

CIO View



Global economic landscape

Coping with emerging-market tremors



Nine positions

Our key forecasts

Pace of global economic growth is likely to slow down for a while.



Global gross-domestic-product (GDP) growth 2016; Deutsche AWM forecast as of *9/21/15 and **6/16/15

Emerging markets' (EM) growth advantage has been eroded.



Commodity-exporting countries hurt by low commodity prices.



U.S. Federal Reserve Board (Fed) postpones rate hike and the pace of subsequent increases will be slow.



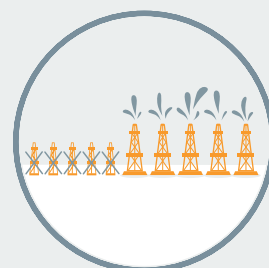
Fed and low inflation may force the European Central Bank (ECB) to continue easing beyond September 2016.



Private equity and hedge funds should benefit from the capital-market environment.



Oil prices climb as slowly as output capacity contracts.



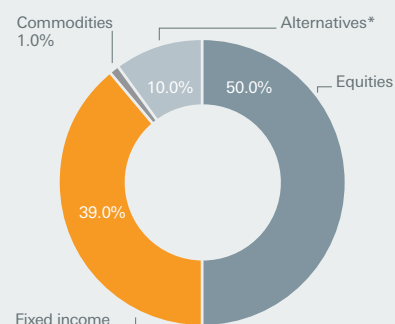
Deutsche AWM forecast as of 9/21/15 for September 2016: \$55 per barrel of West Texas Intermediate (WTI)

Earnings forecasts revised down slightly for developed markets and significantly for emerging markets.



12-month earnings forecasts for developed economies cut by 3-5% and by more than 20% for EM. Deutsche AWM forecast as of 9/21/15

Asset allocation of our balanced model portfolio:



* Alternatives are not suitable for all clients.

Important terms are explained in our glossary.

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Source: Deutsche Asset & Wealth Management Investment GmbH, as of 9/24/15

Letter to investors

Investing in binary times

Nervousness pervades the markets. China's restructuring and the central banks' policy dilemmas are unprecedented. But the reality is better than it appears to be.

Investors should think twice about taking an autumn break. After the rather busy months of August and September, the traditionally turbulent October is unlikely to allow investors to catch their breath. Why are markets so unsettled? Let me try to explain.

This bull market has lasted for six and a half years. Some have sought and found parallels, in terms of technical chart analysis and valuations, with the years of 2000 and 2007, when stock exchanges were also at turning points. This naturally raises the question of comparability. Does history repeat itself, or does it only rhyme?

Maybe what makes those three periods comparable is that investors each time had to face unprecedented, thus incomparable situations: In 2000 investors, who had been happy to pay triple-digit price-to-earnings ratios for internet companies, saw these valuations collapse as concerns mounted over the real economic merits of this new technology. And at the end of 2007, investors were faced with the question whether the most recent driver of growth, credit-based consumption, could ever take up that role again. Today, the big question is whether the Chinese authorities and central banks will cope with two major new challenges. On the one hand, there is a nation of over one billion people which, in current U.S.-dollar terms, has more than quadrupled its share in the global economy within the last 15 years; but which has also rapidly built up debt and now seeks to radically change its business model. On the other hand, there are the central banks which have more than tripled their balance sheets since the financial crisis and now have to work out how to run them down again. Will both China and the world's central banks manage to meet their very different objectives? Nobody can tell. Investors are faced with the dilemma of not wanting to miss any buying opportunity – and every setback since 2009

has, in a sense, been one – but not wanting to be invested either should the subsequent market fall really happen.

Just recently, the Fed dodged the start of its very own turnaround once again. Although its decision may have been well reasoned, the Fed might end up as the driven, not the driver. Also, how readily can we really wean ourselves off the easy money drug? The Fed postponement has at least served to create such negative market sentiment that higher interest rates might even, for once, be welcomed. Wouldn't they?

// Although some clouds may linger, the situation remains good. //

Investors are currently divided on many things: Will developed economies drive emerging markets or will the latter impede the first? Will Western consumers buy enough to compensate for globally slack levels of investment? Will consumer gains from cheaper oil compensate for the energy producers' woes? And, finally: is the actual situation better than it appears to be? These questions were on the agenda of our recent quarterly strategy meeting. In our view, the global economic recovery is intact, despite a more muted outlook for some markets. This is likely to open up a number of opportunities, just in time for the traditional year-end rally. If, of course, history chooses to repeat itself, at least in this respect.



Asoka Wöhrmann,
Chief Investment
Officer of Deutsche
Asset & Wealth
Management
(Deutsche AWM)
and Member of the
Deutsche AWM
Executive Committee

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Focus

Emerging markets under observation

In early 2015 the Eurozone was still seen as a risk to global economic growth, but investor concerns are now focused on the emerging markets.

The Eurozone dominated the headlines until recently, with Greece's problems seen as both a potential existential threat and also as emblematic of Europe's inability to find common solutions. However, equity markets and the euro suffered only little harm, the latter even recovering in the second quarter. Perhaps this was because investors had not allowed the Greek drama to distract them from the progress made by the periphery Eurozone economies: structural reforms had helped them to significantly reduce current-account and budget deficits. However, more recently, only a very modest devaluation of the Chinese renminbi managed to send international equity markets sharply down (see Macro Outlook). Investor concerns have thus shifted towards emerging markets.

Real GDP trends in the developed and emerging economies give us a clue as to the reasons of this shift. Growth in the developed economies has accelerated since 2012 but has been declining in the emerging economies since 2010. This development has helped boost developed equity markets in the last four years; by contrast, emerging-market (EM) equities were trending sideways until this August, when they fell in the wake of the renminbi devaluation.

Although emerging economies are still, in aggregate, growing faster than developed economies, investors are increasingly wondering about the quality of this growth. They are looking back to the outbreak of the financial crisis in 2007, which marked a structural turning point for the world economy when both consumption and capital expenditure collapsed in the developed economies, leading to a sharp recession.

It was at this point that the first cracks appeared on the export-driven growth model of many emerging markets. Many governments and companies – often controlled by the state in emerging markets – greatly expanded capital expenditure to stabilize their economies. As a result the investment rate – i.e. capital expenditure in relation to GDP – soared. And this, in turn, resulted in a positive contribution to global economic growth by emerging markets and in particular by China – even in 2009, the worst year of the crisis.

