



db Currency Returns

A Passion to Perform.

Deutsche Bank



DBCR Historical Returns

- There are 20 years of data on freely floating currencies (since the end of Bretton Woods) by which to assess the performance of systematic strategies for investing in currencies
- 3 strategies reflect the most widely used FX investment styles - Carry, Momentum and Valuation
- These form the core investment approach of many FX only funds and are supported by decades of academic work*
- Long term, there is a low correlation between the returns of employing these strategies and the returns gained from investing in more traditional asset classes such as equities and bonds
- DBCR provides benchmark exposure to these systematic strategies

* Meese and Rogoff (1983), "Empirical Exchange Rate Models of the Seventies: Do They Fit Out of Sample?"

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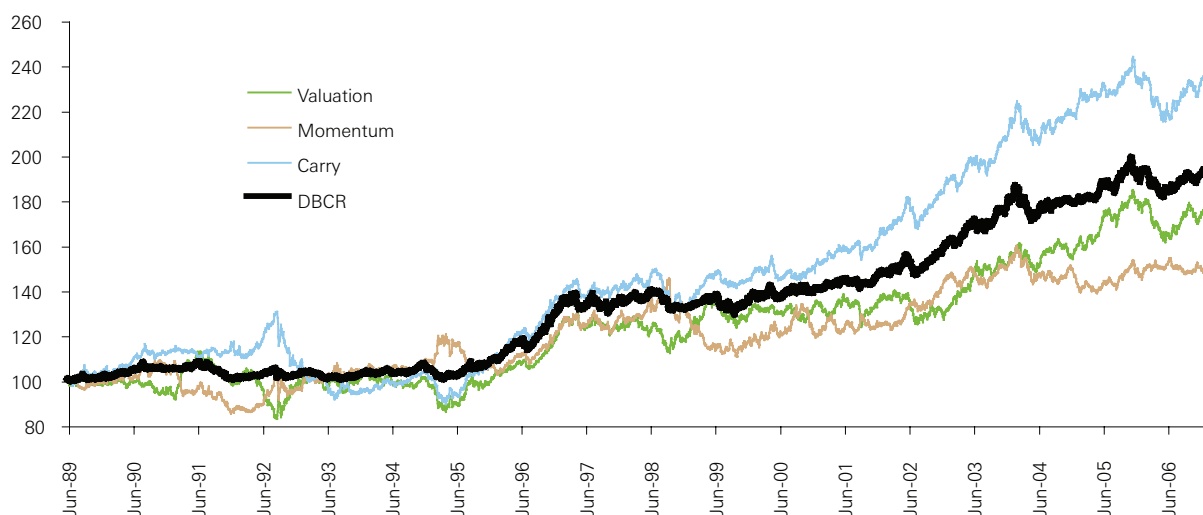
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Performance of the DBCR

Excess Returns from June 1989 – March 2007

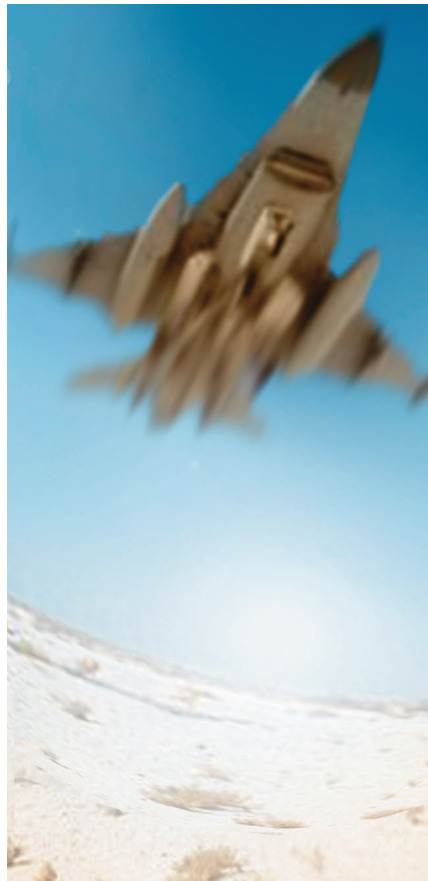


Source: Deutsche Bank

DBCR Performance Statistics	Carry	Momentum	Valuation	DBCR
Average Annual Excess Return	7.7%	2.6%	4.3%	5.1%
Annual Volatility	7.9%	8.8%	9.2%	5.1%
Sharpe Ratio	0.97	0.29	0.47	1.00
Correlation Daily Returns to DBCR	0.698	0.440	0.648	-
% Down months	35.4%	44.3%	42.9%	37.3%
% Up months	64.6%	55.7%	57.1%	62.7%
Biggest Monthly Gain	5.8%	6.7%	9.3%	3.4%
Mean Monthly Return	0.4%	0.2%	0.3%	0.3%
Biggest Monthly Loss	-8.2%	-8.9%	-6.8%	-4.4%
Longest Profitable Streak (Months)	11	8	7	9
First Start	29-Sep-00	31-Aug-89	31-Jul-96	29-Sep-95
End	31-Aug-01	30-Apr-90	28-Feb-97	28-Jun-96
Run-up	10.6%	6.6%	20.0%	11.1%
Longest Losing Streak (Months)	7	7	6	5
First Start	30-Nov-05	31-Dec-98	31-Mar-92	30-Aug-91
End	30-Jun-06	30-Jul-99	30-Sep-92	31-Jan-92
Run-down	-10.1%	-15.3%	-19.1%	-5.7%
Maximum Drawdown	-26.4%	-23.9%	-31.4%	-8.9%

