Deutsche Asset
& Wealth Management

International/
Global Equity

# The rise of the mighty U.S. dollar

## Why now may be the time to rethink international allocations

Deutsche Bank's Foreign Exchange (FX) team forecasts that the U.S. dollar will continue to appreciate against other major currencies through 2017. As this occurs, U.S. investors with international allocations may continue to see their returns eroded by the currency effect. Deutsche Asset & Wealth Management offers several investment solutions to help potentially mitigate currency risk.

Deutsche Bank remains one of the top leaders in FX, harnessing our global strengths and resources from across the bank to deliver thoughtful and innovative investment opportunities.
— #1 in currency and FX for 2nd straight year[1]
— Most Innovative for FX[2]

### U.S. dollar positioned for dominance over the coming years

Currency forecasts indicate that the renewed U.S. dollar strength may be a long-term trend.

Deutsche Bank forecasts significant U.S. dollar strength against key G10 currencies

| USD–rates | Spot price | Q2 2015 | % change vs. USD | Q4 2015 | % change vs. USD | Q4 2016 | % change vs. USD | Q4 2017 | % change vs. USD |
|---|---|---|---|---|---|---|---|---|---|
| EUR/USD | 1.13 | 1.09 | –3.5% | 1.05 | –7.1% | 0.95 | –15.9% | 0.90 | –20.4% |
| USD/JPY | 118 | 121 | –2.5% | 125 | –5.6% | 130 | –9.2% | 120 | –1.7% |
| GBP/USD | 1.51 | 1.47 | –2.6% | 1.36 | –9.9% | 1.22 | –19.2% | 1.15 | –23.8% |
| USD/CHF | 0.90 | 0.98 | –8.2% | 1.05 | –14.3% | 1.17 | –23.1% | 1.23 | –26.8% |
| AUD/USD | 0.79 | 0.77 | –2.5% | 0.73 | –7.6% | 0.68 | –13.9% | 0.60 | –24.1% |
| NZD/USD | 0.73 | 0.70 | –4.1% | 0.66 | –9.6% | 0.59 | –19.2% | 0.52 | –28.8% |
| USD/CAD | 1.25 | 1.28 | –2.3% | 1.30 | –3.8% | 1.35 | –7.4% | 1.40 | –10.7% |
| USD/SEK | 8.30 | 8.26 | 0.5% | 8.48 | –2.1% | 9.21 | –9.9% | 9.44 | –12.1% |
| USD/NOK | 7.83 | 8.26 | –5.2% | 8.48 | –7.7% | 9.26 | –15.4% | 9.67 | –19.0% |

Source: Deutsche Bank as of 1/30/15. EUR=Euro; JPY=Japanese yen; GBP=British pound; CHF=Swiss franc; AUD=Australian dollar; NZD=New Zealand dollar; CAD=Canadian dollar; SEK=Swedish krona; NOK=Norwegian krone. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report and are subject to change. To ensure calculation of foreign currency depreciation across all currencies, all percent changes vs. USD are based on crosses reflected in terms of foreign currency-over-USD rates.

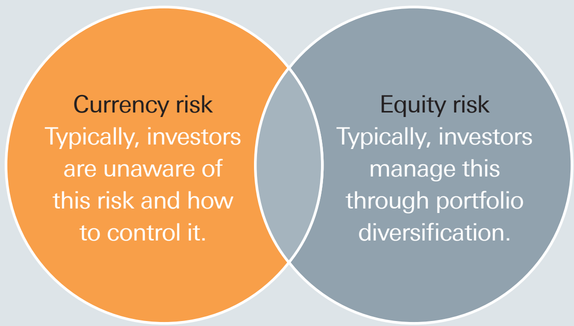
[1] Institutional Investor as of March 2014.
[2] The Banker Investment Banking Awards as of October 2014.

# Future impact of currency risk may be significant

## Defining currency risk

When investing internationally, investors take on both currency risk and equity risk. Currency risk, one often unknown to investors, occurs when an international equity investor is exposed to fluctuations in the local currencies of underlying holdings, even when investing in U.S. dollars. If stocks rise 10% but the local currency also depreciates 10% against the U.S. dollar, investors would not realize that gain.

