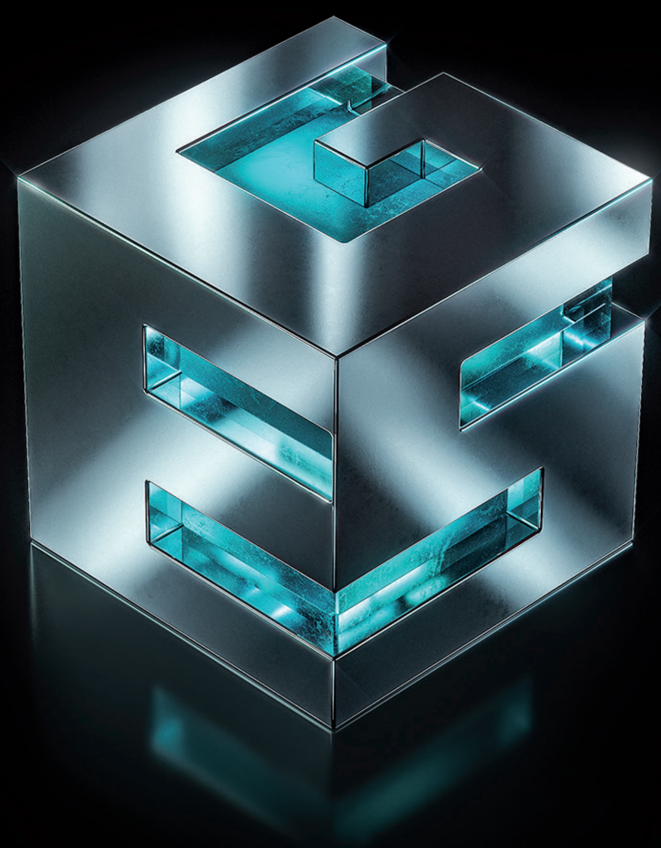
Marketing Material

CIO | VIEW

July 2018

Let's make finance sustainable

ESG: what it means and why it matters



DIFFERENT WORLDS

Things are looking good. We are confirming our gross-domestic-product (GDP) forecasts for the global economy, we do not fear a (sustained) uptick in inflation or interest rates, and some equity markets are trading near their historic highs. Yet, our fund managers are entering the summer recess with unusual trepidation. What explains this apparent contradiction?

Stefan Kreuzkamp
Chief Investment Officer

"For years now the economy has regularly outperformed while politics has underperformed our expectations."

As is so often the case, it all depends on how we assess and weight the known factors and the unknown ones. We know there is good economic and corporate data in many parts of the world, a still accommodating interest-rate policy and no deflation concerns. But then there are the unknowns. After years of easy money, how will markets react to central banks reducing their balance sheets from the second half of the year? How long will the long autumn of this economic cycle last? And will countries begin to turn down in lockstep – the same way they entered the upswing? In Europe, meanwhile, there is the danger that immigration will drive the European Union apart – unless Merkel-Macron surprise us all with a consensus-building initiative. A further unknown is U.S. policy. We cannot accuse President Trump of being unpredictable; he is simply following through doggedly on his campaign promises. But Congress and the courts are challenging him less and less, and even his own party has thrown in the towel. We are probably not the only market players who had hoped things would turn out differently after the election. So far, the new administration has regularly crossed what had previously been considered red lines. Likewise, it is not shying away from hurting domestic sectors and companies. For this and other reasons, the November midterms may add a significant twist to U.S. politics.

Our main scenario remains, however, that the global economy will not suffer lasting damage at the hands of policymakers. So we do not fear an abrupt end to the upswing. Despite generous central banks, we see no widespread misallocation of capital in the real economy like in past cycles. Brussels, for its part, is currently asking for increased consideration of ESG (environmental, social and governance) factors by asset managers. We welcome this, as sustainability criteria have long been a key component of our investment process.

Important terms are explained in our glossary. All opinions and claims are based upon data on 7/19/18 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

July 2018

FOCUS

No matter where you look: The march towards sustainable finance appears unstoppable. At DWS, we continue to strengthen the role of sustainability within our investment-decision-making process.

MACRO

The outlook for the world economy remains solid. However, downside risks are rising – from trade tensions and political instability in Europe to market turbulence spilling to real economic activity.

FIXED INCOME

In bond markets, it appears the fat years are over and we have entered the last stretch of an extended business cycle. Volatility is increasing, creating tactical opportunities.

EQUITIES

We remain cautiously optimistic. Our primary focus over the next twelve months is on sectors rather than countries. We continue to think that tech and financial stocks have the greatest potential.

ALTERNATIVES

The last ten years have been surprisingly rewarding for (some) private-equity investors. We think private equity can continue to thrive, but investors need to be careful with the managers they back.

MULTI ASSET

The economy is running so smoothly that signs of the cycle ending are hard to spot. Politics could, however, spoil the party. We remain cautiously constructive.

FORECASTS

Our economic growth forecasts remain largely unchanged. However, risks are rising. The next couple of months could see some market turbulence. We continue to favor equities over fixed income.

ABOUT US

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

LET'S MAKE FINANCE SUSTAINABLE

» No matter where you look:
The march towards sustainable finance appears unstoppable.«

The asset-management industry plays many roles. An increasingly important one is contributing to the greening of the financial system. This means integrating environmental, social and corporate-governance (ESG) and long-term-sustainability issues such as climate risk into investment strategy, risk management, asset allocation, governance and stewardship activities. Investing in good corporate citizens can make a lot of financial sense. For instance, in the age of Twitter and consumer boycotts, it is worth thinking about all these issues before a company, which you may be invested in, is faced with a troublesome situation.

Financial regulators around the world are increasingly focusing on financial institutions' capabilities, preparedness and actions to manage climate-change and broader sustainability risks. The idea is to support investment in low-carbon and resource-efficient technologies and to foster a longer-term outlook. This trend gathered momentum in September 2015 when Bank of England Governor Mark Carney described climate change as a threat to financial stability. The same year, the G20 created a private-sector taskforce led by Michael Bloomberg. It recommended how companies and financial institutions should improve climate-related financial disclosures.

In Europe, sustainable finance will be given added impetus thanks to the European Commission's Sustainable Finance Action Plan (EU SFAP). In addition, 15 central banks are now members of the Network for Greening the Financial System, aiming to share best practices on supervision, the macro-financial dimension of climate and environmental risks, and ways to scale up green financing[1]. Moreover, twenty insurance regulators are also sharing best practices through the Sustainable Insurance Forum. As a result, since 2015, central banks, pension funds and bank and insurance regulators have become new key actors accelerating the financial sectors' focus on sustainable and responsible investing.

The European example

The European Union (EU) example is especially instructive. One of the aims of the EU SFAP is to divert capital towards sustainable activities so as to reach the EU's energy and climate goals by 2030. These include increasing the share of renewables (sunlight, wind etc.) to at least 27% of final energy consumption and cutting greenhouse-gas emissions by a minimum of 40% compared to 1990 levels. This will require additional estimated funding of €180 billion per year. According to the European Investment Bank, that annual funding need rises to €270 billion, if all the goals for the energy, transport, water and waste sectors are included.

The EU framework, to be adopted before the end of next year, should help to ensure the integrity and trust of the sustainable-finance market through new standards and labels for sustainable-finance products such as green bonds[2].

Known as the "sustainability taxonomy" in EU jargon, this unified classification system will hopefully help in measuring sustainable capital flows by codifying what can be classified as green or brown assets[3]. In addition, it will cover activities contributing to climate-change mitigation and adaption as well as other environmental and social objectives. Having a unified classification system should also further foster the development of sustainability benchmarks and increase their transparency.

The European Commission is also taking legislative action to clarify investor duties in relation to sustainability and other ESG issues. In particular, the EU will provide explicit guidance in areas such as investment strategy, risk management, asset allocation, governance and stewardship. For example, institutional investors and asset managers will be required to disclose how they consider ESG factors and climate-change-related risks in their investment process. Asset managers will also be required to proactively ask their clients about their sustainability priorities and explain how sustainability considerations are incorporated into their investment products.

