



Developing a cross border ETF business in Europe

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db X-trackers – Simply buy the market

Passion to Perform





Important

- db x-trackers is an umbrella fund with a series of different sub-funds (each a “Sub-Fund”) which are exchange-traded funds (“ETFs”) tracking different underlying indices with different risk profiles.
-
- Each Sub-Fund adopts a “synthetic replication” investment strategy by investing in swap transaction(s), which is a financial derivative instrument, linked to an underlying index. Currently, Deutsche Bank AG (“DB”) is the only swap counterparty of all Sub-Funds. Investors in a Sub-Fund are therefore subject to the counterparty and credit risk of DB.
 - With a view to ensure each Sub-Fund’s net counterparty exposure to DB is maintained below 10% of its net asset value (“NAV”) on a daily basis, each Sub-Fund either invests not less than 90% of its NAV in a portfolio of securities (“invested assets”), or puts in place a collateral arrangement where collateral securities are pledged in favour of such Sub-Fund. The collateral securities and invested assets generally are not constituents of the underlying index. These arrangements are subject to risks, including failure on the part of DB to fulfil its obligations under the swap or collateral arrangements, a substantial drop in market value of the invested assets or collateral securities, or the insolvency or default of DB.
 - Insolvency or default of DB may lead to dealing in the shares of the Sub-Funds being suspended, and the Sub-Funds may suffer significant losses and may even be terminated.
 - Both the management company and the swap counterparty of the Sub-Funds belong to DB Group. Furthermore, DB acts as swap counterparty and swap calculation agent in respect of all the Sub-Funds to which the Hong Kong Prospectus relates. DB is also the Index Sponsor for the underlying indices of some of the Sub-Funds. All of these may give rise to potential conflicts of interest.



- The shares of the Sub-Funds may trade at a discount or premium to their NAV.
- Investment involves risks. The Sub-Funds may not be suitable for all investors. Prospective investors should carefully read the Hong Kong Prospectus for further details on product features and risks, and should consider seeking independent professional advice in making their assessment.

Emerging market ETFs

- The investment objective of certain Sub-Funds is to track the performance of certain emerging markets and as such, the Sub-Funds are subject to a greater risk of loss than investments in a developed market due to, among other factors, greater political, economic, foreign exchange, liquidity and regulatory risks.

A-Share ETFs

- The investment objective of certain Sub-Funds ("A Share Sub-Funds") is to track the performance of an index comprising A shares listed in the PRC. Each A Share Sub-Fund seeks exposure to the relevant index by entering into swap transaction(s) with DB, which is a qualified foreign institutional investor ("QFII").
- Under the terms of such swap transaction(s), each A Share Sub-Fund bears the impact of PRC taxes (including capital gains tax) to the extent of the same level of tax that a hypothetical offshore investor having invested in the constituent A shares would potentially sustain or incur. This may result in downward adjustments being made to the valuation of the swap transaction(s) from time to time and as a result adversely impact on the A Share Sub-Funds.



- PRC tax is not currently enforced on capital gains realised by QFIIs on the sale of A Shares. There is a risk the PRC tax authorities may seek to collect tax on capital gains without giving any prior warning, and possibly, on a retrospective basis. Any capital gains tax levied on and payable by a QFII may be passed on to the A Share Sub-Funds in the manner described above. Having considered, amongst other things, independent tax advice, db x-trackers and the management company have determined that no provision will be made in respect of such potential tax at each A Share Sub-Fund level. Accordingly, any retrospective enforcement may result in a substantial or significant decline in the Net Asset Value per Share in each A Share Sub-Fund. Consequently a Shareholder may in effect suffer losses arising out of taxes in respect of capital gains sustained by a QFII during periods prior to such Shareholder acquiring its holding in the A Share Sub-Fund and the magnitude of such losses may not correspond to such Shareholder's profit or loss arising out of its holding in the A Share Sub-Fund.
- Any changes to the QFII regulation may have a detrimental impact on the ability of the A Share Sub-Fund to achieve its investment objective. In the worst case scenario, this could lead to the A Share Sub-Fund being terminated.
- Each A Share Sub-Fund is subject to emerging market risk as a result of tracking the performance of the PRC market.
- Each A Share Sub-Fund is also subject to concentration risk as a result of tracking the performance of a single country (the PRC) and sector (except for db x-trackers CSI300 Index ETF). A Sub-Fund which invests in a single country or sector is likely to be more volatile than a broad-based fund, such as a global or regional equity fund, as it is more susceptible to fluctuations in value resulting from adverse conditions in that single country or sector.

