

Deutsche
Asset Management

CIO | VIEW

Quarterly July 2017

China's balancing act

Between stabilization
and stimulation





Almost perfect conditions

The first half-year was very good, and we are expecting another good half-year ahead. Central banks continue to be accommodating and, for the first time in years, we anticipate a simultaneous pickup in both the emerging and advanced economies. We continue to move in the direction of a "Goldilocks" economy, or moderate growth with low inflation and low interest rates. Equity markets, in particular, favor such an environment.

But this ideal constellation also has its downside. For one, valuations in almost all asset classes are at historical peaks. This is followed by the fact that asset inflation has failed to jump-start wages – a key inflation component. This may please corporations, but not wage earners. Their frustration is also a factor threatening the Goldilocks world, as there are two scenarios for investors now: a world with good margins and valuations thanks to low labor costs but with the risk of social discord; or accelerating wage inflation with a negative effect on margins. In the latter case improved sentiment and more buying power among wage earners could, however, result in higher sales, thereby compensating somewhat for the rise in labor costs.

In all the elation surrounding Emmanuel Macron's election – a key reason we now favor Europe over the United States – we haven't overlooked the fact that this election has also marginalized two mainstream parties. Dissatisfied wage earners also surely played a key role in the Brexit vote and Donald Trump's election. Therefore, we will keep a close eye on political currents, while believing that the risk has clearly shifted from Europe to the United States. This shift is one reason we changed our euro/dollar forecast. The new forecast (\$1.10, previously \$1.00 per euro) is not far away from current levels, though, because we fear the euphoria over Europe may overshoot. At the same time, we are not ready to write off Trump. His strength remains making it hard for his critics to overestimate him. And his followers may soon become so accustomed to today's governmental reality that even the smallest of successes will be celebrated – also in the stock markets. Expectation management therefore will remain an important task for investors to accomplish, also in the second half-year.



Stefan Kreuzkamp
Chief Investment Officer

"Continued asset inflation without wage inflation could become a problem, even for investors."

Important terms are explained in our glossary. All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

CIO|VIEW

Quarterly July 2017



FOCUS

China's investment-driven growth model is reaching its limits. To keep the economy balanced, China's leaders must curb debt growth, while enacting reforms to improve investment efficiency.

China's economic balancing act 06



MACRO

Overall, the world economy is doing fine. However, the turtle cycle may no longer be enough to tell the whole story. Instead, some advanced economies look more like hares.

Of turtles, hares and dragons 08



FIXED INCOME

We still live in a world of inflation-less growth and cautious central banks. But goldilocks scenarios rarely last forever. We are revising our strategic call to \$1.10 per euro.

All goldilocks? 10
Currencies: Parity no more 12



EQUITIES

Fundamentals have mainly surprised in Europe, while valuations are elevated in the U.S. We remain constructive, while forecasting only small upside and potential for temporary setbacks.

Equities keep going and going... 13
Valuations overview 14



ALTERNATIVES

Brexit and other political risks could create opportunities for discretionary macro. While political risks have since receded in Europe, they have grown across the Atlantic.

European divorce 16



MULTI ASSET

As valuations in most asset classes start to look stretched, we try to achieve performance mainly through relative trades. We start to build up some dry powder to profit from setbacks.

Carrying a closed umbrella 18
Allocation 20
Indicators 21



OUR FORECASTS

We expect a slight uptick in global economic growth and remain constructive overall. Our 12-month forecast for the oil price (WTI) is \$50, for gold \$1,200.

All forecasts at a glance 22



ABOUT US

Deutsche Asset Management is one of the world's leading investment-management organizations. We provide retail as well as institutional investors with advice to realize their investment goals.

About us 24

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

China's economic balancing act

» The model for credit-financed growth is reaching its limits. China's government needs to focus on structural reforms. «

The Chinese government responded with incomprehension to Moody's downgrade of China's credit rating from Aa3 to A1 – the first downgrade since 1989. Rising debt was the main factor leading to the downgrade announced in May. Measured in terms of gross domestic product (GDP), China's corporate, consumer and state debt levels combined have risen from 141.3% at the end of 2008 to 257.1% at the end of 2016, whereby the majority of this increase is attributable to state-owned enterprises and provincial governments.¹ The sharp rise in China's debt versus economic output is what prompted Moody's to issue the downgrade.²

Yet, in the same announcement, the rating agency went on to explain that the deterioration in credit quality was only gradual and could still be contained by deepening reforms. China's government was visibly disgruntled by the downgrade³ and sees no danger of a debt crisis, pointing to the measures already implemented to stabilize the financial sector. Provinces and state-owned enterprises have been instructed to analyze their debt situation and take measures to consolidate it.

Continued debt increase

In previous years, China had put a brake on spending and credit growth, which simultaneously slowed down

both investment and economic expansion. It's important to point out that despite monetary tightening, the economy continued to grow. In our view, this should continue. Nevertheless, debt could continue to grow faster than economic output, which would push the debt ratio of China's economic players higher and most certainly cause unease.

To avoid this, the government's aim under Prime Minister Li Keqiang is to steer and regulate the financial sector in a manner that instills confidence. Numerous provincial infrastructure projects and a relaxed monetary policy led to a boom in construction and soaring real-estate prices. The government and the central bank have now begun to curb construction and price increases by tightening lending standards and raising interest rates.

These measures have put a significant damper on increases in metropolitan real-estate prices for the past two quarters. The state has also taken a closer look at the shadow banking system in the past year. The government is working to curtail the uncontrolled lending to avoid credit defaults, which lead to uncertainty and can be a burden on the real economy. At the same time, the government is well aware that measures to stabilize the monetary sector are not enough to spur China's economic reforms or growth.

Stabilization coupled with reforms

Along with fighting corruption and implementing structural reforms, the government is also aiming at strengthening the country's real economy. Since 2014, there have been 1.16 million corruption investigations, showing the first signs of success in containing corruption in 2016.⁴ The focus of structural reforms is on less profitable state-owned enterprises who are being encouraged to pull back on their investment plans. The government's intention is to reduce excess capacity in sectors such as steel, aluminum, cement, paper and oil refining and free up investments that can be used by privately-owned, high-growth companies. In fact, while there has been a significant decline in investment growth at state-owned enterprises over the past two quarters, investment growth at private companies – which account for a little more than half of the total investment – has been on the rise.

Conclusion

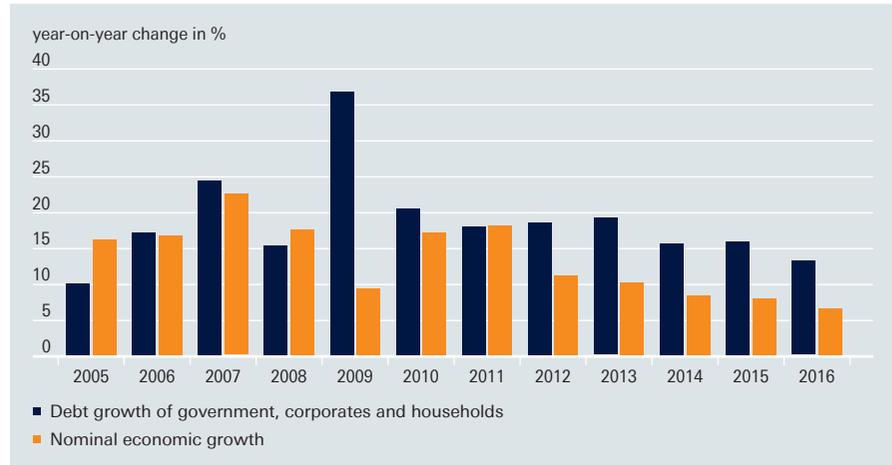
In conclusion, China's leaders are looking to limit the pace of rising debt, while at the same time trying to limit the negative effect on investment. The government also intends to regulate the financial sector more tightly without harming investment in innovative sectors. **"This will be something of a balancing act, where**

the focus is centered on restructuring the economy," explains Xueming Song, Chief Economist Asia at Deutsche Asset Management. It's essential that the economy continues to grow while restraining the rise in debt at the same time. Necessary structural reforms, such as reducing excess capacity, act as a brake on the economy. Credit-financed expenditures stimulate the economy but at the same time increase debt.

The answer for China's government is to use loans for worthwhile investments that will in turn lead to added growth. A look at the investment-rate-to-growth ratio in various emerging economies shows that China ranks below average in terms of its use of investment funds. India scores much higher in this respect. This would indicate that one of the goals of the Chinese government should be to significantly raise its investment efficiency: faster growth through smarter investment. This should also help reduce the rise in the debt ratio for the overall economy.