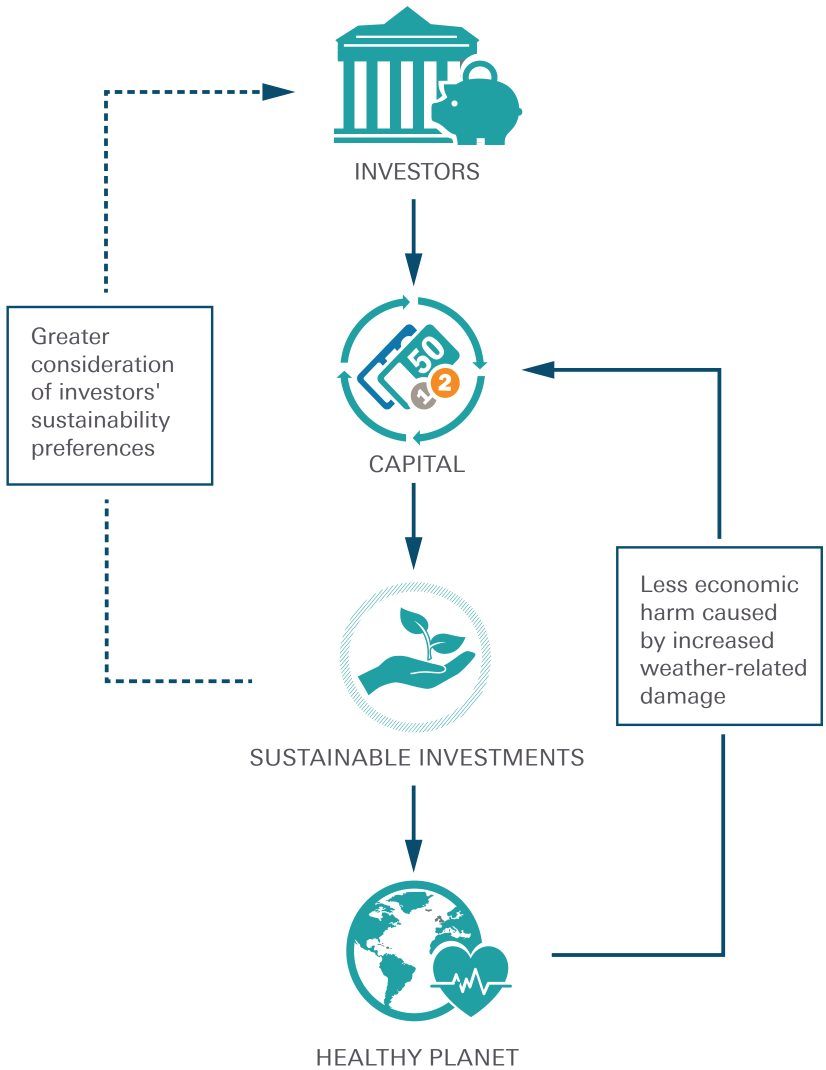
Implications

All this hints at the contours of what sustainable finance will look like. The European example provides an idea of just how wide-ranging the implications are. And, as mentioned above, Europe is hardly alone.

Take the efforts to green the financial system adopted by the appropriately named Network for Greening the Financial System. This group is comprised of representatives of central banks and financial-market supervisors from both developed and emerging-market countries. Already, it is pushing for increased corporate disclosure specifically in the area of climate-related risks. Disclosure not only has benefits for market transparency, but can also yield important insights for supervisory oversight, regulation and policy-making.

What does it all mean? Well, we are witnessing a coalition of actors across the developing and industrialized world that are taking steps to classify, assess and, in certain geographies, legislate to re-orientate capital flows towards sustainable investments. Their goals of managing the financial risks stemming from climate change and fostering transparency and long-termism appear praiseworthy. While there are questions of how all of these developments will work in practice, we believe investors need to be involved in shaping and preparing to implement these new expectations. At DWS, we continue to deepen the integration of material ESG factors and strengthen the role of sustainability within our investment-decision-making process. For those of us working in the asset-management industry, these are exciting times.

MOVING TOWARDS A MORE SUSTAINABLE ECONOMY



Source: European Commission (March 2018). European Commission Action Plan

[1] Green financing: Any financial instrument or investment that seeks to create positive environmental benefits and a return for investors or lenders.
[2] Green bonds: Any type of bond instruments where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new or existing eligible Green Projects. Examples of such projects would include areas such as pollution prevention and control, as well as renewable energy and energy efficiency.
[3] Green / brown assets: This term is linked to an EU policy proposal where green loans or investments such as for renewable energy or energy efficiency could receive a lower capital requirements ("green assets"). By contrast loans/investments linked to polluting activities such as coal would receive higher capital requirements (brown assets).

FASTEN YOUR SEATBELTS

» The outlook for the global economy continues to look solid. However, downside risks are on the rise. «

Johannes Müller
Head of Macro Research

IN A NUTSHELL

- Rising trade tensions and political instability in the Eurozone continue to generate unnerving headlines.
- We have slightly adjusted our forecasts, which we still consider to be reasonably conservative.
- Nevertheless, the risks of market turbulence spilling to real economic activity are larger than they were six months ago.

If you have been hibernating lately, there won't be all that much in our latest macroeconomic forecasts to catch you by surprise. All the adjustments to our inflation, current-account and economic-growth forecasts are quite minor. For the United States, we have increased our growth expectations slightly, and are now penciling in an increase of 2.7% in gross domestic product (GDP) in 2018. This largely reflects strong incoming data so far this year. Conversely, we have taken down our 2018 GDP-growth forecasts a shade for both the Eurozone and the United Kingdom, to 2.2% and 1.4%, respectively. Our 2019 forecasts remain unchanged, at 2.4% for the U.S., 1.9% for the Eurozone and 1.6% for the UK.

Such modest changes might seem odd. Rising trade tensions, not to mention an internationally increasingly isolated U.S. administration, continue to generate unnerving headlines. Meanwhile, at the beginning of June, it briefly looked as if we might be seeing a return of the Eurozone debt crisis, during the haphazard formation of the new Italian government. German and British domestic politics has also seen some turmoil – making progress towards a common European migration policy, a banking union or a smooth Brexit[1] no easier.

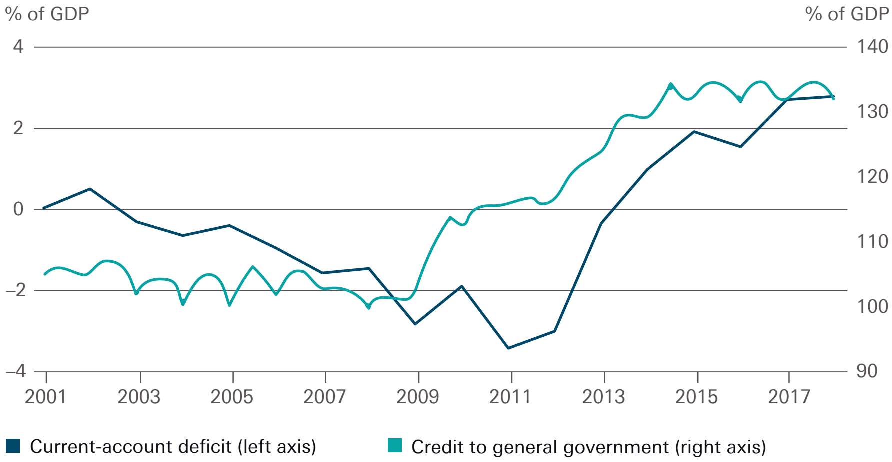
So, are we complacent not to implement bigger changes to our forecasts? On balance, we do not think so. To start with Italy, events in the past few months have been quite instructive. The political situation in Rome has been unstable and bewildering for a while. Even before the March election, it was pretty clear that there was a non-negligible chance of populist forces gaining majorities in both houses of parliament and forming a government together. Similarly, it has long been clear that to function in the longer term, the Eurozone needs additional institutional support. These where some of the reasons why we did not increase our Eurozone growth forecast more aggressively in the last quarter. We think that it is still reasonably conservative, reflecting both upside and downside risks to our base case. The initial statements of the new Italian government are fairly encouraging. Italy's new finance minister Giovanni Tria has ruled out abandoning the euro. Given the still solid underlying economic momentum, it appears more reasonable to wait for what the government does, rather than making knee-jerk adjustments to our forecasts. As for Germany and France, we have also incorporated some fall-out from recent trade tensions.

Make no mistake, in our opinion the impromptu attacks by the Trump administration on free trade are, to put it mildly, fundamentally misguided and frighteningly uninformed. As we argued in a CIO Special available on our website, they also risk reducing the growth prospects of the U.S. and the world economy as a whole. To us, it seems obvious that eroding the rules-based international order underpinning global trade and undermining international supply chains will hurt everyone involved, including emerging markets. However, it is also unlikely to cause a global recession anytime soon. As for Brexit and monetary policies, these are clearly issues we continue to watch. In UK politics, we see some encouraging signs that a hard Brexit[2] will be avoided, but it is too early to bank on it. Against the uncertain political backdrop, the European Central Bank (ECB) has just outlined its path for the quarters to come, with no rate rise expected until the second half of 2019. The U.S. Federal Reserve (the Fed) looks similarly keen to avoid policy errors. So far, the signs of the U.S. economy overheating are few and far between. Fed policy will continue to depend on incoming data. We currently expect a total of three to four rate hikes between now and the end of 2019, taking the federal funds rate to 3-3.25%.

Given all that, what are the risks to our forecast? Probably the biggest – and a growing one – might be turbulence in financial markets, leading to a significant tightening in global financial conditions. In addition to the potential triggers already mentioned, there are plenty of other risks, such as a sudden spike in oil prices, caused, for example, by renewed tensions in the Middle East or Venezuela's default. That should be the real lesson from recent events in Italy: the world is uncertain and monetary support is waning. With markets already nervous, the risks of a downward spiral are larger than they were six months ago.