Investors should not make investment decisions based only on this document.

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Agenda



- Challenges of setting up a cross border ETF platform
- Comparing the US and European ETF markets
- Tracking efficiency
- Liquidity



Setting up a cross border ETF business

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Why offer cross border ETFs ?



- Take advantage of regulatory harmonisation where possible
- Access to multiple markets with the same fund
- Economies of scale for the ETF provider
- Access to small institutional and retail investors through local listing
- Potential for “fungibility”

The challenges of building a cross border ETF business



	US	Europe	Asia (inc Japan)
AUM*	\$1,064 bn	\$336 bn	\$96 bn
No of countries	1	multiple	multiple
Languages	1	multiple	multiple
Fund regulations	multiple	UCITS (EU) + others	multiple
Tax regulations	1	multiple	multiple
Languages	1	multiple	multiple
Stock exchanges	2	multiple	multiple
Currencies	1	multiple	multiple
Clearing/settlement systems	1	multiple	multiple

*Source: DB Research

 **Increasing difficulty!**

Considerations for cross border ETFs in Europe



- Regulatory
 - Time to market – UCITS regulatory framework
 - Local requirements – representative/paying agents / country wrapper
- Tax – local reporting requirements
- Stock exchange / listing
 - Currency / share class denomination
 - Clearing settlement
 - Market maker support
- Provisions of information in local languages
 - Prospectus, Annual Reports etc
 - Marketing literature, websites

Importance of UCITS



UCITS = Undertaking for Collective Investment in Transferable Securities

- Implemented in 1985 to create a set of harmonized rules for collective investment schemes in EU
- Allowed for cross border passporting of funds across EU
- Recognised outside Europe in Asia, Middle East and South America
- Enhanced in 2002 with **UCITS 3** which gave greater investment flexibility (eg use of derivatives) and simplified some of the passporting rules
- UCITS 3 specified rules for managing counterparty risk with respect to use of derivatives and framework for risk management and conflicts of interest
- UCITS 4 being implemented in 2011 will further improve the process for cross border passporting and also for managing conflicts of interest



Examples of different tax reporting requirements across Europe

	Requirement	Position of db x-trackers
UK	Distributor status (up to 31 Dec 2010) and Reporting Fund (from 1 Dec 2009).	Compliant
Germany	Classification of funds as Transparent and Intransparent. Daily reporting of income and gains from differentiating between equities, bonds and derivatives.	Compliant
Austria	Similar reporting to Germany with classification of funds as “Bright White”, “White” and “Black” (ie non reporting).	Compliant



Comparing the US and European ETF markets



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Key characteristics of European ETF market



- **Highly fragmented**
 - Duplicate product offerings across providers with multiple listings
 - Volumes split between exchanges
 - Assets split between providers
- **High level of off-exchange liquidity**
 - 60% of ETF activity in Europe is off-exchange
- High level of arbitrage by market specialists ensures on-exchange prices are efficient
- Emergence of other “Exchange traded Products” – ETCs for access to single commodities
- Mostly institutional market (85-90% of AUM)
 - Retail market will grow as advisers switch to fee based advisory
 - Packaged ETF/ETP asset allocation products will also increase retail participation

Comparison of US vs European ETFs



Size is not everything!

Market Size	US > Europe
Exchange Turnover	US > Europe
Liquidity	US = Europe
Fees	US = Europe
Taxation (non US investors)	Europe > US
Tracking Efficiency	Europe > US
Product range	Europe > US
Innovation	Europe > US

*Source: *Deutsche Bank Research.*



Tracking Efficiency

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It's all about Tracking Error, which for US listed ETFs rose significantly in 2009



US ETFs vs. db X-trackers ETFs*

US ETFs: 125 bps

db X ETFs: 9.3 bps

- 54 US-listed ETFs showed tracking errors of more than 3% in 2009
- 37.5% of US-listed ETFs had tracking errors of larger than 100 bps in 2009
- The range of tracking error for US listed ETFs increased from 520 to 1709 bps

*Post-expense 2009 tracking error average; 2009 annualized

Source: Morgan Stanley Research, Feb 2010; Deutsche Bank .

