



CROCI[®]

A real value investment process

Passion to Perform





Agenda

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- 01 CROCI: The basics
- 02 The CROCI valuation methodology: CROCI Economic P/E vs. accounting P/E
- 03 CROCI adjustments: Examples
- 04 Definitions of key terms and team biographies



01

CROCI: The basics

Investment and speculation: Setting the stage



- There are two extreme approaches to equities: The speculator and the investor.
- Speculators focus on the return generated by changes in the price of the investment, with little interest in why it happens.
- Investors are interested in the cash flow generated by the capital and the price they pay.
- If you are an investor, you want to understand that in which you are investing—the full price paid, the real profitability and the entire capital invested in the business.

“To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What’s needed is a **sound intellectual framework** for making decisions and the ability to **keep emotions from corroding that framework.**”

— Warren Buffett, preface to fourth edition of *The Intelligent Investor* by Benjamin Graham, originally published in 1973

Understanding CROCI valuation methodology



The problem

- In theory, P/E ratio should work as a valuation methodology; in practice it doesn't.
- There is great difficulty in comparing the valuation of companies that are in different sectors or from different countries.
- That's because varying accounting standards make consistent analysis and therefore valuation comparisons difficult.



The solution

- Developed in 1996, CROCI is a systematic proprietary equity valuation process that seeks to understand the real value of a company.
- The central aim of CROCI is to ensure that the valuations of all covered companies are comparable—regardless of their sector or geography. The team covers 800 companies with 60 professionals.

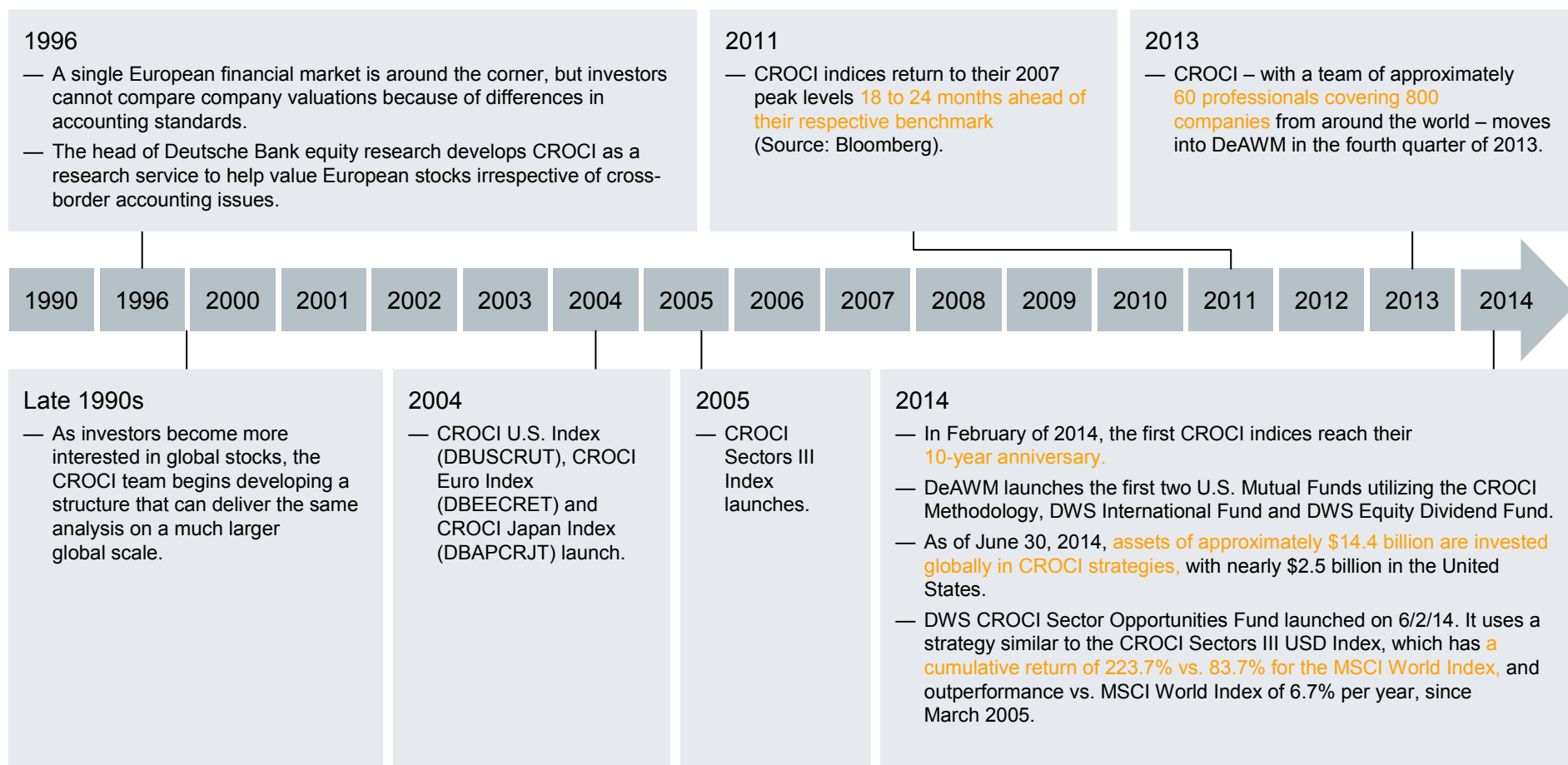


How it works?

- CROCI converts financial-statement data into a set of economic inputs that are used to calculate a valuation metric called Economic P/E, which is comparable across markets and sectors.
- These calculations include inflation adjustment, depreciation, the recognition of intangible assets and the inclusion of off-balance-sheet items such as operating leases.
- Once the data has been adjusted, the real cash return that a company is generating for stockholders can be calculated and compared to the real enterprise value and net capital invested.
- CROCI Economic P/E is used as the primary metric in building CROCI indices and investment strategies.

