4, attracting €0.4 billion of inflows, supported by continued client demand for our flagship retail strategy, DWS Top Dividend, as well as our active equity ESG funds.

In addition to active, passive also returned to positive momentum in Q1, reporting €4.4 billion of net inflows. This was driven by Xtrackers ETFs primarily in Europe where we ranked number two by ETP net inflows in the first quarter. Notably, fixed income ETFs contributed strongly to our quarterly ETF flows, enabling us to generate net new flows higher than our fixed income ETF AUM market share in Europe.

This resulted in the outcome of a dedicated sales campaign on our fixed income ETFs, which continue to attract strong client demand, as we have seen at the start also of Q2. Collectively, inflows into active and passive strategies more than offset net outflows from cash and alternatives in the

first quarter.

Following a strong year of flow momentum in 2022, alternatives reported €1.4 billion of net outflows, mainly due to mandate redemptions from liquid real assets. This more than offset inflows into the DWS Invest ESG Real Assets fund, which continued to perform strongly in the quarter.

We have a solid forward pipeline of alternatives flows, which we expect to drive positive flow momentum in the second quarter. Overall, Q1 marked a solid start in terms of flow performance, further supported by new product launches, which continue to be an important flow driver for DWS, which I'll now outline in a bit more detail.

Since our IPO in Q1 2018, new product launches have attracted €51 billion of cumulative net inflows and an overall management fee margin of 36 basis points. This includes €1.1 billion of net inflows in Q1, sustaining the positive flow momentum from 2022 and reaffirming the importance of product innovation to deliver growth.

As outlined in the previous quarter, we are developing new product launches that support clients' investment needs and with a particular focus on our growth areas of Xtrackers and alternatives.

On this front, we've had a good start to the new year. In Q1 we launched various thematic ETFs which consider sustainability topics, including nine UCITS SDG and climate transition ETF launches. We continued this momentum with the launch of the Xtrackers MSCI USA Climate Action ETF in Q2, which was developed in collaboration with a leading Finnish insurer.

In addition, we're expanding our alternatives business through our European transformation programme. In the first quarter, we launched the DWS Infrastructure Europa fund, offering German retail investors the opportunity to invest in infrastructure projects for the first time. In Q2, we plan to launch the European Real Estate transformation fund.

To support continued flow momentum into our value asset classes in Q2, we will launch the DWS Fixed Maturity Diversified Bonds 2027 fund, which was developed together with a key strategic partner.

Moving on to revenues. Total adjusted revenues decreased to €610 million in Q1, down 4% quarter on quarter. This decline can be attributed to two key developments. One, we had fewer business days in Q1, which had an impact on management fees and other recurring revenues compared

to Q4. Two, lower performance and real estate transaction fees in Q1, although some recovery is expected in Q2.

Together, these more than offset a quarterly increase in other revenues, which benefited from a favourable change in the fair value of guarantees, together with increased net interest income.

Our Chinese equity investment Harvest contributed €13 million of net income in the first quarter. As guided, we expect total adjusted revenues in 2023 to remain essentially flat compared to 2022.

Moving on to costs. Total adjusted cost stood at €404 million at the end of Q1, up 6% quarter on quarter. Adjusted general and admin expenses decreased by 24 million as we continued to focus on cost optimisation initiatives, reducing our external spend on IT and professional services in the first quarter.

Adjusted compensation and benefits costs were up in Q1, as expected, following the reversal of incurred carried interest in Q4. Excluding carried interest, adjusted compensation and benefits expenses were essentially flat quarter on quarter. Combined with lower revenues, this resulted in an adjusted cost-to-income ratio of 66.3% at the end of Q1.

Looking ahead, we expect the cost optimisation efforts we have made in Q1 to come into effect over the coming quarters. This supports ongoing efforts to reduce our costs by €100 million by 2025 so that we can invest in our targeted areas of growth going forward. As a result, we remain on track to achieve an adjusted cost-to-income ratio of below 65% for the full year 2023, as guided, and a ratio of below 59% by 2025.