Rising debt levels

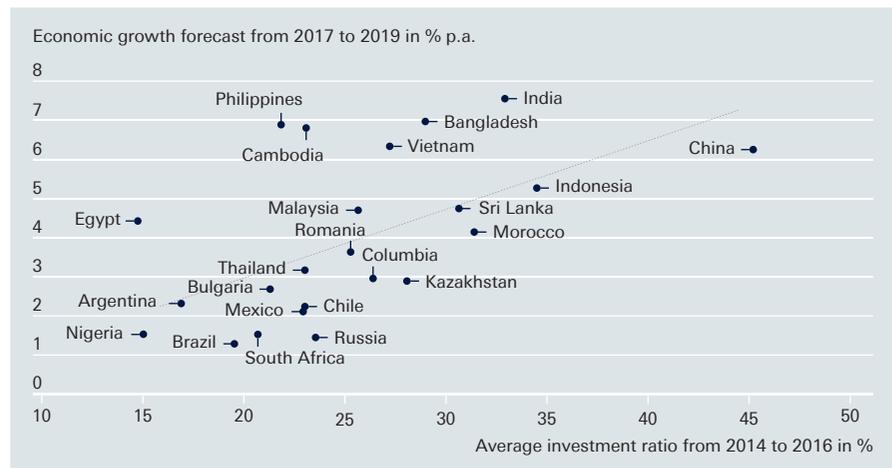
Debt growth has been trending downwards in China, but the problem is that it continues to outpace nominal GDP growth.



Sources: International Monetary Fund, Bank for International Settlements; as of 6/12/17

Investment efficiency in the emerging economies

China's investment ratio is 45% and expected growth is 6.25%. China's aim is to raise its below-average investment efficiency.



Source: International Monetary Fund; as of 6/12/17

¹ Bank for International Settlements: Total Credit to the non-financial sector; as of 6/12/17

² Moody's Investors Service: Rating Action: Moody's downgrades China's rating to A1 from Aa3 and changes outlook to stable from negative; as of 5/24/17

³ Bloomberg: China Hit by First Moody's Downgrade Since 1989 on Debt Risk; as of 5/24/17

⁴ The Japan Times: China anti-corruption drive has punished 1.2 million; as of 1/10/17

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

Of turtles, hares and dragons

» Overall, the world economy is doing fine. However, that is not the whole story. «



IN A NUTSHELL

The recovery of the world economy is now in its ninth year.

In many places, this cycle still looks like a turtle: slow-moving but long-lived.

However, we see a growing number of hares, which might either outrun the turtles – or disappoint.

Turtles live long and move slowly. As we pointed out a while ago, they have that in common with the recovery of the world economy, now in its ninth year. Nowadays, however, the turtle cycle may no longer tell the whole story. Instead, it is quite helpful to think of some of the world's advanced economies as hares, a large kind of rabbit. Like the proverbial hare in Aesop's fable, such economies might either outrun the turtles – or disappoint.

There are still plenty of turtles, notably in continental Europe. Thanks to higher consumption and government expenditures, we now see the Eurozone as a whole growing at 1.8% in 2017 and 1.6% in 2018. Indeed, several smaller countries such as Ireland and Estonia have been racing ahead like hares. Spain looks set for an almost hare-like sprint – we expect growth of 2.7% for 2017. Germany and the Netherlands entered the crisis in pretty good shape. Even for laggards like Italy and France, we have recently upped our growth forecast a little, to 1.2%. Following recent elections, France might yet prove to enact the sort of structural reforms that worked elsewhere.

For the European Central Bank (ECB) this petting zoo of different growth, unemployment and inflation rates has always been a challenge. Risks remain, notably elections in Italy due to be held by May 2018. Still, the question is not if the ECB will start tapering its quantitative-easing (QE) programs, but when. As things stand, we might get the official announcement at the September meeting, and the entry into

the exit happening in early 2018. After the German election in September, there might also be a renewed push towards fiscal integration to make the Eurozone work better.

In the United States, the scaling back of unprecedented monetary stimulus is already well under way. We expect the U.S. Federal Reserve (Fed) to increase the federal funds rate two more times through June 2018. However, it might put in a pause when announcing further details on how to shrink its balance sheet towards year-end.

Following last year's elections, the U.S. economy started to look more like a hare than a turtle. Hopes on fiscal stimulus and regulatory reforms raising growth potential were running high. U.S. households have regained a solid financial footing and remain confident, despite sluggish growth in real incomes. Even at recent modest levels, job creation remains above what's needed to keep up with trend demographics. With full employment slowly but steadily approaching, we expect labor costs to increase. Business investments have revived and financial conditions are generally supportive.

Alas, this particular hare has proven fickle, if progress is judged by the wild swings in consensus growth forecasts. Having been skeptical on the progress on various bits of Trump's agenda, notably cuts in corporate taxes, we would now point out that Congress might yet exceed diminished expectations. In our base case,

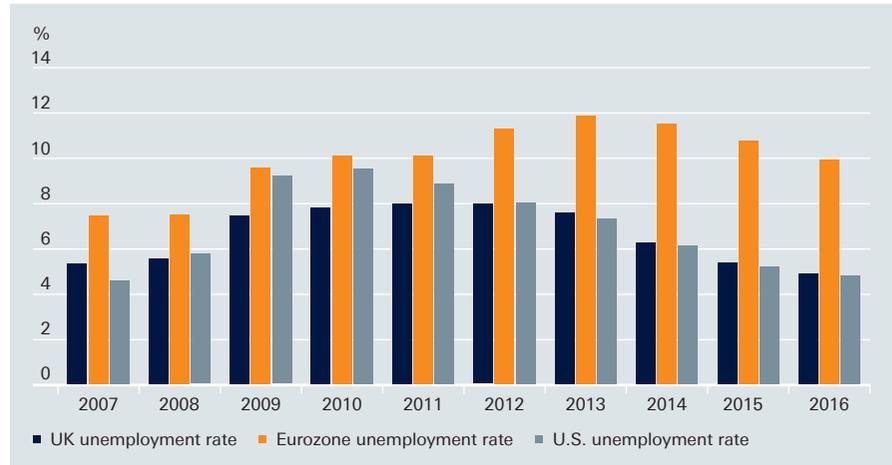
we are taking down our U.S. growth forecasts a shade, to 2.1% for 2017 and 2.3% in 2018. However, U.S. political uncertainties are unusually high. Protectionist measures could bring new headaches.

As for the rest of the world, some might see the UK as a lemming rushing into uncharted territory. Making sense of this would require a separate fable. Meanwhile, the Japanese growth outlook continues to improve. Domestically, Japanese consumers remain critical. Encouragingly, the labor market looks very tight. Japan is also benefiting from higher demand for its exports. One reason is that emerging markets are stabilizing and have generally seen a pick-up in productivity growth. This appears partly due to recent structural reforms in many places, including South Korea and India. The outlook remains murky in Brazil but Russia is experiencing a modest recovery.

And then, there is China, of course, where the latest data has been mixed. Still, the Chinese dragon now appears to be gliding into a new stable flight path, after three years of losing altitude. We expect growth of about 6.5% in 2017 and 6.3% in 2018. Familiar challenges remain; there are plenty of things that could make the dragon sneeze. Right now, though, the U.S. looks a more likely source of volatility than Beijing. The next few rounds in the never-ending race between the U.S. hare and the European turtle look more open than usual. This key verdict underpins much of our 12-month outlook, including our currency forecast.

Eurozone unemployment remains quite high

The UK and the U.S. are already close to full employment. By contrast, the Eurozone could still create plenty of jobs, without triggering inflation.



Source: Bloomberg Finance L.P.; as of 6/21/17

Eurozone inflation remains subdued

Eurozone inflation remains well below the ECB target of close to 2%. Thanks to loose monetary policies, deflation appears to have been defeated.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH calculations; as of 6/21/17

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

All goldilocks?

» We still live in a world of inflation-less growth and cautious central banks. Things look good – for now. «



Joern Wasmund
Global Head of Fixed Income/Cash

IN A NUTSHELL

We expect neither a return to historic yield lows nor a strong sell-off in fixed-income markets.

Rates across much of the developed world are likely to rise slightly from here.

We see opportunities in all credit asset classes, and in investment-grade credit in both the U.S. and Europe.

Weaker than expected U.S. growth. Fading political risk in Europe and lower inflation expectations. Bond investors certainly had no reason to complain about a lack of news flow lately. And then, there is the speculation about when and how the European Central Bank (ECB) might follow the U.S. Federal Reserve (Fed) in scaling back its unprecedented monetary stimulus.

Against this backdrop, neither a return to historic yield lows nor a strong sell-off in fixed-income markets is expected. In the U.S., Trumphoria has faded and been replaced by skepticism about any significant policy changes. Meanwhile, the Fed has stayed the course, despite another disappointing first quarter in terms of economic growth. It raised rates in June, and will probably do so two more times in the coming 12 months. By the end of the year, outgoing Fed chair Janet Yellen might also provide further details on how the Fed plans to reduce its balance sheet – effectively substituting further rate hikes. Underlying economic momentum looks solid in the Eurozone. China, too, looks stable.