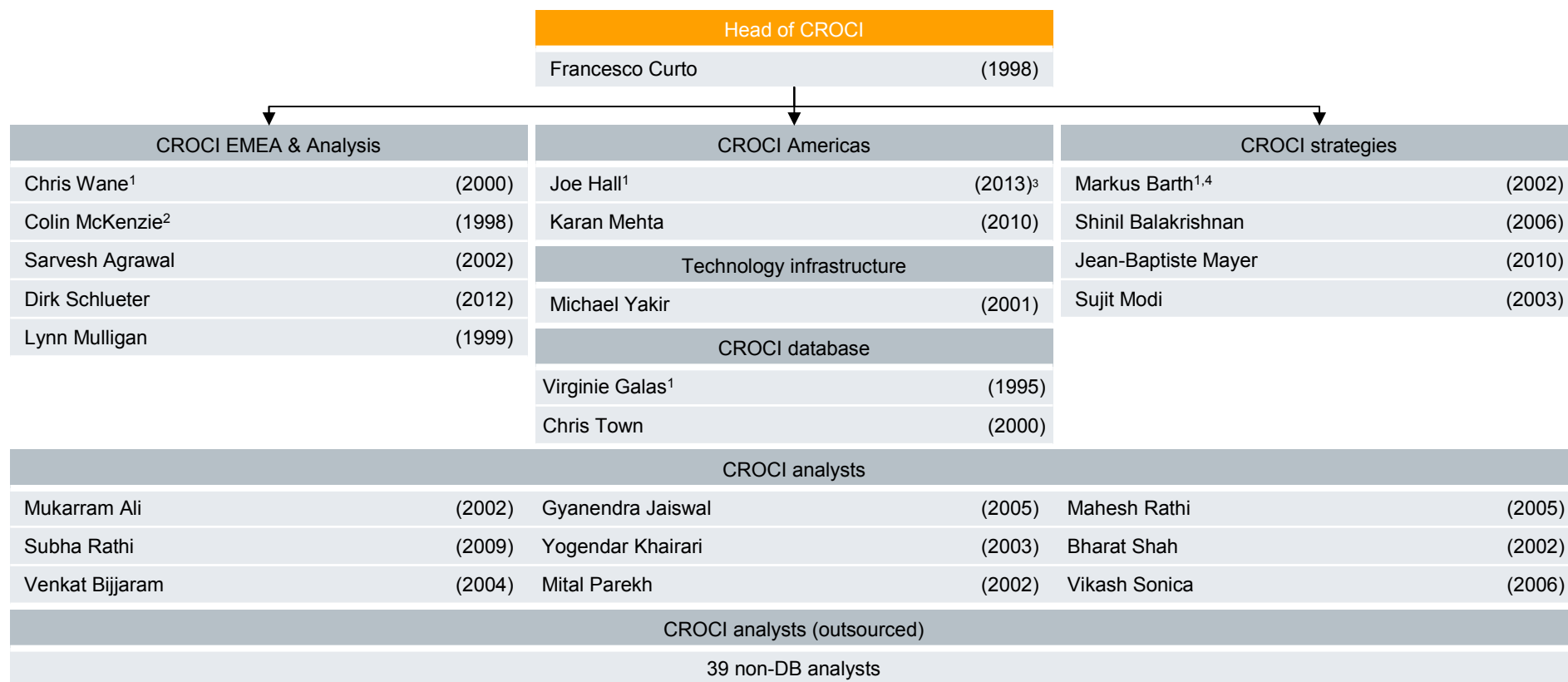
CROCI history

A timeline



Source: Deutsche Asset & Wealth Management as of 6/30/14 unless otherwise noted. Performance is historical and does not guarantee future results. CROCI indices are sponsored by DB AG London. Performance information for indices was not calculated by an independent calculation agent. Performance does not include any fees associated with products on the index. It is not possible to invest directly in an index. The CROCI strategy is supplied by the CROCI investment strategy and valuation group, a unit within Deutsche Asset & Wealth Management, through a licensing agreement with the fund's advisor. The CROCI valuation process is not managed or executed by Deutsche Investment Management Americas, Inc (DIMA). The members of the CROCI team are not employees of DIMA nor do they provide investment advisory services on behalf of DIMA.

CROCI team structure



(1) Head of region or function

(2) Responsibility for MENA

(3) Joe Hall was previously employed by Deutsche Bank between 1995 and 2005

(4) Responsibility for Asia-Pacific clients

This slide shows functional relationships. Some team members are at DB Center, a captive service provider within DB Group.

Dates represent the earlier of commencing employment at DB or commencing CROCI related work at our outsourced vendor.

The CROCI (Cash Return on Capital Invested) valuation process is not managed or executed by Deutsche Investment Management Americas, Inc. (DIMA). The members of the CROCI team are not employees of DIMA nor do they provide investment advisory services on behalf of DIMA. However, DIMA expects to leverage the CROCI team's proprietary investment process/ methodology.