As a reminder, the total adjusted cost base excludes €18 million of investments into our infrastructure platform transformation in the first quarter. I will now hand over to Stefan to conclude.

Stefan Hoops

Thank you, Claire. Overall, a respectable first quarter on track to achieve our financial targets for 2023 as guided. As mentioned earlier, we have taken active action to reduce costs by restructuring headcount and delayering our organisation.

With a lot of the heavy lifting done, we can now focus more on growing our business without compromising our disciplined efficiency. Quite frankly, we see upside across the board.

In the value part of our franchise, active fixed income, equity and multi-asset, we see substantial potential to strengthen our positioning. In particular, we've intensified our efforts on institutional fixed income, resulting in more than €1 billion net inflows in the asset class in Q1. And we've set up a dedicated global insurance council, which I will personally chair, so that we can sharpen our value proposition for insurance clients.

Of course, our targeted growth areas of Xtrackers and alternatives remain top priorities. In Xtrackers we have a pipeline of bespoke ETFs which we expect to deliver another quarter of positive flow momentum in Q2. In alternatives we are continuing to develop products that will align more strongly with our European transformation programme. While alternatives were outflows in Q1, we are confident that our pipeline of products will help us to return to positive net inflows in Q2.

In addition to our existing portfolio, we are building out new capabilities through our strategic alliance with Galaxy Digital Holdings that we announced yesterday. Together, we will provide investors access to the $1 trillion digital asset market, with DWS becoming Galaxy's exclusive partner for digital asset ETPs in Europe. We will also work together to issue a euro stable coin, aiming to become the first significant asset manager to launch such a product.

To summarise, we are continuing the disciplined implementation of what we have promised with a sense of urgency and we're looking ahead by targeting the upside we see across our franchise and working together with our partners to capture new growth opportunities.

This gives up confidence that we remain on track to deliver our financial targets for 2023 and beyond. Thank you for listening. I will now pass over to Oliver for Q&A.

Oliver Flade: Thank you, Stefan. Operator, we're ready for Q&A now.

Operator: Ladies and gentleman, 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 touch-tone telephone. If you wish to remove yourself from the questions, you may press star followed by two.

Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question comes from Jacques-Henri from Gaulard. Please go ahead.

Jacques-Henri Gaulard: Hello, everyone. Jacques-Henri here from Kepler Cheuvreux. I have two questions. The first one I would like

to come back on the initial statement you made last quarter, Stefan, about the greenwashing allegation, particularly the results of the internal audit. I don't think we've seen it. Can you give us a sense of what's the timing at least on this?

The second question was about the guidance that you reiterated. There was nothing on the 1 billion capital return. Just to make sure that this is still going, and together with the flat revenue guidance, it looks a little bit more difficult to achieve now. But well done for the consistency that you are taking to get the things done. Thank you.

Stefan Hoops

Hi, Jacques-Henri. Thank you for your question. I will start with the first one and then Claire will take the second one.

There's nothing new to report on the ESG front. What we've done and what we talked about last quarterly earnings call, is that we would publish essentially the key highlights from our internal investigation in the areas in which we will focus on going forward or the areas that we focus on. That we've done.

We've published a two-pager on our website essentially with the lessons learned and next steps that we take. Oliver will ensure that all of you get it and will help you find it. We didn't hide it on the website, but obviously all of you are following many asset managers.

We published a two-pager which, again, has the lessons learned, conclusions from the internal investigation. Obviously, we didn't publish the whole internal audit report. That would be highly unusual. But essentially a two-pager with the conclusions and next steps.

I'm sure some of you would ask the question if there's any update. We can only reiterate that we are fully focused and it has the utmost management attention to resolve the investigations. I think we're making good progress, but we're working on the timeline of the authority, so therefore we can't really drive it.