POLITICS ASIDE, ITALY HAS ACTUALLY GOTTEN BETTER

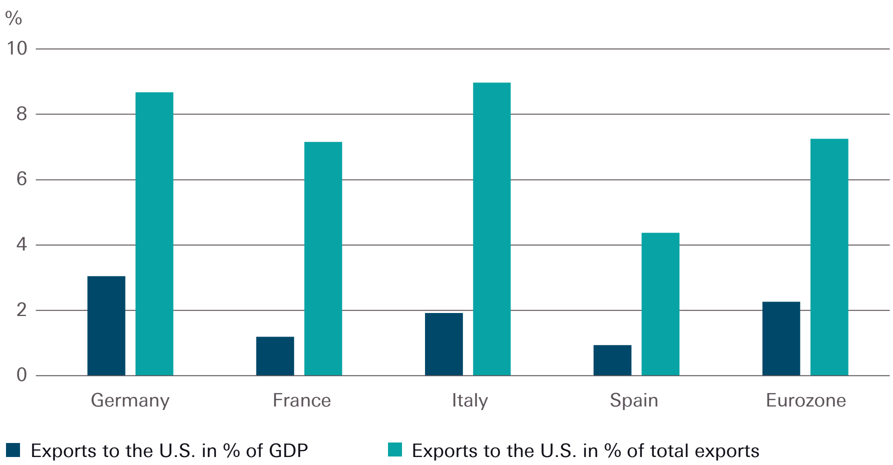
In recent years, Italy has seen a steadily growing current-account surplus. Compared to economic output, government debt has stabilized.



Sources: Bank for International Settlements, Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 6/22/18

EUROPE IS NOT ALL THAT DEPENDENT ON U.S. TRADE

As a percentage of GDP, the direct exposure of Eurozone countries to U.S. trade sanctions on their exports is fairly small.



Sources: Eurostat, Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 6/22/18

[1] Smooth Brexit refers to any deal between the UK and the European Union that ensures a lengthy and orderly transition, and avoids a sudden shock to trade flows in goods and services after March 2019. Of course, a lot would still depend on the precise details of the deal.

[2] Hard Brexit refers to any scenario in which the UK and the European Union fail to finalize a binding agreement on an orderly transition before March 2019. Assuming Brexit still happens, this could result in a sudden departure of the UK from the Union, causing significant disruption to capital flows and trade flows in goods and services.

GOODBYE GOLDILOCKS

» However, selective opportunities remain, including short-duration credit in dollars (across the board) and high yield in euros. «

Jörn Wasmund
Head of Fixed Income/Cash

IN A NUTSHELL

- In bond markets, the fat years are over; we appear to have entered the last stretch of an extended business cycle.
- Well-anchored inflation expectations should provide some support for fixed-income assets.
- Volatility is increasing, creating tactical opportunities. In dollars, we like short-duration credit across asset classes, in euros, we prefer high yield.

What a difference a couple of months can make. Far more quickly than even we anticipated, the dollar has strengthened against the euro, taking it close to our strategic target of 1.15 dollars per euro. By contrast, some of our other calls have worked out less favorably than we would have hoped. We have particularly underestimated the political risks in Italy and their negative consequences for Italian government bonds as well as the intensity of the tariff debate, which has put pressure on emerging markets.

Those events indicate that tail risks are increasing. At the same time, related repricing and volatility create opportunities we aim to exploit. Take the Eurozone periphery as an example: If you look at the yield differential (spread) between Spanish and Italian 10-year sovereign bonds, you can see that bond markets have gotten quite good at differentiating between the various higher yielding Eurozone countries. Since 2013, Spain's economy has grown three times as fast as Italy's. Government finances improved to the extent that we have recently started to treat Spain as a semi-core country and no longer as part of the periphery. The Italy-induced spread widening in Spain makes those bonds highly attractive.

Italy is also worth a closer look. Investors arguably underestimated the difficulties the two eurosceptic parties, Lega and Five Star, encountered in forming a new government. In May, fears of an "Italexit"[1], perhaps due to deliberate political ploys on the part of Lega, caused a sudden shift in investors' risk appetite. Now that the dust has settled, we remain constructive on the Eurozone periphery. Even Italy is in much better shape than at the height of the Eurozone crisis. Make no mistake, however, the days of simply buying the dips are over. Volatility is increasing and not just in Eurozone sovereign or emerging-market bonds. In the recent Italian saga, the risk aversion rapidly spread to other market segments.

Such episodes are likely to become more common. We appear to have entered the last stretch of the – although extended – business cycle. Central-bank support is beginning to wane. Under the timetable outlined by the ECB, its balance sheet will stop expanding at the end of the year. The first Eurozone rate hike, which we expect in autumn 2019, is likely to increasingly start to drive up yields in anticipation. Yields are already rising as the Fed continues to tighten. That said, don't expect too much, too soon.

Over the next twelve months, we expect the U.S. yield curve to flatten further but not to invert. Inflation expectations remain well-anchored. Economic momentum looks solid for now. However, there are plenty of political risks, from trade to renewed Eurozone turmoil. Concerns about hitting a soft patch at some point in coming years should keep a lid on longer-term rates.

Due to the increased attractiveness of the "risk-free" interest rate on short-term Treasuries, we are moving our positioning more towards the short end of the curve. For credit assets denominated in dollars, including emerging markets, we remain cautiously constructive. History suggests that even during periods of yield-curve flattening of the sort we are expecting, credit spreads can remain fairly stable for quite a while. In this respect, we think that the recent spread widening has created selective opportunities in the United States, particularly in shorter-dated corporate credit. In emerging markets, those opportunities particularly exist in some of the riskier sovereigns. We favor hard-currency bonds over local-currency investments. On the corporate side, we view Asian credit as an attractive asset class given the high absolute yield levels.

European credit fundamentals remain solid. We prefer high-yield over investment-grade credit and European over U.S. corporate credit, because it is less exposed to the pace of Fed hikes and to merger-and-acquisition activity. Overall, we are moving back towards less central-bank-distorted, more normal and more volatile credit markets. This brings risks, to be sure. But we believe it is also creating tactical opportunities.

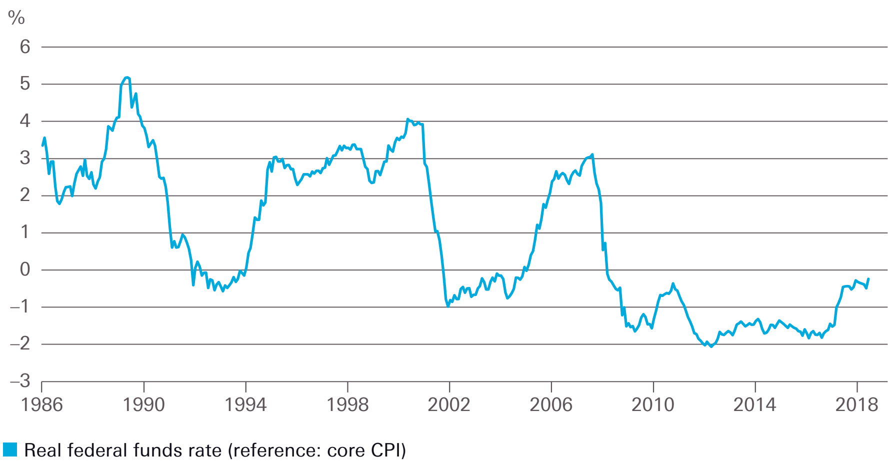
THE DIVERGING FORTUNES OF SPAIN AND ITALY

Back in 2013, yields on Spanish government bonds were trading well above their Italian counterparts. Since then, we have seen a sharp reversal.

*10-year maturity
Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 7/3/18

REAL FEDERAL FUNDS RATES REMAIN QUITE LOW

By historic standards, the Fed has not tightened monetary policy that much. Real federal funds rates remain exceedingly low. However, this is starting to change.



Sources: Bloomberg Finance L.P., Deutsche Asset Management Investment GmbH as of 6/30/18

[1] Combination of the words "Italy" and "exit" to describe Italy's possible exit from the European Union

THE DOLLAR'S GOING NOWHERE

» The latest economic data are good for the dollar.
Debt and politics are not. «

IN A NUTSHELL

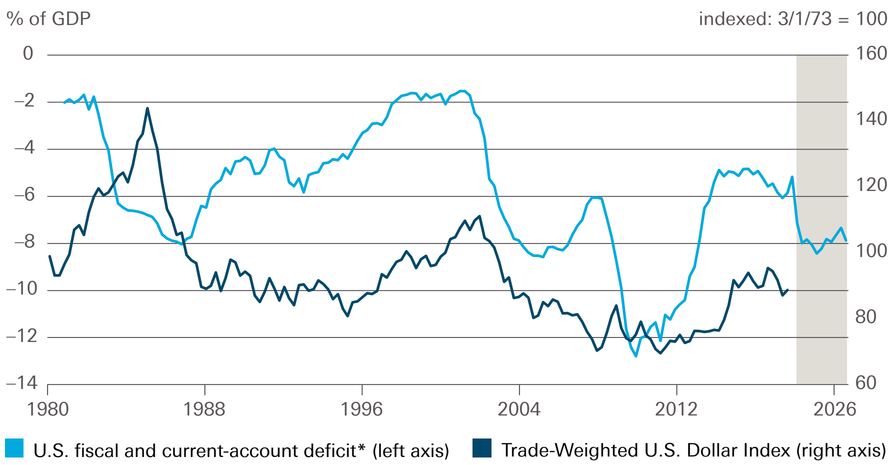
- Extreme positions in the EUR/USD futures market have now been unwound and there are no clear chart signals.
- The U.S. economy has been outperforming Europe's. The transatlantic spread is at a historic high. But what now?
- In the long term, we see risks for the dollar from rising fiscal debt and Trump's isolationist policies.