Reduction in trend growth

From 2010 onwards, however, emerging-market growth has decelerated despite a very high investment rate. The International Monetary Fund (IMF) has concluded that their trend growth is declining. For the period from 2008 to 2014, the IMF trend-growth estimate for emerging markets was an annual rate of 6.5%. For 2015 to 2020, the IMF forecasts only 5.2%.¹

The slowdown may be exacerbated by the lack of structural reforms in many emerging markets during the last decade. The ultra-expansionary monetary policy of the developed economies prompted many investors to invest in emerging markets in part because they offered an interest-rate advantage. Investors felt reassured by the fact that these economies had also apparently weathered the financial crisis well. In reality, however, this favorable financing environment simply helped emerging markets to veil their growing economic weakness. One example is China. Companies in the steel, cement and solar-energy sectors received plenty of loans for investment, creating substantial overcapacity.

Furthermore, this pattern of economic development resulted in a significant increase in the debt owed by the EM corporate sector, not just in nominal terms but also in relation to GDP. If, however, the growth generated by this leveraged investment remains meager, interest payments will become a burden. The risk of credit defaults and bankruptcy is likely to rise. The combination of high investment rates, rising debt and declining growth has made emerging markets much more vulnerable than before.

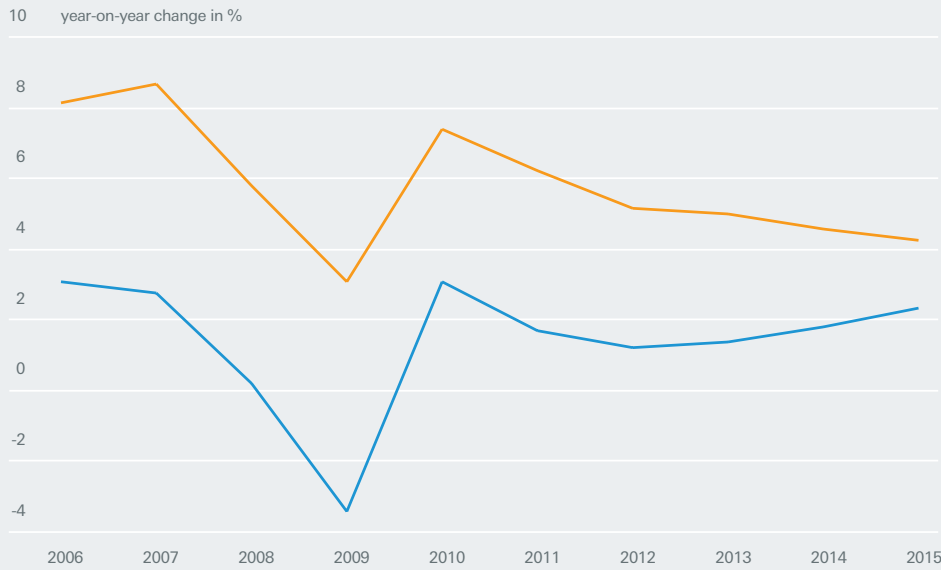
Economic reforms are crucial. India and Mexico are among those emerging markets which have already set out down the reform path. China has also started trying to transform itself. Recent state intervention on the capital markets has, however, reminded us how difficult it is for the Chinese Communist Party to come to terms with market-driven economic reforms. Countries implementing structural reforms should become attractive to investors, although risks will remain. Equities and bonds from economies which have yet to face up to the necessity of reform deserve a valuation discount.

¹ International Monetary Fund: World Economic Outlook, as of 04/2015

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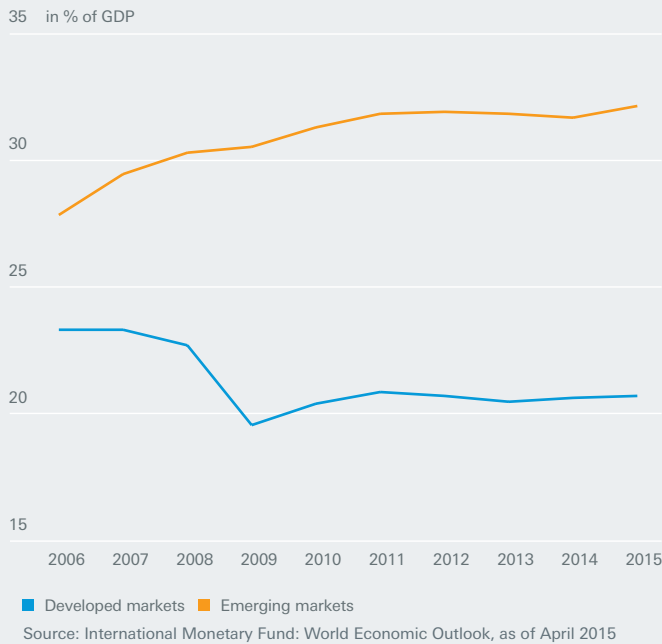
Real economic growth



Diminishing growth differential

Before the financial crisis, emerging markets enjoyed impressively high growth rates. They even prevented the world economy from sliding into recession in the crisis year of 2009. Since 2010, however, the growth differential between developed and emerging markets has been shrinking. Growth in the emerging markets is simultaneously trending downwards.

Development of investment rates



World (GDP growth)

The world economy is growing at a moderate rate. But decelerating emerging-market growth has become a matter of concern.

3.5 %* (2016 F)

* Deutsche AWM forecast as of 9/21/15



// We expect global growth to remain moderate and likely weaker. This reflects two forces: a weaker than expected recovery in advanced economies, and a further slowdown in emerging economies. //

Christine Lagarde, director of the International Monetary Fund, speech on September 1, 2015.



Emerging markets (GDP growth)

Productivity growth in the emerging markets has fallen sharply since 2010. This has contributed to their growth slowdown.

4.5 %* (2016 F)

* Deutsche AWM forecast as of 9/21/15



Low investment efficiency

The combination of a high investment rate and worsening growth dynamics can indicate that capital is inefficiently invested in emerging markets. Difficult structural reforms are necessary to make investment more efficient. But these reforms are painful, making it hard for governments to win broad acceptance for them.