Evolution of Index Tracking



Synthetic replication ETFs evolved in Europe after UCITS 3

1970s -

**Full or partial physical replication
(Direct)**

Buy all / some underlying index
components

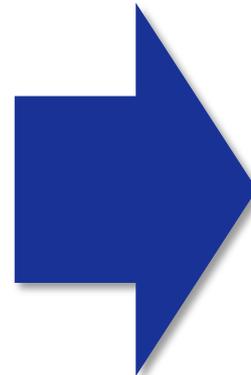
- Limited to mainstream indices
- Potential for tracking discrepancies

2001 -

**Evolution to swap based or
synthetic replication (Indirect)**

Basket of securities plus index
swap

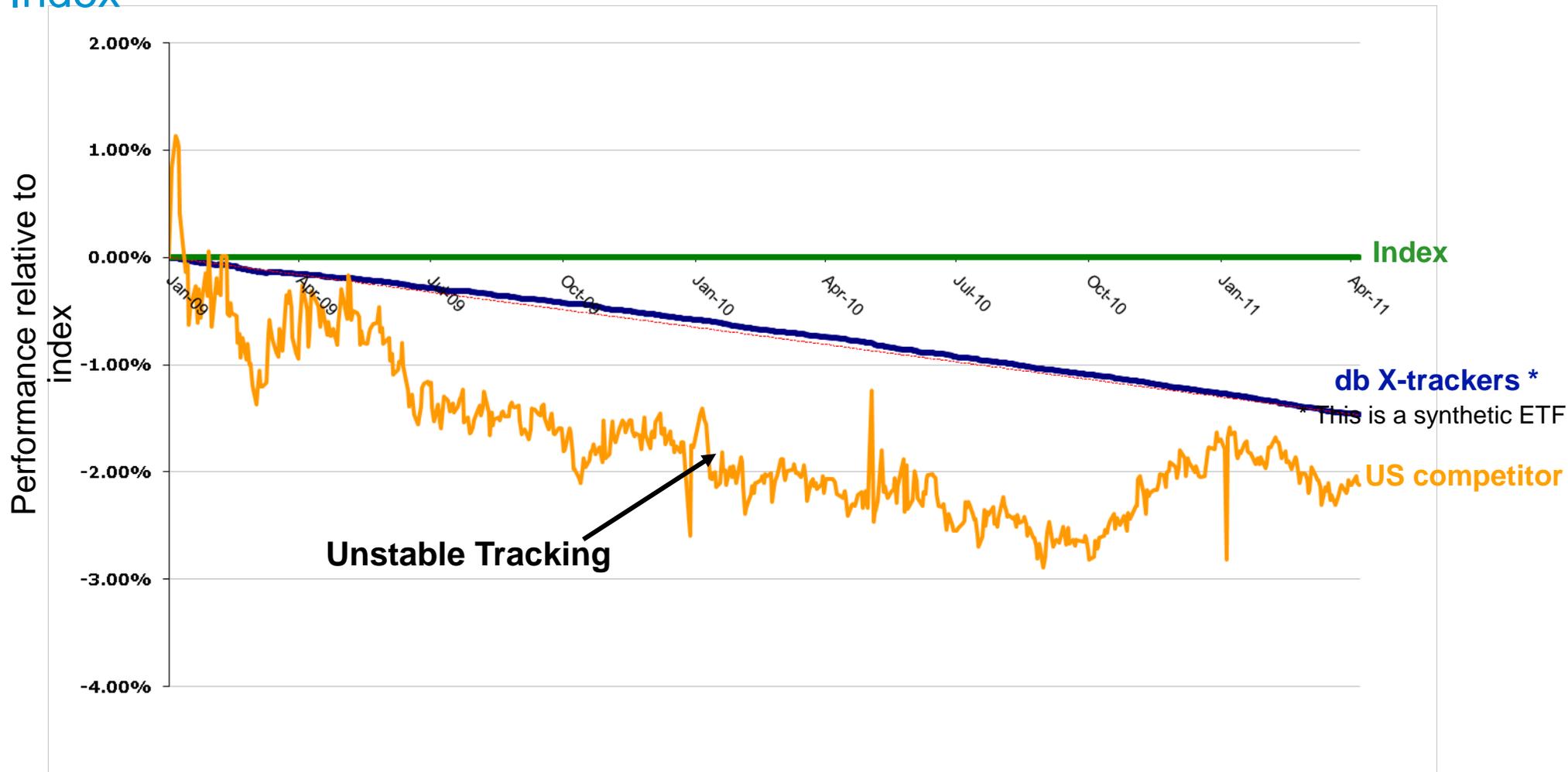
- Access to wider range of asset classes
- Provides perfect index tracking
- Swap counterparty exposure limited or eliminated through use of assets to act as security or collateral



Synthetic replication ETFs provide more stable and accurate tracking



Synthetic vs. direct replication ETF on the MSCI Emerging Markets Index



Source: Bloomberg and DB Data, competitor website as of 6 April 2011. Past performance is not indicative of future returns.