Even when investing in U.S. dollars, an international equity investor is exposed to fluctuations in local currencies of underlying holdings.




International equity investors are also exposed to the equity risk that comes with any economic and/or political changes of individual countries.

## Currency forecasts point to potential for significant declines in international returns

If currency forecasts are realized, the impact on international returns could be sizable. The U.S. dollar is expected to strengthen vs. multiple major currencies through 2017 potentially resulting in double-digit declines across a variety of international indices. The chart below shows a breakdown of the potential impact on unhedged index returns based on Deutsche Bank’s currency forecasts through 2017 and the weight of each currency within the respective index.

**Future currency impact potential**

| Index name | 2015 | 2016 | 2017 |
|---|---:|---:|---:|
| MSCI EAFE | –7.3% | –14.2% | –16.1% |
| MSCI Europe | –8.4% | –17.0% | –21.1% |
| MSCI Japan | –5.6% | –9.2% | –1.7% |
| MSCI Germany | –7.1% | –15.9% | –20.4% |
| MSCI U.K. | –9.9% | –19.2% | –23.8% |
| MSCI All World ex-USA | –5.6% | –10.9% | –12.6% |

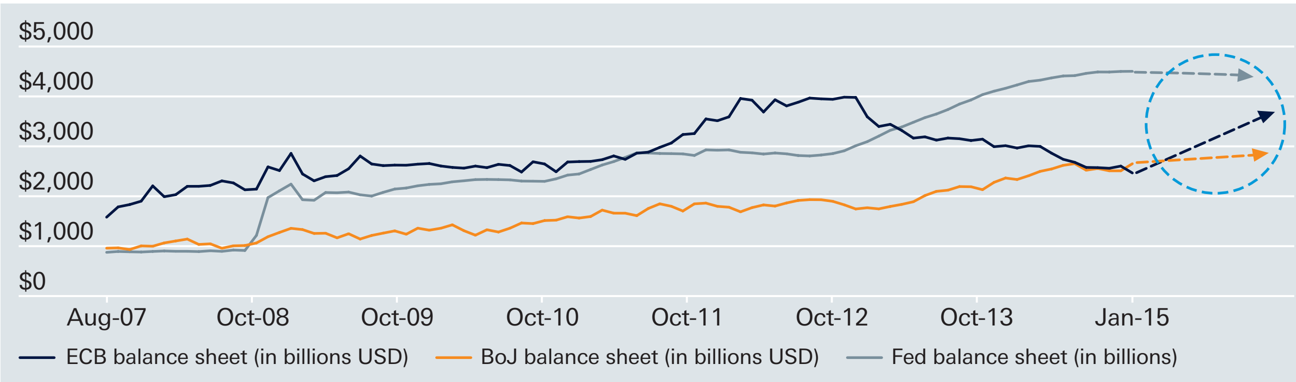
Source: MSCI and Deutsche Bank. The potential impact on unhedged index returns is based on 1) Deutsche Bank’s available currency forecasts through 2017 as of 1/30/15 and 2) the currency weighting, where applicable, for the euro, British pound, Japanese yen, Australian dollar, New Zealand dollar, Canadian dollar, Swedish krona, Norwegian krone and Swiss franc within each MSCI index, as of 12/31/14. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report and are subject to change. See page 5 for index definitions. Assumes no cost of carry or cost of trading. For illustrative purposes only. Values based only on currency moves and do not incorporate gains or losses associated with equity movements.

# Current environment may support a long-term strengthening of the U.S. dollar

### Diverging balance sheet sizes may support rising U.S. dollar trend

The U.S. Federal Reserve Board (Fed) has ended its program of quantitative easing and the Bank of Japan (BoJ) and European Central Bank (ECB) continue to expand their monetary policies. These diverging policies, the potential for U.S. interest-rate hikes in 2015, and an increasing growth differential between the United States and the rest of the world may help support a stronger U.S. dollar relative to its developed market counterparts.

