

European Recovery: The combination of external demand and reduced fiscal austerity should promote slow but positive GDP growth.

§ Credit-Linked Note on European "Distressed" Nations - See attached presentation

§ Issuer: TBD, Currency: USD, Maturity: 5 years, Underlying: Portugal, Spain, Italy, and Ireland, Coupon: 3 month LIBOR + 400 bps

§ Each credit event will cause a reduction on the note's notional of 25%, which will also affect subsequent coupon payments and the redemption at maturity. If all four countries default, the redemption value will be zero

§ Peripheral sovereign spreads are still relatively wide

§ iTraxx Main, Europe's IG Index, is trading at 87 bps; the X-Over (High Yield) is trading at 352 bps

§ The average 5 year spread of these 4 countries is 228 bps

§ With the European economic recovery under way, the risk that the peripheral countries default is increasingly lower

§ DB X-Trackers - Exposure to European recovery without currency risk (we are long-term bullish USD)

§ Be aware of liquidity risk, especially for funds with a short track record

§ MSCI Germany Hedged Equity Fund (DBGR) - Expense ratio: 0.5%, 1-year return: 11.04%

§ MSCI EAFE Hedged Equity Fund (DBEF) - Expense ratio: 0.35%, 1-year return: 29.76%

§ MSCI Europe Hedge Equity Fund (DBEU) - Expense ratio: 0.45%, Inception: 10/1/13

§ Blackstone Dislocation Opportunities Fund

§ Call on October 22 will provide more information

Real Estate/RE Linked: Price upside because of low U.S. supply (limited construction over the last four years), plus low correlation to other asset classes and strong inflation hedge. Monetizing cyclical and opportunistic dislocations.

§ RREEF Property Trust (RTP)

§ Up to 80% direct U.S. real estate, 15% in publicly-traded REITs (liquidity), 5% in real estate debt

§ New Bond Street (KCC Only)

Tail Risk Hedging: Protect against U.S. government default concerns - This is no longer a pressing theme because an agreement was reached to raise the debt ceiling until February 7. This theme can be re-explored in February.

§ Sell VIX calls to buy crash protection in gold, the Euro Stoxx 50, and U.S. financials

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<https://ger.gm.cib.intranet.db.com/ger/document/pdf/0900b8c08761b1ee.pdf>

§ Option premiums on VIX and GLD fell on 10/16 (Nov-13 VIX 22 call fell 0.56, Nov-13 GLD 108 put fell 0.21) in the wake of Washington debt deal announcement. Concerns over a U.S. default (however remote the possibility) dissipated, causing a drop in volatility.

§ Original trade with updated pricing

§ Sell Nov-13 VIX 22 calls for 0.55 (current: 14.71, 6-month closing high: 20.49)

§ Buy Nov-13 GLD 108 puts for 0.16 (current: 123.54)

§ Buy Nov-13 FEZ 31 puts for 0.15 (current: 40.02)

§ Buy Nov-13 XLF 17 puts for 0.03 (current: 20.68)

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Kind regards,
Tim Shields

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