What I would want to point out, in Q1 we had €1.4 billion of net inflows in ESG products, so it seems that people out there, the clients and investors are seeing our sincere effort to be fully transparent on things that potentially or in our view didn't happen in the past. Obviously, resolving the investigations, but also, which is quite important, being fully focused on the future of ESG and responsible investing.

Handing over to Claire for the second question.

Claire Peel

Thank you and good morning. Yes, I can just reiterate the guidance that we gave regarding the extraordinary dividend

	of up to €1 billion in 2024. We still maintain that commitment. That will be fulfilled. It's subject to capital commitments, of course. But at this point in time we're very much committed to paying that special dividend next year.
Jacques-Henri Gaulard	Thank you.
Operator	The next question comes from Arnaud Giblat from BNP Paribas Exane. Please go ahead.
Arnaud Giblat	Good morning. I've got a couple of questions, please. First, if I could start with a quick update on some launches in alternatives. I was wondering if there were any larger fund launches in the pipeline coming up in the next few quarters, if you could give a bit more detail? More specifically, you mentioned a few quarters ago that you're looking intensively at coming up with a private credit offering. There's clearly a lot of demand for that in the market. I'm just wondering how that's going, if you had any... I think you talked about a lot of sourcing coming from Deutsche Bank. What sort of feedback are you getting from clients there? My second question is a housekeeping question. Could you give us a bit more of a granular split in terms of other revenues from Harvest, from the effect of NII and revaluation of pensions in the other line? Thank you.
Claire Peel	Good morning, Arnaud. Thank you for the questions. If I start with the question on fund launches. Firstly, just to confirm, we did launch in the first quarter the Infrastructure Europa fund, which we indicated. That has been launched. Coming up in the second quarter we've indicated the European Real Estate transformation fund launch, which is also on track. Obviously, it will start with the first closes and have subsequent closes. We have a continuation of the series of the Pan-European Infrastructure funds coming up to its fourth series in the latter part or early part of the following year. So, we have a good pipeline of both fund launches and activity in general in the alternatives space. We reiterated that, noting that we did have net inflows in the first quarter for alternatives, but we do have confidence in that forward pipeline for the remainder of the year, which will turn that certainly in the second quarter we expect at this point in time into positive territory.
Stefan Hoops	Arnaud, regarding the question on private credit and let's define it as private corporate credit, so direct lending and not the debt version of real estate and infrastructure, there we're

making good progress. We have funds out there. But I think your question specifically was on private credit, corporate credit.

Now, fully agree, the opportunity if it was relevant three quarters ago, it's much more relevant now given what just happened with the regional banks in the US and so on. We definitely see plenty of demand for credit from the real economy and probably less supply from banks, hence great opportunity for alternative asset managers. That's probably more relevant.

We definitely see plenty of interest from clients. There are plenty of clients that specifically when it comes to direct lending in Europe would want to work with us. Unfortunately, I just want to be obviously transparent, but also realistic. We need to set up proper teams and proper processes before we can manage money for clients.

When I started speaking about it, I explained that we needed a couple of senior people to drive it to then really set up teams, processes and so on. You know that Paul Kelly, our global head of alternatives, who, coming from Blackstone Credit where he was the COO, obviously knows a lot about private credit.

He joined mid Sep. We've spent a tonne of time together. He's been on the roll, obviously interviewing people, looking at potential inorganic opportunities where we would potentially look at smaller fund managers that we could take on and speaking to clients.

I think to be realistic, it would take a couple of quarters until we have a team in place that would give us confidence that we can actually manage on behalf of clients. So, opportunity is huge. There is definitely interest. We're fully focused on setting up a team, but it will take a couple of quarters until that is in place.

Claire Peel

And to pick up on the second question on the composition of the other revenue categories, I indicated we saw in Q1 Harvest revenues of 13 million. There was some final audited results too for the prior year in that number, so the more normalised run rate number to look at is 15 million for the quarter.