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The big picture

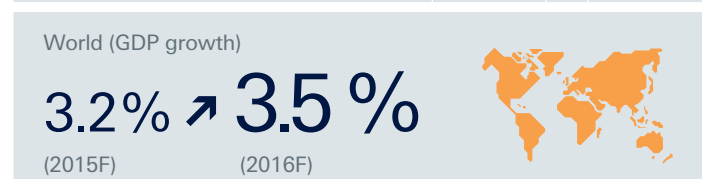
Our strategic forecasts

// The Fed decided to postpone its first rate hike. Its decision was not focused on the U.S. economy alone but on the deceleration of growth in emerging markets. //

Asoka Wöhrmann, Chief Investment Officer

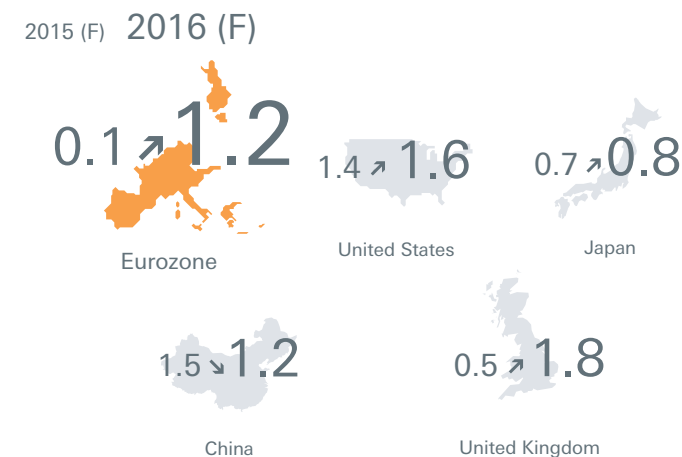
Economic data

GDP growth in percent (year-on-year)			
	2015 (F)		2016 (F)
United States	2.3	↗	2.4
Eurozone	1.4	↗	1.6
United Kingdom	2.5	↘	2.2
Japan	0.8	↗	1.2
China	6.8	↘	6.0
World	3.2	↗	3.5



We revise our global growth forecast for 2016 down by 0.3 percentage points. Global growth will be particularly hampered by decelerating growth in emerging markets.

Inflation in percent (year-on-year)



A continuing economic recovery and the fading effect of low oil prices should boost inflation in the Eurozone next year.

Capital markets

Equity markets (index value in points)			
	Current*		Sept 2016(F) ² ▲(%)**
United States (S&P 500 Index)	1,943	↗	2,160 13
Europe (STOXX Europe 600 Index)	347	↗	390 16
Eurozone (EURO STOXX 50 Index)	3,076	↗	3,600 21
Germany (DAX) ¹	9,571	↗	11,400 19
United Kingdom (FTSE 100 Index)	5,936	↗	6,500 13
Japan (MSCI Japan Index)	889	↗	1,020 17
MSCI Emerging Markets Index ³	808	→	790 1
MSCI AC Asia ex Japan Index ³	497	↗	510 6
MSCI EM Latin America Index ³	1,920	↘	1,700 -9



The recent sell-off was caused by low growth figures from China and renminbi devaluation. The DAX suffered severe losses and is now moderately valued compared to other European markets.

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Capital-market yields (sovereign bonds) in percent

	Current***		Sept 2016 (F)
United States, 2-year	0.68	↗	1.35
United States, 10-year	2.10	→	2.25
United States, 30-year	2.88	→	2.90
Germany, 2-year	-0.26	→	-0.20
Germany, 10-year	0.59	→	0.75
United Kingdom, 10-year	1.77	→	2.15
Japan, 2-year	0.01	→	0.00
Japan, 10-year	0.36	→	0.35

Germany, 10-year

0.59% → 0.75%

(Current***)

(September 2016F)



The ECB is likely to expand its quantitative-easing (QE) program due to low inflation. The 10-year German Bund yield should rise only modestly.

Commodities in U.S. dollars

	Current*		Sept 2016 (F)	▲(%)**
Crude oil (WTI)	46	↗	55	20
Gold	1,125	↗	1,250	11
Silver	15	↗	19	29
Copper (LME)	5,078	↗	6,700	32
Aluminum (LME)	1,589	↗	1,800	13

Crude oil (WTI)

46 ↗ 55

(Current*)

(Sept 2016F)



LME = London Metal Exchange, WTI = West Texas Intermediate

Shale-oil production and the oil-rig count in the United States have fallen due to low oil prices. At the same time, demand for oil is on the rise. The outcome: higher oil prices.

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Benchmark rates in percent

	Current*		Sept 2016 (F)
United States (federal funds rate)	0-0.25	↗	0.75-1.00
Eurozone (refi rate)	0.05	→	0.05
United Kingdom (repo rate)	0.50	↗	0.75
Japan (overnight call rate)	0.10	→	0.10

United States (federal funds rate)

0 - 0.25% ↗ 0.75 - 1.00%

(Current*)

(Sept 2016F)



The Fed postponed its first rate hike due to decelerating growth in China and volatile capital markets. It might dare to take the first step in December.

Currencies

	Current***		Sept 2016 (F)	▲(%)**
EUR vs. USD	1.12	↘	1.00	-11
USD vs. JPY	120	↗	130	9
EUR vs. CHF	1.09	→	1.13	3
GBP vs. USD	1.52	→	1.49	-2
USD vs. CNY	6.37	↗	6.65	4

USD vs. JPY

120 ↗ 130

(Current***)

(Sept 2016F)



The inflation target of the Bank of Japan is still far off. QE should therefore be continued. The high rate differential between the United States and Japan is likely to further weaken the yen.

F refers to forecasts. Our forecasts are as of 9/21/15.

* Source: Bloomberg Finance L.P., as of 9/22/15

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

*** Source: Bloomberg Finance L.P., as of 9/28/15

¹ Total-return index (includes dividends)

² Our equity-market forecasts are as of 9/23/15

³ in U.S. dollars

Investment traffic lights

Our tactical and strategic view

up to September 2016 1 to 3 months		
Equities*		
Regions		
United States	●	↗
Europe	⊙	↗
Eurozone	●	↗
Germany	●	↗
United Kingdom	●	↗
Japan	⊙	↗
Emerging markets	⊙	→
Asia ex Japan	●	↗
Latin America	●	↘
Sectors		
Consumer staples	●	
Healthcare	●	
Telecommunications	●	
Utilities	●	
Consumer discretionary	●	
Energy	●	
Financials	⊙	
Industrials	●	
Information technology	●	
Materials	●	
Style		
Small and mid cap	●	

*as of 9/22/15

**as of 9/28/15

Source: Deutsche Asset & Wealth Management Investment GmbH

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up to September 2016 1 to 3 months		
Fixed income**		
Rates		
U.S. Treasuries (2-year)	●	↗
U.S. Treasuries (10-year)	●	→
U.S. Treasuries (30-year)	●	→
U.K. Gilts (10-year)	●	→
Eurozone periphery	●	↘
German Bunds (2-year)	●	→
German Bunds (10-year)	●	→
Japanese government bonds (2-year)	●	→
Japanese government bonds (10-year)	●	→
Corporates		
U.S. investment grade	⊙	↘
U.S. high yield	●	↘
EUR investment grade ¹	●	↘
EUR high yield ¹	⊙	↘
Asia credit	●	↗
Emerging-market credit	●	↗
Securitized / specialties		
Covered bonds ¹	⊙	↘
U.S. municipal bonds	●	↘
U.S. mortgage-backed securities	●	↗
Currencies		
EUR vs. USD	●	↘
USD vs. JPY	●	↗
EUR vs. GBP	●	↘
EUR vs. JPY	●	↘
GBP vs. USD	●	↘
Emerging markets		
Emerging-market sovereigns	●	→
Alternatives*		
Infrastructure	●	↗
Commodities	●	↗
Real estate (listed)	●	↗
Real estate (non-listed)	●	↗
Hedge funds	⊙	↗
Private equity ²	●	→

Europe (equities)



Europe's equities are still supported by sound economic and financial data such as credit growth, business surveys and earnings dynamics. However, we continue to stay neutral on European equities and favor Eurozone equities which are set to benefit more not only from relative U.S.-dollar strength, but also from low oil prices.