All told, it is no wonder that Goldilocks economics has become fashionable again. Like the porridge in the children's tale, the global economy appears neither too hot nor too cold. From a market perspective, the Goldilocks metaphor is quite apt, at least for corporate credit.

Not so for government bonds. We would expect rates across much of the developed world to rise from here. As a result, total returns for long-dated U.S. Treasuries and German Bunds are likely to be negative, or at best close to zero over the next 12 months. Even riskier sovereign borrowers such as Italy and Spain, whose spreads have already been squeezed, might not deliver positive total returns on their 10-year bonds.

On the other hand, this lowers the likelihood of central banks turning hawkish. We would argue that after the financial crisis, central banks have improved their communication policy. As a result, the world may have become less prone to monetary-policy shocks relative to shocks which hit the real economy, such as oil-price movements. Of course, only time will tell how the unprecedented experiment with quantitative easing (QE) will end. In the meantime, though, we see opportunities in all credit asset classes.

A solid outlook for credit

While duration will weigh on absolute returns, we stick to our positive outlook for investment-grade (IG) credit in both the U.S. and Europe. On a risk-adjusted basis, IG still presents very good value for money. On both sides of the Atlantic, the story is well supported by inflows and low supply. U.S. credit fundamentals are mostly stable and could benefit from policy changes such as tax cuts and

deregulation. The Eurozone economy is also improving.

We prefer financials, such as banks and Real Estate Investment Trusts (REITs) in the U.S., and banks and insurers in Europe. We are also positive on U.S. technology, while being underweight in U.S. utilities, retailers, consumer non-cyclicals, as well as the European telecom, basic-materials and energy segments.

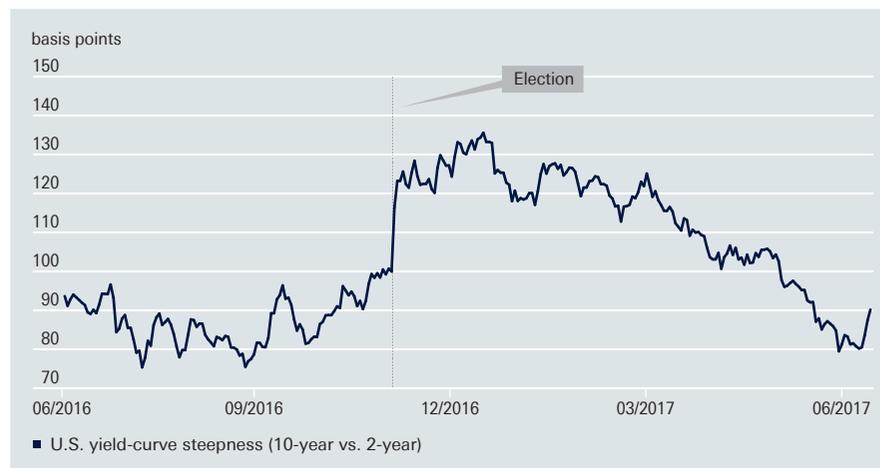
We remain constructive for high yield but see no further tightening from here. China and further oil-price declines are the biggest risk factors, while absolute yield levels are also a concern. Selection is key.

Finally, we expect emerging markets to be the most interesting asset class. This goes for sovereigns as well as corporates. Asia in particular looks well supported by the global economic recovery and continuous inflows. Things are good – for now. But, as investors in emerging markets in particular know, goldilocks scenarios rarely last forever.

For oil exporters such as Russia, further declines in the oil price pose the most immediate risk. Beyond that, it is worth remembering that the last time people were talking Goldilocks economics was in the years immediately preceding the global financial crisis. And in early versions of the tale, Goldilocks is not a little beautiful girl. Instead, the intruder who eats the three bears' porridge is an old, wrinkled spinster – a bit like the current, long-lived recovery.

The U.S. yield curve and fading Trumphoria

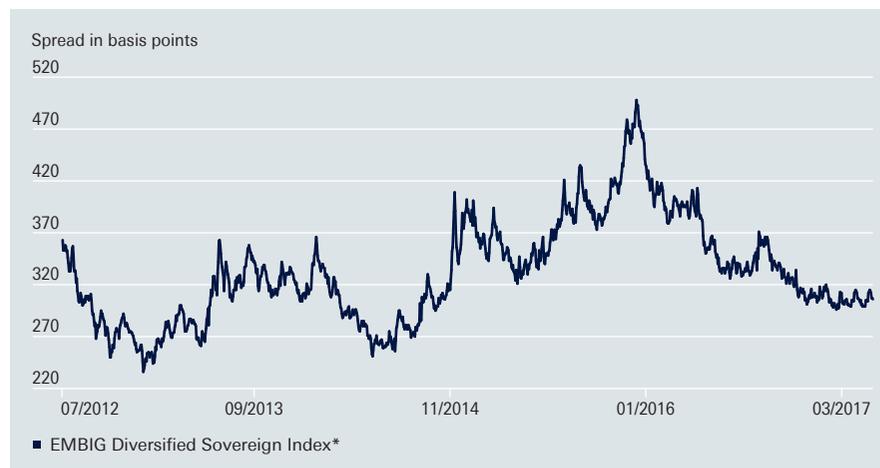
The U.S. yield curve steepened after last November's election. It has since flattened again, as confidence in the new administration has waned.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of 6/28/17

Spreads on emerging-market sovereigns have shrunk

Borrowing in foreign currency has gotten cheaper for emerging markets. Good solvency indicators and low issuance helped. The hunt for yield continues.



Sources: Bloomberg Finance L.P., J.P. Morgan Chase & Co; as of 6/28/17

*The J.P. Morgan Emerging Markets Bond Global Diversified Sovereign Spread Index depicts the spread of hard-currency-denominated sovereign bonds from the emerging markets vs. U.S. Treasuries of the same maturity.

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

Parity no more

» We are revising our 12-month call for the U.S. dollar to \$1.10 per euro «



Nothing lasts forever. Since 2014, we have strategically favored a stronger U.S. dollar (USD) compared to the euro. We are now revising our strategic call to \$1.10 per euro. The case for the euro is easy to make. Since 2012, the Eurozone is running a sizeable external surplus at an annualized rate of more than €350bn in goods and services. Contrast this with the large and persistent current-account deficit of the U.S. economy. Over the next 12 months, interest-rate differentials could also turn in the euro's favor. Already, there are growing signs that the ECB's governing council starts looking for an exit from its quantitative-easing (QE) program. Foreign-exchange rates tend to move in cycles. We may already have seen the inflection point.

Why only \$1.10 per euro and no further? Because we believe markets are beginning to expect too much, too quickly from the Eurozone. To be sure, political risks in Europe have receded following recent elections, notably in France. By contrast, U.S. politics looks more unsettled than at any point in living memory. However, the European common currency remains a very vulnerable project. Until there is clearer evidence of its structural flaws getting addressed, more signs of comparative economic strength or a more hawkish ECB, we are not ready to revise our call further just yet. Following the German elections, there might be scope for a grand bargain – with plenty of political drama along the way.

Eurozone and U.S. current-account balances

Thanks to rising competitiveness and an increase in domestic savings, the Eurozone as a whole is running sizeable current-account surpluses.

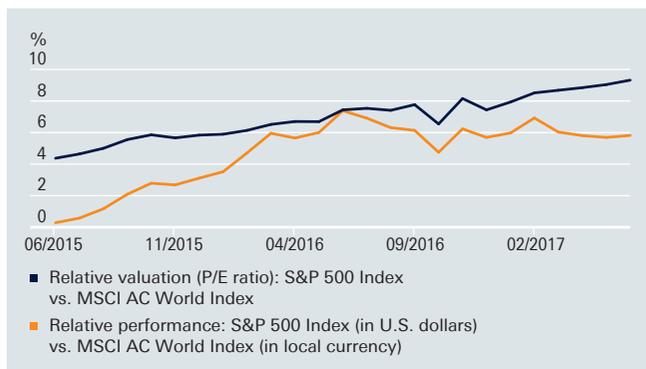


Source: Bloomberg Finance L.P.; as of 6/21/17

Valuations overview

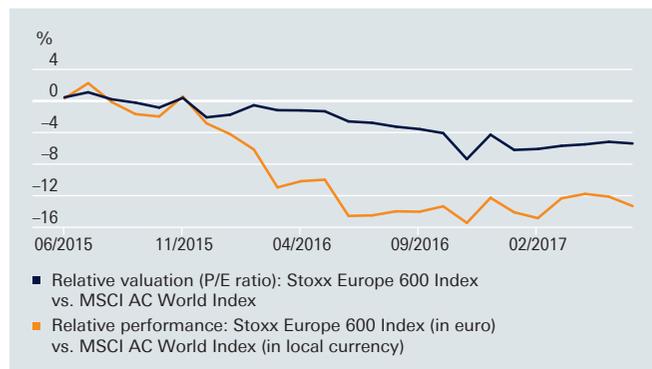
U.S. equities

We expect solid 2017 EPS growth for the S&P 500 Index as U.S. business and consumer sentiment are solid and first-quarter earnings have been strong. Demanding valuations, lowered expectations on U.S. policy and the market's sensitivity to lower oil prices make us move tactically to "underweight" whilst staying "neutral" strategically.