Any currency is driven by a host of factors, which can be divided into three general categories: macroeconomic fundamentals, sentiment/positioning and market technicals. The technicals have, in our view, been the primary driver this year. On the macro side, the topic most often discussed is the interest-rate spread between the United States and other countries. But its impact on EUR/USD has virtually disappeared, not least because of the extremely easy monetary policy. On the other hand, two other fundamentals are being neglected: U.S. politics and the fiscal and current-account deficit (twin deficit).

The twin deficit looks set to balloon from roughly 5% of GDP this year to 8% by 2020 because of Trump's tax cuts. As our chart shows, there was only one period when the dollar was able to brush off such a high deficit: when Ronald Reagan fueled hopes of market-oriented economic reforms at the beginning of the 1980s. And growth did indeed accelerate appreciably until the middle of the decade. It is questionable whether similar outcomes can result from the current fiscal program. There is also the question of how much the dominance of the greenback is being eroded by current policy. Dollar weakness began shortly after Trump's election. With his aversion to multilateral agreements and reliance on sanctions, even against allies, Trump is not making it easy for global companies and banks to enthuse over the dollar as a currency for settlements. Our CIO View Special "Dollar pros and cons" from early July lays out why this is hurting the dollar.

THE FISCAL AND CURRENT-ACCOUNT DEFICIT IS ON THE RISE AGAIN

A negative balance has only supported the dollar once so far.



*Rolling 4-month average; from 2018 onwards forecasts from the Congressional Budget Office
Source: Thomson Reuters Datastream, Congressional Budget Office as of 6/19/18

CAUTIOUSLY OPTIMISTIC

» Our primary focus over the next twelve months is sectors rather than countries. «

Let's get straight to the point: breaking with recent precedent, we did not raise our price targets for the benchmark equity indices at our latest strategy meeting. This is remarkable for two reasons. First, our GDP forecasts for 2018 and 2019 are virtually unchanged because the global economy remains robust, the unemployment numbers continue to decline, the purchasing managers are still confident and many companies are still sitting on a mountain of cash. Only recently, four large U.S. financial institutions announced their intention to distribute $110 billion to their shareholders via dividends and share buybacks. The late cycle is, therefore, alive and well, and it would appear we do not have to fear neither overheating nor rapidly rising interest rates. Second, this macro and financial constellation should, on the basis of our normal forecast process, mean that we raise our price targets by 2-3%. Why? Our price targets are valid for a 12-month time frame. Since we revise them every quarter, our assumption of average earnings growth of roughly 10% until summer 2019 translates into growth of roughly 2.5% per quarter. Based on an unchanged price-to-earnings (P/E) ratio, our price targets would therefore have to be increased by 2.5% every quarter.

Why then are our targets largely unchanged? Primarily because we have lowered our target P/Es slightly. It is only for the emerging markets that we have also reduced projected earnings growth slightly. We are, therefore, extrapolating a development that has been noticeable in recent quarters in many equity markets and for some months now even in the vigorous U.S. market: falling P/Es. Lower multiples are, therefore, being applied to corporate earnings, whether realized or projected, to determine stock prices. This means that, over the medium term, investors expect either lower earnings, a higher discount rate, or a higher risk premium. We think that currently it is a combination of the first and third expectation. Despite the lack of tangible evidence, more and more investors expect the business cycle to end in 2021 at the latest. The end of the cycle could be brought forward, however, by the reduction in central-bank balance sheets (which is expected to begin this year), the ongoing trade dispute and Trump's comments on individual sectors and companies, China's bubbly housing market or by major distortions provoked by high corporate and sovereign-debt levels. Even though these risks are not built into our base scenario, we can no longer ignore them entirely in our forecasts. Our primary fear is that U.S. shareholders have been cherry-picking from the U.S. administration's policy assortment – focusing, for example, on tax reform and deregulation. This is readily apparent in the Russell 2000, which is geared

Thomas Schüßler
Co-Head of Equities

Andre Köttner
Co-Head of Equities

IN A NUTSHELL

- The investment climate should remain positive, but we are more cautious about the next twelve months.
- We have virtually no more regional preferences, but think tech and financial stocks still have the greatest potential.

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Alongside companies with a strong domestic bias, tech stocks have again been driving the U.S. market. The ten companies with the biggest absolute gain in market capitalization in the first half of the year are all tech-centric. Their market cap has increased by some $700 billion. To put this number into perspective, this is equivalent to almost half the market cap of the Dax. But a comparison with the $298 billion market-cap increase for the S&P 500 also shows how the tech giants are steadily cementing their dominance.

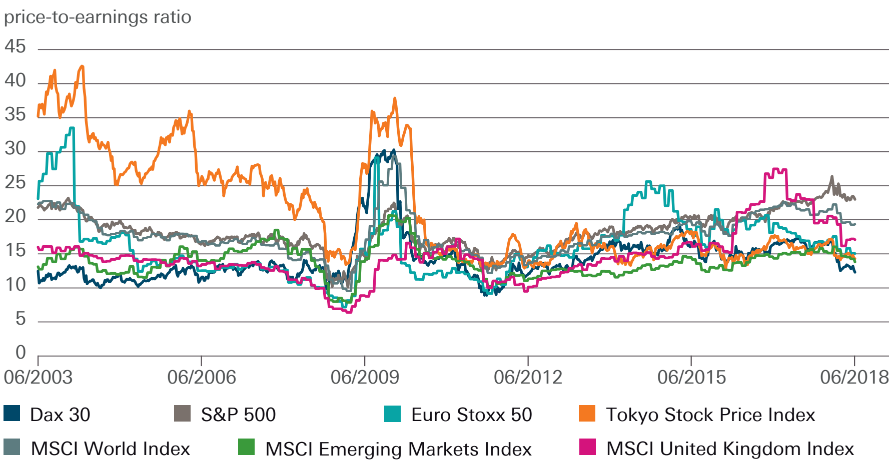
As ABBA, the Swedish pop group, sang in 1975 "The Winner Takes It All". This seems to have worked for some tech firms for the past years. Some anti-trust or other government agency is, however, likely to step in one day.

While this might take some more time, we believe investors are starting to anticipate such a step. Declining P/E ratios might be an indication for this. We are also becoming more selective with tech firms. But if history is any indication, the sector might be supported by investor behavior: in the past, they haven't changed their favorite sector before the rally hit the wall. Next to tech stocks, we also favor financials and European small/mid caps over the next twelve months.

Given the strength of tech stocks, it is no wonder that after the first half of the year the Nasdaq is leading the pack among the few indices that are still in the black. Most indices are in the red. China's CSI 300 and Argentina's Merval have even reached correction territory already – trading at least 20% below their highs to date. Brazil's Ibovespa is not far behind. Alongside the strength of the dollar, rising U.S. interest rates and global trade issues, the weakness in some emerging markets is attributable to idiosyncratic problems, and so we do not believe the weakness is systemic. We continue to judge that especially Asian emerging markets are in good fundamental shape and that their valuations seem attractive following the last correction. On top of that, we think the dollar will not continue to strengthen at the same pace and that 10-year U.S. yields are near their peak for the cycle. All this should relieve the pressure on equities.

EVEN U.S. SHAREHOLDERS HAVE BECOME MORE CAUTIOUS

P/Es have been declining for some time now. Last to join was the S&P 500 whose data has been distorted by the tax reform, however.



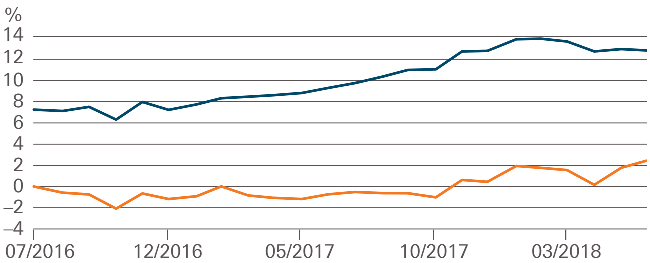
Sources: Thomson Reuters Datastream, Deutsche Asset Management Investment GmbH as of 7/2/18

[1] Total return. Source: Bloomberg Finance L.P. as of 7/9/18

VALUATIONS OVERVIEW

U.S. EQUITIES

The United States may be a bottomless pit of political uncertainty, but the economy and the corporate sector continue to churn out solid numbers so far. We have therefore made a slight upward revision to our GDP forecast. We also see the U.S. reporting the highest earnings growth among the established markets, at almost 13%. The market's valuation is still pretty high, but the tech sector remains a bulwark. We upgrade U.S. equities to neutral.

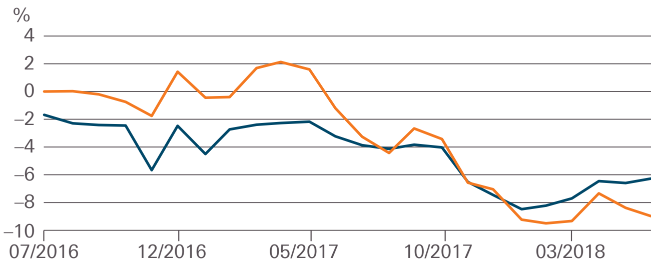


■ Relative valuation (P/E ratio): S&P 500 vs. MSCI AC World Index

■ Relative performance: S&P 500 (in dollars) vs. MSCI AC World Index (in local currency)

EUROPEAN EQUITIES

On the corporate side, we are still constructive on Europe. Quarterly numbers were solid, though not spectacular. Compared to the U.S., the market's valuation is in line with history. The dollar appreciation is supportive as well. However, Europe is currently struggling not only with internal problems (Italy, Brexit, government crisis in Berlin) but also U.S. trade policy. We downgrade Europe, including Germany, to neutral.

