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Date: May 8, 2015

TO: MEMBERS, INVESTMENT COMMITTEE

I.	**AGENDA ITEM # AND TITLE :**	Open Agenda Item 5 – Economic and Investment Outlook
II.	**NAME AND PROGRAM:**	Treasury and Investments
III.	**ACTIVITY:**	☒ Informational ☐ Request for Direction ☐ Action Proposed ☐ Exploratory
IV.	**JUSTIFICATION:**	☒ Standard/Required Item ☐ Board Request – New Item ☐ New Topic from Staff

V. EXECUTIVE SUMMARY:

Mr. Larry Adam, U.S. CIO & Chief Investment Strategist at Deutsche Asset and Wealth Management (Deutsche AWM) will provide a broad overview on navigating a "QE" (Quite Expensive) Market.

VI. ANALYSIS:

Mr. Larry Adam will provide a broad overview on navigating a "QE" (Quite Expensive) Market.

The overview will focus on 5 themes:

1. A Global Synchronized Recovery afoot
2. Divergence in Monetary Policy
3. "Expensive" Bull Markets
4. Dollar Dominance to Continue
5. Commodities: Oil and Gold Obstacles

Conclusion: Summary of Asset Class Attractiveness

Deutsche Asset
& Wealth Management

2Q15 Outlook

Navigating a “QE” (Quite Expensive) Market

Passion to Perform

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State Compensation Insurance Fund
Investment Committee - May 21, 2015
Open Agenda Item 5 - Economic and Investment Outlook

Themes for 2Q15

Navigating a “QE” (Quite Expensive) Market

1	**A Global Synchronized Recovery Afoot**
2	**Divergence in Monetary Policy**
3	**“Expensive” Bull Markets**
4	**Dollar Dominance to Continue**
5	**Commodities: Oil and Gold Obstacles**

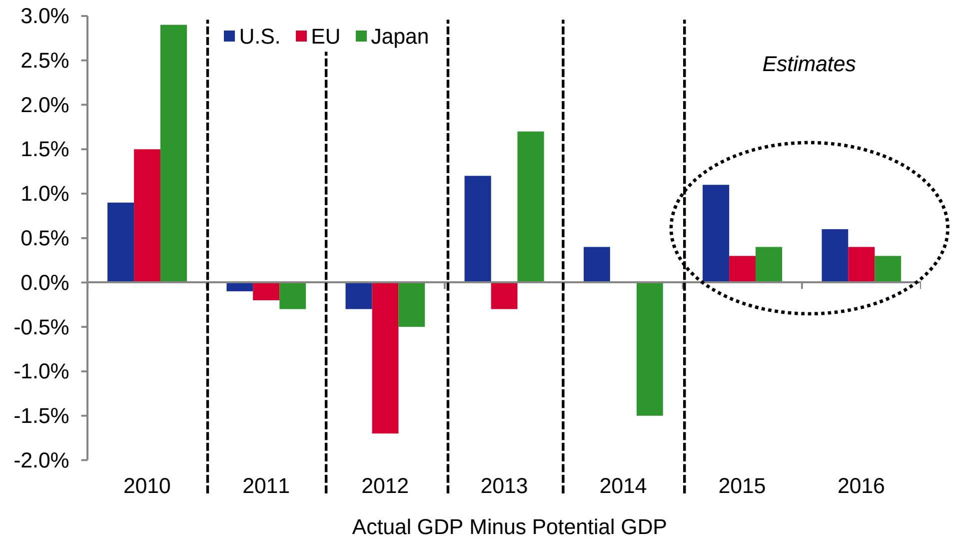
1 A Global Synchronized Recovery Afoot

A Changing of the Guard

Economic Growth to Accelerate

Footnotes: Forecasts are for 2015 GDP growth and are as of March 2015.
Source: Deutsche Asset & Wealth Management.

Growing Above Potential



— Global growth is expected to accelerate to 3.4% in 2015 from 3.3% in 2014 and to 3.7% in 2016.

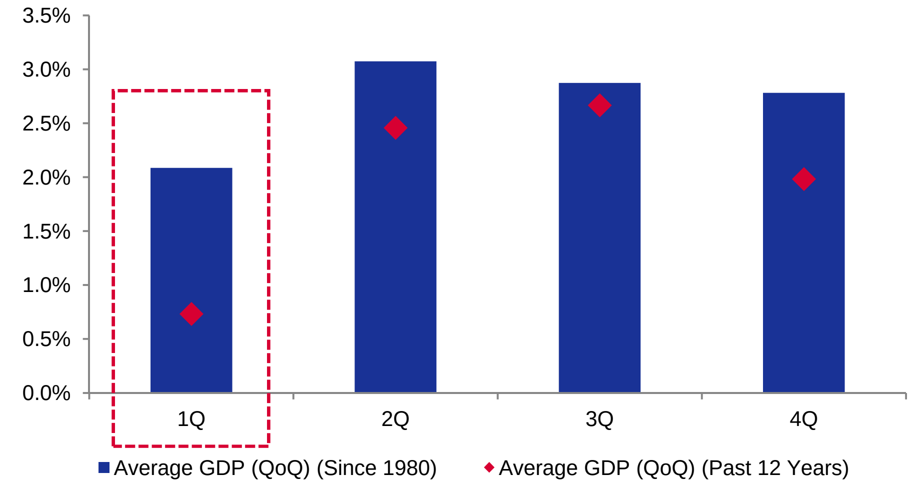
— In addition, 2015 will be the first year since 2010 that all three major developed nations deliver above potential growth.

Footnotes: Data as of March 2015. Potential GDP is using OECD data. 2015 and 2016 actual GDP is Deutsche Asset & Wealth Management estimate.
Source: Bloomberg Finance LP, OECD, Deutsche Bank Global Markets, Deutsche Asset & Wealth Management.

A Global Synchronized Recovery Afoot

U.S. Seasonal Softness Should Lead to Rebound

1Q Typically Weak Quarter



- Since 1980, 1Q has historically been the weakest quarter, averaging 2.1% (QoQ) growth (vs. ~3% in 2Q-4Q).
- However, over the past 12 years, that trend has been even weaker. GDP has grown, on average, 0.7% in 1Q in the past 12 years.
- In fact, in seven out of the past 12 years, 1Q GDP has been the weakest of all four quarters in the calendar year.

Footnotes: Time period reflects 1Q80-4Q14.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Déjà vu Rebound in Growth

Healthy Job Creation	12 month job creation is best since March 2000.
	Jobless claims at cyclical lows.
	Withholding tax receipts at record high.
Confidence Robust	Consumer confidence hovering near pre crisis highs.
	Quit rate at seven year high; suggests confidence in labor market.
	Business confidence at seven year high.
Consumer Spending Strong	Cyclical high in consumer and business spending.
	Wage growth materializing.
	Oil prices remain depressed; tax cut for consumers.
Housing Poised to Accelerate	Lower interest rates.
	Inventories near 15 year low.
	Homebuyer affordability well above average.
Fiscal Drag Fading	State and local govt. spending rising at fastest pace since 2009.
	Federal govt. spending rose for first quarter (4Q14) since 3Q12.

Footnotes: Data as of March 30, 2015.
Source: FactSet, Bloomberg Finance LP, Deutsche Asset & Wealth Management.

A Global Synchronized Recovery Afoot

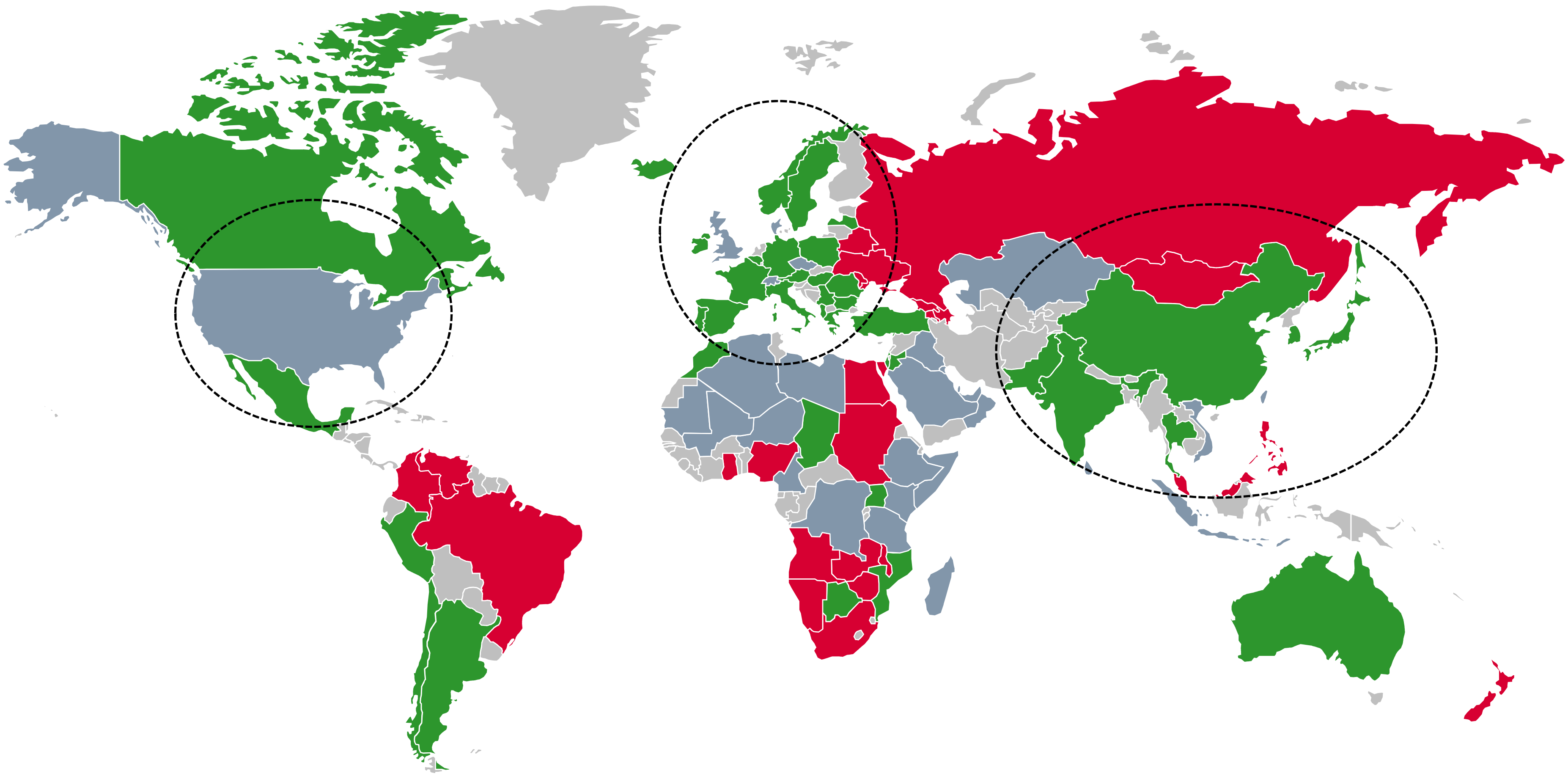
A Changing of the Guard — U.S. to be the Developed Market Leader

China	U.S.	Europe	Japan
Electricity Demand	Withholding Tax Receipts	German Exports	Core Machinery Orders
Cement Output	Jobless Claims	Credit Impulse	PMI Manufacturing/Services
Housing Prices	ISM Production	Belgium Manufacturing Survey	Average Real Earnings
Retail/Auto Sales	Commercial & Industrial Loans	Consumer Sentiment	Consumer Confidence
Inflation	New Vehicle Sales	Inflation	Inflation
Fab 5 indicators are negative. Growth is likely to slow to 6.8% in 2015. However, reform implementation and central bank flexibility should result in stabilization and better long term growth prospects.	*We expect a stronger consumer, an uptick in the capex cycle, easing fiscal drag and modest gains from housing to push GDP above trend in 2015.*	*We expect further improvement in growth for 2015 (1.3% on average YoY), supported by accommodative monetary policy, easing fiscal drag, slowly growing consumer demand and EUR depreciation.*	*As the domestic economy continues to struggle, there is a growing probability that the Bank of Japan will continue to be more aggressive.*

Footnotes: Fab 5 indicators are five high frequency economic indicators that we use as a good gauge on the health of the broad economy.
Source: Deutsche Asset & Wealth Management.

2 Divergence in Monetary Policy

Divergence in Global Monetary Policy



Footnotes: Data as of March 25, 2015. Green shaded countries have cut interest rates or implemented a new QE program and/or added to an existing program in the past one year time period. Red countries have raised rates in the past year and grey countries have seen central bank rates remain unchanged.
Source: Bloomberg Finance LP, FactSet, Deutsche Asset & Wealth Management.