Key Features of db x-trackers synthetic replication ETFs



- Stand alone fund issuance vehicles with independent service providers
- Full transparency on collateral/substitute baskets and swap counterparty exposures
- Independent verification of swaps and valuation of collateral/substitute basket assets
- No securities lending of collateral/substitute baskets
- Highly efficient index tracking
- Access to a wider range of markets and asset classes than possible under direct replication



ETF Liquidity

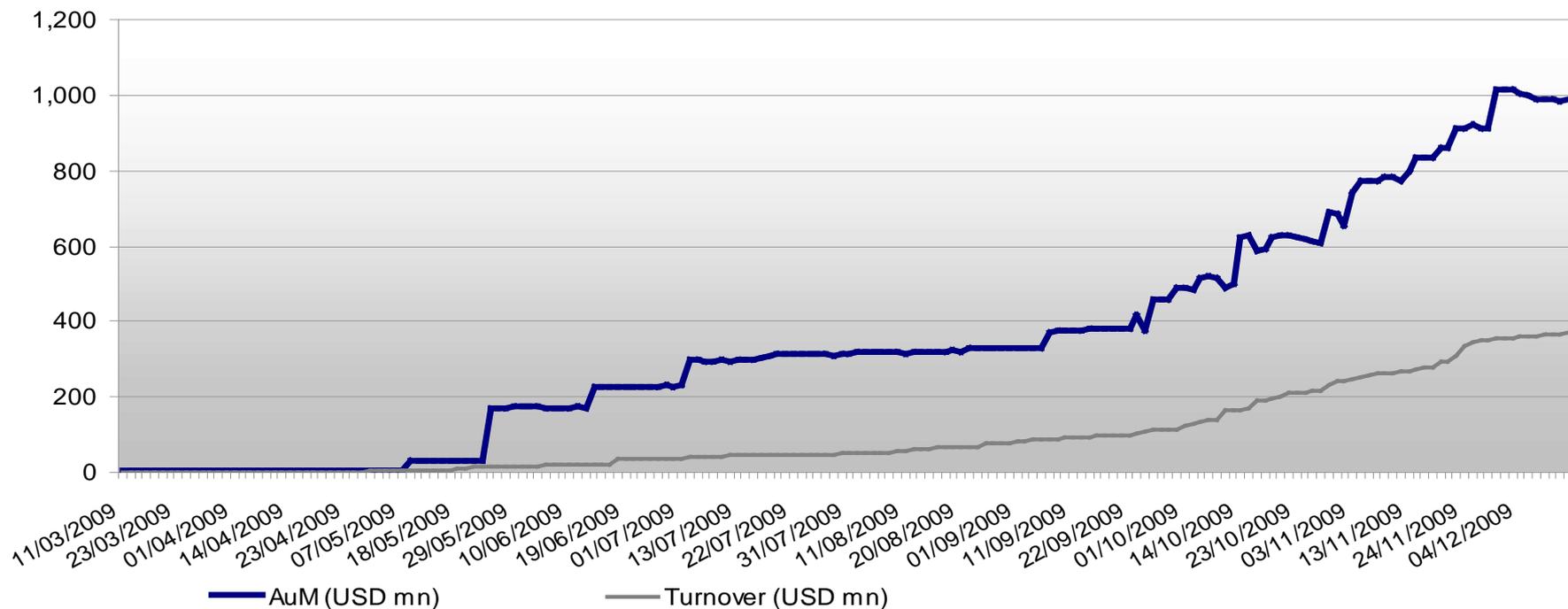
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Exchange turnover of an ETF tells you nothing about the actual liquidity



- Between March 2009 and December 2009 the AuM of the db x-trackers DB Hedge Fund Index ETF* (* this is a synthetic ETF) increased to USD 1 billion
- Over that period the cumulative stock exchange turnover was USD 370 mm