Japan (equities)



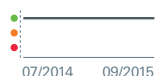
We upgrade Japanese equities to overweight. The market has now fallen by around 15% since August, probably making it a good time to take advantage of its underlying merits: the soundest regional earnings dynamics, rising dividends and investment, plus major reforms in corporate governance which have started to bear fruit.

Emerging markets (equities)



After revising expected emerging-market 12-month earnings growth down to zero, we downgrade EM equities to underweight. Despite the sharp sell-off, there still could be further setbacks, particularly in Latin America where consensus estimates of 2016 earnings growth look unrealistic.

Financials (equities)



We remain overweight on financials. Balance sheets continue to recover, dividend payments are rising and valuations remain moderate in historical terms. In the short run, monetary policy should also strongly affect financials. Their recent softness could be reversed if the Fed started its interest-rate turnaround before year-end.

The tactical view (one to three months)

Equity indices:

- positive view
- neutral view
- negative view

Fixed income and exchange rates:

- The fixed-income sector or the exchange rate is expected to perform well
- We expect to see a sideways trend
- We anticipate a decline in prices in the fixed-income sector or in the exchange rate

The traffic lights' history is shown in the small graphs.

● A circled traffic light indicates that there is a commentary on the topic.

The strategic view up to September 2016

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 (↘) for the particular equity index, exchange rate or alternative asset class.

U.S. investment grade



We return to neutral on U.S. investment grade. Risk premiums have widened to such an extent that they may offer a sufficient buffer against defaults. The Fed's postponement of its first rate hike also argues against an underweight. Additionally, the excess supply of the summer months is now leveling off.

EUR high yield



We upgrade EUR high yield to overweight. Over the medium term, this segment should be supported by low default rates, good ratings, high demand, the low share of the energy and mining sectors and historically high market risk premiums. However, Brazil and automotive issuers could dampen sentiment temporarily.

Covered bonds



We downgrade covered bonds to underweight. These were not left unscathed by rising volatility and, moreover, are likely to be impaired by fears that the ECB might reduce its covered-bond purchases. Short-term, the market is also suffering from substantial new issuance, which has exceeded demand.

Hedge funds



This market environment should allow hedge funds to outperform. Nervous, sideways-trading markets are particularly suited to equity-market-neutral strategies and discretionary-macro strategies, taking advantage of regional divergences.

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, if not stated differently. ↗ depicts an expected widening of the spread, → a sideways spread trend and ↘ a spread reduction.

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
- ↘ high downside risk for long-only investors

¹ Spread over German Bunds

² These traffic-light indicators are only meaningful for existing private-equity portfolios

Further explanations can be found in the glossary.



Joe Benevento and
Joern Wasmund,
Global Co-Heads of
Fixed Income/Cash

Fixed-income market perspectives

In search of leadership – should we be worried about U.S. corporate bonds?

Markets hate both surprises and uncertainty. The Fed's decision not to raise rates did not turn out to be a surprise. But it did not deal with the problem of uncertainty. Janet Yellen did not want to make a policy mistake but will be well aware that postponing policy decisions can have adverse consequences, too.

So, as we return to contemplating the likely timing of the next Fed rate hike, should investors in U.S. corporate bonds be concerned about its implications? We believe not.

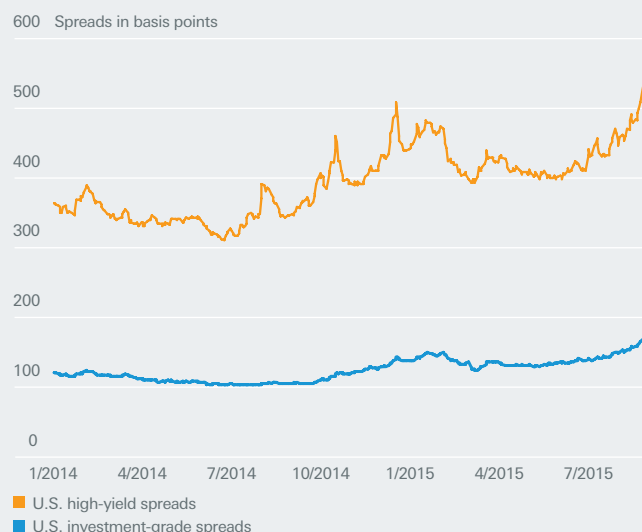
Spreads for both U.S. investment-grade and U.S. high-yield bonds had moved out quite significantly before the Fed meeting. In U.S. high yield this was largely driven by the energy and basic-resource sector, where we expect to see more defaults. Outside of this sector, the outlook is much better. Companies will benefit from having previously pushed maturities further out and, in general, have very limited refinancing needs in 2016 and 2017. Interest expenses relative to earnings are low and new refinancing costs in various sectors will still be lower than maturing coupons.

Empirical evidence about the performance of U.S. high-yield bonds after a federal funds target rate hike is somewhat mixed. A recent Citibank analysis found some evidence of a reduction in risk premia, particularly when U.S. Treasury rates had also risen meaningfully in a short period of time.¹ Citibank also believes that the same was true for U.S. investment grade in five of the six hiking cycles since 1980, with risk premia here coming down on average by around 20 basis points (bps).

The lesson from this is that investors should not remain frozen like a deer in headlights but look at possible opportunities on the basis of past experience as summarized above. To put it briefly, the macroeconomic environment is likely to be more

relevant than the timing of the next Fed rate hike – and, while we do not expect U.S. growth to go through the roof, we expect a slow process of improvement which is likely to benefit U.S. corporates. So, while Fed leadership would be welcome, investors may already want to look beyond the current impasse.

U.S. high-yield and investment-grade spreads, 2014-15*



U.S. high-yield and investment-grade spreads had already been widening in the run-up to the latest Fed meeting. But history suggests that risk premia can fall once a tightening cycle gets underway.