Divergence in Monetary Policy—QE

Paying the Government to Save

Negative Global Yields

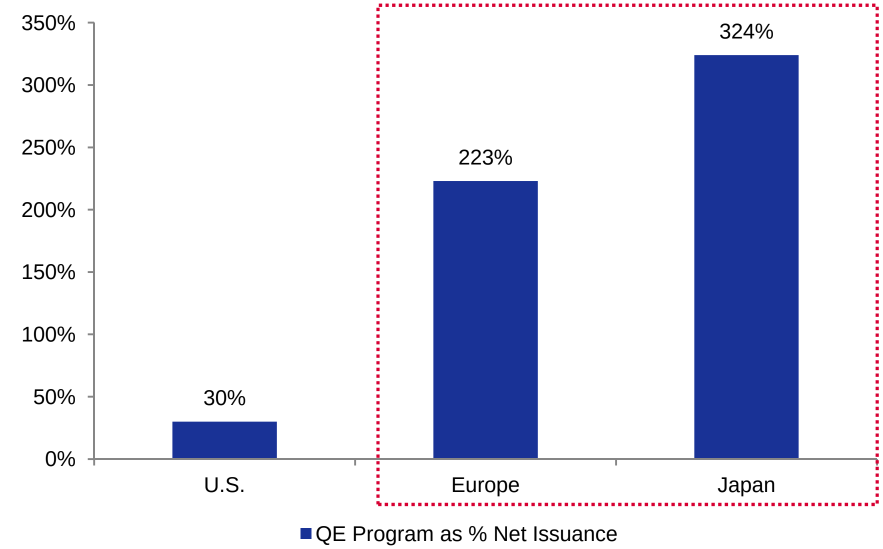
	Switz.	Germ.	Belg.	France	Japan	Spain	U.S.	Italy	Port.	Swed.	UK
3 Mo	-0.7%	-0.3%	-0.2%	-0.2%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.1%	0.5%
2 YR	-0.7%	-0.3%	-0.2%	-0.2%	0.0%	0.0%	**0.5%**	0.2%	0.0%	-0.3%	0.4%
3 YR	-0.7%	-0.2%	-0.1%	-0.1%	0.0%	0.2%	**0.8%**	0.3%	0.4%	-0.1%	0.8%
5 YR	-0.4%	-0.1%	0.0%	0.1%	0.1%	0.5%	**1.3%**	0.5%	0.9%	0.0%	1.2%
7 YR	-0.2%	0.0%	0.2%	0.2%	0.1%	0.8%	**1.6%**	0.9%	1.9%	0.2%	1.4%
10 YR	-0.1%	0.2%	0.4%	0.5%	0.4%	1.2%	**1.9%**	1.3%	1.7%	0.4%	1.5%
30 YR	0.4%	0.6%	1.0%	1.1%	1.4%	2.0%	**2.5%**	2.1%	2.4%	0.5%	2.3%

— The ECB's aggressive QE program and supply imbalance has pushed many yields in negative territory.

— In Switzerland, yields are negative out to 10 years while they are negative out to seven years in Germany.

Footnotes: Data as of March 31, 2015. Data shaded grey yields less than comparable U.S. Treasury yield.
Source: Bloomberg FinanceLP, Deutsche Asset & Wealth Management.

ECB QE as Percent of Issuance*



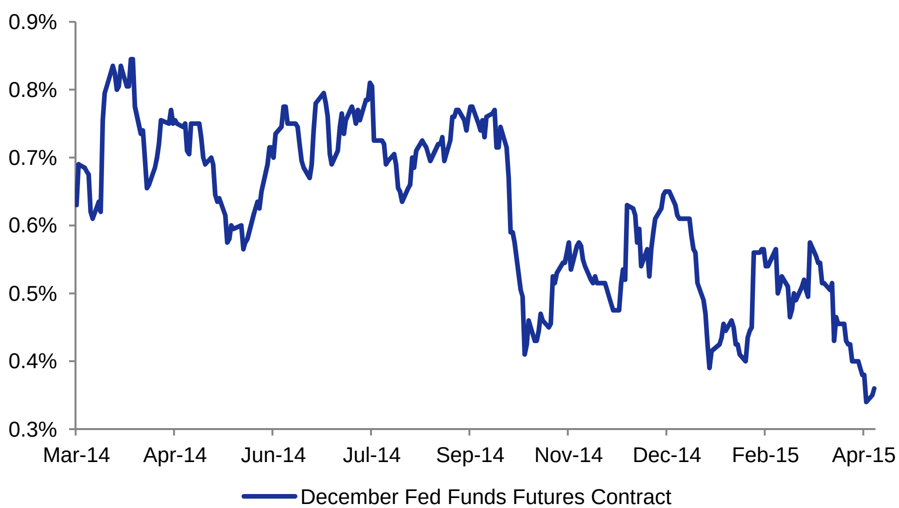
— While the ECB's program is smaller in relation to GDP than seen in the U.S. and Japan, when compared to the net issuance, it is much larger than the U.S.'s program.

Footnotes: Data as of April 2015. *Data is using the entire QE program in the U.S. but is Fed Treasury purchases only in relation to Treasury debt issued (not MBS etc). Japan is using the QE programs announced in 2013 and 2014 along with Ministry of Finance projections for net issuance in 2015. Europe program is using March 2015 to September 2016 with Bloomberg projected issuance.
Source: BoJ, Bloomberg Finance LP, Ministry of Finance, Deutsche Asset & Wealth Management.

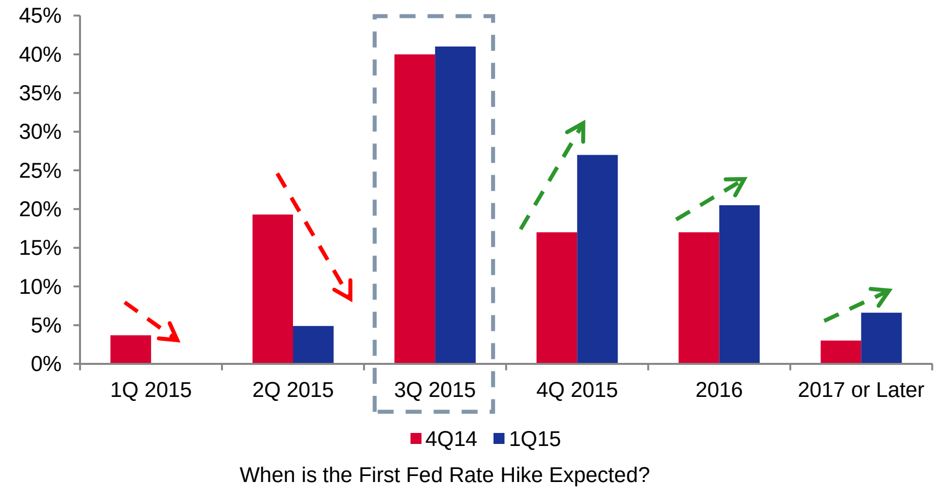
Divergence in Monetary Policy— the Fed

Timing of Tightening Cycle Pushed Out

December Futures



Survey More Dovish



— The recent soft patch in U.S. economic data has resulted in expectations for rate hikes to be pushed out.

— In fact, the December 2015 Fed funds futures contract has fallen from as high as 0.60% at the beginning of 2015 to 0.35% currently.

— Our proprietary Market Sentiment Survey* shows that as economic momentum has slowed that those surveyed have nearly ruled out a June rate hike.

— In fact, 19% of those surveyed in 4Q14 believed the first rate hike would be in 2Q15, that has fallen to 5% in our March survey.

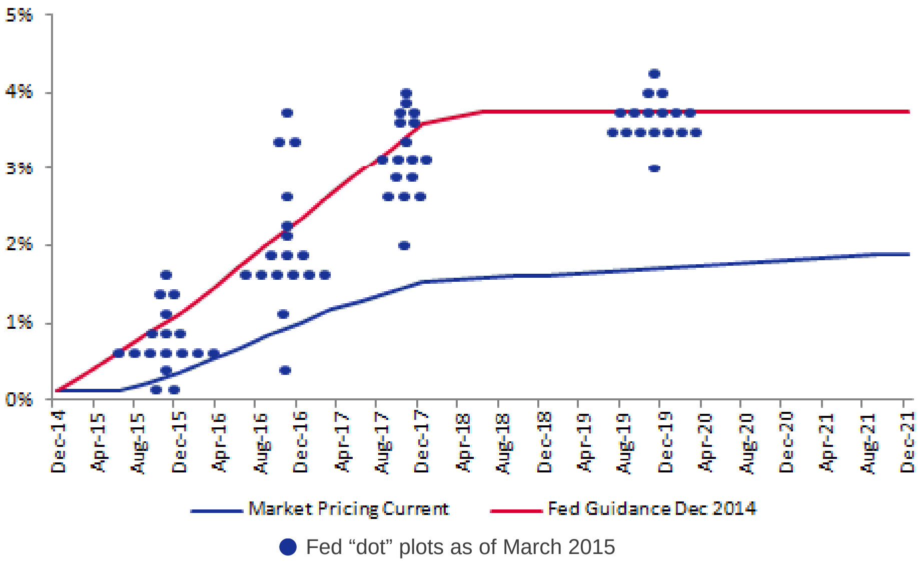
Footnotes: Data as of April 7, 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Footnotes: *Market Sentiment Survey as of March 2015. Survey comprised of 125 high net worth financial advisors and professionals.
Source: Deutsche Asset & Wealth Management.

Divergence in Monetary Policy—the Fed

Increased Volatility Expected

Fed Funds Rates "Mismatch"



— The current market expectations for the long term Fed funds rate is much lower than the Fed is anticipating.

— Investors should be aware that periods of consolidation are likely in the one year prior to a Fed tightening cycle.

Footnotes: Data as of March 30, 2015.
Source: Bloomberg Finance LP, DB Global Markets, Deutsche Asset & Wealth Management.

Pullbacks and Tightening Cycle

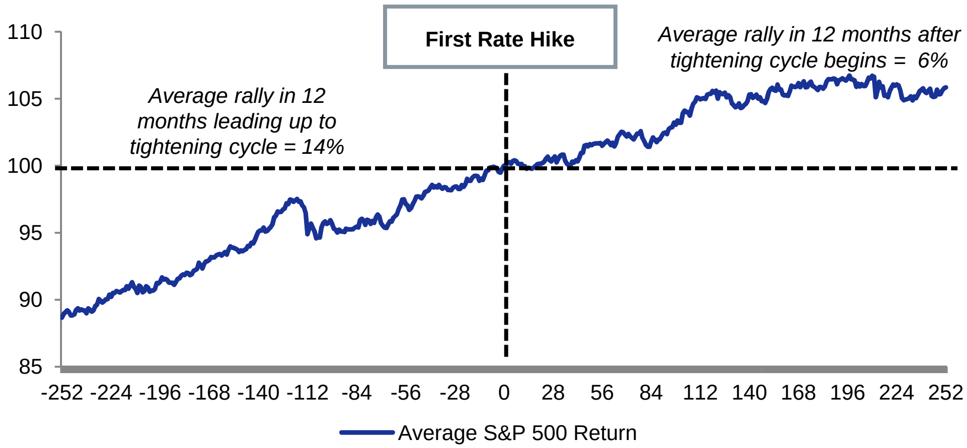
	-3% to -4.99%	-5% to -9.99%	-10% or More	Total Pullbacks	Average Pullback
1955	3	2	0	5	-4.4%
1958	2	2	0	4	-5.0%
1963	2	0	1	3	-3.6%
1967	3	2	0	5	-3.3%
1968	0	2	0	2	-7.5%
1972	0	0	2	2	-10.9%
1973	2	1	1	4	-4.8%
1976	4	1	0	5	-4.4%
1980	1	0	2	3	-10.3%
1984	2	3	0	5	-6.3%
1986	4	2	0	6	-4.9%
1988	0	2	2	4	-10.2%
1994	0	1	0	1	-5.0%
1999	4	3	2	9	-5.0%
2004	1	2	0	3	-5.7%
Average	**2**	**2**	**1**	**4**	**-5.0%**

Footnotes: Time period reflects 1955-2004. Tightening cycle is considered tightening cycle when Fed raises rates three consecutive times and there is one year time period in between each tightening cycle.
Source: FactSet, Deutsche Asset & Wealth Management.