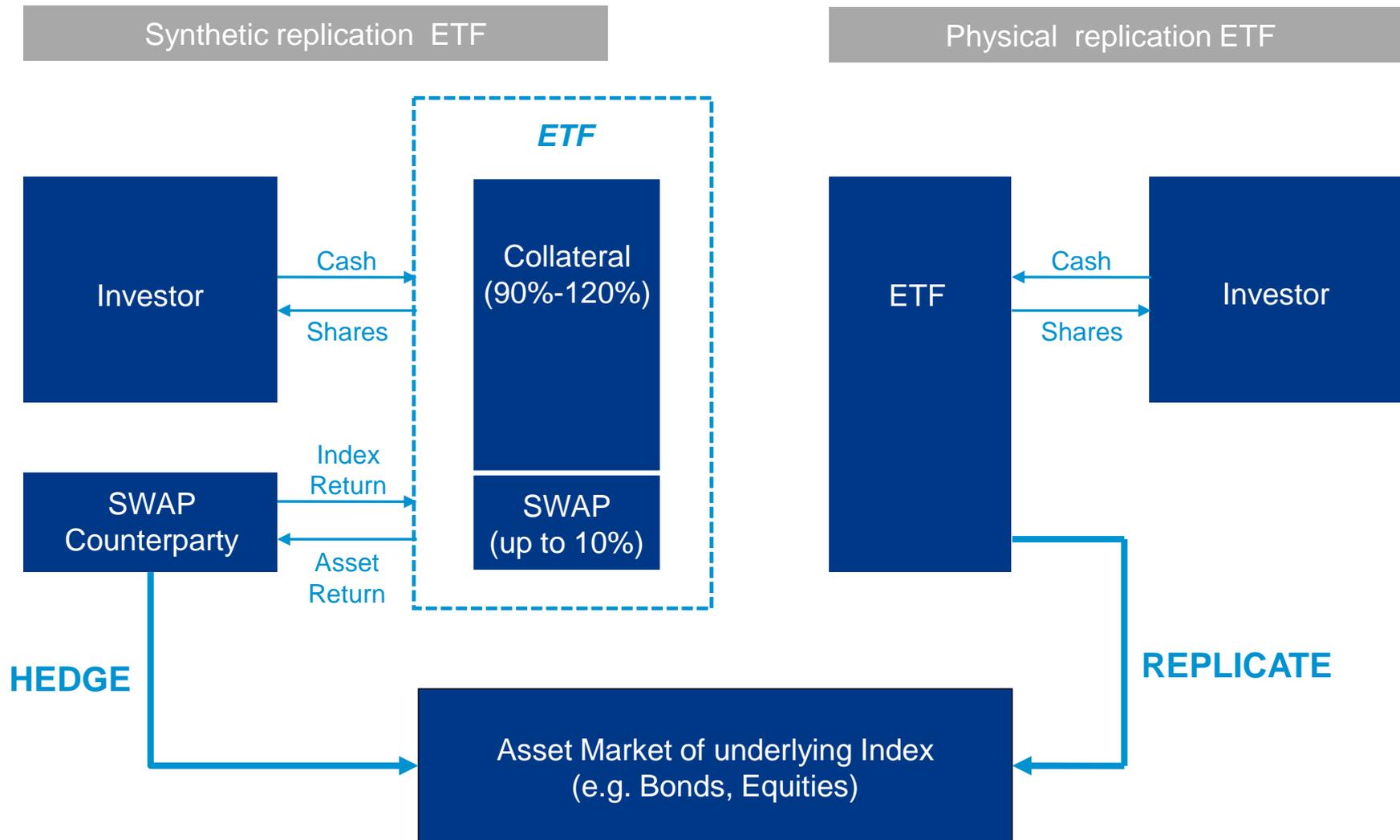


Source: Bloomberg and DB Data. Past performance is not indicative of future returns.