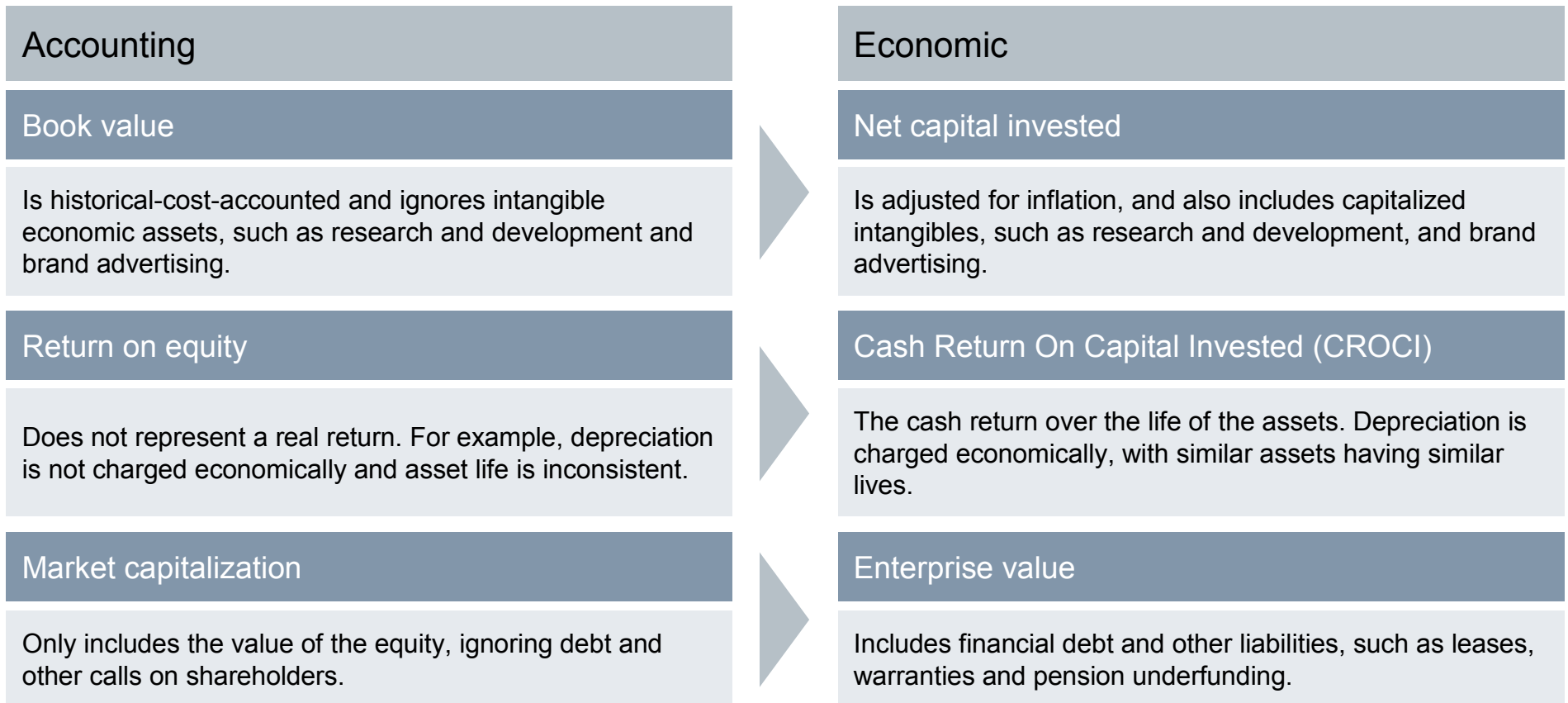


02

The CROCI valuation methodology:
CROCI Economic P/E vs. accounting P/E

The CROCI valuation methodology

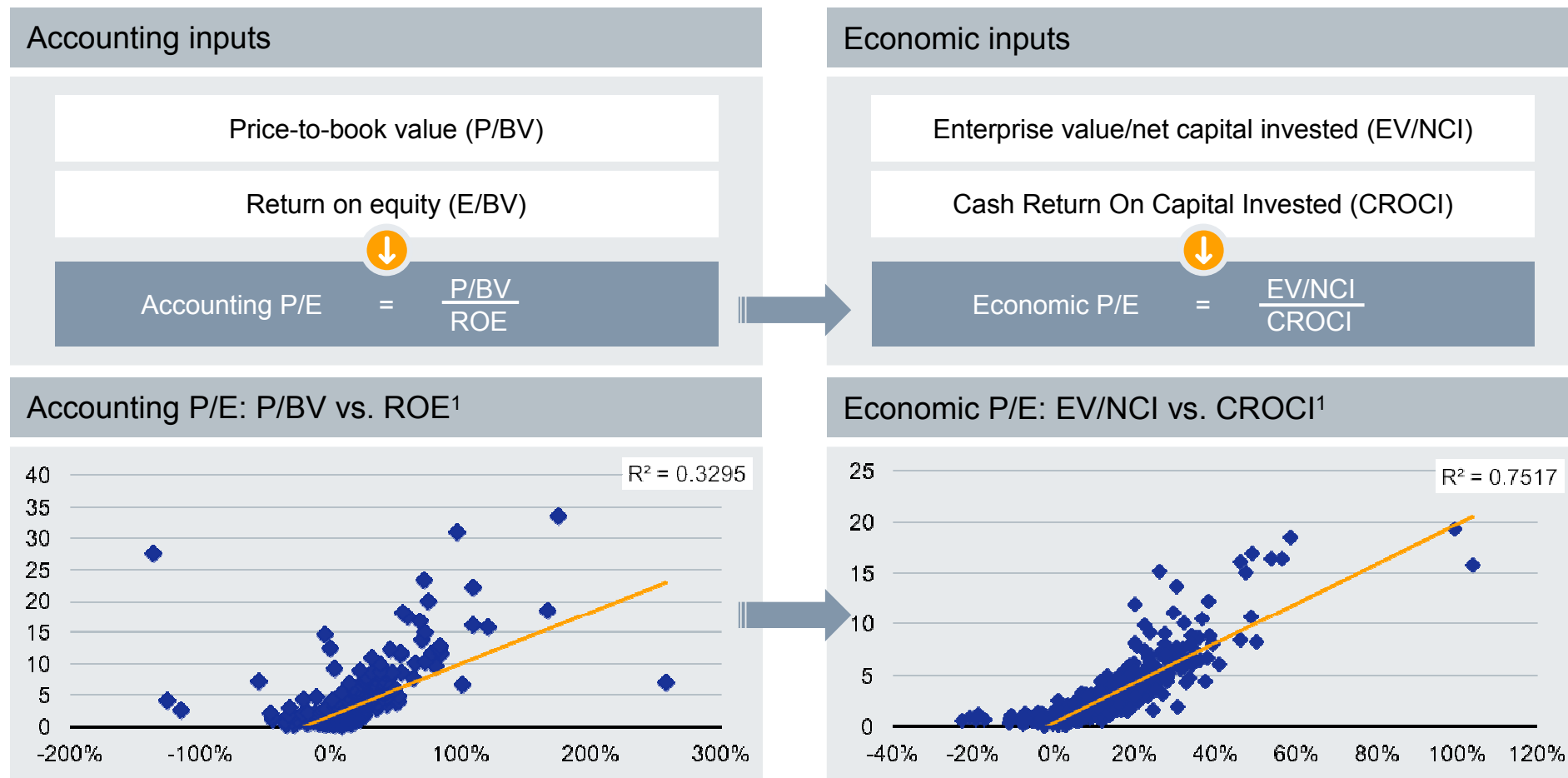
Going from accounting to economic data



Converting accounting data into real economic data



Economic P/E correlations are much higher than for accounting P/E

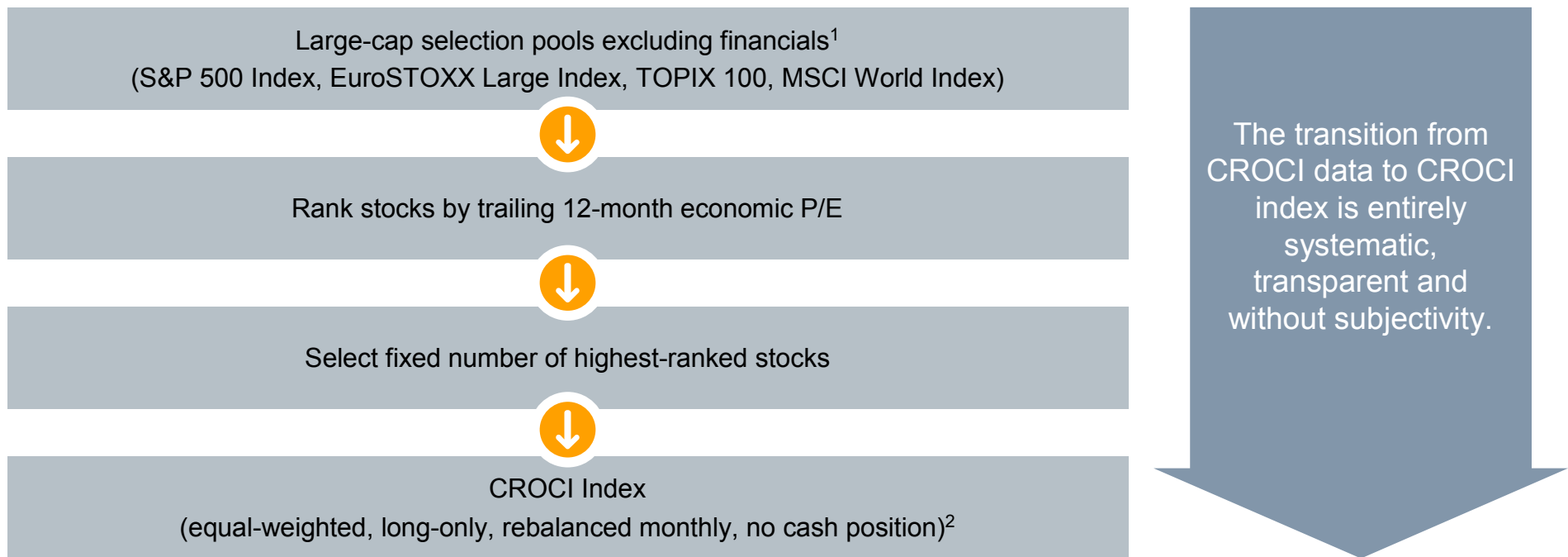


(1) P/BV vs. ROE and EV/NCI vs. CROCI is for CROCI global universe during 2012, using average share price where necessary. Companies with negative P/BVs have been removed from both, along with three extreme outliers in the accounting chart.

Source: Deutsche Bank

CROCI selection methodology

Overview of country, regional and global CROCI indices



CROCI indices are rebalanced on a monthly basis and are equally weighted.²

- CROCI World and CROCI World ex Japan Indices are targeted to be region neutral to the MSCI World and MSCI Kokusai Indices respectively.
- CROCI Sectors III Index selects the 10 stocks with the lowest economic P/E from each of the three global sectors with the lowest median economic P/E.

(1) That are included in the CROCI database.

(2) CROCI Global Dividends Index and CROCI US Dividends Index are rebalance on a quarterly basis.

Index returns assume reinvestment of dividends and do not reflect any fees or expenses. It is not possible to invest directly in an index.