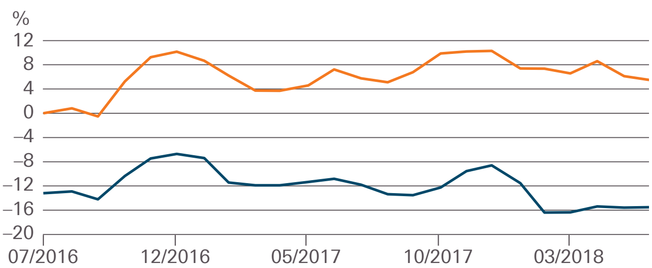


■ Relative valuation (P/E ratio): Stoxx Europe 600 vs. MSCI AC World Index

■ Relative performance: Stoxx Europe 600 (in euros) vs. MSCI AC World Index (in local currency)

JAPANESE EQUITIES

We have downgraded Japan to neutral. The full-year numbers released at the end of March were very solid, but Japanese corporates were astonishingly conservative with their guidance. Good times should still be ahead for companies that focus on the domestic market, but any further strengthening of the yen could prove to be a challenge for export-oriented companies – which could, just like their European and Chinese peers, also be pressured by Trump.

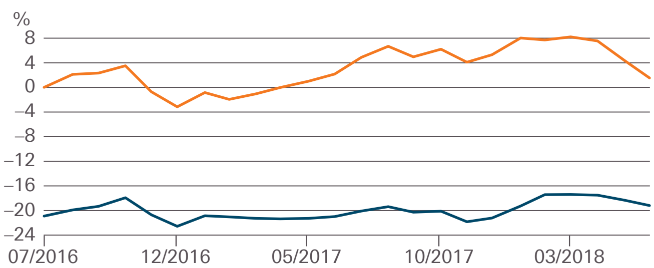


■ Relative valuation (P/E ratio): MSCI Japan Index vs. MSCI AC World Index

■ Relative performance: MSCI Japan Index (in yen) vs. MSCI AC World Index (in local currency)

EMERGING-MARKETS EQUITIES

We have downgraded emerging markets to neutral, but only because we are skeptical about Eastern Europe and Latin America. We remain bullish about Asia, which becomes our favorite region. While we anticipate volatile markets – Trump, the strength of the dollar and rising U.S. yields are regularly making investors skittish – we believe that the dollar and interest rates have already made most of their big moves.



■ Relative valuation (P/E ratio): MSCI Emerging Markets Index vs. MSCI AC World Index

■ Relative performance: MSCI Emerging Markets Index (in dollars) vs. MSCI AC World Index (in local currency)

Sources: FactSet Research Systems Inc., Deutsche Asset Management Investment GmbH as of 6/29/18

FORTUNE FAVORS THE BRAVE

» The last ten years have been surprisingly rewarding for (some) private-equity investors. We look at the implications. «

Mark J. McDonald
Head of Private Equity

IN A NUTSHELL

_ Overall, private equity has performed very well indeed since the global financial crisis.

_ However, there is a lot of variation between top performers and performance laggards.

_ We think private equity can continue to thrive, but investors need to be careful which managers they back.

The private-equity (PE) market has developed phenomenally over the past decade post the global financial crisis. It is estimated that total assets under management in private equity reached nearly $3 trillion in 2017, on the back of a strong fundraising environment, which saw private-equity firms take in nearly $2 trillion of investor commitments over the last five years.[1] However, this remarkable rise hides four major trends in the market today, which investors would be wise to consider.

The first is that private equity has delivered very attractive returns. However, that has only been true for those investors sticking with managers (called general partners, or "GPs") through multiple cycles and having access to top-performing GPs. For example, the return variance between top- and bottom-quartile performances was well in the double digits, based on data from 2008 "vintage" funds. By now, such funds tend to be mature with relatively low future return variance. Investors in top-quartile managers have also enjoyed premium returns over relevant public-market benchmarks. However, for those in poorly performing funds, the returns did not always compensate for the comparative illiquidity of the asset class.

Talking about illiquidity, a second major trend is the remarkable recent growth in secondary buyouts. Historically, the private-equity market has been an inherently long-term, illiquid asset class, as evidenced by some funds taking over 19 years to liquidate. With the increasing prevalence of secondary capital in the market, investors (called limited partners, or "LPs") have been able to sell their stakes in private-equity funds, and have even been able to sell multiple portfolio companies at a single time, sometimes in transactions led by the private-equity-fund GPs themselves. It is estimated that around $125 billion[2] of dry powder exists in this market, leading LPs to take advantage of the market climate by selling illiquid private-equity portfolios of up to $2 billion.

Effectively, this has made the asset class itself more liquid. Furthermore, LPs have invested large amounts into private-equity funds specifically targeting secondary buyouts. This can offer instant access to a highly diversified private-equity portfolio; providing exposure across vintage years, sectors and geographies.

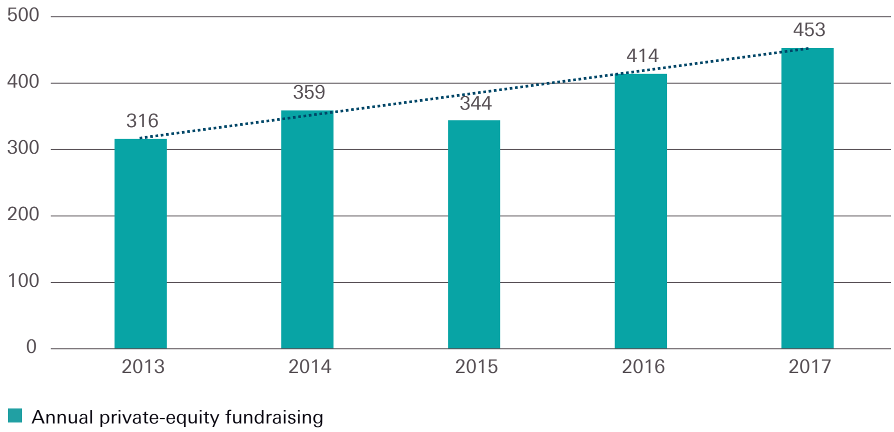
So where does the private-equity market go over the next decade? We don't see any imminent downturn in the level of fundraising. However, all the fundraising may have some unintended side-effects, driving a third major trend. More money allocated to private equity is causing fierce competition between GPs for quality assets, leading to higher purchase prices (financed mainly by equity rather than high levels of debt). In and of itself, this is putting pressure on returns, with GPs in the buyout space telling investors to expect lower returns (though these still look attractive in the mid-double digits).

Fierce competition should only reinforce a fourth set of cyclical and secular changes seen in recent years. On the cyclical side, LPs have been increasing asset allocations to alternative investments – and private equity in particular – as a means of diversifying portfolios. On the secular side, the prevailing theme over the last few years has been larger allocations to "brand-name" funds, as LPs consolidate their relationships and commit additional capital to favored managers.[3] Consequently, this market development has led to a highly competitive environment for smaller, newer managers which need to do more to prove themselves to investors than ever before. As a result, we believe manager selection – and having access to the very best managers – will become even more important in the next phase of the market's evolution.

PRIVATE-EQUITY FUNDRAISING CONTINUES TO BE STRONG

The growth in fundraising reflects increasing asset allocations to alternative investments in general – and private equity in particular.

billion dollars

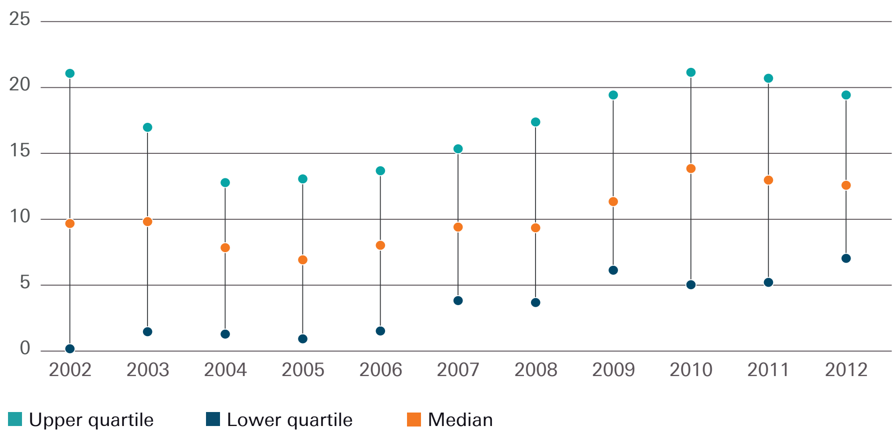


Source: 2018 Preqin Global PE & VC Report as of December 2017

DIVERGING FORTUNES

Within private equity, there tends to be a lot of variation both by vintage year and between top-performing managers and laggards.

private-equity returns by vintage year (IRR* %)



*IRR: Internal rate of return is a common way to estimate the profitability of an investment, by comparing the discounted value of future cash flows to initial investment costs. The IRR is calculated by looking for the discount rate at which these amounts cancel each other.
Source: Cambridge Associates, PE & VC Benchmark Statistics as of December 2017

[1] See: The Rise and Fall of Private Markets, McKinsey Global Private Markets Review 2018 for 2017 figures and 2018 Preqin Global PE & VC Report for previous years.
[2] Greenhill Secondary Pricing Trends & Analysis, January 2018 and Bain & Company Global Private Equity Report 2018
[3] According to research provider Preqin, 42% of capital was committed to the largest 20 managers in 2017

A NEVER-ENDING LATE CYCLE

» Despite the political risks, the economy is still barreling along, and we are cautiously optimistic. «

Christian Hille
Head of Multi Asset

IN A NUTSHELL

_ The economy is robust; signs of the cycle running out of steam are few and far between.