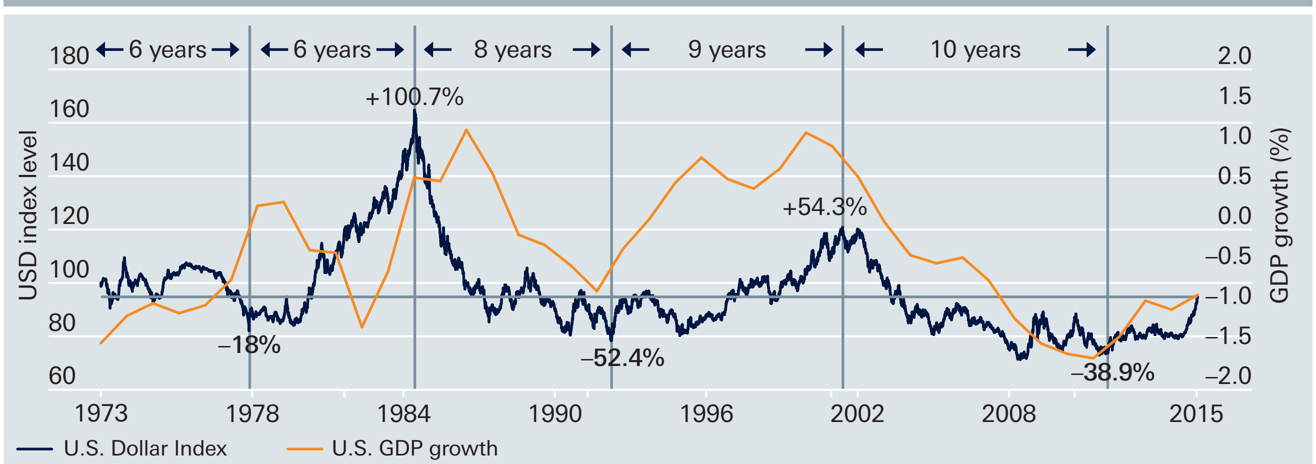
Diverging monetary paths further support a stronger U.S. dollar (9/28/07-1/30/15)




### Why the current trend could last

The growth divergence between the United States and the rest of the world could become one of the most influential drivers in the coming years. Historically, this divergence has been accompanied by a long-term rising-dollar trend. During the last two bull cycles, the U.S. dollar rallied 100% and 54%, respectively. With the current cycle at 28%, there is potential room for growth.

Historical U.S. dollar cycles last an average of eight years (2/28/73-1/30/15)




Top chart source Source: Bloomberg Finance LP, Deutsche AWM as of 1/30/15. Bottom chart source: Thomson Reuters and Deutsche Bank as of 1/1/15. **Past performance is no guarantee of future results.** It is not possible to invest directly in an index. Charts are for illustrative purposes only and does not represent any Deutsche Asset & Wealth Management product. The U.S. Dollar Index measures the foreign exchange value of the U.S. dollar compared to the euro, Japanese yen, Canadian dollar, British pound, Swedish krona, and Swiss franc. Cycle end percentages represent cumulative USD index performance changes.

# Deutsche international equity currency-hedged strategies

Using our bank-wide FX expertise, Deutsche Asset & Wealth Management delivers a variety of currency-hedged strategies designed to best suit our investors' needs.