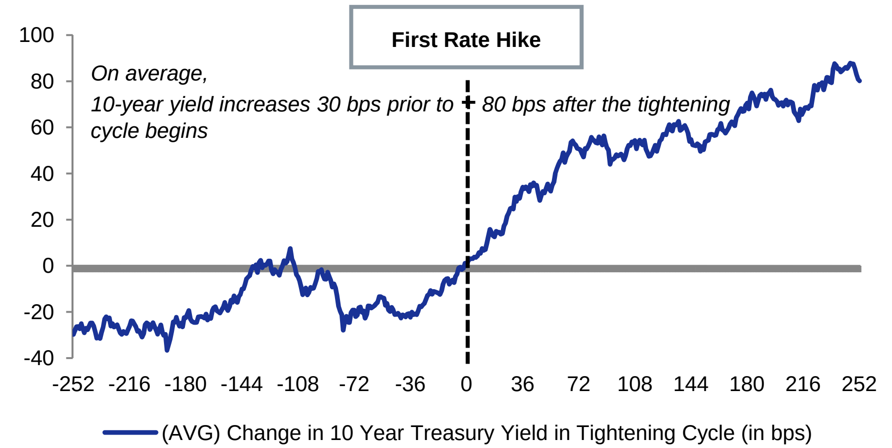
Divergence in Monetary Policy—the Fed

Rate Hikes and the Impact on Asset Classes

Hikes Don't Disrupt the Bull



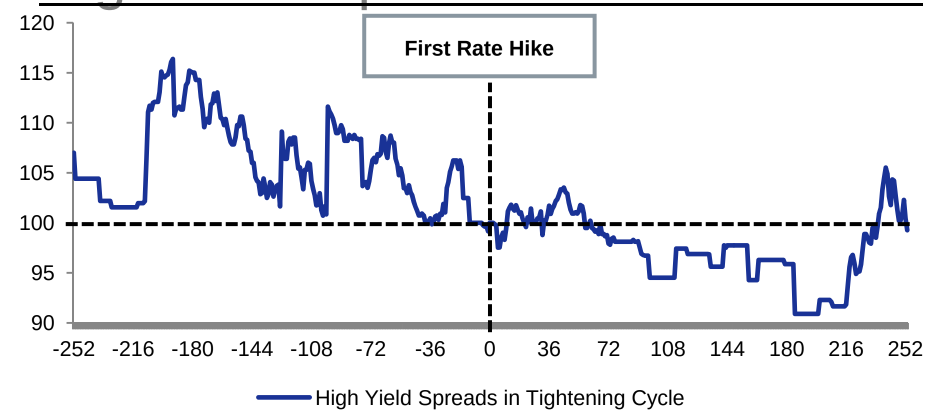
Treasury Yields Rise



— History suggests that a Fed tightening cycle does not necessarily disrupt the bull market in equities.

— While sovereign yields tends to rise, spreads in high yield tend to narrow into and after the tightening cycle begins.

High Yield Spreads Narrow



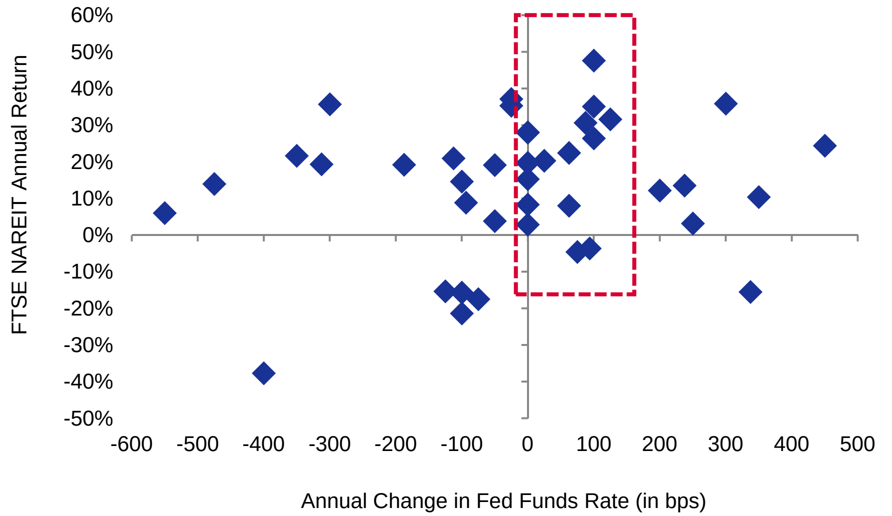
Footnotes: S&P 500 time period reflects 1955-2004. 10 year time period reflects 1963-2004. Tightening cycle is considered tightening cycle when Fed raises rates three consecutive times and there is one year time period in between each tightening cycle. High yield spreads are indexed to 100 at day of rate hike. Time period reflects four tightening cycles 1988, 1994, 1999, 2004.

Source: FactSet, Deutsche Asset & Wealth Management.

Divergence in Monetary Policy—the Fed

Not all Interest Rate Sensitive Investments Created Equal

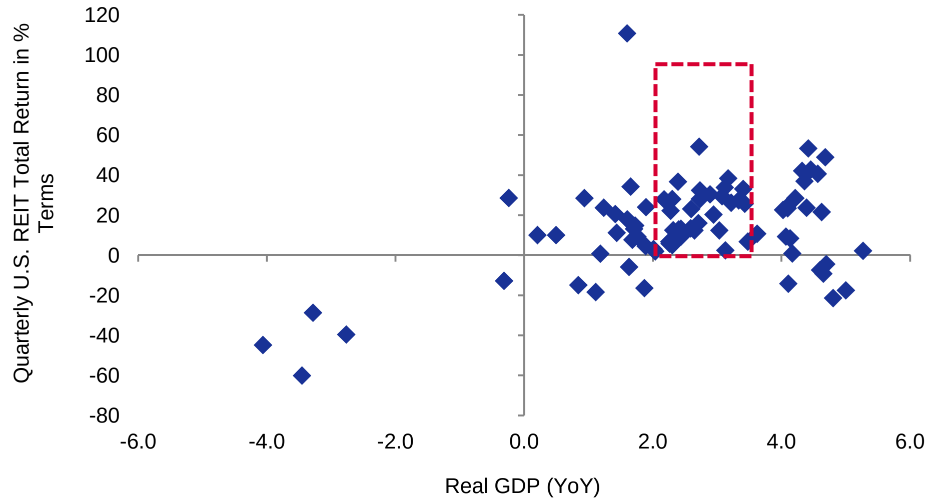
REITs Attractive Potential



- Since 1971, in the years that the Fed is either on hold or modestly raises their benchmark rate (0-150 bps), REITs have produced attractive returns (on average ~20%).
- In fact, there have only been two times (out of 18) that the Fed has raised rates by 0-150 bps in a calendar year and REITs have been negative for the year (1987 & 1999).

Footnotes: Time period reflects 1971-2014.
Source: FactSet, Deutsche Asset & Wealth Management.

REITs and GDP



- Historically, REITs have produced attractive returns when U.S. economic growth is between 2.5-3.5% (YoY on a quarterly basis).

Footnotes: Time period reflects 20 years trailing as of December 2014.
Source: FactSet, Deutsche Asset & Wealth Management.

Divergence in Monetary Policy

Not all Interest Rate Sensitive Investments Created Equal

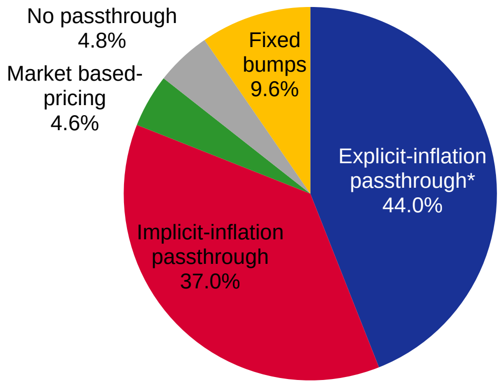
Aging Infrastructure

— It is estimated that the U.S. needs $3.6 trillion in infrastructure investment by 2020 with an annual funding need of $450 billion.

— One example is the Liberty Bridge in Pittsburgh that was built to last 50 years, 86 years ago.

— The bridge has a structure underneath in order to catch falling debris from the deficient bridge.

Inflation Hedge?



— 95% of pure play infrastructure has full or partial inflation protection and 81% has full inflation protection.

**Explicit inflation passthrough is inflation protection inherently built in to underlying infrastructure contracts and leases because companies can raise prices to pass on increased costs. Implicit inflation passthrough is not inherently built in to underlying contracts and leases, but companies earnings adjust to inflation on a lagging basis. Fixed price bumps are underlying contracts that have usage rates that increase over time, but these rates are not tied to an inflation measure. With market based pricing, companies earn revenues subject to market rates, which reflect inflationary pressures.*

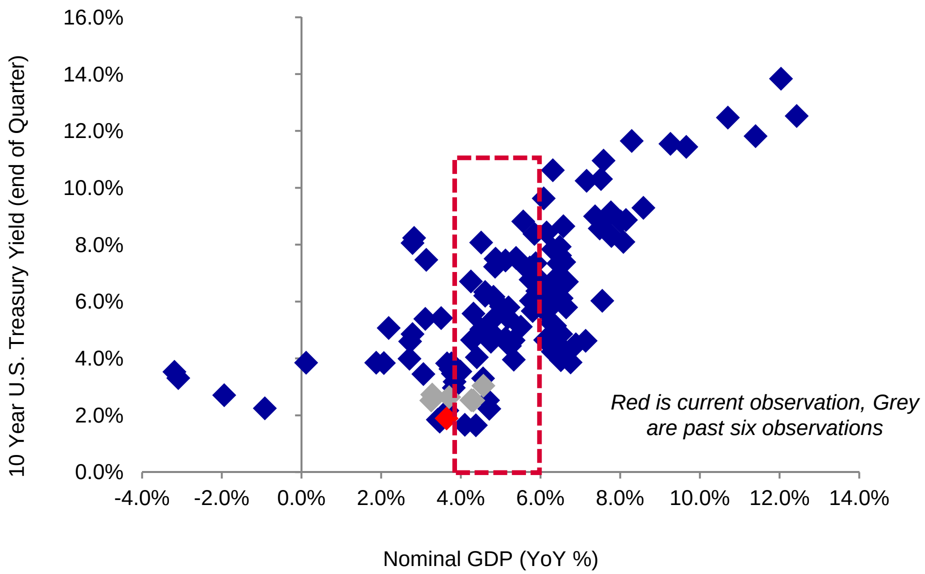
Footnotes: Data as of March 2013.
Source: American Society of Civil Engineers, 60 Minutes, Deutsche Asset & Wealth Management.

Footnotes: Data is as of 1Q14.
Source: Deutsche Asset & Wealth Management.

3 "Expensive" Bull Markets

End of the Treasury Bull Market?

10 YR Treasury and Nominal GDP

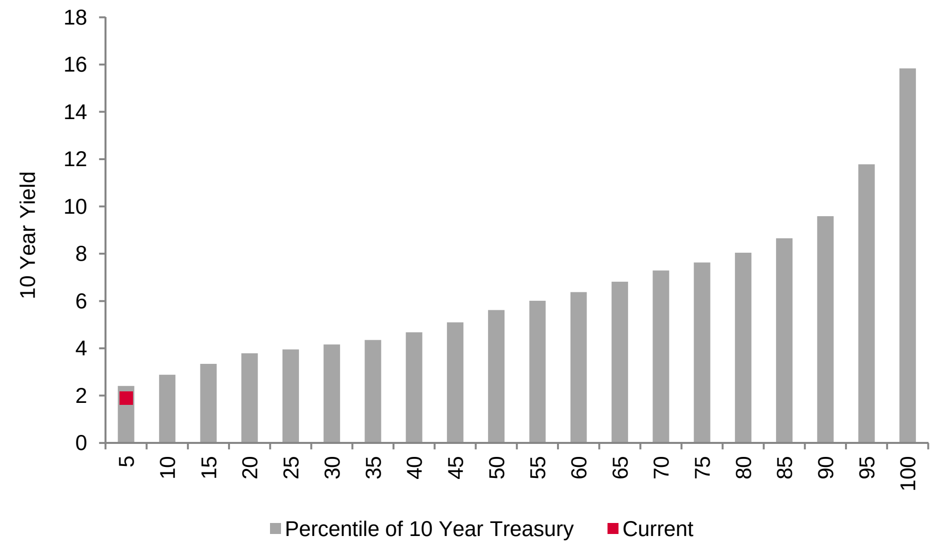


— Nominal growth between 4-6% (YoY) has historically coincided with higher yields (~5%).

— In fact, prior to the "Great Recession" and subsequent QE program, there has never been an occurrence where nominal GDP has grown between 4-6% (YoY) and the 10 Year Treasury was below 4%. Therefore, our 2.15% 12 month estimate may prove to be conservative.

Footnotes: Time period reflects 1Q83-4Q14.
Source: FactSet, Deutsche Asset & Wealth Management.