ETF liquidity construction



Liquidity of an ETF = Liquidity of the underlying market



On-exchange order book turnover on Xetra Frankfurt (mn EUR)



Most liquid Equity ETFs by XLM* in bp		Most active Equity ETFs by order book turnover (MEUR)	
db x-trackers DAX ETF*	4.03	iShares DAX (DE)	1,557.60
iShares DAX (DE)	4.09	db x-trackers DAX ETF*	785.12
db x-trackers ShortDAX ETF*	5.14	iShares EURO STOXX 50 (DE)	759.37
ComStage ETF DAX TR	5.75	ComStage ETF DAX TR	600.48
Lyxor ETF DAX	5.99	iShares S&P 500	466.75
Amundi ETF MSCI Germany	7.17	db x-trackers ShortDAX ETF*	392.42
iShares EURO STOXX 50 (DE)	7.48	Lyxor ETF LevDAX	319.84
db x-trackers EURO STOXX 50 ETF*	7.54	db x-trackers MSCI Emerging Markets TRN Index ETF*	309.82
db x-trackers EURO STOXX 50 Short ETF*	7.76	ETFlab DAX	278.63
iShares EURO STOXX 50	7.88	db x-trackers EURO STOXX 50 ETF*	253.67

Most liquid Fixed-Income ETFs by XLM* in bp		Most active Fixed-Income ETFs by order book turnover (MEUR)	
db x-trackers II EONIA TR Index ETF*	0.33	db x-trackers II EONIA TR Index ETF*	207.02
db x-trackers II EONIA TRI ETF 1D*	0.81	iShares eb.rexx Government Germany (DE)	120.19
Amundi ETF EONIA	0.88	iShares eb.rexx Government Germany 5,5-10,5 (DE)	117.10
Lyxor ETF EURO Cash EONIA	1.14	iShares eb.rexx Jumbo Pfandbriefe (DE)	79.57
db x-trackers II iBoxx € Germany 1-3 Total Return Index ETF*	2.36	iShares eb.rexx Government Germany 2,5-5,5 (DE)	66.78
ComStage ETF Commerzbank EONIA Index TR	2.38	iShares eb.rexx Government Germany 1,5-2,5 (DE)	59.02
Amundi ETF EuroMTS Cash 3 Months	3.34	iShares eb.rexx Money Market	55.20
iShares eb.rexx Government Germany (DE)	3.84	iShares Markit iBoxx EURO Corporate Bond	52.11
iShares eb.rexx Money Market	3.84	ComStage ETF Commerzbank EONIA Index TR	51.00
iShares eb.rexx Government Germany 2,5-5,5 (DE)	4.01	Lyxor ETF Daily Double Short Bund	46.61

Most liquid Commodity ETFs by XLM* in bp		Most active Commodity ETFs by order book turnover (MEUR)	
Lyxor ETF Commodities CRB	22.93	db x-trackers DBLCI - OY Balanced ETF*	67.46
db x-trackers DBLCI - OY Balanced ETF*	31.28	iShares DJ-UBS Commodity Swap (DE)	28.01
Lyxor ETF Commodities CRB Non-Energy	32.14	EasyETF S&P GSCI Capped 35/20	27.28
RBS Market Access RICI-Metals Index ETF	32.79	RBS Market Access Jim Rogers International Commodity Index ETF	27.23
Amundi ETF Commodities S&P GSCI Metals	34.65	Lyxor ETF Commodities CRB	24.44

*Xetra Liquidity Measure (XLM) with round trip of 100,000 EUR
Source: XETRA, as of January 2011.

* This is a synthetic ETF



Concluding Thoughts

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Conclusions



- Cross border ETF business makes sense for ETF providers looking to access multiple markets with the same product
- UCITS regulations allow ETF providers to build a cross border ETF platform in Europe and other regions such as Asia
- A cross-border business will result in fragmentation of assets and liquidity between providers and stock exchanges
- **Cross border fragmentation is not a disadvantage in terms of liquidity**
- European ETFs provide a more efficient product from tracking and taxation perspective for non-US investors

About db X-trackers ETFs



Fastest growing ETF provider in Europe and Asia

- Launched January 2007 - Over 170 ETFs covering a broad range of asset classes
 - Equities – developed and emerging markets, daily short/leveraged indices
 - Fixed Income – bonds, credit (long and short), money market
 - Alternatives – hedge fund, commodity, currency
- USD 55 billion assets – number 3 in Europe and number 5 globally*
- Over 600 listings on 9 stock exchanges in Europe and Asia
- Products registered for public distribution in 15 jurisdictions in Europe, Asia and Latin America
- Launched in Hong Kong and Singapore in 2009
- 24 Products listed on the Hong Kong Stock Exchange – largest product range of any provider
- Number 2 ETF provider in Hong Kong by on-exchange turnover