| Fund | NYSE ticker | Investment focus |
|---|---|---|
| Deutsche X-trackers MSCI All World ex U.S. Hedged Equity ETF | DBAW | Broad exposure to global ex. U.S. equities, currency hedged |
| Deutsche X-trackers MSCI EAFE Hedged Equity ETF | DBEF | Broad exposure to developed-country equities, currency hedged |
| Deutsche X-trackers MSCI Emerging Markets Hedged Equity ETF | DBEM | Broad exposure to emerging-market equities, currency hedged |
| Deutsche X-trackers MSCI Asia Pacific ex Japan Hedged Equity ETF | DBAP | Broad exposure to Asia Pacific ex. Japan equities, currency hedged |
| Deutsche X-trackers MSCI Europe Hedged Equity ETF | DBEU | Broad exposure to European equities, currency hedged |
| Deutsche X-trackers MSCI EMU Hedged Equity ETF | DBEZ | Broad exposure to Eurozone equities, currency hedged |
| Deutsche X-trackers MSCI Brazil Hedged Equity ETF | DBBR | Broad exposure to Brazilian equities, currency hedged |
| Deutsche X-trackers MSCI Germany Hedged Equity ETF[1] | DBGR | Broad exposure to German equities, currency hedged |
| Deutsche X-trackers MSCI Japan Hedged Equity ETF | DBJP | Broad exposure to Japanese equities, currency hedged |
| Deutsche X-trackers MSCI Mexico Hedged Equity ETF | DBMX | Broad exposure to Mexican equities, currency hedged |
| Deutsche X-trackers MSCI South Korea Hedged Equity ETF | DBKO | Broad exposure to South Korean equities, currency hedged |
| Deutsche X-trackers MSCI United Kingdom Hedged Equity ETF | DBUK | Broad exposure to U.K. equities, currency hedged |
| Deutsche CROCI® International Fund* | A \| SUIAX<br>C \| SUICX<br>INST \| SUIIX<br>S \| SCINX<br>R6 I SUIRX | Couples a currency hedged strategy for currency risk mitigation with our proprietary valuation methodology CROCI® which seeks to target concentrated exposure to real value as measured by CROCI® Economic P/E |
| Deutsche European Equity Fund | A \| DURAX<br>C \| DURCX<br>INST \| DURIX<br>S \| DURSX | Couples a currency hedged strategy for currency risk mitigation with a unique, actively managed portfolio of European companies. |

*Prior to 12/1/14, this fund was known as Deutsche International Fund. On 2/28/14 this fund changed its management process, investment team and renamed as Deutsche CROCI® International Fund.

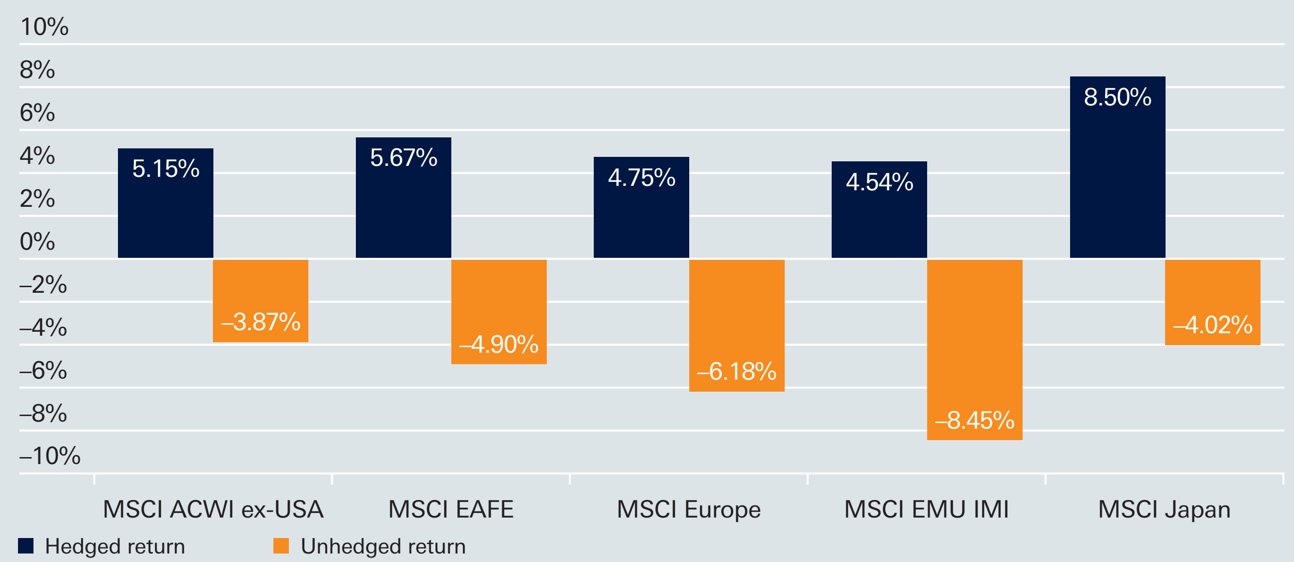
The MSCI All Country World Index (ACWI) ex-USA tracks the performance of 22 developed and 23 emerging markets. The MSCI EAFE Index tracks the performance of stocks in select developed markets outside of the United States. The MSCI Europe Index tracks the performance of 16 developed markets in Europe. The MSCI European Economic and Monetary Union (EMU) Index tracks the performance of large- and mid-cap companies of developed markets countries in the EMU. 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 tracks the performance of U.K. stocks. The MSCI Germany Index tracks the performance of German stocks. The hedged version of each index is designed to provide exposure to equity securities in each listed region/country stock markets (listed above), while at the same time mitigating exposure to fluctuations between the value of the U.S. dollar and selected non-U.S. currencies.