The CROCI valuation methodology: What it does vs. what it doesn't do



CROCI is based on the premise that stock performance is primarily driven by fundamentals. But this is not always the case.

What CROCI tries to do:

Identify and provide exposure to real, inflation-adjusted value in the market

Avoid over-paying for assets

Avoid stocks with a high probability of multiple contraction in the future

Avoid stocks that hurt performance, especially when markets are falling

What CROCI doesn't do:

Identify the best performing stocks in the market

Participate in “momentum” or “bubble” markets—in a rising or falling momentum-driven market, the CROCI methodology may not add value because investors are not focused on valuation

Use analyst forecasts, company predictions, or any macro outlook

Include financial stocks, as the amount of leverage used by banks makes them incomparable to stocks in other sectors

CROCI seeks to systematically avoid investing in the most over-valued stocks
(which tend to underperform most when markets are falling)

CROCI may not add as much value in bullish markets as the entire market
tends to rise (“the rising tide floats all boats”)

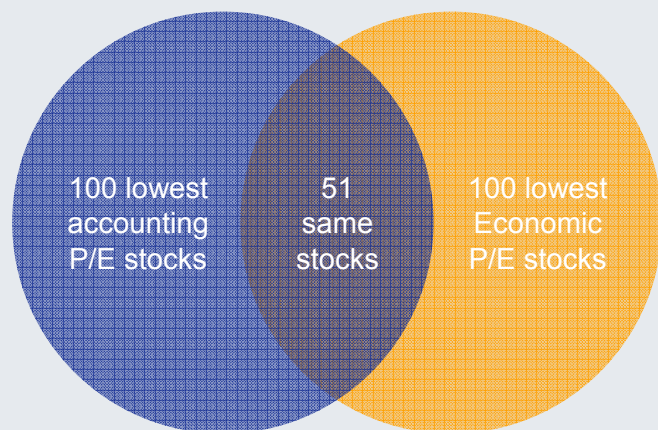
CROCI vs. traditional accounting value

Using accounting vs. CROCI data to select cheap stocks results in markedly different portfolios