*Source: *Deutsche Bank Research.*

Further educational tools, research and guides



www.dbxtrackers.com

ETF research

Brochures / Guides

The screenshot shows the db x-trackers website interface. At the top, there's a navigation bar with links like 'Group Home', 'Sitemap', 'Imprint', 'Contact', and 'Institution'. Below that, the main header includes 'db x-trackers - Exchange Traded Funds' and 'Deutsche Bank db X-trackers'. A vertical sidebar on the left is labeled 'Qualitative Research' and 'Global Markets Research'. The main content area features a research report titled 'Global Equity Index & ETF Research: Do ETF trackers track? European equity ETF tracking error under the microscope', dated 06 September 2010. The report discusses tracking error (TE) and its sources. To the left of the report is a 'News' section with a 'PRIVATE INVESTOR' tag and a 'Realtime Quotes' table. To the right is a 'Contributors' section listing experts like Christos Costandinides, Shan Lan, and Sebastian Mercado. At the bottom right, there's a 'Top Performer (Return 2010 in EUR)' table and a 'Most wanted' section.

ETF	Bid	Ask
DAX®	59.92	59.94
DBLCI - OY BALANCED	25.56	25.71
EONIA TOTAL RETURN INDEX	138.33	138.33
EURO STOXX® 50	27.27	27.29
FTSE 100		
IBOXX® € SOVEREIGNS €-ZONE 1-3	6.43	6.44

Fund	Return
FED FUNDS EFFECTIVE RATE	+20.09%
TOTAL RETURN INDEX ETF	
RUSSELL 2000 ETF	+18.76%
S&P SELECT FRONTIER ETF	+18.47%
MSCI JAPAN TRN INDEX ETF	+15.90%
MSCI USA TRN INDEX ETF	+14.91%

Investment risks relating to db X-trackers ETFs (1)



- **Investors should note that the db X-trackers ETFs are not capital protected or guaranteed and investors in each db X-trackers ETF should be prepared and able to sustain losses up to the total capital invested.**
- Investment in db X-trackers ETFs involves numerous risks including among others, general market risks relating to the relevant index, credit risks on the provider of index swaps utilised in the db X-trackers ETFs, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks.
- The db X-trackers ETFs use Deutsche Bank as the counterparty for OTC derivative transactions. Although the db X-trackers ETFs fully comply with the UCITS requirements in respect of counterparty exposure, in the event of a default under the terms of the OTC derivative transaction by Deutsche Bank, the db X-trackers ETFs could lose a portion of the NAV of the ETF. The NAV at the time of default also may be considerably less than the amount an investor originally invested depending on the performance of the relevant underlying index. You should therefore understand and evaluate the counterparty credit risk prior to making any investment.
- The value of an investment in a db X-trackers ETF may go down as well as up and past performance is not a guide to the future.
- Not all db X-trackers ETFs may be suitable for all investors so please consult your financial advisor before you invest in a db X-trackers ETF.

Investment risks relating to db X-trackers ETFs (2)



- ETFs shares may be denominated in a currency different to that of the traded currency of the stock exchange on which the ETF is listed in which case exchange rate fluctuations may have a negative effect on the returns of the fund.
- Tax treatment of the db X-trackers ETFs depends on the individual circumstances of each investor. The levels and bases of, and any applicable relief from, taxation can change. db X-trackers may trade in limited markets.
- db X-trackers may be unable to replicate precisely the performance of an index.
- Investors' income is not fixed and may fluctuate.
- The value of any investment involving exposure to foreign currencies can be affected by exchange rate movements.
- For further information regarding risk factors, please refer to the risk factors section of the listing particulars or full prospectus.

Important Information



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db x-trackers and db x-trackers II are registered with the Luxembourg Trade and Companies' Register under numbers B-119 899 and B-124 284 respectively. DB Platinum Advisors acts as the management company. db x-trackers and db x-trackers II are each registered in the Grand-Duchy of Luxembourg as an undertaking for collective investment pursuant to Part I of the law of 20 December 2002 relating to undertakings for collective investment, as amended. db x-trackers and db x-trackers II each qualify as an undertaking for collective investment in transferable Securities under article 1(2) of the Council Directive 85/611/EEC of 20 December 1985.

A full description of the terms and conditions of all sub-funds are included in the prospectus of db x-trackers and db x-trackers II. You can get the full and the simplified prospectus of each sub-fund of db x-trackers and db x-trackers II at info.dbx-trackers@db.com.

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