_ Our investment focus remains slightly cyclical while not ignoring hedging and diversification.

_ Politics currently harbor the greatest potential for negative surprises.

At times there is a very fine line between audacity and recklessness in asset management. An investor who puts the pedal to the metal is considered courageous while the investor who eases off the gas too soon may be accused of throwing away returns. We take a middle line, aware that politics and the economy are always good for surprises. In concrete terms, that means hedging your bets against tail risks – even at some cost to absolute returns. And reading the road ahead well is important. At present, a still apparently straight economic road invites speed – but some dangerous political bends mean the right foot needs to stay close to the brake pedal.

The economic and corporate numbers are frankly good, arguing for an aggressive, cyclical portfolio. We assume the global economy will grow by roughly 4% both this year and next. Corporations are reporting good results, funding conditions are still supportive, and credit default rates are still staying at a low level. But an array of political warning signs line the road. The greatest danger at the moment is that the trade dispute initiated by President Trump could become a full-blown trade war. What distinguishes this risk from others is the degree of specificity. The trade dispute is already beginning to affect some companies' bottom line, and an even larger number of companies are warning of possible fallout. In the absence of further policy twists, this could still be manageable. The problem, however, is that Trump has demonstrated just how strong-willed he can be on issues that have been bothering him for years – such as his perception that other countries' trade policies have been unfair to the United States. On top of that, domestic resistance to his policies is weakening. The "full-blown trade war" could therefore morph from tail risk to main risk – not only for the countries in Trump's crosshairs but also for U.S. companies and members of the House and Senate facing November midterm elections. We are expecting a stormy autumn.

Other issues, such as record-high debt and central banks shortening their balance sheets, are well known. Let's tackle the topic from a different angle. Under what capital-market conditions would we adhere to our cautiously optimistic investment style? We believe the three most important markers are: 10-year U.S. Treasury yields should not rise to over 3.5% before year-end; the dollar should not strengthen to the extent that it puts additional pressure on emerging markets; and the oil price should stabilize at no more than \$80 to \$90 per barrel.

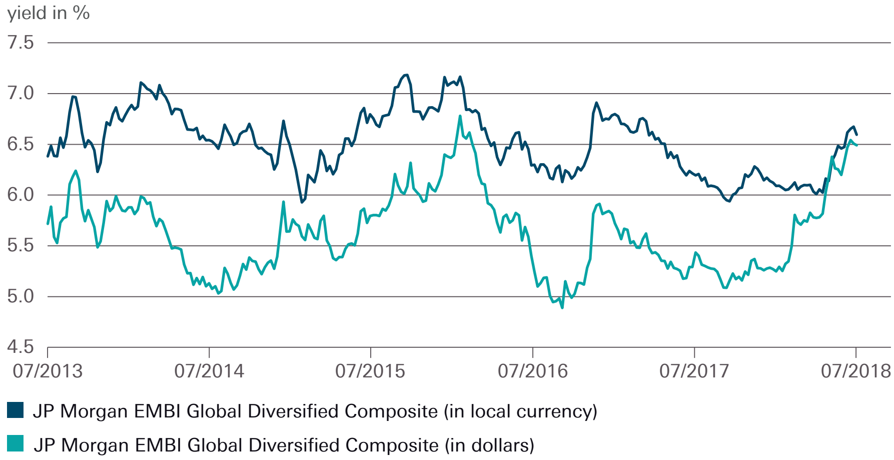
If all three conditions are met, we will remain true to our strategy of buying market dips and focusing on investments that offer the potential for higher returns with acceptable risks. For equities, that means a stronger weighting in the United States and emerging markets versus Japan and Europe. One factor that still favors the United States is the high percentage of tech stocks that are still experiencing a bull market. Equities of Asian emerging markets have become more interesting after the recent correction. We still like emerging-market bonds, primarily those denominated in hard currency. In the industrialized countries we are sticking to investment-grade corporate bonds and continue to give a lower weighting to high-yield bonds. We are underweight government bonds, but they do offer protection during more turbulent periods in the market; in them we prefer the short end of the yield curve.

We also believe that gold and the yen are opportune instruments for some timely diversification. Since we are in the late phase of the business cycle, we think some commodities may be suitable to address rising demand and rising inflation expectations.

For European investors, we think U.S. investments have lost some of their appeal compared to last year. But the strong dollar depreciation at the beginning of the year suggests to us that hedging the dollar against the euro, which has become expensive anyway, seems no longer necessary. At its current level, we do not expect the dollar to make a major move for the time being.

WHY PUT UP WITH LOCAL-CURRENCY BONDS?

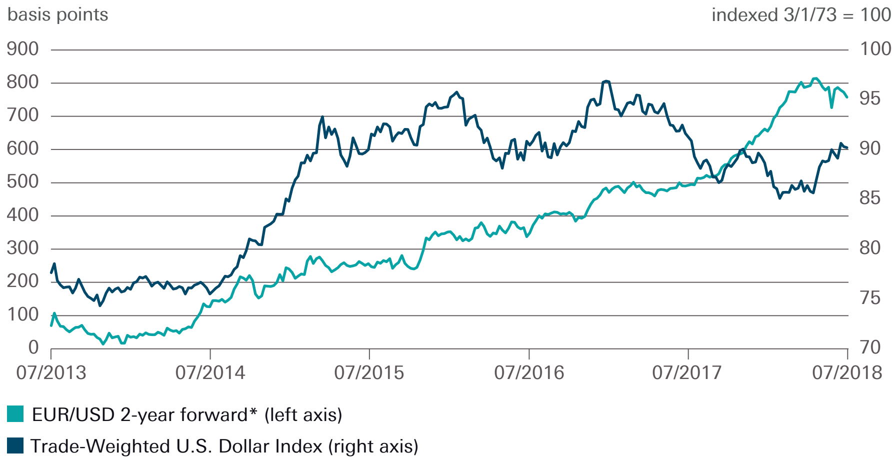
Dollar-denominated emerging-market bonds have suffered this year, and their yields are now in line with local-currency bonds



Source: Thomson Reuters Datastream as of 7/4/18

EXPENSIVE PROTECTION, CURRENTLY RATHER DISPENSABLE

A 2-year dollar hedge costs 750 basis points for Europeans. As we expect the dollar to trade sideways, it seems unnecessary.

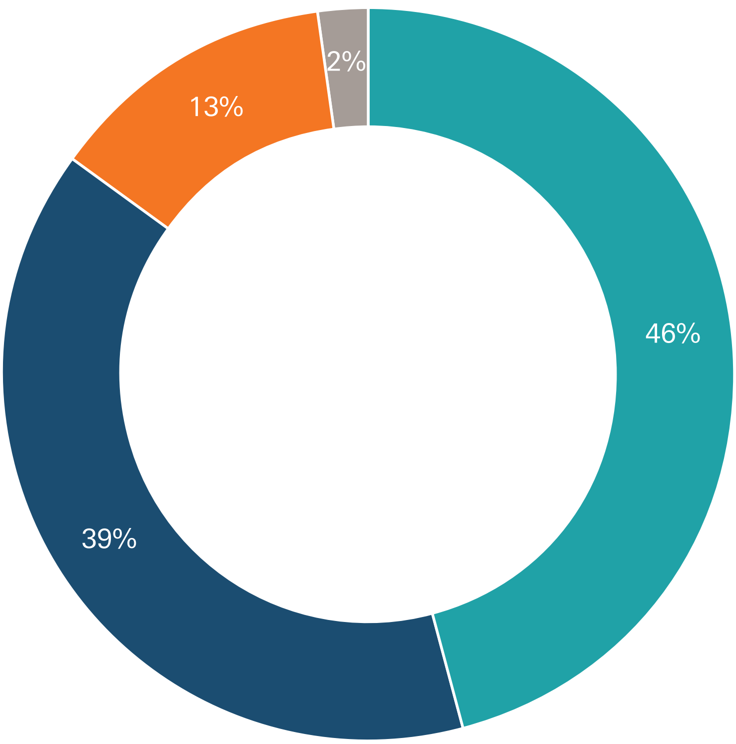


*Forward exchange rates are determined by using the arbitrage-free price relationship between the interest rates of the two currencies and the current spot rate. The rates are not annualized.
Sources: Bloomberg Finance L.P., Thomson Reuters Datastream as of 7/4/18

WE REMAIN INVESTED

» Threat of unpleasant summer requires defense and offense. «

The economic backdrop remains mostly robust, despite unrelenting political risk. We believe it is still the right environment to buy the dips for the time being and to remain invested in the more cyclical market segments. For equities, our favorite asset class, we prefer the United States and Asian emerging markets to Europe and Japan. For bonds, we think the most interesting opportunities are also in the emerging markets, although we are becoming more selective. We are reducing our exposure to dollar and euro corporate bonds and turning more to floaters. For diversification purposes, we continue to hold short-dated government bonds from industrialized countries as well as gold and yen in the portfolio.