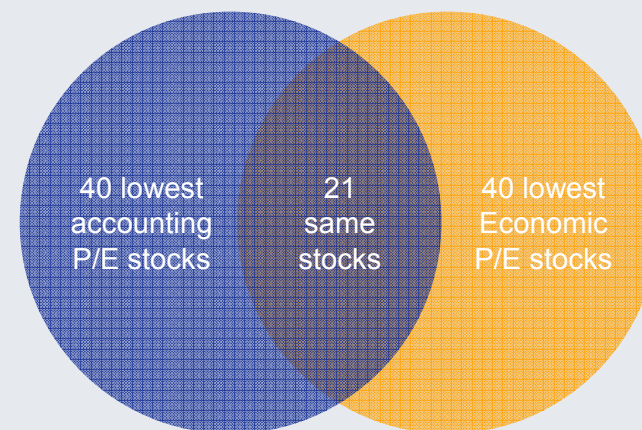


The overlap between accounting P/E and Economic P/E is relatively low¹

MSCI World Index



S&P 500 Index



100 stocks from MSCI World Index with lowest accounting P/E compared to 100 stocks with lowest Economic P/E

40 stocks from S&P 500 Index with lowest accounting P/E compared to 40 stocks with lowest Economic P/E

- CROCI seeks to provide exposure to real value based on economically adjusted data.
- Low-Economic-P/E portfolios are qualitatively distinct from traditional value portfolios with superior operational and financial characteristics.²

(1) A comparison of the companies that are in more than one of the 100 global and 40 U.S. stock strategy baskets using data as of 4/3/14 and 3/25/14, respectively. U.S. baskets are comprised of the 40 cheapest stocks as measured by Economic P/E and the 40 cheapest stocks as measured by accounting P/E. Global baskets are comprised of the 100 cheapest stocks as measured by Economic P/E and the 100 cheapest stocks as measured by accounting P/E.

(2) Refers to supplement information section for a comparison between Economic P/E and traditional accounting-based value portfolios.

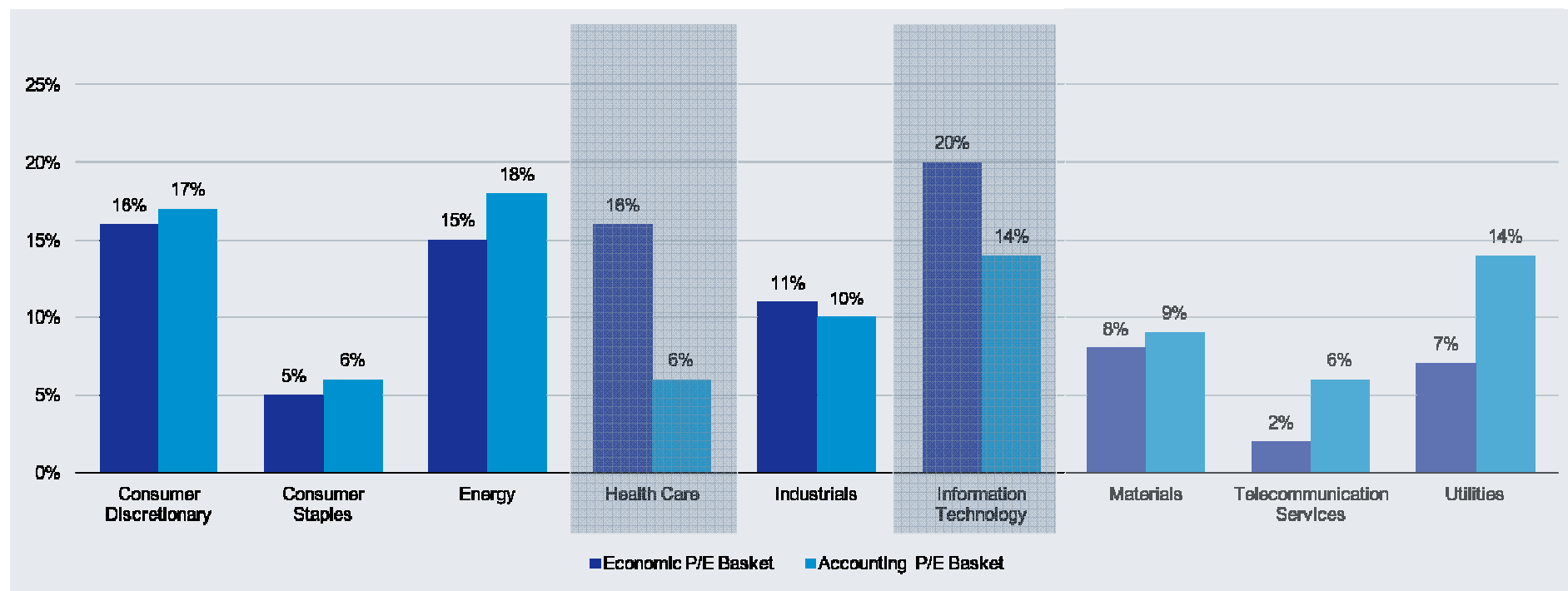
Economic P/E baskets vs. accounting P/E baskets

Global operational exposures differ greatly



The Economic P/E basket has significantly different sector exposures with a larger tilt towards more “growth” sectors than with the accounting P/E basket

Sector weights as of March 2014



Source: Deutsche Bank, Factset, 2014. The Economic P/E basket constituents are compared to a basket of 100 stocks from MSCI World top 450 excluding Financials and covered by CROCI selected based on lowest trailing 12 month Accounting P/E and Accounting Price/Book Value. These baskets are as of March 2014 and the comparisons between them may not be consistent over a longer period of time either historically or in the future. Dark grey highlights growth sectors which the Economic P/E basket favors, while the lighter grey highlights those it underweights.