# Currency shifts have already begun chipping away at returns

## The tide has already turned

With the U.S. dollar already on the rise, investors have begun to feel the pain of negative currency movements, especially over the past 12 months. Most hedged indexes have outperformed their unhedged counterparts over the past one-, three- and five-year periods, outperformance that may be enhanced if the U.S. dollar bull cycle continues.

Same equities, different returns: hedged indexes outperformed their unhedged counterparts by up to 13 percentage points in 2014




Hedged index returns outpaced unhedged counterparts (annualized returns as of 12/31/14)

| | One-year | | Three-year | | Five-year | | Ten-year | |
|---|---|---|---|---|---|---|---|---|
| Index | Hedged return | Unhedged return | Hedged return | Unhedged return | Hedged return | Unhedged return | Hedged return | Unhedged return |
| MSCI EAFE Index | 5.7% | –4.9% | 16.3% | 11.1% | 7.9% | 5.3% | 6.0% | 4.4% |
| MSCI Europe Index | 4.7% | –6.2% | 14.1% | 11.9% | 7.9% | 5.3% | 6.5% | 4.6% |
| MSCI EMU IMI Index | 4.5% | –8.4% | 16.6% | 13.1% | 7.2% | 2.8% | 5.9% | — |
| MSCI Japan Index | 8.5% | –4.0% | 25.7% | 9.7% | 10.0% | 5.5% | 4.5% | 2.3% |
| MSCI ACWI ex-USA Index | 5.2% | –3.9% | 13.2% | 9.0% | 6.5% | 4.4% | 6.4% | 5.1% |

Top chart source: Deutsche Asset & Wealth Management. Bottom chart source: Morningstar. Both as of 12/31/14. **Past performance is no guarantee of future results.** Index returns do not include dividend distributions and do not reflect fees or expenses. It is not possible to invest directly in an index. See page 5 for index definitions. Hedged indexes are designed to mitigate the exposure to fluctuations between the value of the U.S. dollar and non-U.S. currencies, potentially allowing for purer exposure to international equity markets.

Gross domestic product (GDP) is the value of all goods and services produced by a country's economy.

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Deutsche X-trackers ETFs risk information: Investing involves risk, including the possible loss of principal. Stocks may decline in value. Foreign investing involves greater and different risks than investing in US companies, including currency fluctuations, less liquidity, less developed or less efficient trading markets, lack of comprehensive company information, political instability and differing auditing and legal standards. Funds investing in a single industry, country or in a limited geographic region generally are more volatile than more diversified funds. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Performance of the Funds may diverge from that of the Underlying Index due to operating expenses, transaction costs, cash flows, use of sampling strategies or operational inefficiencies. An investment in this fund should be considered only as a supplement to a complete investment program for those investors willing to accept the risks associated with the fund. See the prospectus for details

Deutsche CROCI® International Fund risk information: The fund will be managed on the premise that stocks with lower CROCI® Economic P/E Ratios may outperform stocks with higher CROCI® Economic P/E Ratios over time. This premise may not always be correct and prospective investors should evaluate this assumption prior to investing in the fund. The fund's use of forward currency contracts may not be successful in hedging currency exchange rates changes and could eliminate some or all of the benefit of an increase in the value of a foreign currency versus the U.S. dollar. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. The fund may lend securities to approved institutions. Stocks may decline in value. See the prospectus for details.

Deutsche European Equity Fund risk information: Investing in foreign securities presents certain risks, such as currency fluctuations, political and economic changes and market risks. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Any fund that focuses in a particular segment of the market or region of the world will generally be more volatile than a fund that invests more broadly. The fund may lend securities to approved institutions. Stocks may decline in value.

Indices are unmanaged and you cannot invest directly in an index.

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