Sources: Bloomberg Finance L. P., Thomson Reuters Datastream, Deutsche Asset & Wealth Management Investment GmbH, as of 09/2015
* Spreads are over U.S. Treasury yields

¹ Citi Research: Credit Strategy Q3, 2015 – Buy or Sell? The state of the credit markets? As of 9/17/15

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Henning Gebhardt,
Global Head of Equities

Equity-market perspectives

Emerging markets – expensive no more, but not yet cheap enough either

Courage on the stock exchange is sometimes rewarded. EM equity investments made in October 1998 – the rock bottom of the Asian crisis – had increased sixfold by 2007. China's integration into the world economy and the commodity boom in its wake had strongly boosted the stock exchanges of Brazil, Russia, India and China. Investors focusing on established markets had to live with a comparably meager return of roughly 100%.¹

In mid-2010, the favorites changed. As measured by the MSCI Emerging Markets Index, EM investors could, at best, preserve their capital employed. Recent market adjustments have left the former EM star performers again far behind established markets. What's next?

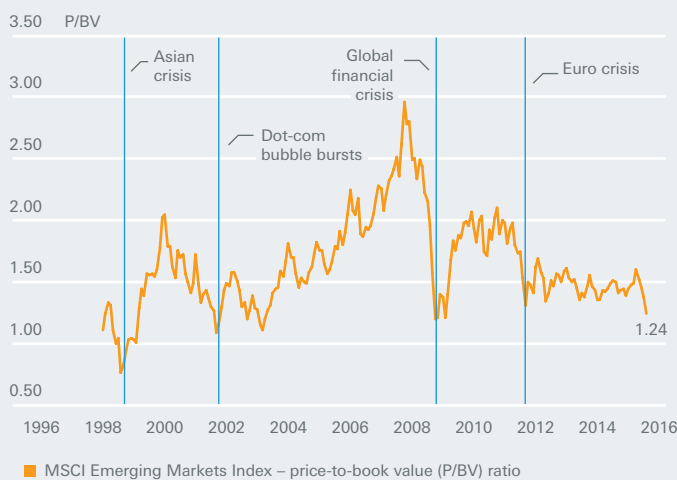
China's economic growth is likely to stay well below the double-digit growth rates achieved in the past. Partly to blame is the shift from "Made in China" to "Consumed in China". This is also reflected in a reduced demand for raw materials, which in turn partly explains the significant decline in commodity prices. Since no reversal is in sight, commodity-exporting EM will continue to struggle.

Many companies in the emerging markets have used the low-rate policy of major central banks to finance growth via higher leverage. This increase is worrying and raises concerns about their vulnerability, when the Fed changes track. As measured by the ratio of net debt to earnings (EBITDA), EM corporations have been running higher debts than those in the industrialized world for roughly one year: Their debt ratio has increased sevenfold to 1.4 within eight years.

¹ Performance as measured by the MSCI Emerging Markets Index and MSCI World Index, total return in U.S. dollars in the period from March 1999 to October 2007, Source: FactSet Research Systems, Inc.

For 2016, analysts currently expect significant emerging-markets earnings growth of 11%. This seems over-optimistic, particularly the 25% for Latin America. However, after the most recent sell-off, EM equities are trading at a price-to-book (P/B) ratio of only 1.2. This valuation is in line with the crisis levels of 2001 and 2008 (see chart). The potential for further EM equity losses should thus be limited. We do not expect China to drag the world economy into recession. Downwards adjustments of earnings estimates in the U.S., European and Japanese markets, which have also suffered, should therefore be markedly lower than in the EM. Over the coming year, these developed markets may therefore offer a higher recovery potential.

Trading near their historic lows



Low price-to-book valuations should help limit future emerging-market-equities downside risk.

Sources: FactSet Research Systems Inc., Deutsche Asset & Wealth Management Investment GmbH. Debt measured as net financial liabilities in relation to earnings before interest, taxes, depreciation and amortization, 2007-2015, as of 11/2015.

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Portfolio

Our asset-class allocation in a balanced portfolio

Traditional asset classes

Within the core part of our balanced portfolio, we cover traditional liquid assets such as equities, fixed income and commodities. The chart shows how we would currently design a balanced portfolio, including alternative asset classes.¹

Equities

We stay generally positive on developed market equities, where returns could reach low double-digit levels on a 12-month horizon. However, we are now in a mature market phase and periods of high volatility are likely as valuations return to historical levels. This means that tactical changes in allocations may be necessary. We are much more cautious on emerging markets, with Asian markets affected by their trading links with China. Latin American equities are likely to fare worse, due in part to problems surrounding Brazil.

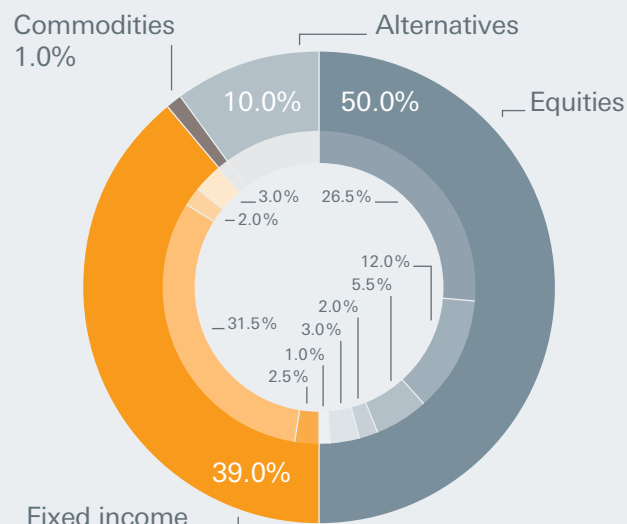
Fixed income

When the Fed starts to raise rates, most likely in December, core yields will rise – if not by very much. European and Japanese bond markets will remain well-supported by accommodative policy from ECB and Bank of Japan (BOJ). We are cautious on U.S. investment grade but continue to see opportunities in high yield. Emerging-market bonds may offer high levels of carry but this will be accompanied by increased risk, at least in the short term, making a highly selective approach essential. Emerging markets' increased levels of U.S.-dollar-denominated debt are a concern.

Commodities

Oil prices are forecast to increase from current low levels, but only slowly – we forecast a price of \$55 per barrel WTI on a 12-month horizon. Demand for oil has so far proved resilient to slower emerging-markets growth, but the market remains in oversupply, although there are already signs that U.S. shale output could moderate. Gold is likely to trade in a tight range determined by U.S.-dollar strength; its "safe haven" appeal would be boosted by a prolonged period of market turmoil. We see only limited opportunities in commodities, so keep portfolio allocations at low levels.

¹ Alternative investments are dealt with separately in the next chapter. Alternatives are not suitable for all clients.