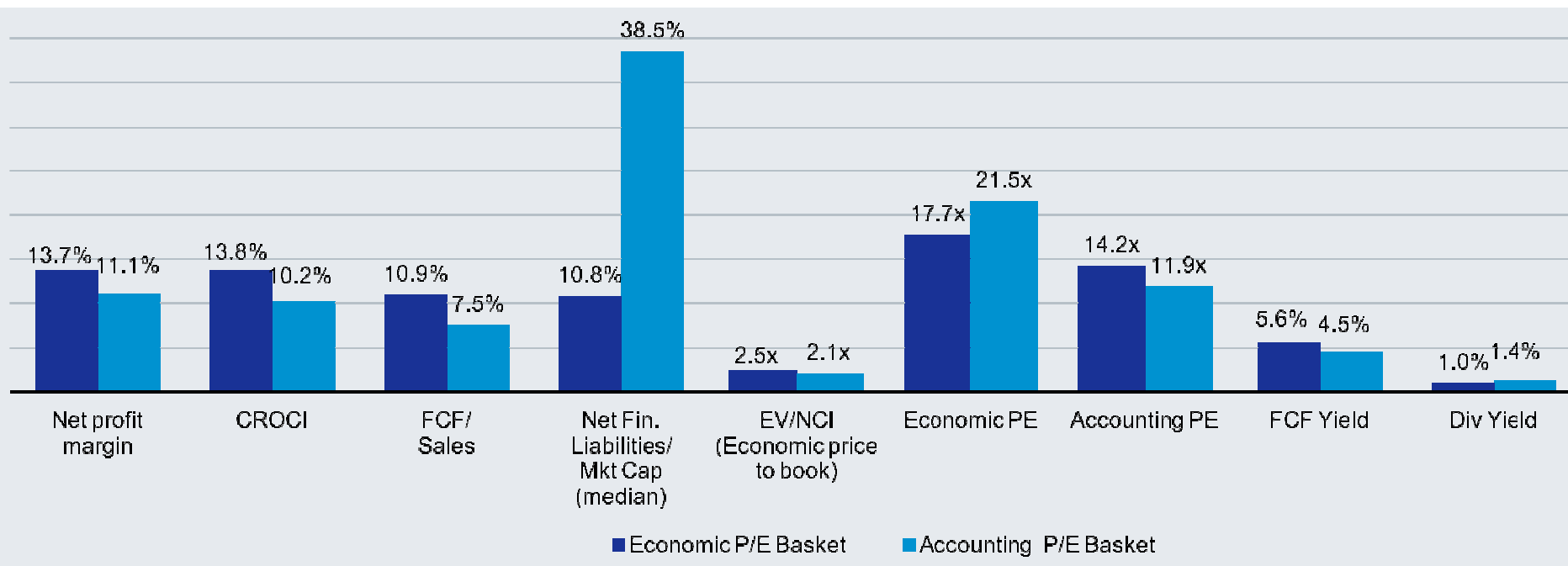
Economic P/E baskets vs. accounting P/E baskets

Global operational exposures differ greatly



- The Economic P/E basket has higher profitability, higher cash returns, less capital intensity and higher free cash flow than the accounting P/E basket
- The Economic P/E basket has much lower financial risk (leverage)
- The Economic P/E basket has lower economic valuations than the Accounting P/E basket, resulting in greater exposure to real value than a traditional value approach

Operational characteristics as of March 2014



Source: Deutsche Bank, Factset, 2014. The Economic P/E basket constituents are compared to a basket of 100 stocks from MSCI World top 450 excluding Financials and covered by CROCI selected based on lowest trailing 12 month Accounting P/E and Accounting Price/Book Value. These baskets are as of March 2014 and the comparisons between them may not be consistent over a longer period of time either historically or in the future.

CROCI excludes financial stocks

Why?



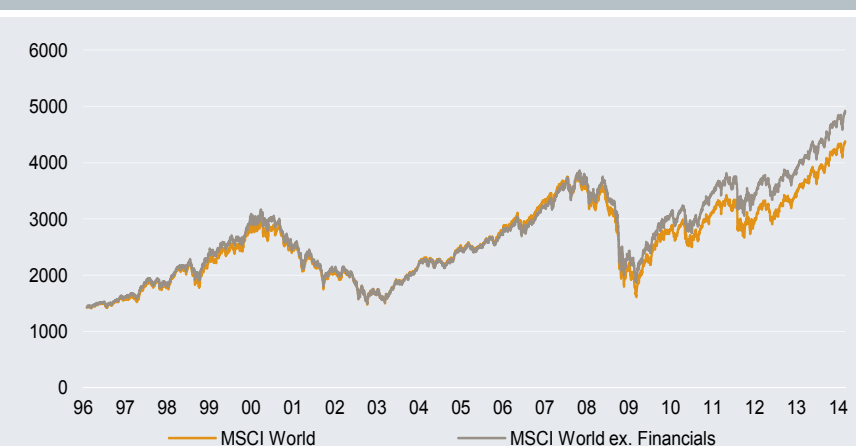
Financial company balance sheets are different

- Assets and liabilities are financial and valued on basis of market prices therefore, CROCI adjustments are not as relevant
- Valuation metrics for Financials are not directly comparable because of high leverage and risk profiles
- Financials have been excluded since 1996