Source: Deutsche Bank

DBCR Component Strategies



Carry

- One of the most widely known and profitable strategies in currency markets are carry trades, where one systematically sells low interest rate currencies and buys high interest rate currencies.
- Such a strategy exploits what academics call “forward-rate bias” or the “forward premium puzzle”, that is, the forward rate is not an unbiased estimate of future spot. Put another way, contrary to classical notions of efficient markets, carry trades have made money over time.
- Academics believe the reason this is possible is that investors who employ the carry trade expose themselves to currency risk. Investors taking this risk are rewarded by positive returns over time.

Parallel: Bond Indices – Investors can earn a higher ‘term premia’ by increasing duration

Momentum

- A widely observed feature of currency markets is that many exchange rates trend on a multi-year basis. Therefore, a strategy that follows the trend, typically makes positive returns over time.
- The segmentation of currency market participants with some acting quickly on news while others respond more slowly is one reason why trends emerge and can be protracted.

Parallel: Equity Indices – Investing in a market capitalisation weighted equity index is effectively employing a long momentum strategy

Valuation

- In the long-run, currencies tend to move towards their “fair value”. Consequently, systematically buying “undervalued” currencies and selling “overvalued” currencies is profitable in the medium-term.
- One of the strongest conclusions in academia is that fundamentals tend not to work for currencies in the short-to medium-term, yet they do long-term. One of the oldest measures of “fair value”, purchasing power parity, has been shown to work in the long-run.

Parallel: Equity Indices – Similar to incorporating a ‘fundamental’ metric such as earnings or revenues

DBCR Historical Composition

On the right is a table outlining the percentage of time each currency has spent at each allocation level. At any point in time a currency's allocation in the DBCR can range from being long one third of the index notional when it is selected as a 'Long currency' in all three component strategies, to being short one third of the index notional when it is selected as a 'Short Currency' in all three component strategies.

Percentage of Time Spent at Each Allocation Level 19th June 1989 to 1st March 2007

DBCR										
Index Allocation	AUD	CAD	CHF	GBP	JPY	NOK	NZD	SEK	EUR	USD
Long 1/3 MAX	11%	0%	0%	1%	0%	0%	23%	0%	0%	6%
Long 2/9	23%	17%	0%	27%	0%	3%	35%	2%	3%	9%
Long 1/9	27%	42%	0%	33%	0%	25%	33%	21%	13%	25%
Neutral	34%	29%	9%	34%	3%	40%	9%	34%	37%	25%
Short 1/9	5%	8%	37%	4%	41%	19%	0%	30%	35%	20%
Short 2/9	0%	4%	38%	0%	32%	13%	0%	7%	13%	14%
Short 1/3 MIN	0%	0%	17%	0%	24%	0%	0%	6%	0%	0%
Total Long	61%	59%	0%	62%	0%	28%	90%	23%	16%	40%
Total Neutral	34%	29%	9%	34%	3%	40%	9%	34%	37%	25%
Total Short	5%	11%	91%	4%	97%	32%	0%	43%	48%	34%

Carry										
	AUD	CAD	CHF	GBP	JPY	NOK	NZD	SEK	EUR	USD
Long	50%	4%	0%	61%	0%	42%	75%	35%	8%	24%
Neutral	44%	86%	21%	39%	0%	54%	25%	49%	54%	28%
Short	6%	10%	79%	0%	100%	4%	0%	15%	38%	48%

Momentum										
	AUD	CAD	CHF	GBP	JPY	NOK	NZD	SEK	EUR	USD
Long	25%	27%	38%	23%	34%	27%	38%	27%	30%	31%
Neutral	41%	40%	40%	52%	26%	48%	32%	44%	44%	33%
Short	34%	33%	22%	24%	40%	25%	30%	29%	26%	36%

Valuation										
	AUD	CAD	CHF	GBP	JPY	NOK	NZD	SEK	EUR	USD
Long	66%	72%	0%	27%	0%	0%	87%	0%	1%	46%
Neutral	34%	28%	0%	73%	28%	47%	13%	47%	82%	49%