We saw net interest income of 14 million. That's an increase on what we guided or what we disclosed in the fourth quarter, actively managing our liquidity balances and seeing rate increases which is supporting that stream.

We saw negative movements on our principal revenues in alternatives mark to market. Negative movement of

6 million. Lower than what we saw in the fourth quarter, but an indication of some of the revaluations that we've seen in the alternatives portfolio.

And we saw a positive addition in the fair value of guarantees with the rising long-term interest rates reducing the shortfall balance that we carry. Those are the main drivers that we saw in other revenues.

Arnaud Giblat — That's very helpful. Just a quick follow-up, if I may. Could you perhaps give us an indication in terms of the step ups you're expecting in the funds you indicated, if any?

Claire Peel — Sorry, a step up in the?

Arnaud Giblat — A step up in the alternative fund series you're launching, the magnitude of step ups. For example, you mentioned the fourth series. What sort of step up process versus a third version of the fund?

Stefan Hoops — Certainly, one of the things we've learned in Q1 is to under promise even more and then aim to over deliver. I think we want to be cautious. I think the target for our PEIF IV is, I'm looking at Claire whether we want to say 4 to 5 billion. It should be large than PEIF II and PEIF III, who worked out quite nicely and there's plenty of interest in European infrastructure.

We did launch the DWS Infrastructure Europe, which is to our knowledge the first retail fund, and that is garnering interest. I think we see upside in some of the real estate vehicles that are targeting value add or are focused on that.

I think there's enough things in the pipeline that gives us confidence to say that we expect positive net inflows in Q2. But I think I will leave it at that and maybe give a more in-depth update next quarter, if that's okay, Arnaud.

Arnaud Giblat — That's helpful. Thank you.

Stefan Hoops — Thank you.

Operator — The next question comes from Hubert Lam from Bank of America. Please go ahead.

Hubert Lam — Hi, thank you for taking my questions. I've got two of them. Firstly, on revenues. You are still targeting revenues to be flat year on year this year after revenues fell 12% year on year in Q1. Where do you see the improvement coming from for the rest of the year? Do you expect different management fees to flows or markets or recovery in performance fees? What gives you confidence of the target?

The second question is for Stefan around strategy

execution. Now that we are five months after the Capital Markets Day, you talked about the progress of your strategic plans. I know you've alluded to a bit of it. You're open to remarks. But specifically, which parts of it do you think have been delivering faster than expected and which parts have been slower? Thank you.

Claire Peel

Good morning, Hubert. Thank you for the question. I'll take the first one on the revenue outlook. I would say mainly the transaction fees and performance fees is the line that was particularly low in the first quarter. I think that's actually the lowest quarter we have reported for transaction and performance fees and we would expect that to increase in coming quarters. We have good line of sight of that in certain categories.

Obviously, we know in the real estate market at the moment transactions are generally low. We would expect that to continue in the first half of the year, but pick up in the second half of the year. But in general we still stay by the guidance that we have, the performance and transaction fees of between 3 to 6% of our revenues overall.

On the management fees, Q1, again, as mentioned, is a slightly shorter quarter, so we saw less management fees. We also saw the adjustment of the average AUM levels, which has now stabilised. We would expect that level of management fees to stabilise going forward. I've mentioned the other revenue categories in the pervious question, and again, all of those other revenue categories I would consider to be stable.

With the pick up in performance and transaction fees and a stable increase in management fees, that would meet our guidance for the full year.

Stefan Hoops

Hubert, when it comes to your second question, at this stage we've done a couple of quarterly calls together and I think I've met all of you a couple of times at conferences and so on, but understand that obviously you need to build up credibility. I fully understand that we as a company, but also me specifically is essentially a show-me story. I get that.

What I would encourage all of you to do is see what we have talked about in Q2, Q3, Q4 earnings call at the Capital Markets Day and compare with what we've done. I fully appreciate, especially after overseeing transaction banking for four years, that these things take some time. You need to make proper investments and then implement, focus on it relentlessly and then revenues come in or costs go out, so longer-term business.