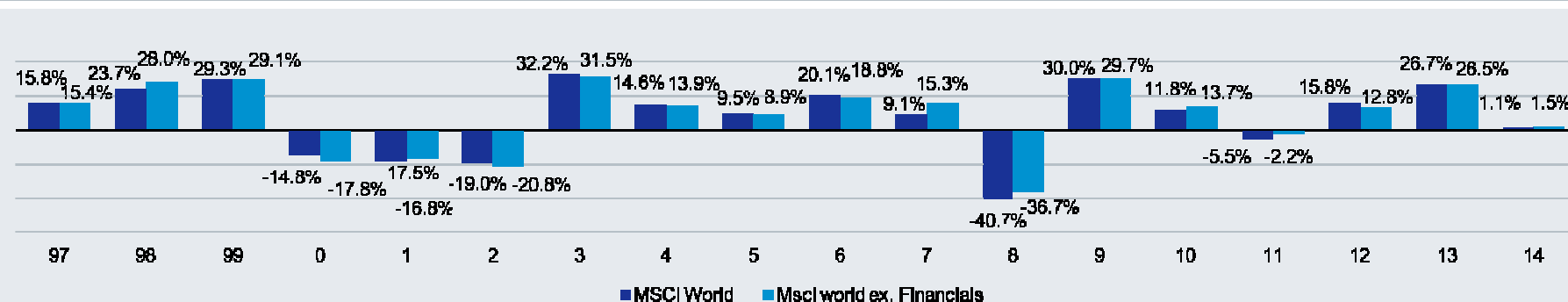
Financials have tracked the benchmark over longer term

- MSCI World and MSCI World ex Financials annualised returns since Feb 1996 are 6.4% vs. 7.1% per annum respectively. This indicates an impact from not owning financials of only 70bps per year.

MSCI World vs. MSCI World Ex Financials



MSCI World vs. MSCI World Ex Financials



Source: MSCI. The MSCI World ex Financials Index is calculated and published by MSCI. The MSCI indices are the exclusive property of MSCI Inc. (MSCI) and may not be reproduced or extracted and used for any other purpose without MSCI's consent. The MSCI indices are provided without any warranties of any kind.



03

CROCI adjustments: Examples

Approximating the replacement value of assets



1. Approximating the replacement value of assets

Book value is represented at original cost which means depreciation is understated by the impact of inflation.

Example: ExxonMobil 2013

- According to the ExxonMobil 2013 annual report, the company's book value of \$174 billion did not reflect the impact of inflation on the assets, which meant that depreciation was not reflected in the replacement cost of the assets.
- When adjusted for inflation, the “real” book value nearly doubled which also doubled the valuation.

Accounting data		Economic data	
Market cap (in million)	\$399,954	Enterprise value (in millions)	\$341,508
Book value (in million)	\$174,003	Net capital invested (in millions)	\$299,698
Return on equity	18.04%	CROCI	4.71%
Accounting P/E	12.7x	Economic P/E	24.2x

Source: Deutsche Bank and company data as of 12/31/13. For illustrative purposes only.

Accounting for hidden liabilities

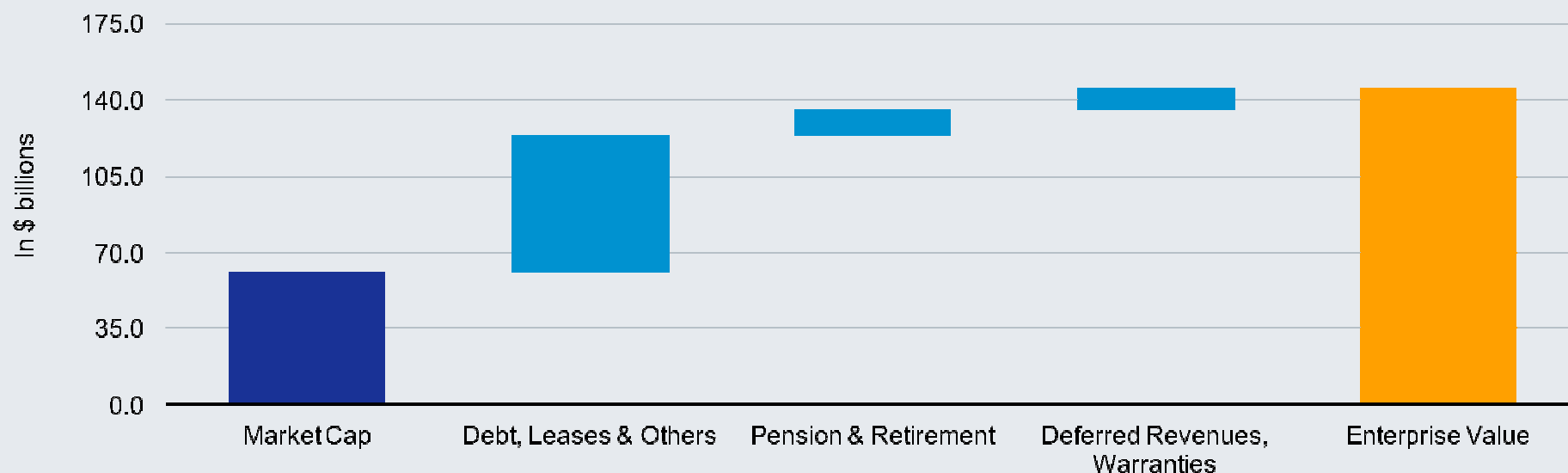


2. Accounting for hidden liabilities

Off-balance sheet items such as operational leases, pension underfunding, warranties and future provisions should be recognized as liabilities.

Example: ExxonMobil 2013

- According to the ExxonMobil 2013 annual report, the company's book value of \$174 billion did not reflect the impact of inflation on the assets, which meant that depreciation was not reflected in the replacement cost of the assets.
- When adjusted for inflation, the "real" book value nearly doubled which also doubled the valuation.



Source: Deutsche Bank and company data as of 12/31/13. For illustrative purposes only.

Depreciating similar assets in the same manner



3. Depreciating similar assets in the same manner

Similar assets that are located in different countries should be depreciated over the same economic lives irrespective of the accounting and tax-depreciation methodology employed.

Example: Airlines

— For instance, Deutsche Lufthansa takes advantage of German tax benefits from accelerated depreciation which causes its book value to appear unrealistically low. On the other hand, British Airways does not benefit from the same tax treatment and therefore depreciates its fleet over a longer time period, which causes book value to be incomparable to Lufthansa's.

— Given below are the estimated life based on company accounts and the residual value for different airline companies:

	Deutsche Lufthansa	British airways	Air China
Accounting life	12 years	18 to 25 years	5 to 30 years
Residual value	15%	Not specified	5%

Source: Deutsche Bank and company data as of 12/31/13. For illustrative purposes only.