European equities

Negative news regarding EU disintegration are off the table after Macron won the elections in France. Macro factors are supportive, as is the ECB. Both EPS and top-line growth surprised positively so far this year. We like Germany in particular as business-sentiment indicators are at record highs and stay "overweight".



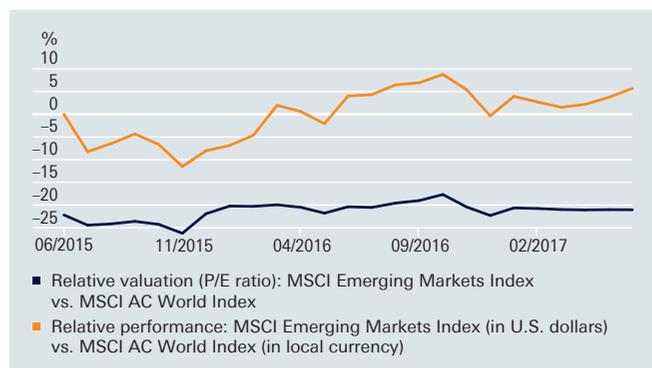
Japanese equities

In the reporting season, firms have issued more benign outlooks than we thought, leading us to upgrade Japan back to neutral. Structural reforms are slowly unfolding and balance sheets look solid. BOJ policy remains a question mark. Political tensions in Korea and the risk of yen appreciation keep us from becoming even more positive.



Emerging-market equities

Stabilizing macro fundamentals, increasing intra-EM trade, less fear about the Fed and U.S. trade policy and solid EPS recovery – all of these trends are still valid. Reform processes, low inflation figures, particularly in Asia, and expectations for a weaker U.S. dollar confirm our overall "overweight" rating, while we stay cautious on Latam.



Sources: FactSet Research Systems Inc., Deutsche Asset Management Investment GmbH; as of 6/27/17

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

Equities keep going and going and ...

» Our 12-month view for equities remains positive as the economy stays on track. Setbacks should be expected. «



Thomas Schuessler
Global Co-Head of Equities



Andre Koettner
Global Co-Head of Equities

IN A NUTSHELL

We're expecting further upside, especially for equities in Europe and the emerging markets.

However, high valuations and a correction-free first half-year are cause for caution.

Admittedly, it's very tempting to simply reuse last quarter's article for this column. Not because it was particularly brilliant (even if we thought as much, it still wouldn't be right to mention it), but because investors today should be asking themselves precisely the same questions they did in March. That may come as a surprise given the recent political events, particularly in the United States and Europe. But the stock markets reacted to the political developments with such nonchalance and climbed to new records with such ease, that some investors actually started to get nervous. In the first half-year, the S&P 500 Index had moves of more than 1% on only four occasions, and the Stoxx Europe 600 Index on just seven occasions. At such low volatility, isn't it time that even risk-averse investors – for example, the average German retail investor – start warming up to this asset class? Every equity fund manager would welcome such a change in investors' mindset. A newfound love for equities, however, could quickly lose its bloom and see a return to the usual skepticism. We fear that equity indices, particularly those in the United States, have raced somewhat ahead of the facts; that is to say they are behaving in more of a pre-truth rather than a post-truth manner. Therefore, we see a certain risk that U.S. equities may suffer a setback during the summer or fall. Experience tells us that the other indices could also be

affected, particularly if a setback turns out to be a stronger correction. The spring of 2016 was the last time we saw how quickly market corrections can develop a negative dynamic all of their own. Especially when you have too many overconfident investors.

There's no arguing that there are several factors right now that speak in favor of equities: global economic growth, in our view, should accelerate this year with central banks remaining in an accommodative mood overall. Furthermore, there are signs that the first quarter's positive reporting season may continue into the second quarter. German companies, in particular, sound pretty euphoric when it comes to their business outlook. Naturally, in such an environment, no one wants to be the first to call the end of the rally, and potentially get it wrong. And what investor would want to exit the market prematurely and leave returns on the table? This is why investors are staying invested, comforting themselves with the notion that, this time, they will surely be able to recognize a deterioration in the indicators and react in time.

Most investors, of course, are well aware that surprises, positive momentum and even economic cycles can't go on forever. Yet, the latter don't die of old age alone. Even though seasoned market players still stare in wonder, the current cycle, as flat as it is, keeps going and going.

Sectors – we prefer growth stocks

The character of this unusual, gracefully aging cycle leads to a composition of preferred sectors that is not typical for any given stage of the cycle: information technology (IT), financials and materials. We believe IT can deliver sales growth even in the absence of strong cyclical tailwinds. Financials on the other hand should benefit from increasing interest rates while still trading at historically low valuations. The latter also applies to the materials sector, especially the sub sector metals and mining, which also profits from stabilizing commodity prices and ongoing stable industrial activity in China. We are less enthusiastic about the other sub sector, chemicals, even though it could benefit from further M&A activity.

In contrast to the health-care sector, the values of the large players in the IT sector have reached such dimensions that M&A activity in this area, amongst the top players, is now unimaginable. The five companies with the highest market capitalization in the world come from this sector, four of which are focused on the internet. The digitization of industrial sectors is in full swing, IT security budgets are growing, and an end to the short product and innovation cycles in consumer IT is nowhere in sight. Compared to the tech bubble of 2000, this sector earns more than adequate margins and is trading at entirely different valuations.

Among value stocks – a term that takes some time getting used to in this context – we have preferred financials for some time. This sector profits from each and every hike in interest rates. At the same time, there are enough banks that have lately strengthened their balance sheets to the extent that we can now look forward to increasing payouts to shareholders. The wave of regulation, which has been a drag on the sector for some time, seems to have peaked.

While we have left our rating unchanged for the three sectors above, we have reduced our rating for the energy sector. We have now returned to a neutral rating after the extended production cuts by OPEC failed to bring about a stabilization in the oil price. We are underweight in the three defensive, interest-rate-sensitive sectors: utilities, telecommunications and real estate.

A trend reversal in the emerging markets (EM)?

EM equities ended their multi-year underperformance versus the S&P 500 Index more than a year ago. We are now expecting a period of outperformance.



Sources: FactSet Research Systems Inc., Deutsche Asset Management Investment GmbH; as of 6/26/17

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

European divorce

» Brexit and other political risks could create opportunities for discretionary macro «



Tim Gascoigne

Head of Hedge Fund Advisory

IN A NUTSHELL

We live in uncertain times.

With more political uncertainty on both sides of the Atlantic ahead, we reiterate our positive view on discretionary-macro strategies.

The stock-picking environment is also improving, and equity-market-neutral strategies should benefit.

The duration of divorce negotiations rarely surprises the relevant counterparties with a swift outcome. It does not help matters either if you give your lawyers new marching orders, just before they sit down to hash the settlement with the other side. Unfortunately, that's exactly the situation the United Kingdom (UK) now finds itself in. Prime Minister Theresa May called a snap election to increase her parliamentary majority. Instead, British voters delivered a hung parliament. A wounded Ms. May now has to rely on the support of Northern Ireland's Democratic Unionist Party to stay in power and avoid yet another general election.

All this leaves the outcome of the Brexit negotiations more open than ever. There now appears a decent chance that an arrangement could be found to maintain many of the advantages the UK gets from being a member of the European Union (EU), the so-called "soft-Brexit" option. Even a reversal of the decision to leave the EU can no longer be ruled out completely. Conversely, the risk of a calamitous exit due to brinkmanship on both sides has also gone up.

For hedge funds, such uncertainty can create opportunities. Discretionary macro, for example, already benefited from the triggering of Article 50 during the first quarter. The expected uncertainties from the negotiations led to sustained investments in UK Gilts, which have been among the best-performing assets within fixed income for the

quarter. This benefited some funds but not others. It was a similar story in continental Europe, where the main source of volatility stemmed from the election risks in France and the Netherlands.

More opportunities ahead

While political risks have since receded in Europe, they have grown across the Atlantic. At the time of writing, President Trump's health-care bill appears on life support, reflecting divisions in the ruling Republican Party. That does not augur too well for progress on other parts of the Trump agenda that require legislation, notably corporate-tax cuts. And if we have learned anything from the Trump presidency, it is to expect the unexpected.