10 Year Treasury Yield Percentile

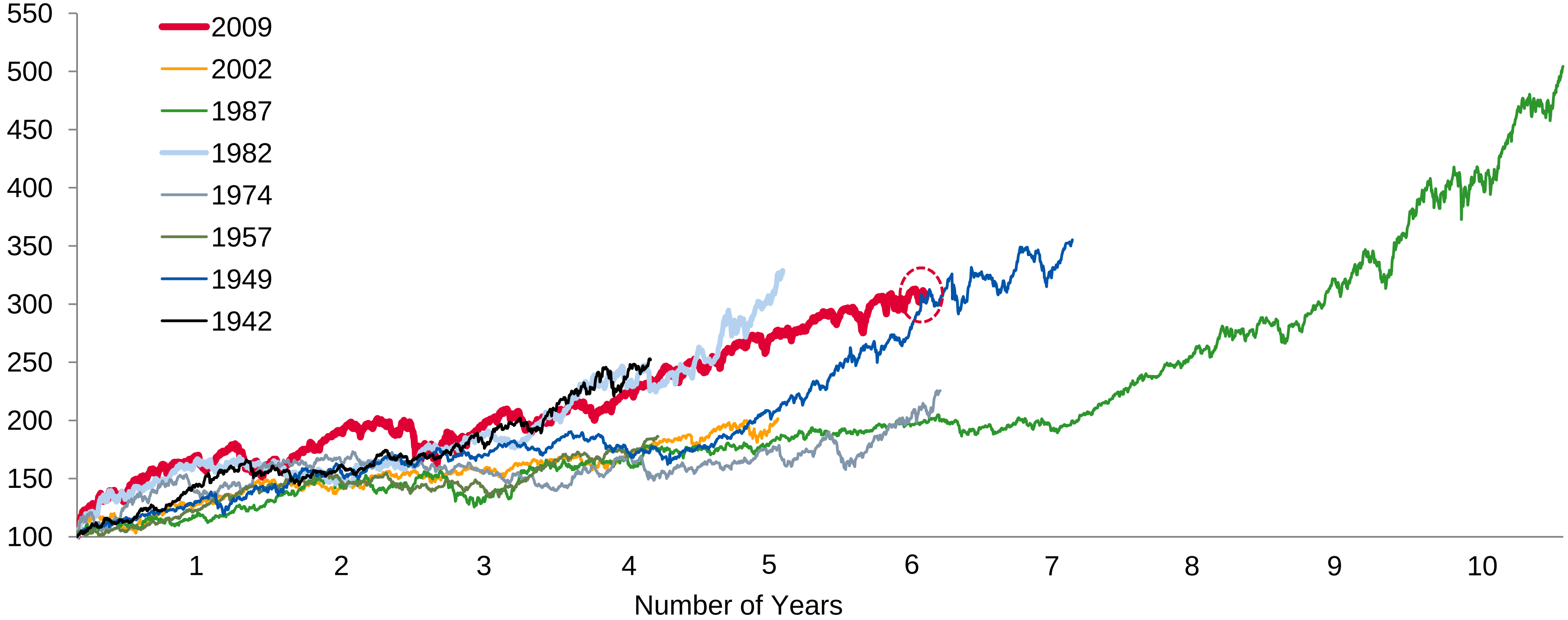


— With the 10 year Treasury yield hovering around 2%, historically, it has been higher 98% of the time.

Footnotes: Time period reflects May 1, 1953 to March 31, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

“Expensive” Bull Markets

Equity Bull Market Third Longest in History (in 2Q15)



— The current bull market which began on March 9, 2009, is the strongest in the history of the U.S. at this juncture (~6 years). In fact, in 2Q15 the current bull market is likely to surpass the bull market of 1974 to become the third longest bull market in history.

— The S&P 500 is up 208% (as of March 30, 2015)* in the current bull market rally. This compares to the prior bull markets at this time (+201% = 1949), (+108% = 1974), and (+98% = 1987).

Footnotes: Time period reflects 1942 to present. 2009 bull market is as of March 30, 2015. Price only. *208% is taken from the market bottom on March 9, 2009.
Source: FactSet, Deutsche Asset & Wealth Management.

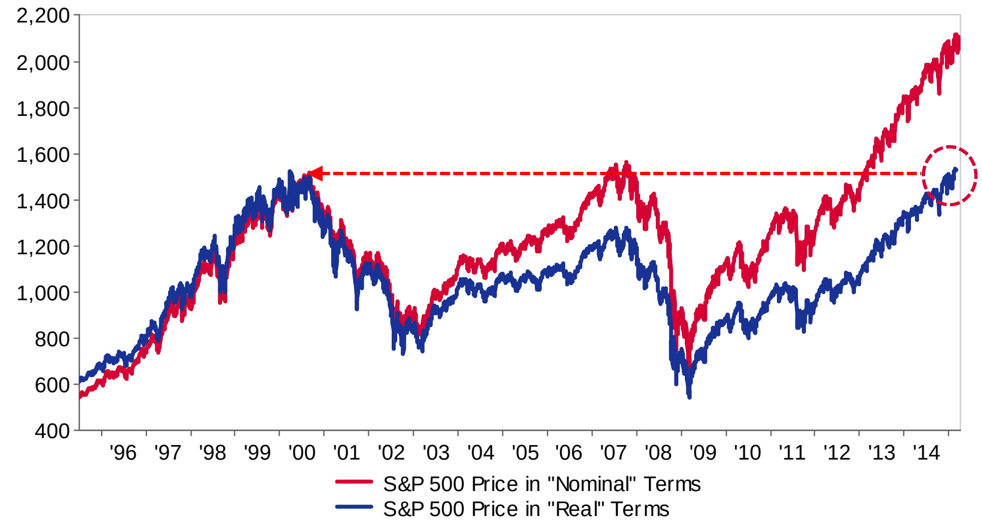
"Expensive" Bull Markets

Valuations Elevated as S&P 500 Notches "Real" Record High

S&P 500 P/E

— The trailing P/E of the S&P 500 is at the highest level since 2010.

S&P 500 Inflation Adjusted High



— The S&P 500 is at record highs in nominal terms and at the end of February reached a record high in inflation adjusted terms.

— However, the NASDAQ remains ~30% below its inflation adjusted high.

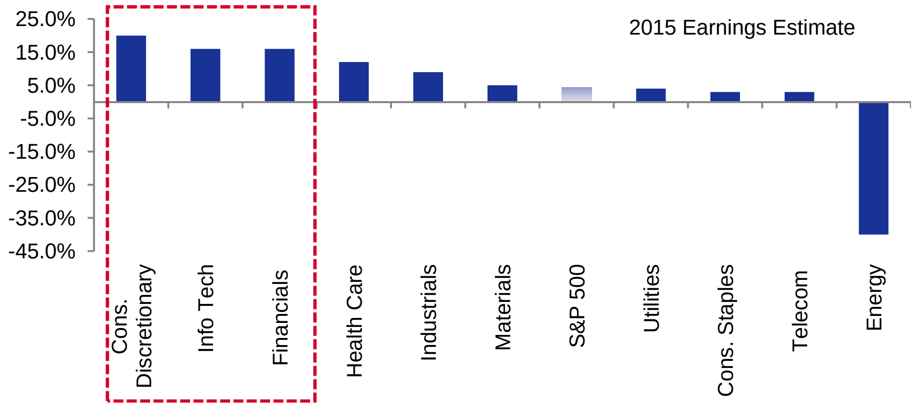
Footnotes: Data as of March 30, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Footnotes: Data as of March 30, 2015. S&P 500 in real terms is using CPI and is indexed to 2000 peak (March 24, 2000).
Source: FactSet, Deutsche Asset & Wealth Management.

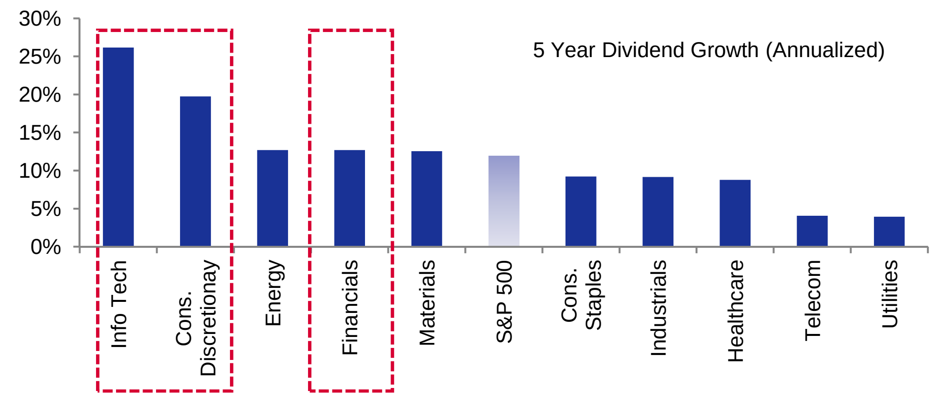
"Expensive" Bull Markets— Sector Selectivity Needed

Favorite Sectors

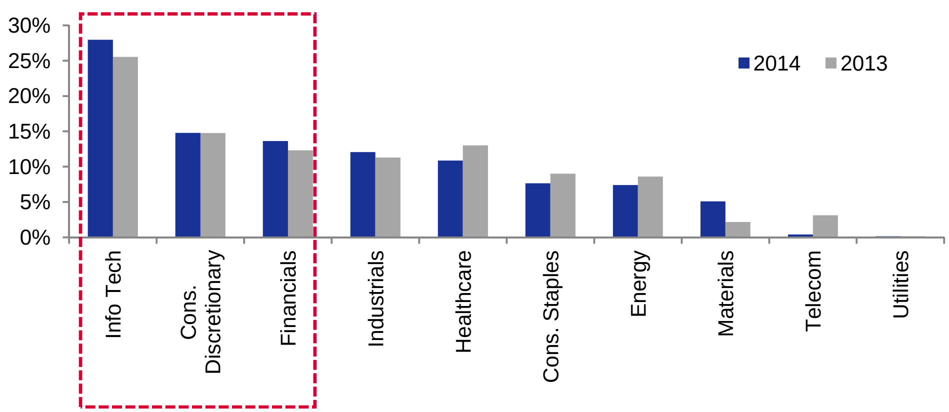
2015 Sector Earnings Growth



Dividend Growth (5YR)

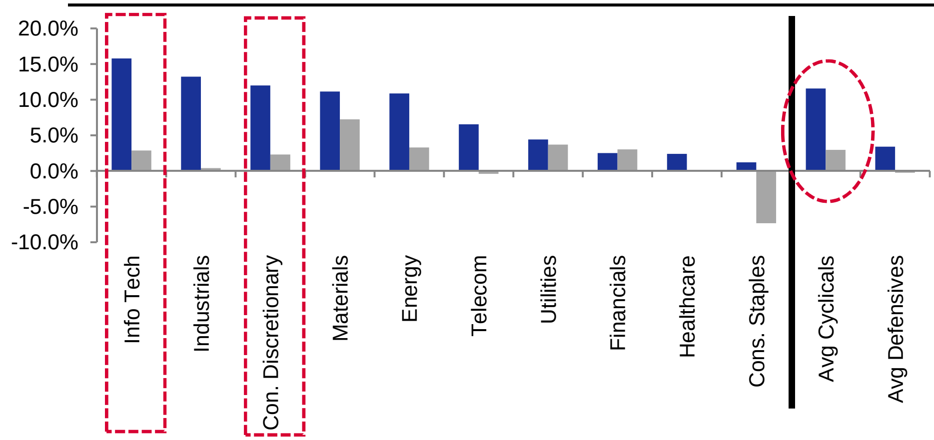


Buybacks by Sector



S&P 500 Buyback by Sector (% Makeup)

Sectors in Tightening Cycle

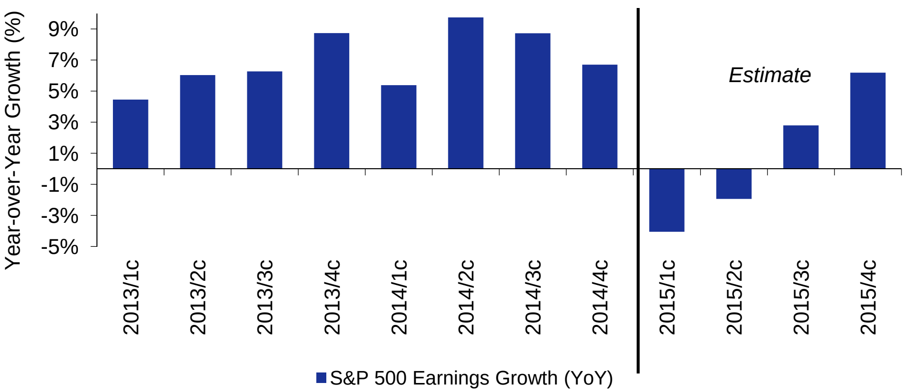


Footnotes: Earnings growth is DEAWM estimate as of March 2015. Dividend growth is monthly and as of February 2015. Buybacks by sector are as of March 2015. Sectors in tightening cycles reflects three tightening cycles (1994,1999, 2004) and is total return. Sectors are sorted by best to worst return in the 6 mos leading up to tightening cycle.
Source: FactSet, Strategas, Deutsche Asset & Wealth Management.