Therefore, what I would want to point out to, I think what we've definitely shown in Q1, that we're able to take tough decisions. Having 15% of the MDs, and by the way, that's a high double digit number of people leave the platform, were many uncomfortable discussions and tough decisions. Delayering or changing the mandates of two-thirds of the people reporting to the executive board was really, really difficult and many tough discussions.

To some extent, coming back to our strategic plan, our strategic plan at the Capital Markets Day was to take pain first and then focus on growth. I think you have seen that we are willing to take the pain and, obviously, as we've said, it will take a couple of quarters for that to materialise in the cost base. If we part ways with somebody, they don't give up their notice period, so obviously we pay fixed pay a little bit longer, so some of those things will take a couple of quarters to materialise.

When it comes to the stuff which is more fun to talk about, because taking out cost, taking out people is always tough, but hopefully you've seen that we're willing to do and that we're disciplined and fast at doing it. When it comes to growth, again, the big topics we've talked about in Xtrackers and alternatives, or also building out digital assets, I think you've also seen us take the necessary steps.

Alternatives, it was predominantly making some hires because we simply lacked seniority specifically in private credit, coming back to the question Arnaud asked. We had spoken about from July last year about the European transformation, that being a big topic. You've seen us launch new things in Infrastructure Europe, for example. So, you've seen us, again, do what we've talked about.

I think in Xtrackers it's a little bit easier to pivot fast versus alternatives. That simply takes longer because you need to recruit people. I think in Xtrackers we will not just watch and see. We're pretty disciplined in what we ask them to do.

I think we have, what is it Claire, 73 new products that are anticipated to be launched in 2023, so it's like a specific timeline that all of them operate on. I think there we see early signs of this playing out fairly nicely with the turnaround in Xtrackers flows, again, coming back to the strategy.

Now, on the growth part, I think Xtrackers, I think we are confident and we like what we've seen so far. I think in alternatives, I think the next couple of quarters will then ideally give us confidence, but so far the pipeline looks good for Q2.

I think when it comes to the build part, you've seen us announce the partnership. Obviously, we now need to launch ETPs. That will take quarters. I think launching a euro stable coin will take more quarters than launching ETPs, but will be a part of our three-year plan.

Then when you come to the value part of our portfolio, I'm actually pretty pleased with the progress. But we spoke about fixed income, this being an area of weakness. You may have seen us make a bunch of changes in leadership in fixed income, which unfortunately sometimes is part of turnaround. And we've now seen inflows.

A billion inflows, institutional fixed income was nice. We definitely want to see a lot more. We see upside specifically with insurance clients. Well, we had been number one two decades ago in third-party insurance asset management. We're now number three, four. But definitely it's a very strong franchise which we want to build on and put more emphasis on our insurance clients.

Hubert, I think to summarise, I understand we are a show-me story. Hopefully you've seen us being willing to take the pain that we promised we would take and now watch us grow the business. Again, I'm seeing early signs of this working out in Q1. But rest assured, we will really focus on that part of our plan going forward.

Hubert Lam: Great, that's helpful. Thank you.

Stefan Hoops: Thank you, Hubert.

Operator: The next question comes from Nicholas Herman from Citi. Please go ahead.

Nicholas Herman: Good morning. Thank you for taking my questions. Two from me, please. One on costs and then another one for Stefan.

On costs, could you just help us please to understand the moving parts this quarter on a sequential basis? I guess within that, how much did running dual platforms contribute to the higher costs? I guess on top of that as well, you hired 600 people in India. Have I understood correctly that this is insourcing, so removing from G&A and adding to comp and what was the effect there?

The second question for Stefan, kind of a follow-up to before. I appreciate there's a lot of uncertainty because they are out of your control. But could you help us get a sense of how you're thinking about the approximate timeframe to both implement the improved ownership structure at DWS and to resolve the greenwashing investigation? Do you think

either could be completed by the end of this year or I guess even next year? Or sorry, the year after. Thank you.