With more political uncertainty on both sides of the Atlantic ahead, we reiterate our positive view on discretionary-macro strategies. Higher interest rates, swings in foreign-exchange markets and fairly volatile commodities markets also create opportunities for the strategy. Overall performance has been solid, driven by a broad mix of directional and relative-value strategies. However, it is worth noting that within discretionary macro, the dispersion of managers' performance can be quite high, as we saw during the first quarter. Manager selection remains key, not least because getting trades right is hard in the politically capricious times we live in.

As for other strategies, the environment has clearly improved for stock

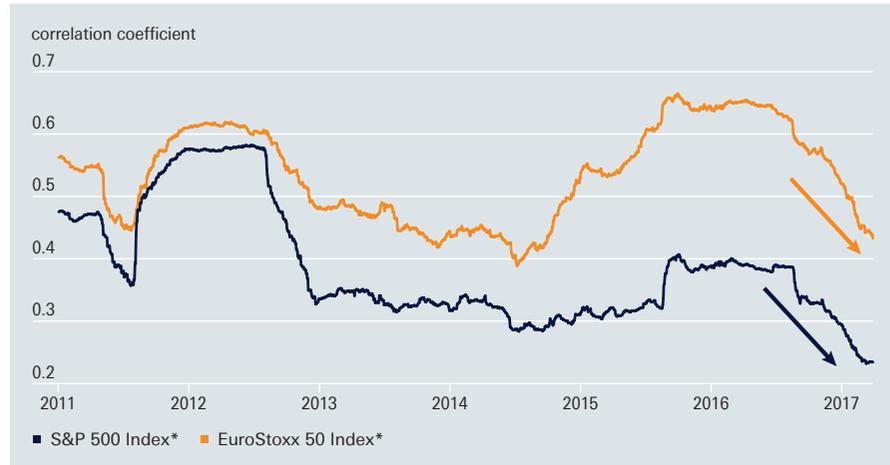
picking; in particular pair-wise correlation (such as the correlation of one company's stock with another's) has been falling and dispersion has been rising. That has led us to upgrade the outlook for equity-market-neutral investing strategies to positive. Long/short equity strategies were upgraded, too, but only to neutral, as we felt the need to temper our marginally negative outlook for market direction.

Event-driven strategies also benefit from the better stock-picking environment. However, merger arbitrage is getting harder, as merger spreads on announced takeovers have compressed to relatively tight levels. Deal counts and, to a lesser extent, deal volumes have also shrunk. Given the somewhat more limited opportunity set, we have had to adjust one of the drivers we are using to assess event-driven investing strategies. As a result, our outlook for these is neutral.

Commodity-trading-advisor (CTA) strategies should benefit from any bounce-back in volatility, as well as from the possibility of persistent trends across asset markets. Of course, the timing and immediate causes of a rise in volatility are anyone's guess. While troubles for Trump and Brexit-related setbacks may be plausible potential causes, continuing low volatility cannot be ruled out. We are neutral on credit strategies, with rising interest rates potentially dampening performance, and remain negative on distressed strategies, given that default rates remain very low.

Good news for stock pickers

Cross-stock correlations have fallen further in Europe and the U.S. This helps hedge funds specializing in analyzing individual stocks or sectors.

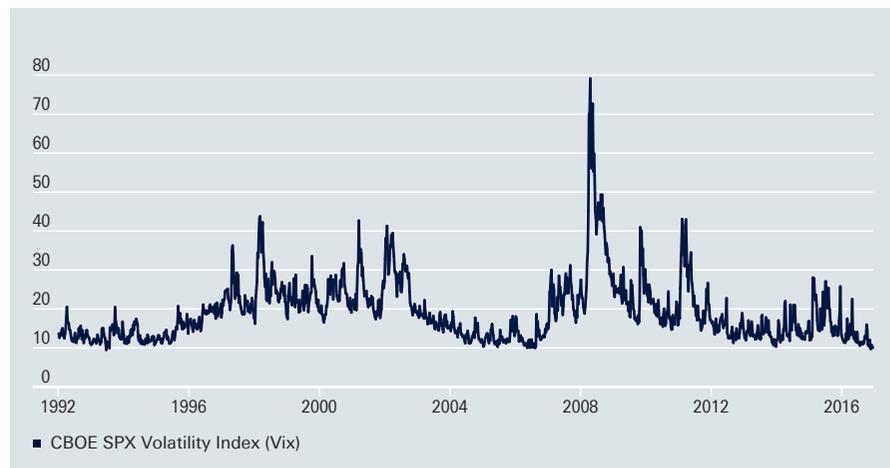


Source: Deutsche Asset Management Investment GmbH; as of 3/31/17

*Chart shows the rolling 1-year cross correlations of constituents that make up the S&P 500 and Euro Stoxx 50 using daily returns

But volatility remains low

Implied volatility remains very low. A rebound would benefit several hedge-fund strategies, notably equity-market-neutral and discretionary-macro.



Source: Bloomberg Finance L.P.; as of 6/27/17

Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Alternatives are not suitable for all clients. All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

Carrying a closed umbrella

» In this stage of the cycle, we remain agile and opportunistic – and braced for any market corrections. «



Christian Hille
Head of Multi Asset

IN A NUTSHELL

The economic cycle is growing older, but still holding on.

We are moving with tactical agility between the various asset classes and durations.

We are building liquidity to take advantage of any market weakness.

Taking your umbrella is a sure path to frustration because usually that's precisely when it doesn't rain. Leaving it home, on the other hand, can be just as frustrating because then it's sure to rain. Unfortunately, long frustration can lead to stomach pains, which we'd like to avoid. We view taking our umbrella as a necessary precaution whether it's because it's actually raining or simply because, in our experience, it never rains when we have it.

To put this in a capital-market context, we are not frustrated when it turns out we hedged ourselves "for nothing." The hedge, of course, was not "for nothing" because we paid a hedge premium, much like the premium paid for an index option. Currently, we are not hedging directly with put options. Instead, we are seeking to eliminate portfolio risks on a selective basis, increasing our liquidity position and participating in the market upswing partly through index call options, reducing the risk of loss.

We are counting on rising volatility, despite the fact that it hasn't been profitable to do so for a long time. For volatility continues to fall, seemingly independent of political surprises. However, we are not trying to make money with volatility, but instead seeking to diversify our portfolio.

A lot is pointing to a continued climb in markets

To avoid any misunderstanding, we would like to emphasize that we have

a constructive view of the different asset classes on a 12-month perspective, with just a few exceptions. The advanced cycle continues to spoil investors with many of the ingredients commonly attributed to a Goldilocks scenario, in other words, an economy that is neither too hot nor too cold, with low inflation and market-friendly central banks. We also have rising corporate profits, positive sentiment indicators and, contrary to expectations, skeptical equity investors.

But there are also factors that make us cautious. For example, the aforementioned record-low volatility in many risk asset classes, which in turn leads to many risk-based strategies increasing the share of riskier assets. This, just like the many investors counting on a continued fall in volatility, leads to a situation where a pronounced market correction can quickly turn into a self-reinforcing downtrend. And by no means are all of the indicators positive, as can be seen by the decline in our surprise indicator. The dwindling oil price could also pose some danger, especially to the U.S. high-yield segment. Investors could also start reading something negative into the further flattening of the U.S. yield curve. Not to mention further political surprises, for example stemming from London or Washington D.C.

We're building liquidity

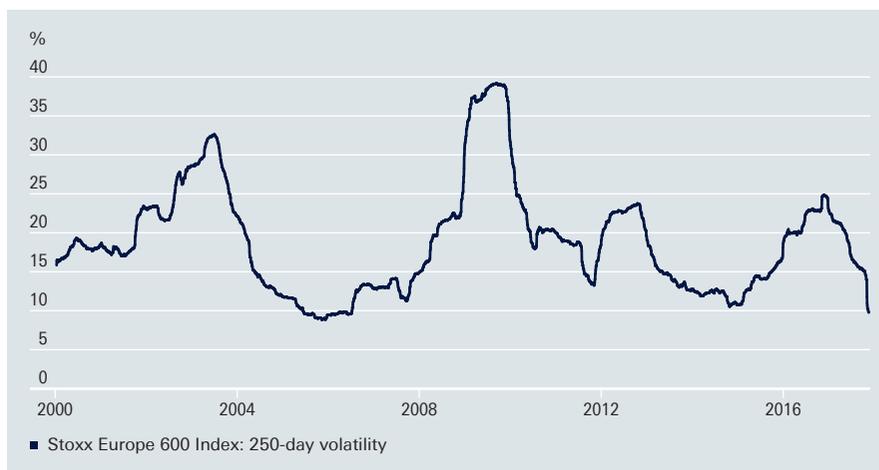
It's clear there's no shortage of kill-joys that could, at the very least, interrupt the capital-market party. So

we're keeping some dry powder as (under the current circumstances) we would want to use it in a correction to rebuild risk positions. Accordingly, we have increased our holdings in cash, short-term bonds, gold and U.S. interest-bearing securities.