"Expensive" Bull Markets—Regional Selectivity Needed

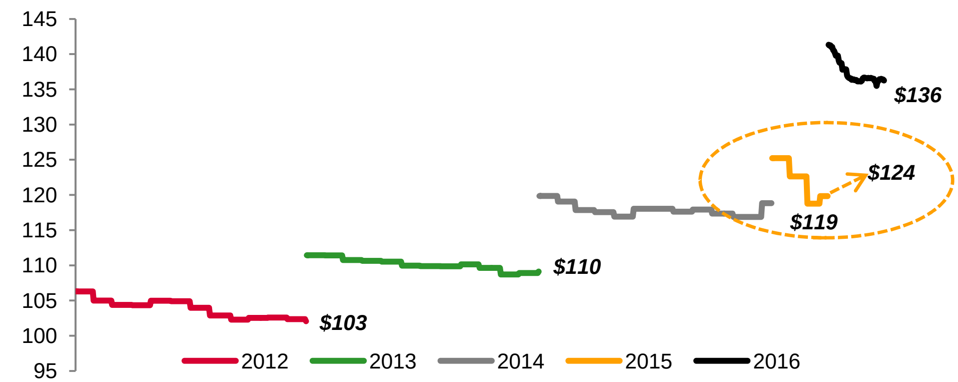
U.S. Earnings Environment Uncertain; Shareholder Payouts Strong

Earnings Recession & Rebound



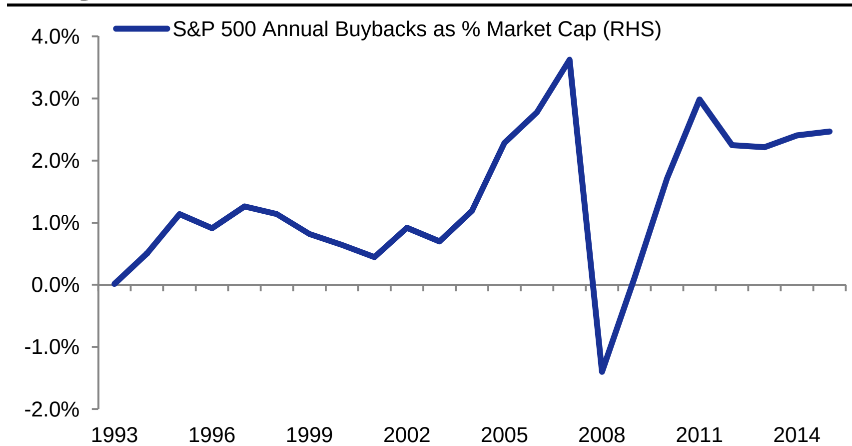
Footnotes: Data as of March 31, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Earnings Expectations Lowered



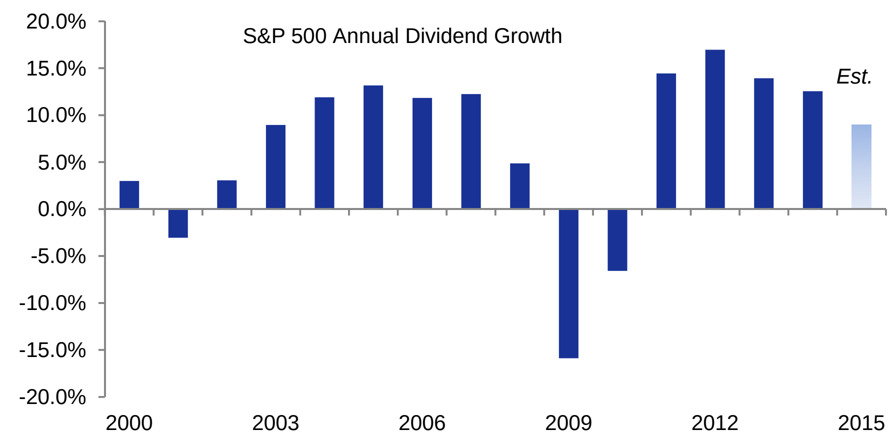
Footnotes: Data as of March 31, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Buybacks Robust



Footnotes: Data as of March 31, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Dividend Growth

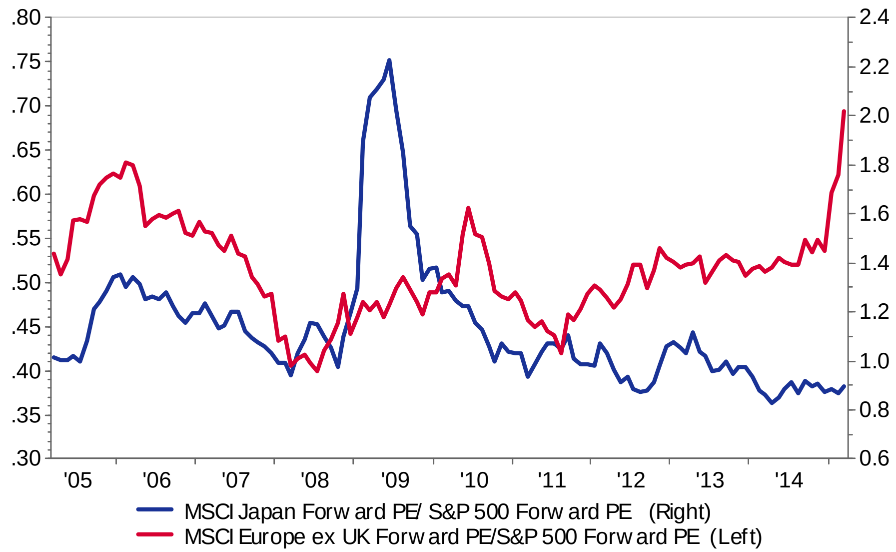


Footnotes: Data as of March 31, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

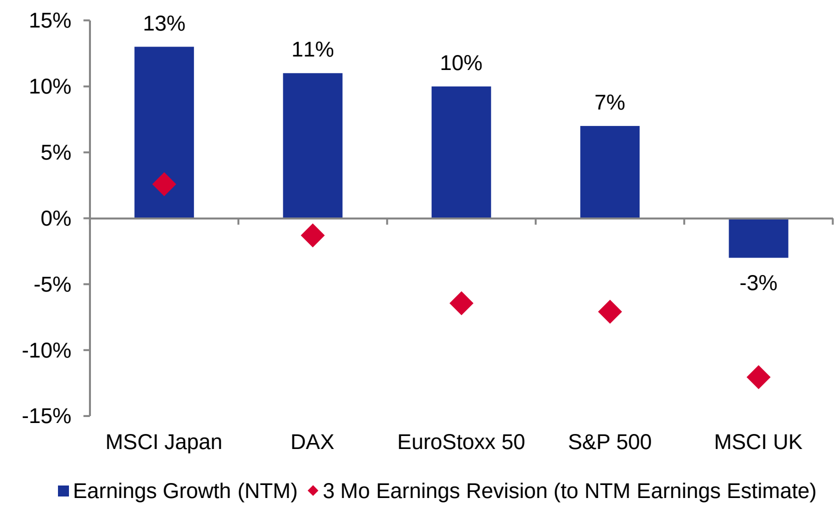
"Expensive" Bull Markets—Regional Selectivity Needed

Favorite Regions — Focus on Valuations and Fundamentals

Developed Markets Valuations



Fundamentals Favor Japan



— When looking at valuations, Japan looks attractive versus the U.S.

— While Europe looks expensive versus the U.S. in a historical context, it is still trading at a discount to the U.S.

— When looking at fundamentals, Japan has the highest earnings growth estimate and is also the only major developed market Index that has seen upward revisions to earnings estimates for the next 12 months (over past three month period).

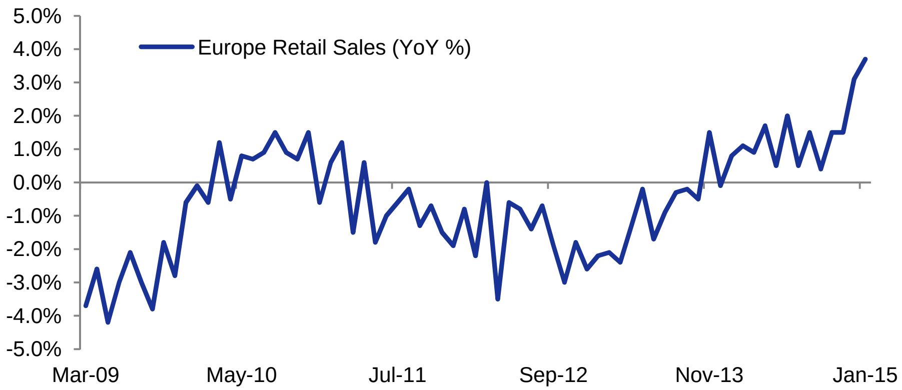
Footnotes: Data as of March 30, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Footnotes: Data as of March 30, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

"Expensive" Bull Markets—Regional Selectivity Needed

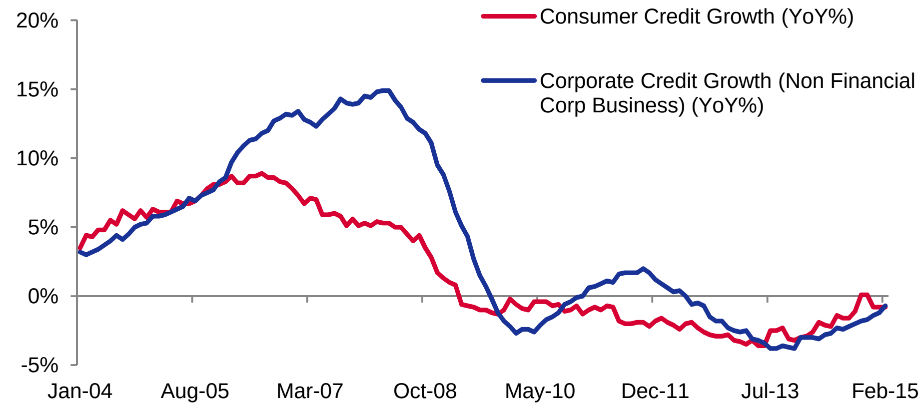
Europe Economy Improving; Investors Search for Yield

Europe Retail Sales Accelerating



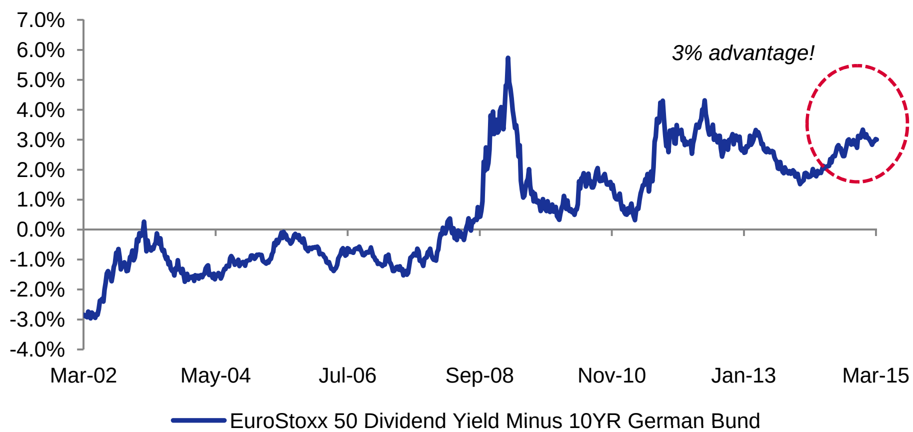
Footnotes: Data as of January 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Lending Environment Improving



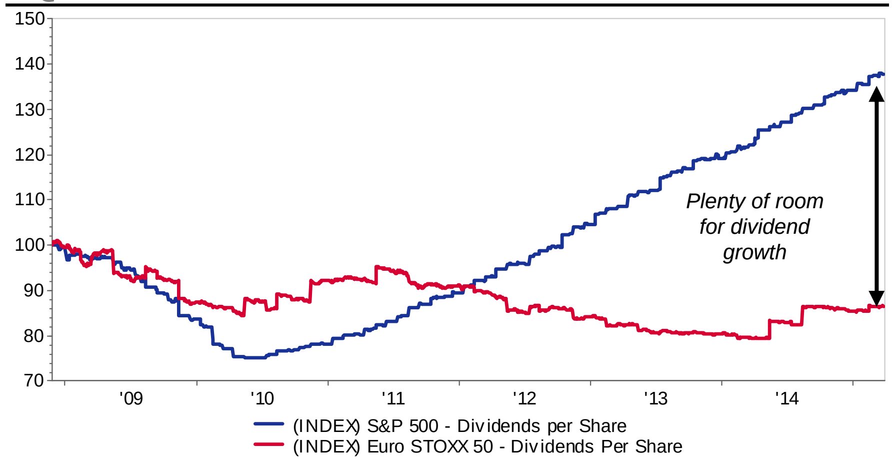
Footnotes: Data as of February 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

EuroStoxx Yield vs. 10 YR Bund



Footnotes: Data is weekly and as of April 3, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

QE=Room for Dividend Growth

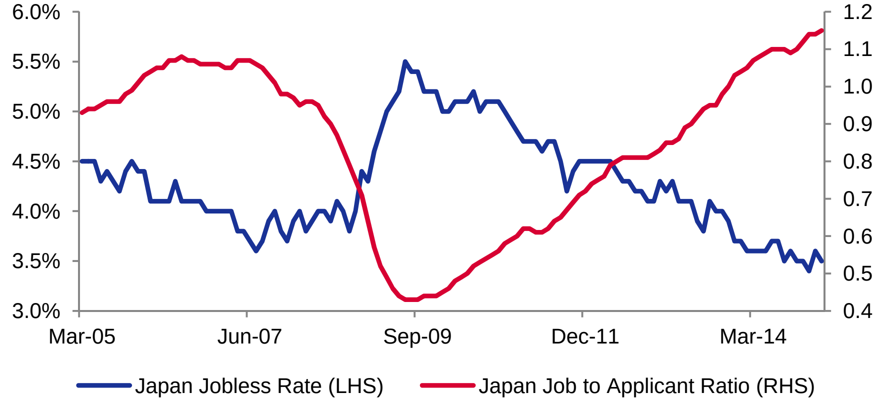


Footnotes: Data as of March 30, 2015. Indexed to first U.S. QE program
Source: FactSet, Deutsche Asset & Wealth Management.