Estimating the value of unreported assets



4. Estimating the value of unreported assets

Capital investment for R&D (via R&D expense) and brand (via advertising expense) should be capitalized and depreciated to better recognize the capital investment for these unreported assets. After accounting for this expense, the economic net capital invested reflects all of the capital invested and enables this unreported asset to be included in the CROCI valuation.

Example: Pfizer

—Pharmaceutical companies, such as Pfizer, make large investments into their pipelines which are not represented in their assets, but reflected within their CROCI-adjusted assets.

CROCI metrics			
Accounting PE	14.4x	Economic PE	14.3x
Return on equity	17.4%	CROCI	19.5%

Gross assets components (USD millions)	Accounting book value	Adjustment (as %)	Real capital
Gross tangible fixed assets	\$28,875	12%	\$32,219
Capitalized intangibles	\$0	100%	\$65,122
Others	-\$17,212		\$11,835
Gross assets	\$11,663	836%	\$109,176

Source: Deutsche Bank and company data as of 12/31/13. For illustrative purposes only.



04

Definitions of key terms and team biographies

Definitions



CROCI
Economic P/E

Calculated as Economic Price-to-Book over Economic Returns (or EV/NCI/CROCI), Economic P/E is a measure of valuation that incorporates ALL of the assets and liabilities of a company which are adjusted systematically by the CROCI Team

CROCI
EV/ NCI

Used as the economic version of an asset multiple, e.g. Price-to-Book Value. Over time, this ratio should converge to 1x, according to economic theory (Tobin)

—CROCI Enterprise Value (EV)

A measure of the market value of the firm, which includes not only financial liabilities (eg debt) but also operational liabilities (e.g. warranties, pension funding, specific provisions, etc.)

—CROCI Net Capital Invested (NCI)

An approximation of the real replacement value (at current costs) of net assets

CROCI

Cash Return On Capital Invested, the economic version of Return on Equity. A measure of cash earnings yield, standardised for all companies, regardless of their business or location.



Di Kumble, CFA

Senior Portfolio Manager, DWS International Fund, and Head of Tax-managed Equities

- Kumble joined the company in 2003 with seven years of industry experience.
- Prior to joining, she served as a portfolio manager at Graham Capital Management. Previously, she worked as a quantitative strategist at ITG Inc and Morgan Stanley.
- Kumble received a PhD in chemistry from Princeton University.



Francesco Curto, PhD

Head of the CROCI Investment Strategy & Valuation Group

- Curto joined Deutsche Bank in September 1998. In his time at Deutsche Bank, he has been a senior European strategist and senior global strategist, and has been involved in all the major developments of CROCI.
- He joined from Warwick Business School, where he was a research fellow.
- He holds a degree in business economics (economia aziendale) from "Universita' di Venezia" and a PhD in strategic management from Warwick University.

CROCI team biographies



Deutsche Asset & Wealth Management—CROCI Americas



Joe Hall
Head of CROCI Americas

- Before joining Deutsche Bank in October 2013 to develop and manage CROCI in the Americas, Hall worked at Deutsche Bank between 1995 and 2005, having been initially recruited as part of the team which created the Deutsche Bank European equity platform from scratch. He was also head of European equity sales, based in London and running a team of 180 salespeople globally. He was also responsible for global institutional client relationships.
- Hall moved to the United States in 2001 to oversee integration of DB Alex Brown within the global network.
- He holds bachelor's and master's degrees in modern languages from Oxford University.

Deutsche Asset & Wealth Management—CROCI Strategies



Markus E. Barth, CFA,
Head of CROCI investment products

- Barth is responsible for the design, development, implementation and maintenance of all CROCI investment strategies and products.
- He joined Deutsche Bank in 2002 as an equity investment strategist for structured products, which led to development of CROCI in 2004.
- Prior to joining Deutsche Bank, Barth was head of international quantitative equity strategy at Merrill Lynch for nine years, before which he worked at JP Morgan Investment Management for 10 years in fundamental and quantitative analysis and portfolio management.
- He received a Bachelor's degree in business and economics from Lehigh University and a Master's in Business Administration from LaSalle University.

Deutsche Asset & Wealth Management—CROCI Database



Virginie Galas
Head of the CROCI database and team

- Galas is in charge of the management of the CROCI® database.
- Galas, who has 18 years of experience in financial analysis, joined Deutsche Bank in 1995 after two years at SG Warburg. From 1997 to 2002, she was head analyst on European luxury and cosmetic stocks, for which she was ranked second in Institutional Investor Surveys for several years in a row.
- Galas has a master's degree of economics from the University of Paris Dauphine, where she now teaches a post-graduate finance course; she also has a post-graduate "Banque et Finance" and license courses in philosophy from the University Paris I Sorbonne.

CROCI team biographies



Deutsche Asset & Wealth Management—CROCI Analysis



Christopher Wane
Head of CROCI, Europe

- Wane joined Deutsche Bank in May 2000. After working with the CROCI® global and pan-European strategy team for a year, he changed focus to concentrate on pan-European small- and mid-cap strategy, ultimately heading the team. He returned to global coverage in 2005, focusing initially on capital structure and from 2008 onward, additionally on CROCI.
- Prior to Deutsche Bank, Chris worked for Deloitte & Touche, qualifying as a chartered accountant.
- He holds an accountancy studies degree (first class) from the University of Exeter.



Colin McKenzie,
Director

- McKenzie helped to develop the CROCI investment strategy and valuation group, where he specializes in company and sector valuation.
- He joined the group in 2000, before which he worked in equity sales.
- McKenzie holds a degree in mathematics and philosophy from Oxford University.
- He also publishes regular reports on market and sector trends.

Important 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. Investing in foreign securities 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.

OBTAIN A PROSEPTUS

To obtain a summary prospectus, if available, or prospectus, download one from www.dws-investments.com for more information regarding the fund's objectives, risks, charges and expenses.

Investment products offered through DWS Investments Distributors, Inc. Advisory services offered through Deutsche Investment Management Americas, Inc.

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