Apart from this, we are trying to achieve returns in the current market environment mainly by employing relative investment strategies. For equities, we prefer Europe and the emerging markets vs. the United States. In the emerging economies we are reducing our holdings in high-yield corporate bonds in favor of hard-currency bonds. In Europe, we see a shift based on our new foreign-exchange forecast. Unlike 2014-2016, foreign-currency investments are no longer benefiting from the tailwinds provided by a weakening euro. But they are not facing any headwinds either. This is just one reason why we continue to swing our umbrella with confidence for now.

1-year volatility falls after Brexit anniversary

One year later, the impact of the Brexit vote disappears from the 1-year volatility index.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH; as of 6/27/17

Is the transatlantic interest-rate divergence ending?

Draghi's "whatever it takes" (2012) and Bernanke's "taper tantrum" (2013) started the divergence in interest rates.¹ Have we reached the peak?



Sources: Thomson Reuters Datastream, Deutsche Asset Management Investment GmbH; as of 6/28/17

¹ In 2012, ECB president Mario Draghi said at a press conference that the ECB would do "whatever it takes" to preserve the euro as a common currency. As a result, German government-bond yields remained at a low level and other Eurozone government-bond yields decreased significantly. In the United States, on the other hand, the then Federal Reserve chairman Ben Bernanke's announcement in 2013 that the Fed planned to gradually "taper" its bond-buying program sent yields sharply higher. Because the idea of a gradual tapering was specially intended to avoid such a sharp market reaction, markets referred to the reaction as a "tantrum."

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Alternatives are not suitable for all clients. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Investments come with risk. The value of an investment can fall as well as rise and your capital may be at risk. You might not get back the amount originally invested at any point in time. Deutsche Asset Management Investment GmbH

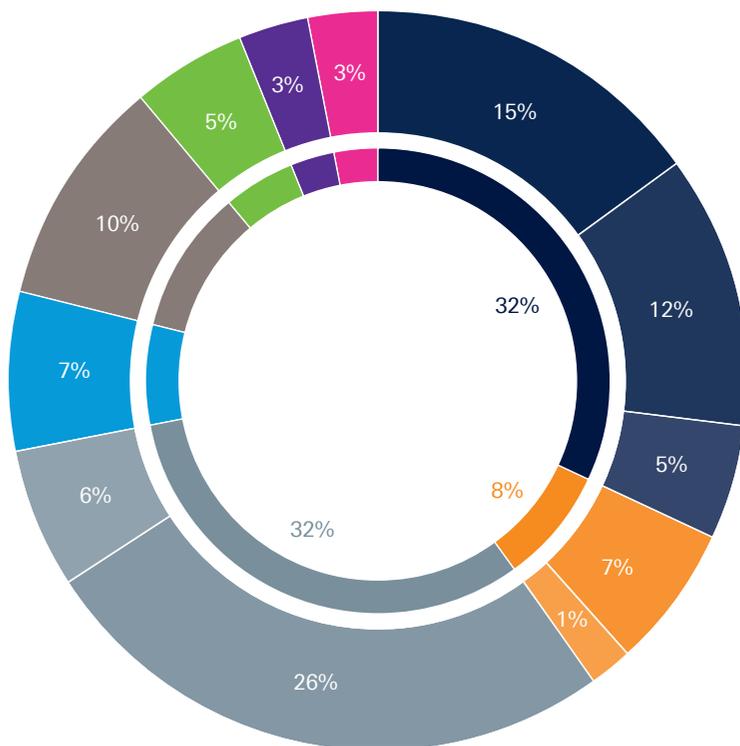
Keep some powder dry

» Reshuffling risk assets, building liquidity «

Since the environment has largely remained the same, we've made only minor adjustments to our sample portfolio. We are still positioned for rising equity markets and slightly rising interest rates, but we are now more positive on Europe

than the United States. The recovery in the emerging markets is still on track. Here we like hard-currency bonds and particularly Asian equities. We are more cautious on high-yield bonds from the United States and Europe after their solid run.

We continue to like investment-grade bonds but are now more selective. For reasons of hedging and diversification, and in anticipation of rising volatility, we have increased our positions in gold and some cyclical commodities.



Developed-market equities	32%
United States	15%
Europe	12%
Japan	5%
Emerging-market equities	8%
Equities Asia ex Japan	7%
Equities Latin America	1%
Fixed income: Credit	32%
U.S. investment grade	26%
U.S. high yield	6%
Fixed income: Sovereigns	7%
Fixed income: Emerging markets (hard currency)	10%
Convertibles (euro-hedged)	5%
Commodities	3%
Alternatives	3%

Source: Multi Asset Group, Deutsche Asset Management Investment GmbH; as of 6/29/17

The chart shows how we would currently design a balanced, U.S. dollar-denominated portfolio for a U.S. investor taking global exposure. This allocation may not be suitable for all investors. Alternatives are not suitable for all clients.

Partly cloudy

» Investors willing to take risk despite downturn in two indicators «

A few clouds have gathered over financial markets lately. This is reflected, among others, by the divergence in development of the multi-asset indicators. Whereas the risk indicator signals a positive environment with a comparatively high level of stability during the past few weeks, the macroeconomic environment in the past 3 months has softened.

In that time, the macro indicator dropped more than 30 points with a deterioration in 9 out of the 10 sub-indicators. The only sub-indicator seeing an improvement was the U.S. labor market. Despite this, the macro indicator remains in positive territory.

The surprise indicator, on the other hand, could not maintain its positive level. A look at the surprise indicators in major regions suggests that reality could not keep pace with analysts' expectations, particularly in the United States and Asia. In both of these regions, expectations were so high that they were almost impossible to beat. The United States, in particular, saw its sub-indicator drift from distinctly positive to negative territory.

Chart source: Deutsche Asset Management Investment GmbH; as of 6/23/17

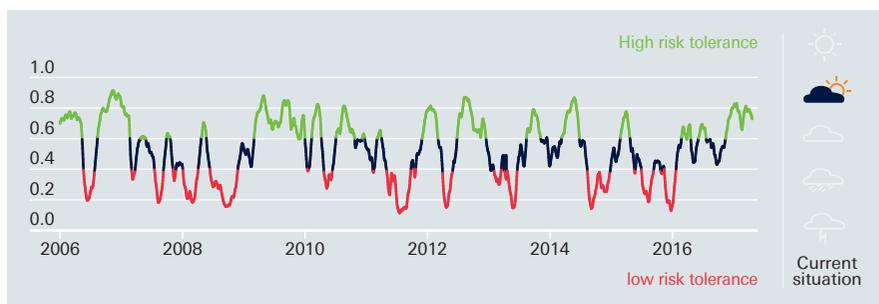
Macro indicator

Condenses a wide range of economic data



Risk indicator

Reflects investors' current level of risk tolerance in financial markets



Surprise indicator

Tracks economic data relative to consensus expectations



All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency. Alternatives are not suitable for all clients. Past performance is not indicative of future returns. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Investments come with risk. The value of an investment can fall as well as rise and your capital may be at risk. You might not get back the amount originally invested at any point in time. Deutsche Asset Management Investment GmbH

Macro | Solid over all

GDP growth (in %, year-on-year)

Region	2017F		2018F
United States ¹	2.1	↗	2.3
Eurozone	1.8	↘	1.6
United Kingdom	1.6	↘	1.3
Japan	1.1	↗	1.5
China	6.5	↘	6.3
World	3.5	↗	3.7

Consumer price inflation (in %)

Region	2017F		2018F
United States ¹	1.7	↗	1.9
Eurozone	1.6	↘	1.4
United Kingdom	2.7	↘	2.5
Japan	0.7	↗	1.0
China	2.2	↗	2.5

Benchmark rates (in %)

Region	Current*		Jun 2018F
United States	1.00-1.25	↗	1.50-1.75
Eurozone	0.00	→	0.00
United Kingdom	0.25	→	0.25
Japan	0.00	→	0.00
China	4.35	→	4.35

WTI = West Texas Intermediate

LME = London Metal Exchange

F refers to our forecast as of 6/22/17

* Source: Bloomberg Finance L.P.; as of 6/30/17

¹ core rate, personal consumption expenditure Dec/Dec in % (no average as for the other figures)

Source: Deutsche Asset Management Investment GmbH; as of 6/30/17

Legend applies for this and the following page

- Equity indices, exchange rates and alternative investments: The arrows signal whether we expect to see an upward trend ↗, a sideways trend → or a downward trend ↘.
- Fixed Income: For sovereign bonds, ↗ denotes rising yields, → unchanged yields and ↘ falling yields. For corporates, securitized/specialties and emerging-market bonds, the arrows depict the option-adjusted spread over U.S. Treasuries. ↗ depicts a rising spread, → a sideways trend and ↘ a falling spread.
- The arrows' colors illustrate the return opportunities for long-only investors: ↗ ↘ positive return potential for long-only investors. → limited return opportunity as well as downside risk. ↘ ↗ negative return potential for long-only investors.