"Expensive" Bull Markets—Regional Selectivity Needed

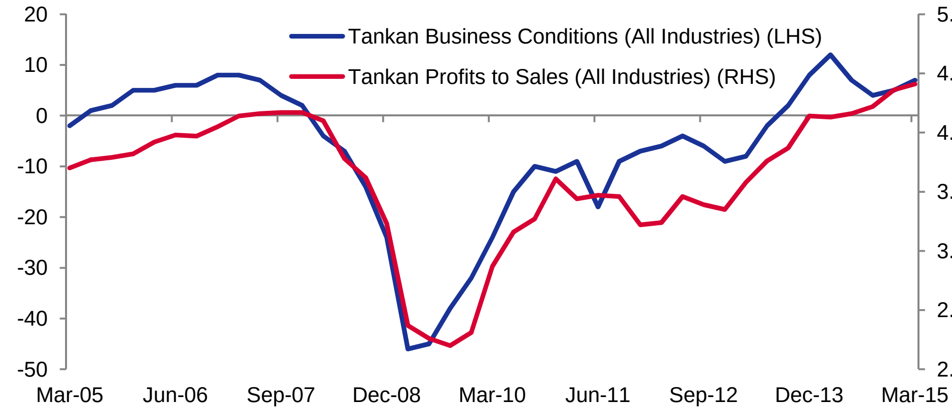
Japanese Economy Emerges From Recession; Corporations Healthy

Employment Conditions Improve



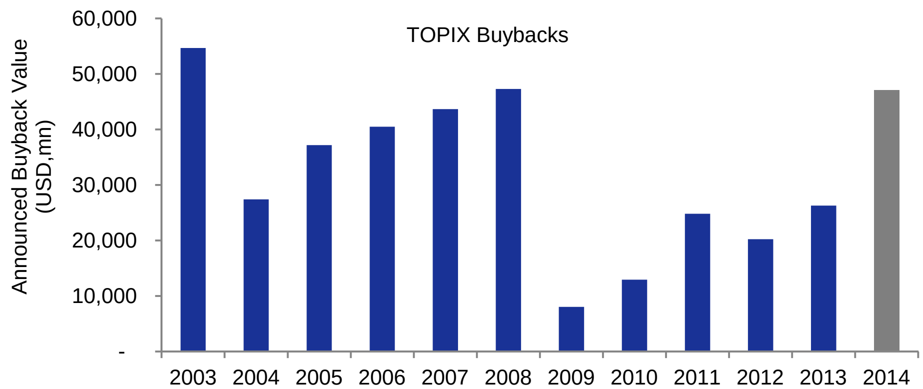
Footnotes: Data as of February 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Corporations Confident



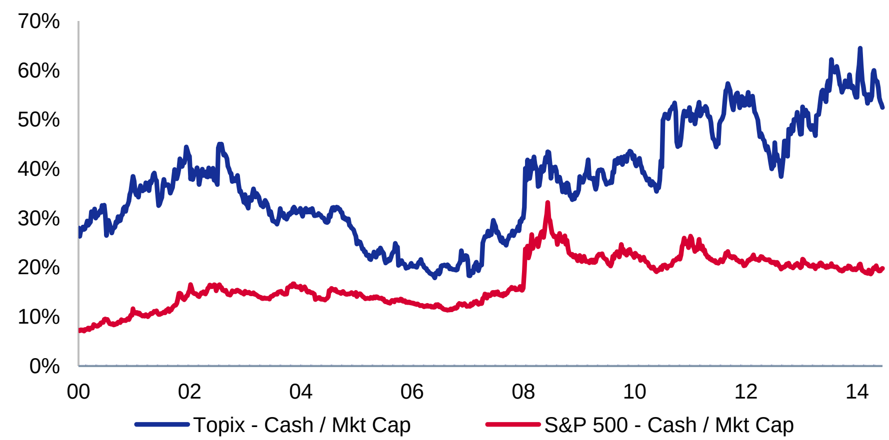
Footnotes: Data as of March 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Buybacks Strong



Footnotes: Data as of March 30, 2015.
Source: Bloomberg Finance LP, Deutsche Bank Global Markets, Deutsche Asset & Wealth Management.

Corporate Cash Robust

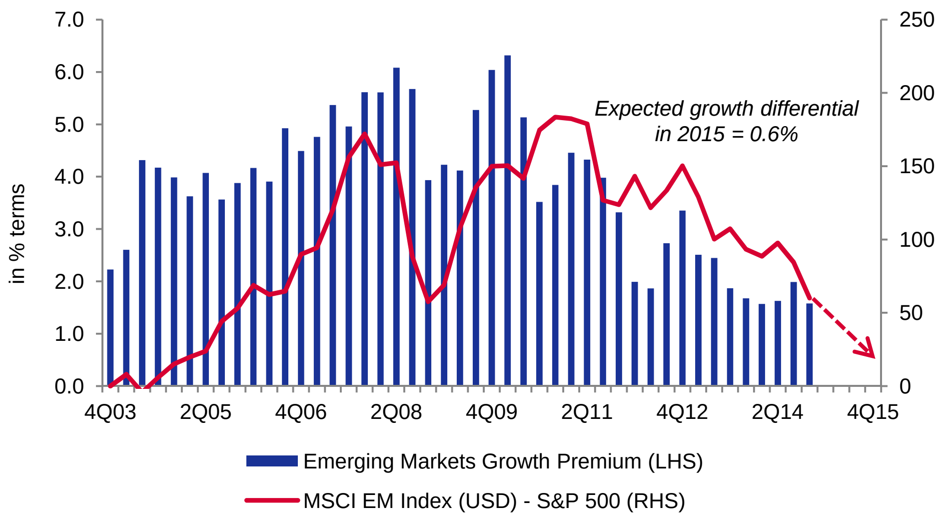


Footnotes: Data as of March 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

“Expensive” Bull Markets—Regional Selectivity Needed

Honey, I Shrunk the Growth Premium!

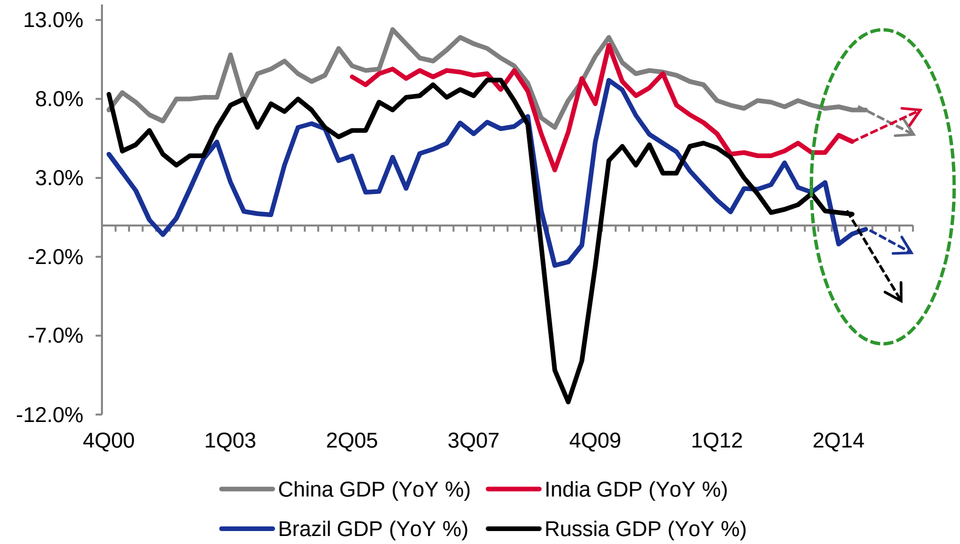
Shrinking Growth Premium



— The economic growth premium that emerging markets deliver over developed markets has narrowed and in 2015 is expected to be 0.6%.

Footnotes: Data as of 4Q14. Growth premium is year over year real GDP. Developed market is equally weighted (U.S., UK, Europe and Japan). EM countries are equally weighted (Brazil, Russia, India, China, Korea, Taiwan, South Africa). Estimates for 2015 are as of March 2015.
Source: Bloomberg LP, FactSet, Deutsche Asset & Wealth Management.

Dichotomy of Asia vs. Latam



— Economic growth across all the major EM economies is expected to slow in 2015 with the exception of India.

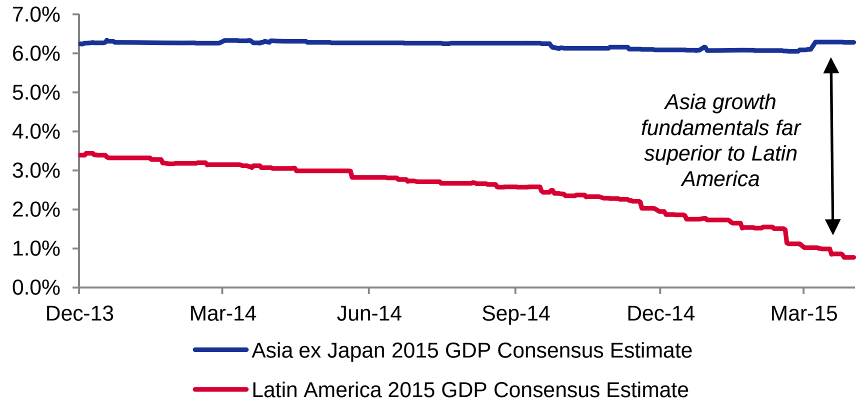
— Russia is expected to see the steepest decline this year (-5.2% YoY).

Footnotes: Data is most recent GDP as of Mar 2015. Estimates as of Mar 2015.
Source: Bloomberg Finance LP, Deutsche Bank Global Markets, Deutsche Asset & Wealth Management.

“Expensive” Bull Markets—Regional Selectivity Needed

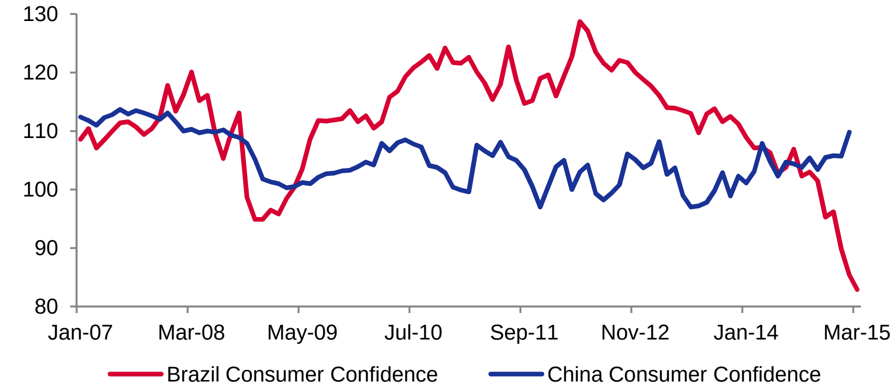
EM Patience — Focus on Fundamentals

Asia Growth Superior



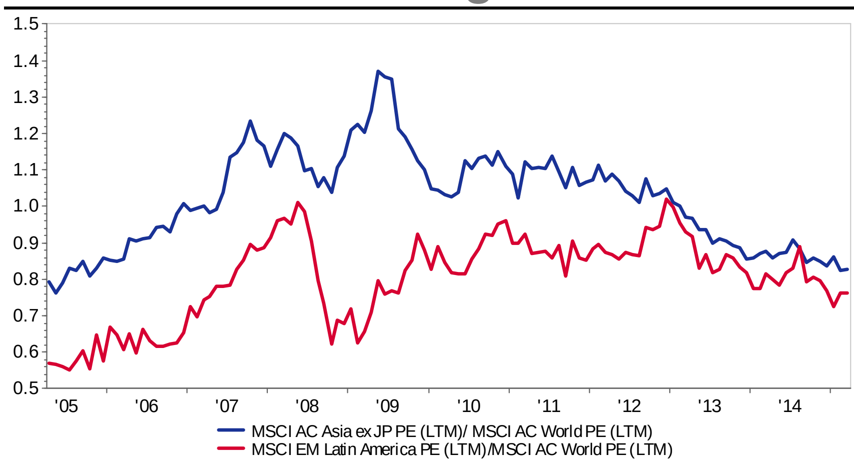
Footnotes: Data as of April 2, 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Confidence Divergence



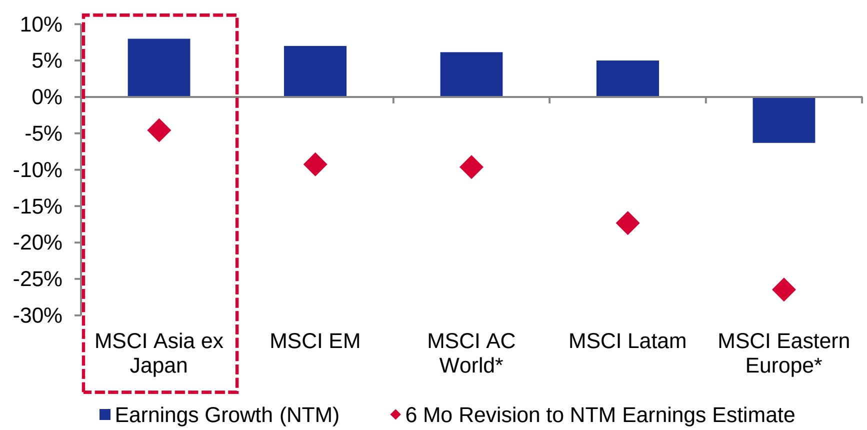
Footnotes: Data as of March 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Valuations Looking Attractive



Footnotes: Data as of March 31, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Earnings Momentum

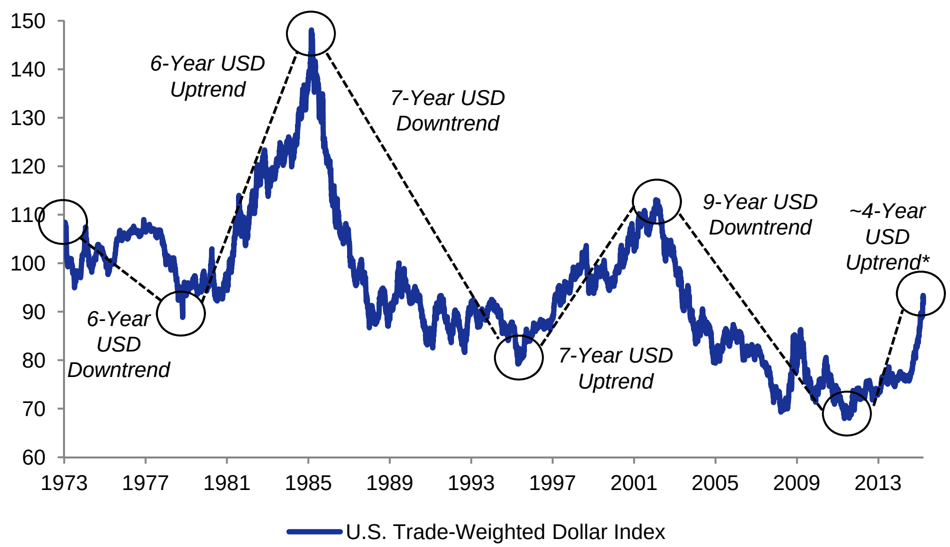


Footnotes: Data as of March 2015. *Earnings estimate is consensus.
Source: FactSet, Deutsche Asset & Wealth Management.