Equities	suggested weight
Developed markets	46.0%
United States	26.5%
Europe	12.0%
Japan	5.5%
Pacific ex Japan	2.0%
Emerging Markets	4.0%
Asia ex Japan	3.0%
Latin America	1.0%
Fixed income	
Credit	2.5%
Sovereigns	31.5%
Emerging markets	2.0%
Cash	3.0%
Commodities	
Commodities	1.0%
Alternatives	
Alternatives	10.0%

Sources: Regional Investment Committee (RIC), Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank Trust Company Americas, as of 9/24/15.

This allocation may not be suitable for all investors.

Past performance is not indicative of future returns.

No assurance can be given that any forecast, investment objectives and/or expected returns will be achieved. Allocations are subject to change without notice. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.



Long or short, Larry Adam?

Six market views from our Chief Investment Officer for Wealth Management in the Americas and Chief Investment Strategist for Deutsche AWM Americas

Will equity-market investors have to learn to live with volatility?

LONG We still expect modestly rising equity markets but also believe that volatility is here to stay – the events of the last few months have demonstrated how equity-market reversals can quickly erode year-to-date gains. Equity valuation multiples also tend to decline after the Fed rate hike and we think that valuations will gradually move back towards historical averages. So opportunities will exist but investors will have to learn to live with some sharp upward and downward market moves.

Are emerging markets likely to remain particularly vulnerable?

LONG Emerging markets were expected to suffer in the run up to any Fed rate-hike decision and they have. But less expected was how fears about Chinese growth would spill over into a more general concern about the long-term health of emerging markets – a concern compounded by the impact of low commodity prices on certain economies. The implication is that even if the future path of Fed policy becomes much clearer, emerging markets' problems will not be resolved quickly and they will remain vulnerable to reversals.

Will China's impact on developed equity markets vary?

LONG The U.S. has the least exposure with an estimated 3% of profits of companies in the S&P 500 Index related to China. Germany and Japan are more exposed, with around 20% of index profits linked to China. Here, some cut in earnings-per-share estimates looks prudent in response to China's troubles. But all calculations as to the impact of various Chinese growth scenarios must be speculative as we cannot anticipate the second-round effects or the possible policy responses.

Will core sovereign bonds always be a safe haven?

SHORT Nothing should ever be taken for granted. Consider for example how there was only a small decline in German sovereign-bond yields earlier this year in response to a sharp equity-market correction. High measures of value at risk (VaR) meant that switching into bonds did not help portfolio managers reduce risk; they may also have been put off by negative yields. Other issues may also come into play in other sovereign-bond markets – for example, concerns over Chinese sales of U.S. Treasuries in an attempt to preserve the value of the Chinese yuan.

Are you still broadly positive on U.S. high yield?

LONG Global growth concerns and low oil prices have cast a shadow over U.S. high yield in 2015. In particular, parallels have been drawn to the telecoms defaults of 1998/99. But the two periods are not totally comparable. Energy has a less significant weight in the index now than telecoms did then. High volumes of new issues in recent years have also helped push out near-term maturities and have decreased current refinancing risks. This is certainly one to monitor, but we remain broadly positive on U.S. high-yield debt.

Will the euro's role as a funding currency continue?

LONG Over the last year, markets have realized that the ECB's long-term commitment to a very dovish monetary policy makes the euro an attractive funding currency. As a result, even increased market concerns over Greece earlier this year were supportive. With ECB quantitative easing (QE) expected to continue for some time, the euro's role as a funding currency will continue. However, it is still not clear whether the euro would remain a genuine safe-haven currency through a period of deeper financial stress. The U.S. dollar would probably reassert its historical safe-haven role, helped by the depth and liquidity of the U.S. Treasury market.

LONG represents a positive answer

SHORT represents a negative answer

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Portfolio

Our view of non-traditional asset classes

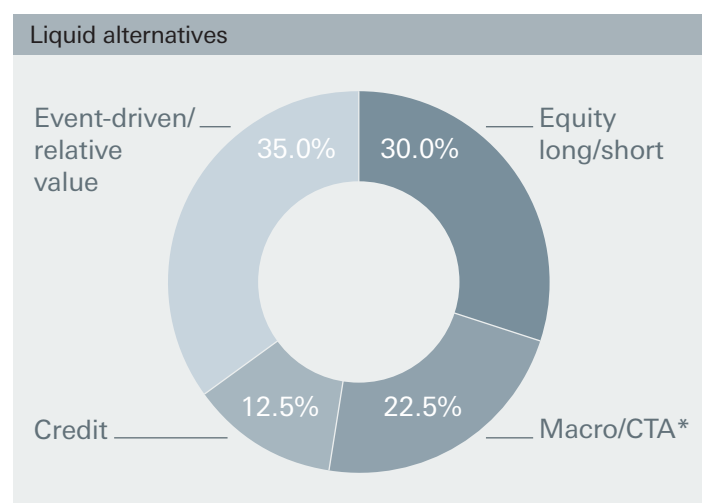
Alternatives portfolios

Due to their distinct characteristics, we take a differentiated look at selected liquid and illiquid alternative investments.

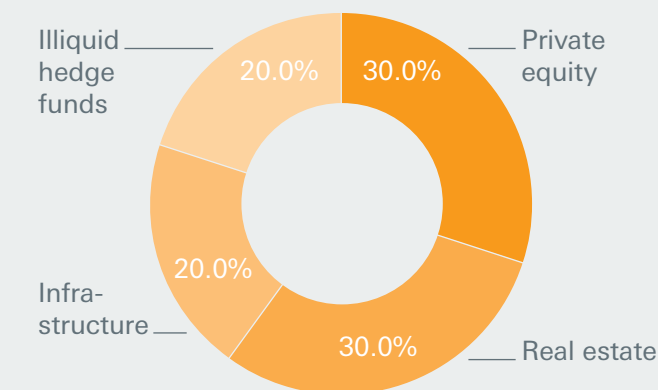
Liquid alternatives

■ Macro/CTA*

Most global macro managers have generated positive returns this year. They have also weathered the recent pickup in market volatility better than most other liquid-alternatives strategies. More specifically, we feel that the persistent trend towards monetary-policy divergence within developed economies and between developed and emerging economies will continue to be the primary determinant of the trading environment faced by global macro managers over the next 12-month period. U.S.-dollar strength has also forced a very diverse set of adjustment paths on emerging markets. This should continue to generate a healthy pipeline of opportunities both from a directional and arbitrage standpoint through local-currency and rates trends.