Fiscal deficit (in % of GDP)

Region	2017F		2018F
United States	3.2	↗	3.4
Eurozone	1.5	→	1.5
United Kingdom	3.3	↗	3.5
Japan	5.2	↘	5.0
China	3.4	↘	3.2

Current-account balance (in % of GDP)

Region	2017F		2018F
United States	-2.9	↘	-3.1
Eurozone	2.9	↘	2.7
United Kingdom	-3.5	→	-3.5
Japan	3.2	→	3.2
China	2.2	↗	2.4

Commodities (in U.S. dollars)

	Current*		Jun 2018F
Crude oil (WTI)	46	↗	50
Gold	1,242	↘	1,200
Copper (LME)	5,937	↘	5,000

All opinions and claims are based upon data on 7/12/17 and may not come to pass. This information is subject to change at any time, based upon economic, market and other considerations and should not be construed as a recommendation. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect. Deutsche Asset Management Investment GmbH

Equities | Regional shifts

	Current*	Jun 2018F	Total return (expected)**	Expected earnings growth	P/E impact	Dividend yield
		Forecast	in %			
United States (S&P 500 Index)	2,423 →	2,450	3.4	10%	-8%	2.3%
Europe (Stoxx Europe 600 Index)	379 ↗	400	9.1	12%	-7%	3.7%
Eurozone (Euro Stoxx 50 Index)	3,442 ↗	3,650	9.8	11%	-5%	3.8%
Germany (Dax) ¹	12,325 ↗	13,400	8.7	9%	-4%	3.1%
United Kingdom (FTSE 100 Index)	7,313 ↗	7,500	5.4	12%	-9%	4.2%
Switzerland (Swiss Market Index)	8,907 →	8,750	1.5	10%	-11%	3.3%
Japan (MSCI Japan Index)	959 →	970	3.5	12%	-10%	2.3%
MSCI Emerging Markets Index (USD)	1,011 ↗	1,050	6.6	14%	-8%	2.7%
MSCI AC Asia ex Japan Index (USD)	625 ↗	660	8.1	16%	-9%	2.6%
MSCI EM Latin America Index (USD)	2,544 →	2,550	3.1	17%	-13%	2.9%

* Sources: Bloomberg Finance L.P., FactSet Research Systems Inc.; as of 6/30/17

** Expected total return includes interest, dividends and capital gains where applicable

¹ Total-return index (includes dividends)

Fixed Income | Only small rises in interest rates

United States

	Current*	Jun 2018F
U.S. Treasuries (10-year)	2.30% ↗	2.60%
U.S. municipal bonds	85% ↗	93%
U.S. investment-grade corporates	103 bp →	100 bp
U.S. high-yield corporates	364 bp →	380 bp
Securitized: mortgage-backed securities ¹	87 bp ↗	100 bp

Europe

	Current*	Jun 2018F
German Bunds (10-year)	0.47% ↗	0.80%
UK Gilts (10-year)	1.26% ↗	1.40%
Euro investment-grade corporates ²	108 bp ↘	100 bp
Euro high-yield corporates ²	268 bp ↗	290 bp
Securitized: covered bonds	46 bp ↗	75 bp
Italy (10-year) ²	168 bp ↗	180 bp

¹ Current-coupon spread vs. 7-year U.S. Treasuries

² Spread over German Bunds

* Source: Bloomberg Finance L.P.; as of 6/30/17

Asia-Pacific

	Current*	Jun 2018F
Japanese government bonds (10-year)	0.09% →	0.10%
Asia credit	232 bp →	225 bp

Global

	Current*	Jun 2018F
Emerging-market sovereigns	308 bp ↘	285 bp
Emerging-market credit	306 bp ↘	280 bp

Currencies

	Current*	Jun 2018F
EUR vs. USD	1.14 ↘	1.10
USD vs. JPY	112.4 ↗	115.0
EUR vs. GBP	0.88 →	0.89
GBP vs. USD	1.30 ↘	1.23
USD vs. CNY	6.78 ↗	6.90

F refers to our forecasts as of 6/22/17; bp = basis points

Source: Deutsche Asset Management Investment GmbH; as of 6/30/17

The Chief Investment Office

...

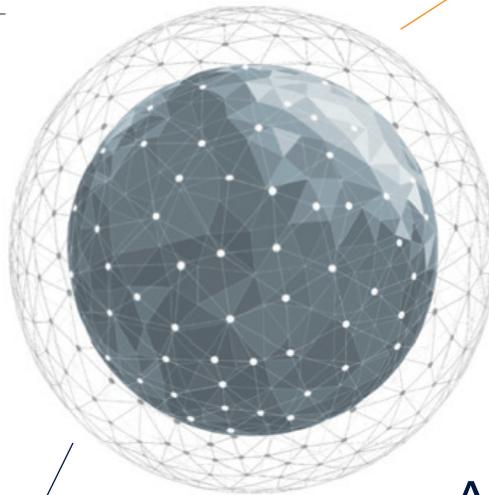
... plays a central role in Deutsche Asset Management's investment process.

... is headed by Stefan Kreuzkamp, Global CIO Deutsche Asset Management.

... brings together the expertise of the global investment platform to create a consistent economic and market view.

... serves as a point of contact between the portfolio management, the research teams and the distribution teams.

... prepares our global investment outlook: the CIO View.



Deutsche Asset Management¹

...

... is one of the world's leading investment management organizations with about €723 billion of assets under management (as of March 31, 2017).

... offers individuals and institutions traditional and alternative investments across all major asset classes.

... provides flexible products and solutions to a wide range of investment opportunities across all asset classes – from pooled funds to highly customized portfolios for a wide range of investors.

¹ Deutsche Asset Management is the brand name of the Asset Management division of the Deutsche Bank Group. The respective legal entities offering products or services under the Deutsche Asset Management brand are specified in the respective contracts, sales materials and other product information documents.

Glossary

» Here we explain central terms from the CIO | VIEW «

The aim of an **accommodative** monetary policy is to support the economy by means of monetary expansion.

Article 50 of the Lisbon Treaty governs the withdrawal of a member state from the European Union.

The **Bank of Japan (BOJ)** is the central bank of Japan.

Brexit is a combination of the words "Britain" and "Exit" and describes the possible exit of the United Kingdom of the European Union.

Bunds is a commonly used term for bonds issued by the German federal government with a maturity of 10 years.

The **CBOE SPX Volatility Index (Vix)** is a trademarked ticker symbol for the Chicago Board Options Exchange Market Volatility Index. It is a popular measure of the implied volatility of S&P 500 Index options.

The **Chinese yuan (CNY)** is legal tender on the Chinese mainland and the unit of account of the currency, Renminbi (RMB).

A **commodity trading advisor (CTA)** is an individual or organization providing advice and services related to trading in futures contracts, commodity options and/or swaps.

Correlation is a measure of how closely two variables move together over time.

Credit strategies aim at generating additional returns through the careful screening and selection of particular fixed-income products.

The **current account** includes trade in goods and services, a net-factor-income balance (e.g. earnings on foreign investments and cash transfers from individuals working abroad) and transfers (e.g. foreign aid). It is a part of the balance of payments.

The **Dax** is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

The **debt ratio** is a company's total debt divided by its assets.

Discretionary macro strategies are investment strategies that aim at exploiting macroeconomic, policy or political changes.

A **distressed strategy** is an investment strategy that seeks profit by investing in companies or other investment opportunities that are in financial trouble.

Duration is a measure expressed in years that adds and weights the time periods in which a bond returns cash to its holder. It is used to calculate a bond's sensitivity towards interest-rate changes.

Earnings per share (EPS) is calculated as a company's net income minus dividends of preferred stock, all divided by the total number of shares outstanding.

Emerging markets (EM) are economies not yet fully developed in terms of, amongst others, market efficiency and liquidity.

Equity-market-neutral investing strategies aim to deliver superior returns by balancing stock picks as to avoid market-risk exposure.

The **euro (EUR)** is the common currency of states participating in the Economic and Monetary Union and is the second most important reserve currency in the world after the U.S. dollar.

The **Euro Stoxx 50 Index** tracks the performance of blue-chip stocks in the Eurozone.

The **European Central Bank (ECB)** is the central bank for the Eurozone.