4 Dollar Dominance to Continue

Keep on Rolling…In for the Long Haul

Dollar Cycle Longevity



— On average, dollar cycles last 6-8 years (increasing and decreasing cycles).

— The two major dollar strength cycles lasted six and seven years and the dollar rallied, on average, 55%.

Footnotes: *Current cycle is as of March 27, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Six Reasons For Stronger Dollar

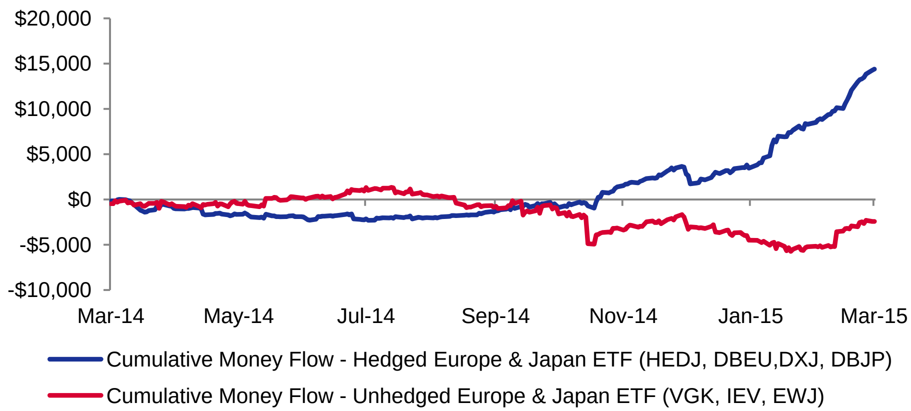
Interest Rate Differentials	Fed to gradually raise interest rates while ECB and BoJ on hold.
Growth Differentials	U.S. GDP to be superior (2015=3.2%) to Europe (1.3%) and Japan (1.2%)
Positive Fund Flows	Better growth fundamentals and interest rate spread should support capital flows.
Corporate and Investor Hedging Activity	Record flows into hedged equity vehicles.
Long Dated Cycles	The average dollar cycle (up or down) lasts eight years.
Speculation	Dollar long positions are at elevated levels.

Footnotes: Data as of March 2015.
Source: FactSet, Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Dollar Dominance to Continue

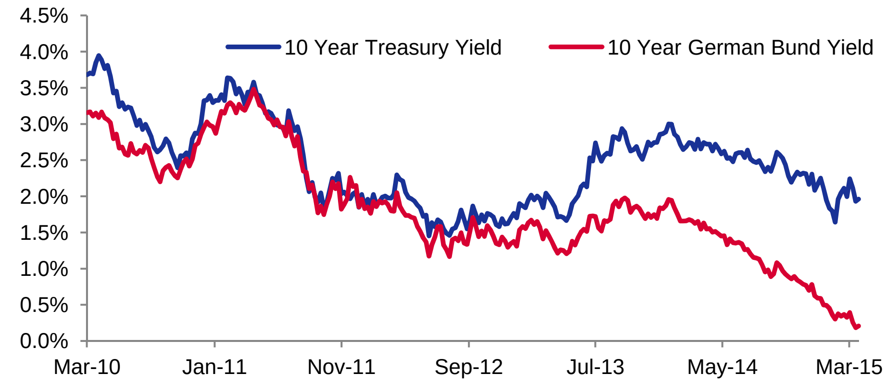
Fund Flows in Search of Yield and Better Growth

ETF Hedged Vehicles



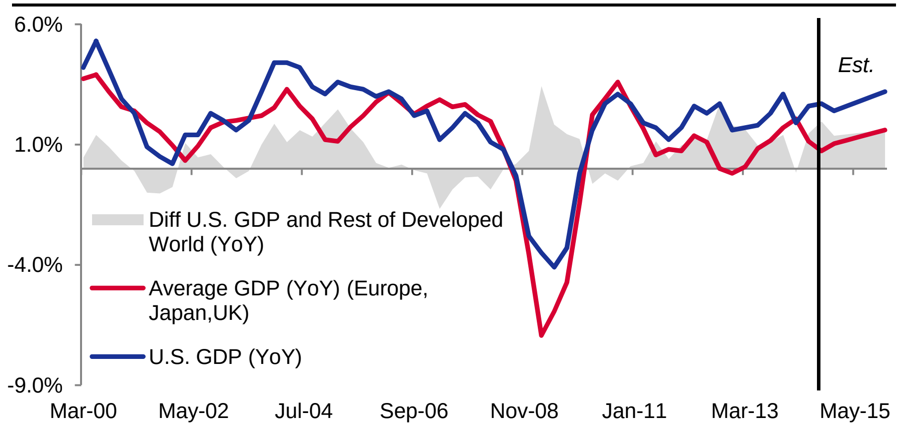
Footnotes: Data is weekly and as of March 17, 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Interest Rate Differentials



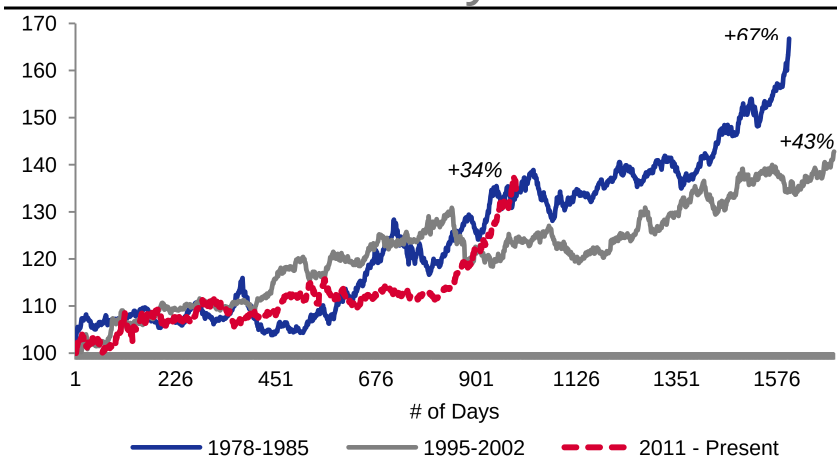
Footnotes: Data is weekly and as of March 27, 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Growth Fundamentals Better



Footnotes: Data as of 4Q14, 2015 are estimates as of March 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Still Room to Rally Further

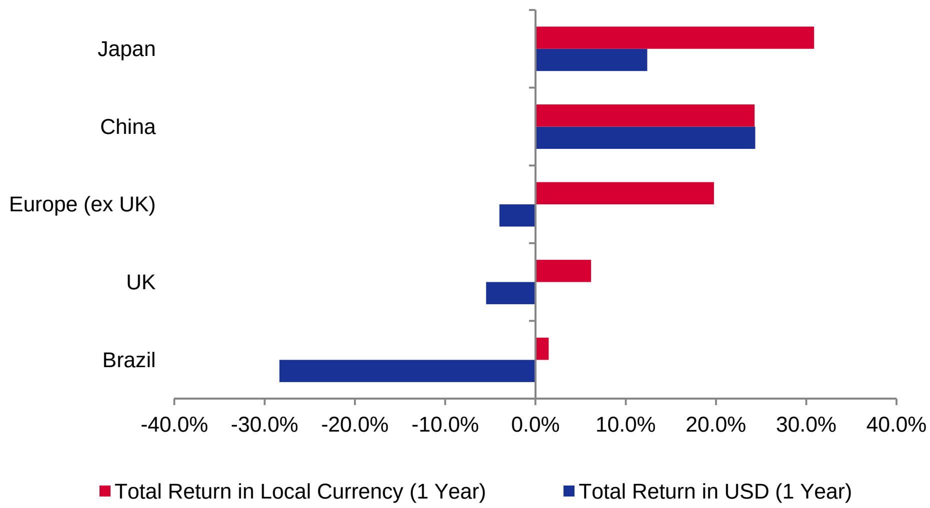


Footnotes: Current cycle as of March 27, 2015.
Source: Bloomberg Finance LP, Deutsche Asset & Wealth Management.

Dollar Dominance to Continue

Global Returns

Equity Returns in Local and USD

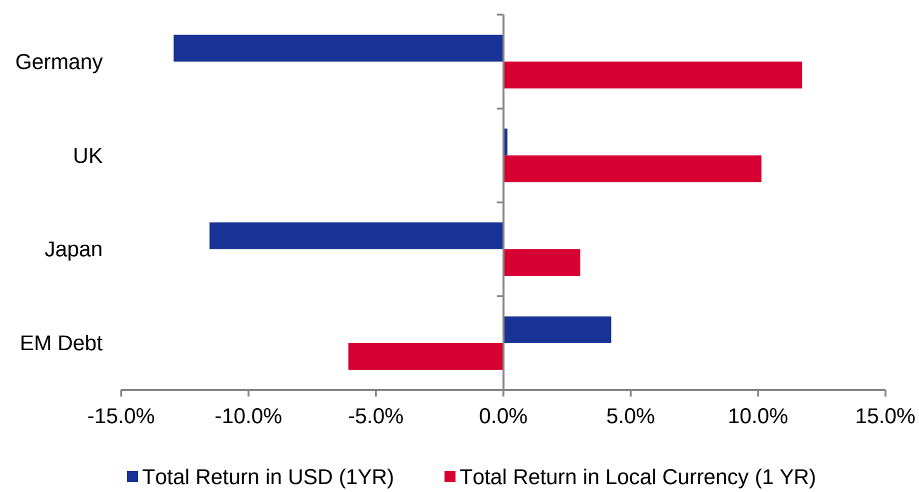


— Significant currency risk has been seen in the returns across global equities in U.S. dollars versus local currency.

— In fact, an investor who purchased the MSCI Japan in USD has been up 12% over the past year but that same investor would have more than doubled their return (+31% in local currency) if the investment was currency hedged.

Footnotes: Data as of March 31, 2015. Sorted by return in local currency (1YR).
Source: FactSet, Deutsche Asset & Wealth Management.

Bond Returns in Local and USD



— Similar to equity markets, hedging international currency exposure has also been important in the bond market.

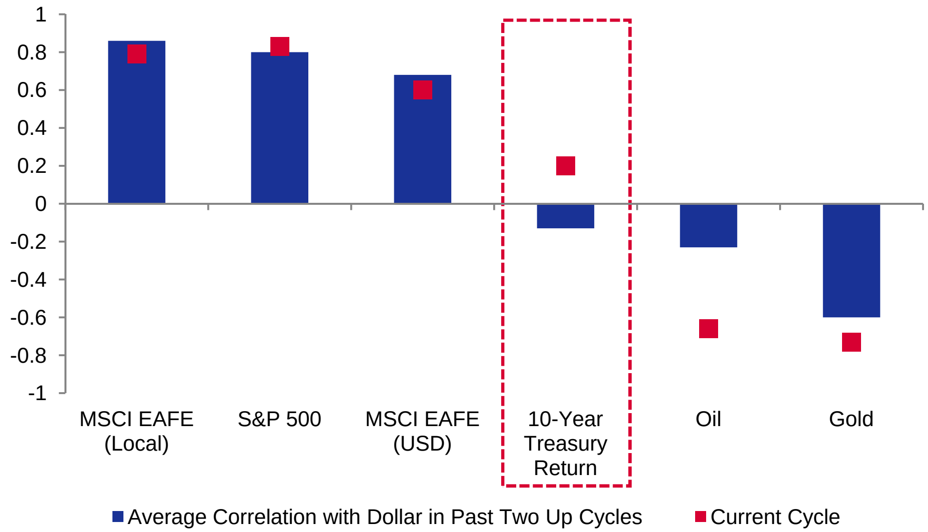
— For example, an investor purchasing German Bunds would have been up 11% in local terms over the past year but in U.S. dollar terms the investment fell 12%.