Equity	**46%**
Equities United States	17%
Equities Europe	10%
Equities emerging markets	8%
Equities Japan	6%
Equities Global Style	5%
Fixed Income	**39%**
Euro investment grade	18%
Emerging-market (hard-currency) bonds	9%
Eurozone sovereigns	5%
U.S. Treasuries	3%
Euro high yield	2%
U.S. high yield	2%
U.S. investment grade	0%
Alternatives	**13%**
Convertibles (euro-hedged)	5%
Alternatives strategies	4%
Commodities	4%
Cash	**2%**

Source: Multi Asset Group, Deutsche Asset Management Investment GmbH as of 6/25/18

The asset allocation shown here represents a balanced model portfolio denominated in euros. It is not necessarily suitable for all investors and is subject to change without notice. Alternative investments are exposed to various risks, are not suitable for all investors, and are not available for every portfolio.

A MIX OF SUN AND CLOUDS

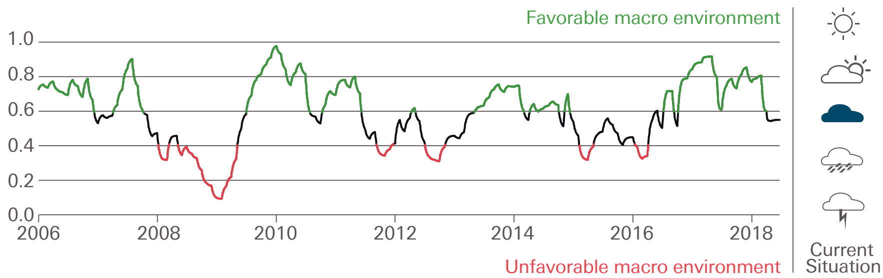
» The indicators suggest a slightly positive environment «

Compared to 2017, the DWS indicators have been all over the map this year, mirroring investors' emotional rollercoaster ride between bullish economic data and political risks. The DWS surprise indicator is a prime example of this ambivalence. It has been yo-yoing between positive and negative territory recently despite the fact that, at the global level, most data releases have beaten consensus expectations. Positive surprises predominated in the United States, Europe was a disappointment and the biggest fluctuations were in Asia. Currently, the indicator points to a slightly positive environment overall.

The picture is similar for investors' risk tolerance. The correction in equity markets at the end of January saw the DWS risk indicator plummet to its lowest level since the beginning of 2016. It recovered briefly, but the latest turmoil in emerging markets has pushed the indicator into risk-averse territory. The DWS macro indicator has held steady this year. Despite a brief bout of weakness, it is pointing to a still positive macroeconomic environment. At the moment, two of the three DWS indicators are in positive territory. Despite a robust macro environment, investor sentiment is fluctuating considerably.

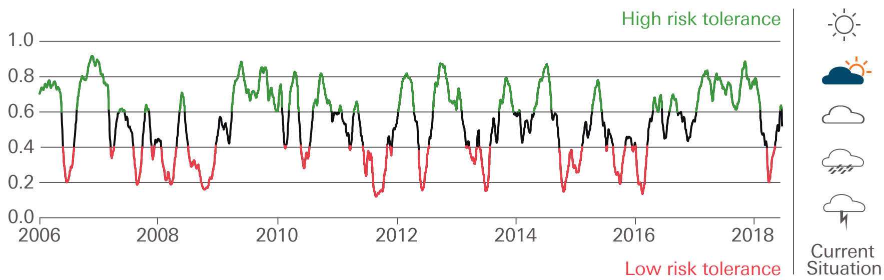
MACRO INDICATOR

Condenses a wide range of economic data



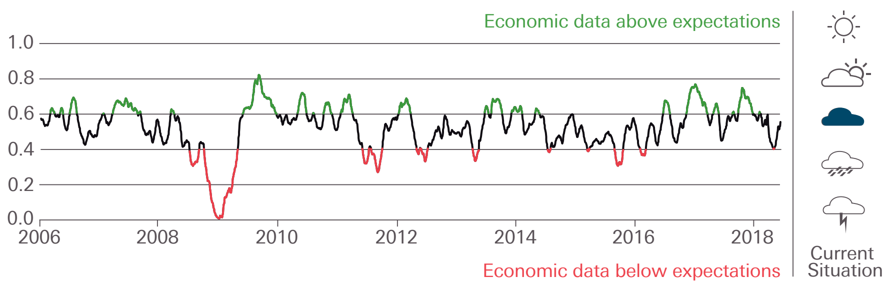
RISK INDICATOR

Reflects investors' current level of risk tolerance in financial markets



SURPRISE INDICATOR

Tracks economic data relative to consensus expectations



Source: Deutsche Asset Management Investment GmbH as of 6/21/18

MACRO | The costs of trade conflicts

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

Region	2018F		2019F
United States	2.7	↘	2.4
Eurozone	2.2	↘	1.9
United Kingdom	1.4	↗	1.6
Japan	1.5	↘	1.0
China	6.5	↘	6.3
World	3.9	→	3.9

Fiscal deficit (in % of GDP)

Region	2018F		2019F
United States	–4.1	↘	–4.7
Eurozone	–0.9	↗	–0.8
United Kingdom	–2.5	↘	–2.7
Japan	–4.0	↗	–3.8
China	–3.5	↗	–3.2

Consumer price inflation (in %, year-on-year)

Region	2018F		2019F
United States[1]	1.9	↗	2.0
Eurozone	1.5	↗	1.7
United Kingdom	2.5	↘	2.0
Japan	1.0	↗	1.4
China	2.0	↗	2.2

Current-account balance (in % of GDP)

Region	2018F		2019F
United States	–2.8	↘	–3.0
Eurozone	3.0	↘	2.9
United Kingdom	–3.8	↘	–4.0
Japan	3.8	→	3.8
China	1.5	↘	1.2

Benchmark rates (in %)

Region	Current*		Jun 2019F
United States	1.75–2.00	↗	2.50–2.75
Eurozone	0.00	→	0.00
United Kingdom	0.50	↗	0.75
Japan	0.00	→	0.00
China	4.35	→	4.35

Commodities (in dollars)

	Current*		Jun 2019F
Crude oil (WTI)	74.2	↘	60
Gold	1,253	→	1,290
Copper (LME)	6,626	↗	7,050

*Source: Bloomberg Finance L.P. as of 6/29/18
[1]core rate, personal consumption expenditur Dec/Dec in % (no average as for the other figures)
F refers to our forecasts as of 6/21/18
WTI = West Texas Intermediate
LME = London Metal Exchange

Legend applies to 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.

EQUITIES | Curb your enthusiasm

	Current*	Jun 2019F Forecast	Total return (expected)[1] in %	Expected earnings growth	P/E impact	Dividend yield
United States (S&P 500)	2,718	2,900	8.8%	13%	–6%	2.1%
Europe (Stoxx Europe 600)	380	390	6.3%	8%	–4%	3.7%
Eurozone (Euro Stoxx 50)	3,396	3,550	8.5%	8%	–3%	3.9%
Germany (DAX)[2]	12,306	13,500	9.7%	7%	0%	3.3%
United Kingdom (FTSE 100)	7,637	7,800	5.2%	7%	–6%	4.3%
Switzerland (Swiss Market Index)	8,609	8,850	6.4%	18%	–13%	3.6%
Japan (MSCI Japan Index)	1,025	1,080	7.7%	7%	–2%	2.3%
MSCI Emerging Markets Index (USD)	1,070	1,150	10.3%	11%	–3%	2.8%
MSCI AC Asia ex Japan Index (USD)	672	740	12.9%	11%	–1%	2.8%
MSCI EM Latin America Index (USD)	2,477	2,500	4.0%	10%	–8%	3.1%

*Sources: Bloomberg Finance L.P., FactSet Research Systems Inc. as of 6/29/18
[1]Expected total return includes interest, dividends and capital gains where applicable
[2]Total-return index (includes dividends)

FIXED INCOME | Nervous markets ahead

United States

	Current*	Jun 2019F
U.S. Treasuries (10-year)	2.86%	3.25%
U.S. municipal bonds	86%	85%
U.S. investment-grade corporates	116 bp	100 bp
U.S. high-yield corporates	363 bp	370 bp
Securitized: mortgage-backed securities[1]	75 bp	90 bp

Europe

	Current*	Jun 2019F
German Bunds (10-year)	0.30%	1.00%
UK Gilts (10-year)	1.28%	1.75%
Euro investment-grade corporates[2]	134 bp	95 bp
Euro high-yield corporates[2]	388 bp	300 bp
Securitized: covered bonds[2]	55 bp	55 bp
Italy (10-year)[2]	237 bp	200 bp

Asia-Pacific

	Current*	Jun 2019F
Japanese government bonds (10-year)	0.04%	0.10%
Asia credit	267 bp	255 bp

Global

	Current*	Jun 2019F
Emerging-market sovereigns	370 bp	350 bp
Emerging-market credit	332 bp	330 bp

Currencies

	Current*	Jun 2019F
EUR vs. USD	1.17	1.15
USD vs. JPY	110.8	111.0
EUR vs. GBP	0.885	0.90
GBP vs. USD	1.32	1.28
USD vs. CNY	6.62	6.50

*Source: Bloomberg Finance L.P. as of 6/29/18
[1]Current-coupon spread vs. 7-year U.S. Treasuries
[2]Spread over German Bunds

F refers to our forecasts as of 6/21/18
bp = basispoints

DWS[1]

is listed on the Frankfurt stock exchange since March 2018.