Illiquid alternatives



Illiquid alternatives

■ Real estate

In the United States, robust rental growth, rising occupancies and the rolling-over of leases signed during the downturn to higher current market rates should provide meaningful support to cash flow and property values. With the exception of a small number of markets, this year should see a further acceleration of the office prime-rental recovery in Europe, with growth here forecast to peak at around 3.5% per year in 2016 and 2017. Finally, China's housing sector, a key factor behind slower Chinese growth, is now turning positive. Shenzhen housing prices started to recover first and the positive momentum is now spreading to Shanghai and Beijing.

■ Private equity

In the United States, fundraising conditions remain favorable for high-quality general partners. Debt availability is still good, even though increasing macro volatility has led to a slightly tighter financing market. Investment underwriting discipline however remains paramount in the current environment. The outlook for private equity is also positive in Europe with valuations similar to U.S. levels and greater potential economic upside. Uncertainty around China may however result in lower deal activity in the second half of 2015, with a significant slowdown across the wider Asian region. Higher volatility may make limited partnerships more reluctant to commit more funds. Private-equity acquisition multiples remain above their 10-year average for large deals in the United States and for all deal sizes in Europe.

Sources: Deutsche Asset & Wealth Management Investment GmbH, Deutsche Bank AG Filiale London, as of 9/24/15. This allocation may not be suitable for all investors. In our balanced model portfolio, we currently allocate 10% to alternative investments (see "Portfolio").

Please refer to the following interview for the regulatory requirements for the offer or sale of alternative investments.

* Commodity Trading Advisor



Long or short, Hamish Mackenzie?

The Head of Infrastructure, Europe & Debt, looks at this interesting sector

Are valuations for large unlisted infrastructure businesses rising?

LONG Large, mature infrastructure businesses are currently attractive investments for institutional investors and sovereign wealth funds seeking yield. This, combined with high levels of “dry powder” (available funds) in large, global infrastructure funds and some aggressive capital deployment has pushed up valuations at the top end of the market, lowering implied returns. Investors may want instead to focus on medium-sized investments and more complex situations, where there is less competition for investment.

Should Environmental, Social and Governance (ESG) issues always be considered?

LONG Investment decisions that may result in environmental or other social issues pose a reputational risk to investors and ultimately to shareholder returns. The Deutsche Asset & Wealth Management Infrastructure team therefore evaluates potential ESG issues as part of risk management throughout the investment process. These may cover a wide range of topics – from energy, water, emissions, and waste management to labor and health & safety – and need to be considered across the whole investment lifecycle, so we can be confident about an investment’s longevity.

Will new regulations impact European life insurance companies’ infrastructure investments?

LONG The introduction of Solvency II in 2016 will affect how European life insurance companies consider infrastructure equity as an asset class. Recently, the European Insurance and Occupational Pension Authority (EIOPA) proposed reducing capital charges for infrastructure investment, something which could lead to insurance companies allocating more funds to infrastructure. There is still some uncertainty surrounding Solvency II, as proposed regulatory requirements are yet to be fully phased in, but we believe that the introduction of more stringent regulatory requirements is likely to further support, rather than discourage, these companies’ investment in infrastructure.

Can infrastructure investment be fully de-linked from political risk?

SHORT Business exposure to political developments can vary significantly from one country (and sector) to another. Such risk can have a particular impact on infrastructure-investment returns, as revenue here can be dependent on a government contract or concession, or a regulatory framework. A mature regulatory framework, supported by an independent regulator – seen in some European core markets (e.g. the U.K.) – can offer a degree of protection from political events and thus greater visibility on investment returns. Full delinking of returns from political risk is not always possible but a detailed understanding of regulation, developed through experience and often active long-term relationships with regulators, as well as of the political economy of the host country, is fundamental and can help mitigate such risk.

Are megatrends important in the short term for infrastructure investment?

LONG Aside from technological change, several other megatrends (for example involving social and environmental change) are likely to influence infrastructure investment in the medium to long term. But investors should be thinking about these factors now, due to the present-value implications of these longer-term trends.

LONG represents a positive answer

SHORT represents a negative answer

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No assurance can be given that any forecast, investment objectives and/or expected returns will be achieved. Allocations are subject to change without notice. Forecasts are based on assumptions, estimates, opinions and hypothetical models that may prove to be incorrect.

Offers and sales of alternative investments are subject to regulatory requirements and such investments may be available only to investors who are “Qualified Purchasers” as defined by the U.S. Investment Company Act of 1940 and “Accredited Investors” as defined in Regulation D of the 1933 Securities Act. Alternative investments may be speculative and involve significant risks including illiquidity, heightened potential for loss and lack of transparency.

Glossary

Here we explain the main terms from the CIO View

In relation to currencies, **appreciation** refers to a gain of value against another currency over time.

Arbitrage profits from exploiting price differences of identical or similar financial instruments on different markets or in different forms.

A **balance sheet** summarizes a company's assets, liabilities and shareholder equity.

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

The **Barclays Euro High Yield Index** captures the performance of Euro high-yield debt securities.

The **Barclays U.S. High Yield Index** captures the performance of U.S. high-yield debt securities.

One **basis point (bp)** equals 1/100 of a percentage point.

The **Bloomberg Dollar Spot Index** measures the value of the U.S. dollar against 10 global currencies, both developed market and emerging market.

A **bubble** is characterized by prices surging higher than warranted by fundamentals, followed by a drastic drop in prices as a massive selloff occurs.

In a **bull market**, prices are rising or are expected to rise. It is characterized by optimism, investor confidence and expectations that strong results will continue.

Bunds are issued by Germany's federal government, most frequently with a maturity of 10 years, and are the German equivalent of U.S. Treasury bonds.

Capital expenditure (CapEx) are funds used by a company to acquire or upgrade physical assets such as property, industrial buildings or equipment.

The **carry (of an asset)** is the cost or benefit from holding the asset.

A company's **cash flow** is comprised of its inflows and outflows which arise from financing, operational or investing activities.

The **CNX Nifty Index**, also simply the Nifty, is India's benchmark stock-market index, covering 50 corporations in 22 sectors of the Indian economy.

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.

Consumer discretionary is a sector of the economy that consists of businesses selling nonessential goods and services.

Corporate governance refers to the mechanisms, processes and relations by which corporations are controlled and directed.

A **coupon** is an interest-rate payment made on a bond.

Covered bonds are securities created from public-sector loans or mortgage loans where the security is backed by a separate group of loans, offering investors dual protection against default.

The **DAX (Deutscher Aktienindex)** is a blue-chip stock-market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Default is the failure to meet the legal obligations of a loan, for example when a corporation or government fails to pay a bond which has reached maturity. A national or sovereign default is the failure or refusal of a government to repay its national debt.

Devaluation is the forced reduction of the value of a currency against other currencies.