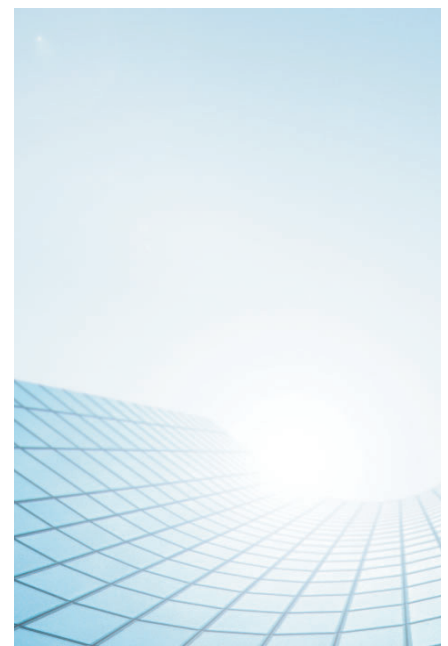
Source: Deutsche Bank

DBCR Correlation to Other Asset Classes

Monthly Correlations between June 1989 and March 2007

		S&P500	EuroStoxx50	Nikkei	US 2 Yr Swap	US 10 Yr Swap	DBLCI-OY	DXY Index	DBCR
Equities:	S&P500	100%	63%	43%	12%	-1%	-6%	2%	17%
	EuroStoxx50	63%	100%	41%	27%	16%	-11%	25%	22%
	Nikkei	43%	41%	100%	10%	3%	10%	2%	14%
Interest Rates:	US 2 Yr Swap	12%	27%	10%	100%	87%	7%	29%	6%
	US 10 Yr Swap	-1%	16%	3%	87%	100%	3%	24%	-1%
Commodities:	DBLCI-OY	-6%	-11%	10%	7%	3%	100%	-11%	2%
Currencies:	DXY Index	2%	25%	2%	29%	24%	-11%	100%	32%
	DBCR	17%	22%	14%	6%	-1%	2%	32%	100%

Source: Deutsche Bank



DBCR Index Construction

The DBCR is an investable index that captures the long term systematic returns available by investing in the world's currency markets. It replicates the three strategies most widely employed in the FX market and wraps them all into a single non-discretionary index with daily liquidity.

DB Currency Returns Index

- The DBCR index is quoted in EUR or USD notional and in excess return terms, representing the returns of an unfunded investment
- DBCR invests in one third of each of the following 3 indices on a daily basis:
 - DB Currency Carry Index,
 - DB Currency Momentum Index,
 - DB Currency Valuation Index
- The pool of currencies eligible for inclusion in each of these indices is: USD, EUR, JPY, GBP, CHF, AUD, NZD, CAD, NOK, SEK
- Daily index closing levels are published to DBIQ and Bloomberg



DB Currency Carry Index

- Re-balance every 3 months, with the Roll Dates set as the third Wednesday of March, June, September and December
- Rank each Currency by its 3m Libor Rate on the Observation Date (1 week before the quarterly IMM date)
- Allocate a 1/3 long position to each of the 3 currencies with the highest 3m Libor rate
- Allocate a 1/3 short position to each of the 3 currencies with the lowest 3m Libor rate
- Transact Forwards in each currency to the next Roll Date

DB Currency Momentum Index

- Re-balance every month, with the Roll Dates set as the third Wednesday of each month
- Rank each Currency by its 12 month Spot Return vs. the USD on the Observation Date (1 week before the monthly IMM date)
- 12 month Spot Return vs. the USD is defined as : Current spot level of the currency versus the USD [in CCY/USD terms] divided by the spot level for the currency versus the USD 12 months ago [in CCY/USD terms], minus 1
- Allocate a 1/3 long position to each of the 3 currencies with the highest 12 month Spot Return vs. the USD
- Allocate a 1/3 short position to each of the 3 currencies with the lowest 12 month Spot Return vs. the USD
- Transact Forwards in each currency to the next Roll Date

DB Currency Valuation Index

- Re-balance every 3 months, with the Roll Dates set as the third Wednesday of March, June, September and December
- Rank each Currency by its Valuation on the Observation Date (1 week before the quarterly IMM date). The most undervalued currency is represented by the lowest Valuation
- Valuation is defined as : Average spot level of the currency versus the USD [in CCY/USD terms] over the last 3 months divided by the latest OECD Purchasing Power Parity figure for that currency versus the USD [in CCY/USD terms]
- Allocate a 1/3 long position to each of the 3 currencies with the lowest Valuation
- Allocate a 1/3 short position to each of the 3 currencies with the highest Valuation
- Transact Forwards in each currency to the next Roll Date

Timeline for re-balancing

Wed	Thu	Fri	Mon	Tue	Wed IMM	Thu	Fri	Mon	
Observation Date (IMM – 5 days) Currencies are ranked		Two Roll Dates within the Roll Window are determined		Roll Window				The two chosen Roll Dates are made public	

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Index Name

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DB Currency Returns USD
DB Currency Carry EUR
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DB Currency Momentum EUR
DB Currency Momentum USD
DB Currency Valuation EUR
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Appendix:

Currencies: Pensions Saviour? 4th August 2006	DB Global Markets Research
Currency Markets: Is Money Left On the Table? 13th March 2007	DB Global Markets Research
Currency: Carry Investing, 28th March 2007	DB Global Markets Research
Currency: Momentum Investing, 28th March 2007	DB Global Markets Research
Currency: Value Investing, 28th March 2007	DB Global Markets Research
Benchmarking Currencies: The Deutsche Bank	
Currency Returns (DBCR) Index, 28th March 2007	DB Global Markets Research

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