The **European Union (EU)** is a political and economic union of 28 member states located primarily in Europe.

The **Eurozone** is formed of 19 European Union member states that have adopted the euro as their common currency and sole legal tender.

Event-driven investing strategies seek to exploit pricing inefficiencies that may occur before or after a corporate event, such as an earnings call, bankruptcy, merger, acquisition or spinoff.

Excess capacity relates to an economy's production factors that are not being used as supply exceeds demand.

The **federal funds rate** is the interest rate, set by the Fed, at which banks lend money to each other, usually on an overnight basis.

The **FTSE 100 Index** tracks the performance of the 100 major companies trading on the London Stock Exchange.

Gilts are bonds that are issued by the British Government.

The term **Goldilocks economy** refers to a state of the economy, where there is neither a threat of inflation due to an overheating economy, nor a threat of a recession.

The **gross domestic product (GDP)** is the monetary value of all the finished goods and services produced within a country's borders in a specific time period.

Hard-currency bonds (debt) are bonds (debt) issued in a historically stable currency such as the U.S. dollar or the euro.

Hawks are in favor of a restrictive monetary policy.

High-yield bonds are issued by below-investment-grade-rated issuers and usually offer a relatively high yield.

Investment-grade (IG) refers to a credit rating from a rating agency that indicates that a bond has a relatively low risk of default.

The **investment ratio** puts a country's capital expenditure (capex) in relation to its gross domestic product.

The **Japanese yen (JPY)** is the official currency of Japan.

Merger arbitrage is a type of hedge-fund strategy where the investor tries to gain from the difference in the price a buyer of a firm agrees to pay, and the stock price after the announcement of the acquisition.

Mergers and acquisitions (M&A) are the two key methods of corporate consolidation. A merger is a combination of two companies to form a new company, while an acquisition is the purchase of one company by another in which no new company is formed.

Monetary policy focuses on controlling the supply of money with the ulterior motive of price stability, reducing unemployment, boosting growth, etc. (depending on the central bank's mandate).

The **MSCI AC Asia ex Japan Index** captures large- and mid-cap representation across 2 of 3 developed-market countries (excluding Japan) and 8 emerging-market countries in Asia.

The **MSCI Emerging Markets (EM) Latin America Index** captures large- and mid-cap representation across five emerging-market countries in Latin America.

The **MSCI Emerging Markets Index** captures large- and mid-cap representation across 23 emerging-market countries.

The **MSCI Japan Index** is designed to measure the performance of the large- and mid-cap segments of the Japanese market.

ObamaCare is the colloquial term for the Patient Protection and Affordable Care Act, the reform of the health-care industry introduced by U.S. president Barack Obama in 2010.

The **Organization of the Petroleum Exporting Countries (OPEC)** is an international organization with the mandate to "coordinate and unify the petroleum policies" of its meanwhile 12 members.

The **pound sterling (GBP)**, or simply the pound, is the official currency of the United Kingdom and its territories.

The **price-to-earnings (P/E) ratio** compares a company's current share price to its earnings per share.

Quantitative easing (QE) is an unconventional monetary-policy tool, in which a central bank conducts broad-based asset purchases.

Real Estate Investment Trusts (REITs) are companies, mostly listed, that own and often operate various types of real estate. They are obliged to pay out a minimum of 90% of earnings.

Relative-value investing strategies seek to take advantage of price differentials between financial instruments by simultaneously buying and selling the different securities, thereby allowing investors to potentially profit from the "relative value."

The **Republican Party (Republicans)**, also referred to as Grand Old Party (GOP), is one of the two major political parties in the United States. It is generally to the right of its main rival, the Democratic Party.

The **S&P 500 Index** includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

» GLOSSARY «

The **spread** is the difference between the quoted rates of return on two different investments, usually of different credit quality.

The **Stoxx Europe 600 Index** is an index representing the performance of 600 listed companies across 18 European countries.

The **Swiss Market Index (SMI)** is Switzerland's most important equity index, consisting of the 20 largest and most liquid large- and mid-cap stocks.

Tapering is a slow, continuous reduction of the central banks' asset purchases; especially referring to the U.S. Federal Reserve.

The **U.S. Federal Reserve**, often referred to as "the **Fed**", is the central bank of the United States.

The **United States Congress** is the legislature of the federal government. It is comprised of the Senate and the House of Representatives, consisting of 435 Representatives and 100 Senators.

Volatility is the degree of variation of a trading-price series over time. It can be used as a measure of an asset's risk.

A **yield curve** shows the annualized yields of fixed income securities across different contract periods as a curve.

Important Information

Nothing contained herein is investment advice nor shall it be relied upon as such. If an investment is made with any Deutsche Bank AG affiliate, it is acknowledged that we are not providing investment advice of any kind, nor are we acting in any fiduciary capacity.

Deutsche Asset Management (Deutsche AM) represents the asset management activities conducted by Deutsche Bank AG or any of its subsidiaries. Clients will be provided Deutsche Asset Management products or services by one or more legal entities that will be identified to clients pursuant to the contracts, agreements, offering materials or other documentation relevant to such products or services.

This document has been prepared without consideration of the investment needs, objectives or financial circumstances of any investor. Before making an investment decision, investors need to consider, with or without the assistance of an investment adviser, whether the investments and strategies described or provided by Deutsche Bank, are appropriate, in light of their particular investment needs, objectives and financial circumstances. Furthermore, this document is for information/discussion purposes only and does not and is not intended to constitute an offer, recommendation or solicitation to conclude a transaction or the basis for any contract to purchase or sell any security, or other instrument, or for Deutsche Bank to enter into or arrange any type of transaction as a consequence of any information contained herein and should not be treated as giving investment advice. Deutsche Bank AG, including its subsidiaries and affiliates, does not provide legal, tax or accounting advice. This communication was prepared solely in connection with the promotion or marketing, to the extent permitted by applicable law, of the transaction or matter addressed herein, and was not intended or written to be used, and cannot be relied upon, by any taxpayer for the purposes of avoiding any U.S. federal tax penalties. The recipient of this communication should seek advice from an independent tax advisor regarding any tax matters addressed herein based on its particular circumstances. Investments with Deutsche Bank are not guaranteed, unless specified. Although information in this document has been obtained from sources believed to be reliable, we do not guarantee its accuracy, completeness or fairness, and it should not be relied upon as such. All opinions and estimates herein, including forecast returns, reflect our judgment on the date of this report, are subject to change without notice and involve a number of assumptions which may not prove valid.

Investments are subject to various risks, including market fluctuations, regulatory change, counterparty risk, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you may not recover the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time. Further, investment in international markets can be affected by a host of factors, including political or social conditions, diplomatic relations, limitations or removal of funds or assets or imposition of (or change in) exchange control or tax regulations in such markets. Additionally, investments denominated in an alternative currency will be subject to currency risk, changes in exchange rates which may have an adverse effect on the value, price or income of the investment. This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. For certain investments, the terms will be exclusively subject to the detailed provisions, including risk considerations, contained in the Offering Documents. Review carefully before investing.

This publication contains forward looking statements. Forward looking statements include, but are not limited to assumptions, estimates, projections, opinions, models and hypothetical performance analysis. The forward looking statements expressed constitute the author's judgment as of the date of this material. Forward looking statements involve significant elements of subjective judgments and analyses and changes thereto and/or consideration of different or additional factors could have a material impact on the results indicated. Therefore, actual results may vary, perhaps materially, from the results contained herein. No representation or warranty is made by Deutsche Bank as to the reasonableness or completeness of such forward looking statements or to any other financial information contained herein. We assume no responsibility to advise the recipients of this document with regard to changes in our views.

No assurance can be given that any investment described herein would yield favorable investment results or that the

investment objectives will be achieved. Any securities or financial instruments presented herein are not insured by the Federal Deposit Insurance Corporation ("FDIC") unless specifically noted, and are not guaranteed by or obligations of Deutsche Bank AG or its affiliates. We or our affiliates or persons associated with us may act upon or use material in this report prior to publication. DB may engage in transactions in a manner inconsistent with the views discussed

herein. Opinions expressed herein may differ from the opinions expressed by departments or other divisions or affiliates of Deutsche Bank. This document may not be reproduced or circulated without our written authority. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, including the United States, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Deutsche Bank to any registration or licensing requirement within such jurisdiction not currently met within such jurisdiction. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions.

Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty as to future performance. Further information is available upon investor's request. All third party data (such as MSCI, S&P & Bloomberg) are copyrighted by and proprietary to the provider.

Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank and the BaFin, Germany's Federal Financial Supervisory Authority) and by the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.

© July 2017 Deutsche Asset Management Investment GmbH, Mainzer Landstraße 11-17, 60329 Frankfurt am Main, Germany.

All rights reserved. R-050312-2 (7/17) CIOVIEW-AM-JUL