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.

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

is one of the world's leading investment-management organizations with about €700 billion of assets under management (as of December 31, 2017).

The Chief Investment Office

is headed by Stefan Kreuzkamp, Chief Investment Officer (CIO) of DWS and plays a central role in DWS's investment process.

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

prepares our global investment outlook: the CIO View.

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

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

GLOSSARY

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

Alternative investments is a general term for asset types that do not fit into the traditional asset classes of stocks and bonds. These might include foreign exchange, commodity and real-estate investments.

The Bank of England (BoE) is the central bank of the United Kingdom.

The planned banking union in the Eurozone would hold the central responsibility for financial-markets oversight, securing of deposits and liquidation of financial institutions.

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

A bull market is a financial market where prices are rising - usually used in the context of equities markets.

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

A buyout is a purchase of shares in order to gain controlling interest in another company.

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

Covered bonds are securities similar to asset-backed securities (ABS) which are covered with public-sector or mortgages loans and remain on the issuer's balance sheet.

The CSI 300 Index includes the 300 largest companies of the Chinese mainland, that is companies listed on the Shanghai and Shenzhen Stock Exchange (so called A-shares).

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 default rate refers to the proportion of borrowers who cannot service their loans.

Deflation is a sustained decrease in the general price level of goods and services.

The discount rate is the interest rate charged to commercial banks and other depository institutions for loans received from the country's central bank's discount window.

Diversification refers to the dispersal of investments across asset types, geographies and so on with the aim of reducing risk or boosting risk-adjusted returns.

A dividend is a distribution of a portion of a company's earnings to its shareholders.

Dry powder, in a private-equity context, refers to cash or other very liquid reserves that can easily be deployed for investment.

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

Environmental, Social and Governance (ESG) is a way of assessing a company that investors increasingly use to screen potential investments, using environmental, social and governance criteria.

EUR is the currency code for the euro, the currency of the Eurozone.

The Euro Stoxx 50 is an index that tracks the performance of blue-chip stocks in the Eurozone.

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

The European Commission (EU Commission) is the executive body of the European Union (EU) which represents the interests of the EU.

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.

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 financial crisis refers to the period of market turmoil that started in 2007 and worsened sharply in 2008 with the collapse of Lehman Brothers.

The Five Star Movement is a populist political party in Italy. It is led by the popular comedian and blogger Beppe Grillo, who was also among its founders in 2009. It is considered anti-establishment, environmentalist, anti-globalist and Eurosceptic.

Floater is short for floating-rate notes which are bonds with a variable coupon that is tied to a reference rate.

The FTSE 100 is an index that tracks the performance of the 100 major companies trading on the London Stock Exchange.

Fundamentals are data giving information about the general well-being of companies, securities or currencies and serving for the subsequent valuation of these as an investment opportunity.

The Group of 20 are the largest industrialized and emerging economies in the world.

In a private-equity context, general partner refers to the managing partners in a private-equity firm who make the investment decisions.

Gilts are bonds that are issued by the British Government.

Greenback is a commonly used expression for the U.S. dollar.

Greenhouse gas is any of the atmospheric gases that contribute to the greenhouse effect. Such gases include carbon dioxide (CO2), methane (CH4) and nitrous oxide (N2O). For earth as a whole, they contribute to an effect similar to that seen in a sun-exposed glasshouse, by absorbing infrared radiation produced by solar warming on the earth's surface.

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.

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

The Ibovespa is Brazil's main stock market index.

Illiquid refers to the inability to easily convert assets or investments to cash.

Inflation is the rate at which the general level of prices for goods and services is rising and, subsequently, purchasing power is falling.

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 J.P. Morgan EMBI Global Diversified Composite comprises dollar-denominated government bonds, issued by select emerging-market countries.

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

The Lega (formerly "Lega Nord") is a right-wing populist party in Italy. It was founded in 1991 through the merger of various parties. It is considered anti-globalist and Eurosceptic.

Limited partnerships (LPs) are a form of partnership where one or more partners has only limited liability and no management authority. Private equity operations often exist in this form.

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.

The Merval is Argentina's benchmark stock index.

Firms referred to as mid cap generally have a market capitalization of between $2 billion and $10 billion.

A mortgage-backed security (MBS) is a special type of asset-backed security where the holder receives interest and redemption payments from pooled mortgage debtors, secured by the underlying mortgages.

The MSCI AC World Index captures large- and mid-cap companies across 23 developed- and 24 emerging-market countries.

The MSCI 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.

The MSCI United Kingdom Index measures the performance of approximately 100 large and mid-cap stocks.

The MSCI World Index tracks the performance of mid- and large-cap stocks in 23 developed countries around the world.

A multiple is a ratio that is used to measure aspects of a company's well-being by setting various of the company's metrics against each other and thereby building indicative ratios.

Municipal bonds (Munis) are debt securities issued by a state, municipality or country.

The Nasdaq Composite Index is an equity index which contains all common stocks listed on the NASDAQ exchange.

Periphery bonds are government bonds issued by smaller countries of the Eurozone, e.g. Ireland, Portugal, Greece; sometimes also Spain and Italy are included. Historically, the term "Periphery" was based on the stage of economical development and is currently used to refer to the above mentioned countries.

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 or multiple compares a company's current share price to its earnings per share.

Private equity is a direct or indirect investment by a financial investor in a substantial part of a company's equity. Usually the company invested in is not listed.

In economics, a real value is adjusted for inflation.

The risk premium is the expected return on an investment minus the return that would be earned on a risk-free investment.

The Russell 2000 is an index that captures the 2,000 smallest stocks of the Russell-3000 index, which again comprises 3,000 small- and mid-cap U.S. listed stocks.

The S&P 500 is an index that includes 500 leading U.S. companies capturing approximately 80% coverage of available U.S. market capitalization.

A secondary buyout is when a private-equity company buys a stake in a company directly from another private-equity company.

A share buyback involves a company buying back its own shares.

Small cap firms generally have a market capitalization of less than $2 billion.

Sovereign bonds are bonds issued by governments.

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

The Stoxx Europe 600 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.

Tail risk is the risk that a very unlikely event actually happens.

Technical analysis is a tool used by capital market participants that want to forecast the development of security prices by detecting patterns in past market data such as prices and volumes.

The Topix (Tokyo Stock Price Index) captures all companies (almost 2000) of the First Section of the Tokyo Stock Exchange.

The Trade-Weighted U.S. Dollar Index tracks the performance of the U.S. dollar relative to other world currencies.

Treasuries are fixed-interest U.S. government debt securities with different maturities: Treasury bills (1 year maximum), Treasury notes (2 to 10 years), Treasury bonds (20 to 30 years) and Treasury Inflation Protected Securities (TIPS) (5, 10 and 30 years).

The U.S. dollar (USD) is the official currency of the United States and its overseas territories.

The U.S. Federal Reserve Board, 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.

A private-equity fund's "vintage" generally refers to the year when the fund closes or starts investing.

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.

West Texas Intermediate (WTI) is a grade of crude oil used as a benchmark in oil pricing.

Yield is the income return on an investment referring to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

A yield curve shows the annualized yields of fixed-income securities across different contract periods as a curve. When it is inverted, bonds with longer maturities have lower yields than those with shorter maturities.

Risk warning

Investments are subject to investment risk, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time.

Investments in Foreign Countries – Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

Foreign Exchange/Currency – Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product's denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.

High Yield Fixed Income Securities – Investing in high yield bonds, which tend to be more volatile than investment grade fixed income securities, is speculative. These bonds are affected by interest rate changes and the creditworthiness of the issuers, and investing in high yield bonds poses additional credit risk, as well as greater risk of default.

Hedge Funds – An investment in hedge funds is speculative and involves a high degree of risk, and is suitable only for "Qualified Purchasers" as defined by the US Investment Company Act of 1940 and "Accredited Investors" as defined in Regulation D of the 1933 Securities Act. No assurance can be given that a hedge fund’s investment objective will be achieved, or that investors will receive a return of all or part of their investment.

Commodities – The risk of loss in trading commodities can be substantial. The price of commodities (e.g., raw industrial materials such as gold, copper and aluminium) may be subject to substantial fluctuations over short periods of time and may be affected by unpredicted international monetary and political policies. Additionally, valuations of commodities may be susceptible to such adverse global economic, political or regulatory developments. Prospective investors must independently assess the appropriateness of an investment in commodities in light of their own financial condition and objectives. Not all affiliates or subsidiaries of Deutsche Bank Group offer commodities or commodities-related products and services.

Investment in private equity funds is speculative and involves significant risks including illiquidity, heightened potential for loss and lack of transparency. The environment for private equity investments is increasingly volatile and competitive, and an investor should only invest in the fund if the investor can withstand a total loss. In light of the fact that there are restrictions on withdrawals, transfers and redemptions, and the Funds are not registered under the securities laws of any jurisdictions, an investment in the funds will be illiquid. Investors should be prepared to bear the financial risks of their investments for an indefinite period of time.

Investment in real estate may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investment may require substantial workout negotiations and/ or restructuring.

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