Claire Peel: Hi, thanks for the question. I will take the first one on costs. First quarter we saw 404 million of costs overall. That did include all of the items that you referenced, so maybe if I take the first one, the notable increase in headcount. We saw approximately 600 headcount increase coming from our teams in India and this is effectively a shift from G&A expenses to comp and ben.

Within the quarter we saw that movement. The population was always a part of our cost base, but it wasn't part of our comp and ben. I think that also demonstrates that we've taken that cost into the comp and ben and we still see that stability net of the carried interest credit that we had in the fourth quarter. So, yes, effectively insourcing of capabilities and part of our transformation programme.

On the dual platform, we continue on plan with the programme and the project. The transformation expenses themselves, 18 million is excluded from the adjusted cost base. But in the adjusted cost base we do have the operating cost of the current services. We have seen some expected increase in that in the first quarter and the continued onboarding of activities to take over services in the future. So, we've managed that within the 404 million within the quarter.

Otherwise, we've seen some restructuring activity. We see some benefit of that in the fourth quarter, but again, we'll expect to see more of that coming though in subsequent quarters, which will fund some of the activities, the dual platform costs and the growth investments that we're making more fully. Hopefully that covers it. Thank you.

Stefan Hoops: Nicholas, to your second question, just to make sure, you said ownership structure. I guess you mean the legal structure, the KGaA that was...

Nicholas Herman: Yes, sorry, that's correct. Exactly, thank you.

Stefan Hoops: But that makes my answer easier because I cannot comment on that. That's I think question that should be addressed to Deutsche Bank. Every time I say anything about it, I get in trouble. We're essentially a taker of a decision by Deutsche Bank, what sort of structure they like.

Secondly, on ESG greenwashing, again, unfortunately nothing I can really add to what I've said before. It obviously has utmost management attention. It does appear that many asset managers are being looked at, meaning you can maybe assume that the authorities are reasonably busy,

which is why there's only so much pushing we can do. We operate under their timeline. But it has utmost senior management attention to get this resolved, I can promise you that.

Nicholas Herman: Would you be disappointed if you weren't able to resolve it by the end of this year?

Stefan Hoops: I think it's tough for me to comment, My contract runs until summer 2025. I would definitely be disappointed if I can't resolve it until then. But again, I've learned to under promise, over deliver, so I would love to leave it at that.

But again, Nicholas, I just want to re-emphasise, I got another update on this this morning. I look at it twice a week. We're definitely fully focused on it. But at the same time, we're also focused on the future of sustainability and responsible investing, so we balance that. But obviously, resolving the investigations is of utmost important.

Nicholas Herman: Fair enough. Thank you very much.

Stefan Hoops: Thank you, Nicholas.

Operator: The next question comes from Haley Tam from Credit Suisse. Please go ahead.

Haley Tam: Good morning. Thank you very much for the call and taking my questions. I have two, please. First just on the institutional mandate wins that you've mentioned. Could you confirm the size of the significant win in multi-asset and those two fixed income mandates you've mentioned?

Also, could you give us some indication, given the investment in the sales processes that you've mentioned, are you confident that these are a sustainable level of inflow or should be considered lumpy, one-off in some kind of nature. If there is any comment you can make on fee margin on these mandates, that would be great.

Second question on SFDR, the rule clarifications by the European Parliament on 14 April, is there any impact on your own fund's classification, Article 8 and 9, and in particular I guess Xtrackers is what the question is focused on? Thank you.

Claire Peel: Hi, Haley. Thank you for the questions. Maybe if I take the first one the mandates. We have indeed seen some good institutional mandate wins in the first quarter in both fixed income and in multi-asset.