A **Developed Market (DM)** is a country fully developed in terms of its economy and capital markets.

Directional strategies, in a hedge-fund context, are those that take a position based on a view of likely overall market movement.

Discretionary macro strategy is the most flexible global macro trading strategy deploying directional positions at the asset-class level to exploit macroeconomic, policy or political changes.

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.

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

EBITDA is an accounting measure calculated using a company's net earnings, before interest expenses, taxes, depreciation and amortization are subtracted.

An **emerging market (EM)** is a country that has some characteristics of a developed market in terms of market efficiency, liquidity and other factors, but does not meet standards to be a developed market.

Environmental, Social and Governance (ESG) issues refer to non-financial issues that may affect the sustainability of an investment.

Equity market-neutral investing strategies are hedge-fund strategies that seek to exploit differences in stock prices by balancing long and short positions in stocks within the same sector, industry, market capitalization, country etc. as to avoid market-risk exposure.

The **European Central Bank (ECB)** is the central bank for the Eurozone's single currency, the euro.

The **European Insurance and Occupational Pension Authority (EIOPA)** is a European financial regulatory institution, established in 2011.

The **eurozone**, also called the euro area, is a monetary union of 19 of the 28 European Union (EU) member states which have adopted the euro as their common currency.

A country's **external financing position** refers to its current-account position and also the possible impact of capital flows on its capital account.

The **Federal Reserve System** or **Fed**, which serves as the U.S. central bank, was established in 1913, consisting of the Federal Reserve Board with seven members headquartered in Washington, D.C., and twelve Reserve Banks located in major cities throughout the United States.

The **U.S. Federal Reserve Board (Fed)** is the board of governors of the Federal Reserve; it implements U.S. monetary policy.

A **funding currency** is a currency in which investors borrow (often because of low interest rates) to finance investments in other currencies thought to offer higher carry.

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

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.

Hedge funds are alternative, less regulated investment vehicles using pooled funds that may use a number of different strategies in order to earn active return for their investors.

High-yield is often used as a shorthand for high-yield bonds.

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

The **interest coverage ratio** determines how easily a company can pay interest on outstanding debt by dividing a company's earnings before interest and taxes (EBIT) of one period by the company's interest expenses of the same period.

The **interest-rate cycle** is closely related to the economic cycle since interest rates tend to rise when economic growth and inflation increase and usually fall when the economy slows down to boost demand and economic growth.

The **International Monetary Fund (IMF)**, created in 1945 and headquartered in Washington, D.C., is an organization of 188 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.

An **investment grade (IG)** rating by a rating agency such as Standard & Poor's indicates that a bond has a relatively low risk of default.

Investment lifecycle refers to the process from the acquisition of a company through its management to its eventual sale.

The potential return of an investment can be increased by using **leverage** in the form of various financial instruments such as options, futures, margin or borrowed capital.

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.

Liquid alternatives are actively managed funds that utilize a diverse array of liquid investment vehicles, usually involving complex nontraditional method.

For **Macro/CTA** see "Macro investing strategies" and "Commodity trading advisor (CTA)".

Macro investing strategies base their holdings, such as long and short positions in various equity, fixed income, currency, and futures markets, primarily on overall economic and political views of various countries (macroeconomic principles).

The final payment date of a financial instrument is its **maturity**.

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

The **MSCI AC World Financials Index** captures large- and mid-cap representation across 46 developed- and emerging-market countries.

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

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

The **MSCI IPD OFIX Germany** measures the total return of selected open-ended German property funds after leverage, liquidity holdings and fund costs.

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.

The **periphery** is defined as the outer limits or edge of an area. Within the context of the euro area, the periphery comprises those countries which are less developed than the core countries.

The **PowerShares Dynamic Leisure and Entertainment Portfolio** is an ETF focused on the U.S. leisure, travel and entertainment sector.

Present value is the value of an expected future income stream at the date of valuation.

The **price-to-book (P/B) ratio or multiple** is used to compare a stock's market value to its book value. It is calculated by dividing the current closing price of the stock by the latest quarter's book value per share.

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

Prime rental refers to rentals at the higher end of the property market.

Private equity is a direct or indirect investment by a financial investor in operating companies that are not publicly traded on a stock exchange.

For **private-equity acquisition multiple** see "multiple".

Quantitative easing (QE) is an unconventional monetary policy in which a central bank purchases securities in order to lower interest rates and increase the money supply to promote increased lending and liquidity.

Real GDP is GDP adjusted for a given measure of price inflation in an economy.

Refinancing refers to the replacement of an existing financial obligation with a new obligation.

Renminbi (RMB) is the currency of the People's Republic of China, also referred to as the yuan.

The **Reserve Bank of India (RBI)** is the central bank of India.

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

Rolling over is the renewal of a lease (or other financial contract) at maturity, often under different terms.

The **S&P 500 Consumer Discretionary Index** comprises those companies included in the S&P 500 Index that are members of the consumer discretionary sector.

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

The **shale industry** belongs to the mining industry and extracts shale oil and gas.

A **share buyback** or repurchase is a program by which a company buys back its own shares from the marketplace, reducing the number of outstanding shares.

The **Solvency II** directive codifies and harmonizes EU insurance regulation, with a particular focus on the amount of capital an insurance firm must hold.

Sovereign bonds (also referred to as sovereigns) are bonds issued by governments.

A **sovereign wealth fund (SWF)** is a state-owned investment fund investing in real and financial assets such as stocks, bonds, real estate, precious metals or in alternative investments such as private equity or hedge funds.

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

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).

Trend growth refers to an economy's sustainable growth rate over time.

The **U.S. Federal Reserve System**, which serves as the U.S. central bank, was established in 1913, consisting of the Federal Reserve Board with seven members headquartered in Washington, D.C., and twelve Reserve Banks located in major cities throughout the United States.

An **unlisted** business is not listed (traded) on a stock exchange but can have multiple shareholders.

Valuation attempts to quantify the attractiveness of an asset, for example through looking at a firm's stock price in relation to its earnings.

Value at Risk (VaR) is a statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame, measured in three variables: the amount of potential loss, the probability of that amount of loss and the time frame.

Volatility is the degree of variation of a trading-price series over time.

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

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

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.

Investment traffic lights (pages 8–9): comments regarding our tactical and strategic view

Tactical view:

- The focus of our tactical view for fixed income is on trends in bond prices, not yields.

Strategic view:

- The focus of our strategic view for sovereign bonds is on yields, not trends in bond prices.
- For corporates and securitized/specialties bonds, the arrows depict the respective option-adjusted spread.
- Both spread and yield trends influence the bond value. Investors who aim to profit only from spread trends must hedge against changing interest rates.

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