In multi-asset, the majority of the inflows that we saw were coming from this mandate win. It is institutional, so it is lower margin, so certainly not close to the retail multi-asset funds

that we see, of course, in that asset class. I can't be specific on fee margins for individual institutional mandates, I'm afraid, but of course institutional is lower margin.

But I would also add that it's a strong client relationship, it demonstrates good collaboration with distribution partners and there are also different follow-on mandates related to that particular client in different asset classes as well of smaller size, but demonstrates the depth of the client relationship.

In the fixed income arena we saw two mandate wins. One was in the US, one was in AMEA. Both of those are ongoing relationships, so we've seen redemptions in the past and we've seen a renewal of mandates coming from those. Those are in line with the average of the fee margin that we have within fixed income for institutional mandates.

On the second, you also asked about the sustainability. Of course, the multi-asset one is quite expectational in size, so I would say you could call it lumpy, yes. But as we've indicated, we have a good visibility of pipeline in the second quarter. I can't give too much details on that and nothing is committed at this stage, but we have a very good pipeline for the second quarter that gives us confidence on the institutional side again.

On the topic of SFDR and Article 8, Article 9 reclassifications, as we've often indicated here, we're quite unconservative in our definitions of Article 8 and 9. We did see some reclassifications with the market last year and we will always see some reclassifications as the boundaries shift a little bit. But we're not envisaging at this point in time anything significant or anything that changes the classification of our pipeline. Thank you.

Haley Tam — All right, Claire. Thank you.

Operator — The next question comes from Angeliki Bairaktari from JP Morgan. Please go ahead.

Angeliki Bairaktari — Good morning and thank you for taking my questions. Firstly on the management fee rate decline quarter on quarter, I do hear you on the fact that there are two business days less in the first quarter. But nevertheless, I was wondering, can you give us some colour with regards to the management fee rate, which asset class showed the biggest decline and how shall we expect this to progress in the full and quarters, please?

And then with regards to the passive funds that have returned into inflow, you mentioned that your fixed income ETFs are now getting flows higher than your market share.

Can you please give us some colour on the competitive dynamics at the moment within the passive fund industry? Are you still seeing competition on price and how shall we expect passive margins to progress this year?

And one clarification. You booked I think it's 13, 14 million one-off sales gain in other income, which is not included in adjusted revenues. I was just wondering, is that on the back of the sale of the secondaries business or something else? Thank you.

Claire Peel

Hi, Angeliki. Thank you for the questions. On the last question, a simple one, yes it is. We do see that, again, on the sale there, that's not included in our adjusted revenues, but is included, of course, in bottom line and is related to that item, yes.

On the first question on the management fee margin, we saw a decline in the first quarter to 27.7 basis points compared to 28.1. Half of that is coming from the previously mentioned deconsolidation of our fund platform, the IKS platform where we see an adjustment in the way that that is accounted for.

That accounts for half of the management fee movements, as expected. The other half of the management fee movement is coming from general fee mix that we see across distribution relationships and more related to fee pricing. Half and half in terms of the movement.

We still guide to around 1 basis point of fee margin on the full year, but we are looking at the moment to be running below that, so lower than 1 basis point of fee margin overall. That's our current estimation.

On the questions around ETFs, in the first quarter we saw 4.4 billion of net inflows and the majority of that was coming from ETFs. We have an average market share in Europe of 10% and our net flows were in that range. But I noted that of the ETF inflows, almost half of that was coming from fixed income, which was substantially higher than our market share in fixed income ETFs.

We've seen a bigger step change in client attraction for the fixed income ETFs over equities, but equities is still accounting for about half of it as well. Obviously, the market share there is higher.

I think you had another question on the forward, the market dynamics there. We've been very active in continuing to launch new ETFs to meet client demand on thematic topics and sustainability topics and also in the fixed income range.

	We do see that those fund launches do contribute to our inflows. We saw a very large, seeded fund that saw inflows in the first quarter as well. Product innovation continues to be high on the agenda. Hopefully that covers your questions.
Angeliki Bairaktari	Thank you.
Claire Peel	Thank you.
Angeliki Bairaktari	If I may just follow up on the fixed income ETF market share about the flows above the natural market share that you would have had. Is that, do you believe, driven by a more competitive pricing in that category relative to peers?
Stefan Hoops	Hi, Angeliki. I don't think so. I think it was more client driven. So, fixed income, and there was Euro corps and Euro govies, so we saw significant inflows. I think it was driven by institutional clients and there it's more client driven. Some of those are longer-term RFPs, some of them are quicker decisions, but therefore it's not really pricing driven, but I would say more focused on institutional clients which helped us this quarter.
Angeliki Bairaktari	Thank you very much.
Stefan Hoops	Thanks. Hopefully you've settled in well at JP.
Operator	As a reminder, if you would like to ask a question, you may press star followed by one. The next question comes from Michael Werner from UBS. Please go ahead.
Michael Werner	Thank you very much. Two questions from me and apologies if these were addressed before. I missed some of the beginning of the conference call. Looking at the investment performance, we saw a downtick on the retail side in both equities as well as in cash. I guess cash still on a one-year basis is performing pretty poorly. I guess two things. On the equity side, are you seeing any slowdown in demand for active retail equity products on the back of the weaker one-year performance? Then in terms of cash, my understanding is you guys have a fantastic cash franchise, particularly in the US. We didn't really see much inflows into cash at the group level. I was just wondering if you could provide a little bit of colour into the retail money market space and ultimately if the one-year performance is acting as an impediment? Thank you.
Claire Peel	Hi, Michael. Thank you for the questions. On the investment performance, yes, in the one-year performance we did see a reduction in the short-term, one-year performance. Still stable. Slightly better actually in the three year.

The one-year performance decline was coming from equity retail and was coming predominantly from German equity retail funds within that quarter within the one year. That was the main driver that we saw in the one year, but the three year, as I say, is slightly better overall.

There was no other particular spots that I would point to in investment performance. We did see some improvement in the alternatives LRA performance and we saw improvement in the fixed income performance as well. Really just that one spot that has a tension.

On the second question around cash, we often see, well, we always see a lot of volatility in our cash flows. We continue to see that in the first quarter.

The specific events that take place in the US which can lead to corporate clients that we have requiring to take funds to meet obligations, it's very difficult for us to really ascertain what those movements are with different corporate clients, institutional clients. We see throughout the quarter large growth inflows, outflows, but in this quarter it culminated in a net outflow overall. Nothing particular to spotlight.

Stefan Hoops: Mike, just to add a couple of thoughts. Essentially what type of clients we cater to. Because they are completely different between German retail equity and money market. That's probably the most extreme difference we have.

In the US money market we have and would like all of our clients, but we have a reasonably opportunistic client base that give us money if we have the highest yield, but pull it out if we don't have the highest yield.

But we wouldn't really benefit from any let's say perceived flight to safety because they wouldn't move from our deposits or let's say deposits with Deutsche Bank Group, for example, into the DWS money market. It's simply highest yield they come, not highest yield they go out. But we didn't really benefit from the move from deposits into money market into late March.

I think German equity retail, it's a pretty loyal client base, especially for a fund like Top Dividend because they understand what they get. Thomas Schuessler is a big proponent of value. He's not really growth orientated in his selection. A few things that he had focused on in the year were things that obviously didn't play out in Jan and Feb, but we don't think that it would have a big impact on our ability to raise assets for our German equity retail.

Michael Werner: Thanks, guys. Appreciate it.

Operator	There are no more questions currently and I hand back to Oliver Flade for closing comments.
Oliver Flade	Thank you very much, everyone. As always, very good questions. I can just offer you to follow up with the IR team if anything was left open and otherwise I wish you a fantastic day and a healthy time. Thank you. Bye-bye.
Stefan Hoops	Thank you very much.
Claire Peel	Thank you.