Footnotes: Indices are Barclays Indices. Data as of March 31, 2015. Data is sorted using local currency (1YR).
Source: FactSet, Deutsche Asset & Wealth Management.

Dollar Dominance to Continue

Impact of Dollar on Asset Classes

Correlation with Dollar

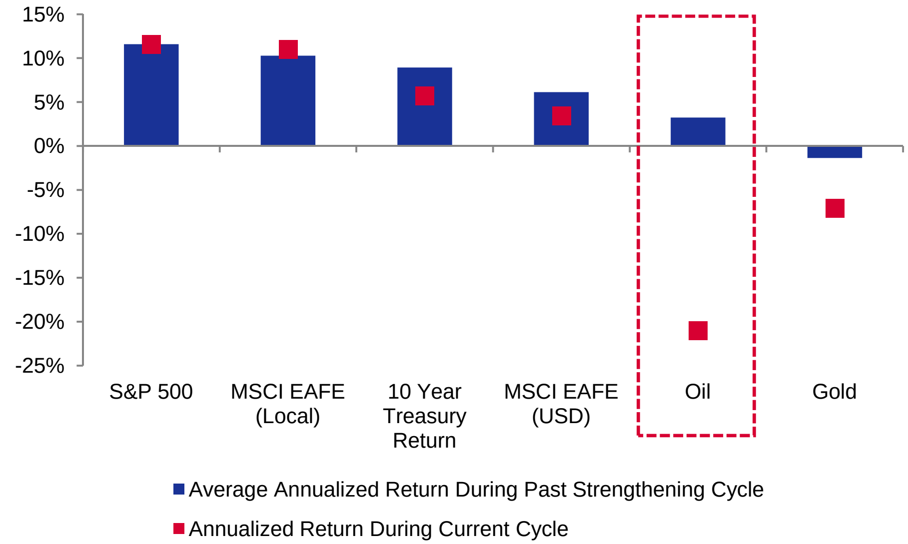


— During the past two up dollar cycles (1978-1985, 1995-2002), developed and domestic equities have exhibited the highest correlation to the dollar.

— The historical correlation among asset classes has been similar in the current cycle with the exception of the return of the 10 year Treasury which has benefitted from nontraditional monetary policy and low inflationary environment.

Footnotes: Data as of March 19, 2015. Dollar strengthening cycles represented from October 1978-February 1985, April 1995-January 2002 and May 2011-Current.
Source: FactSet, Deutsche Asset & Wealth Management.

Returns Remain Consistent



— The historical relationship between past dollar strengthening cycles and its impact on the asset classes has held true in the current cycle.

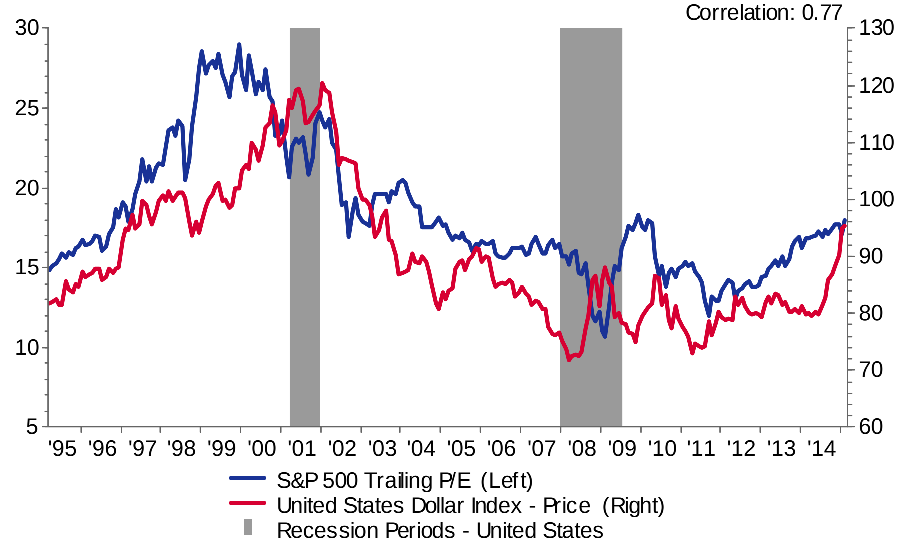
— The major exception has been oil which has declined significantly more in relation to the historical average due to a supply glut.

Footnotes: Data as of March 19, 2015. Dollar strengthening cycles represented from October 1978-February 1985, April 1995-January 2002 and May 2011-Current.
Source: FactSet, Deutsche Asset & Wealth Management.

Dollar Dominance to Continue

Equity Market Impact

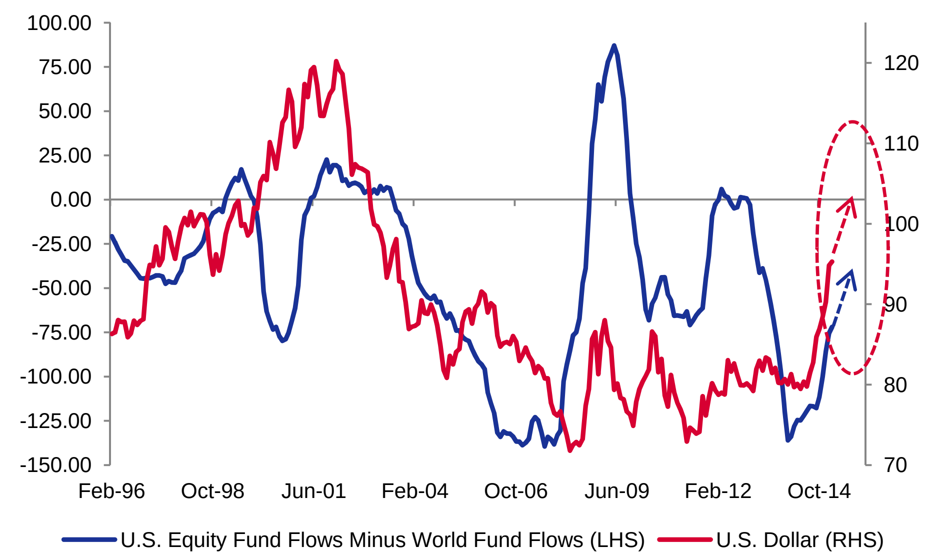
P/E vs the Dollar



— Historically, investors have been able to look through a stronger dollar as the trailing P/E is positively correlated with a rising dollar.

Footnotes: Data is monthly and as of March 30, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Strong Dollar = Fund Inflows



— While the dollar has rallied, equity fund flows have moved out of the U.S.

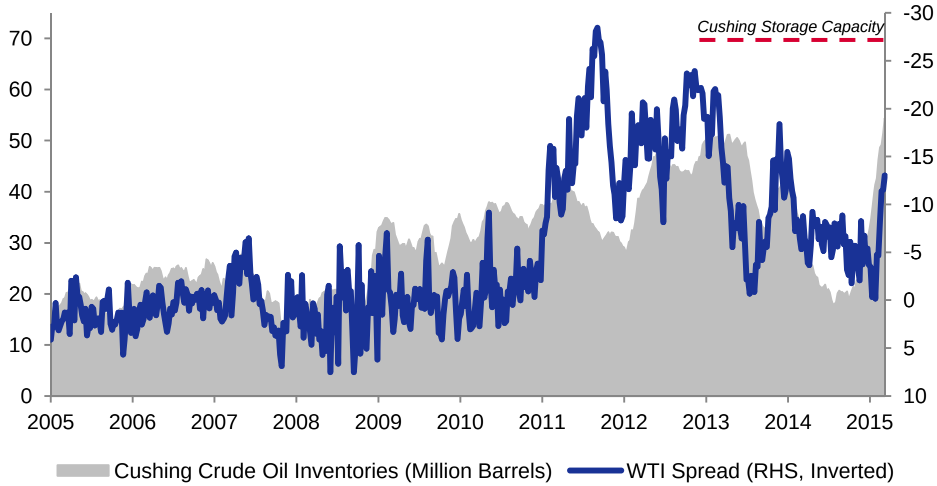
— As equity fund flows shift back into the U.S., this could provide a tailwind for both equity markets and also the dollar.

Footnotes: Data is monthly and as of February 2015.
Source: FactSet, ICI, Deutsche Asset & Wealth Management.

5 Commodities: Oil Obstacles

Elevated Inventories Hamper Price Recovery

Brent-WTI Spread

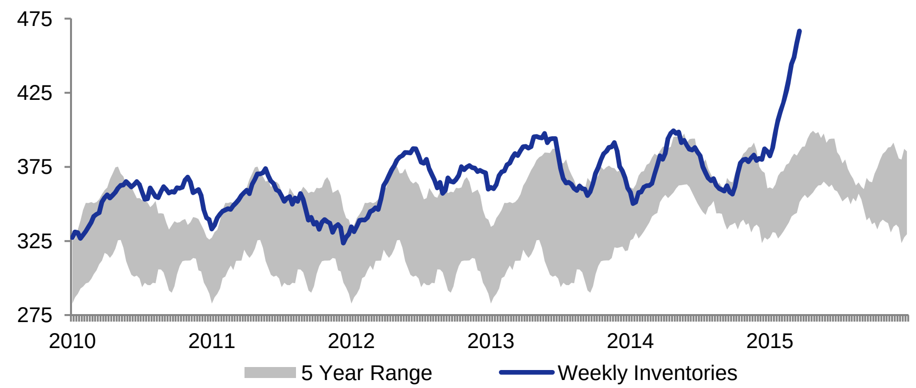


— The price differential between Brent and WTI crude oil prices continue to widen as U.S. inventories build well above the 5 year range.

— As the Cushing inventories build close in on total storage capacity, both crude oil prices and the WTI spread could widen.

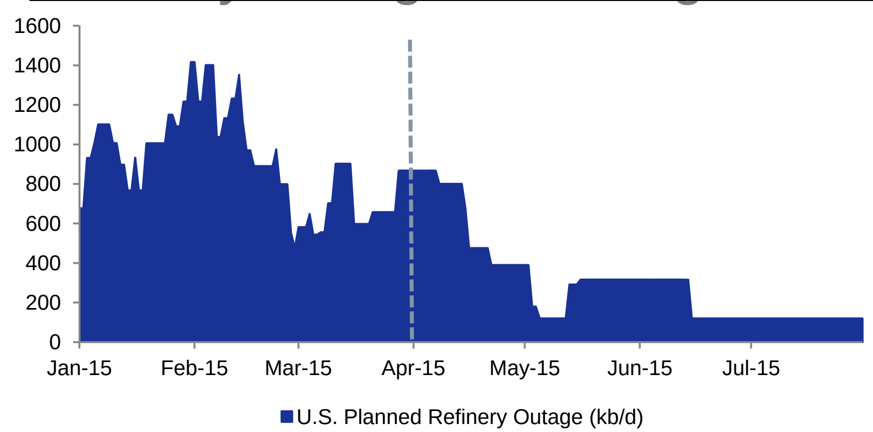
Footnotes: Cushing inventory data is weekly and as of March 25, 2015. WTI spread is daily and as of March 26, 2015.
Source: FactSet, EIA, Deutsche Asset & Wealth Management.

Inventories Well Above 5-Yr Range



Footnotes: Data is weekly and as of March 25, 2015.
Source: FactSet, EIA, Deutsche Asset & Wealth Management.

Refinery Outages Coming Down

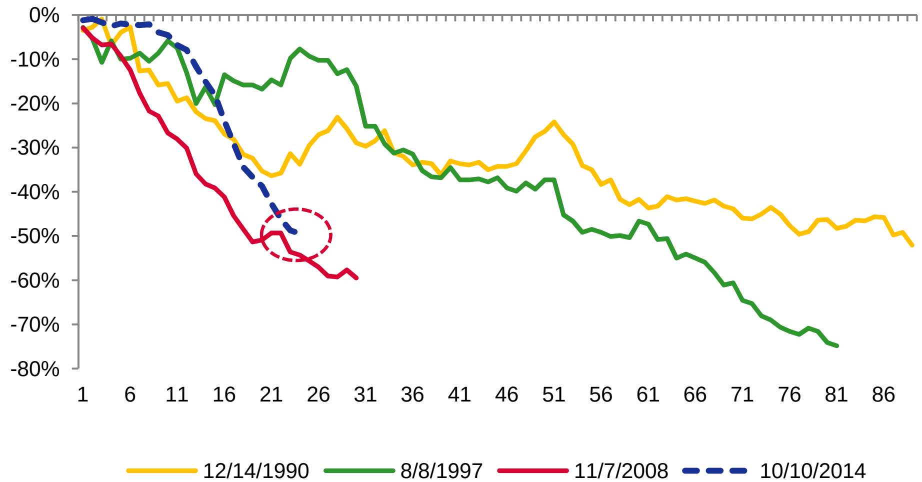


Footnotes: Data as of March 26, 2015.
Source: FactSet, EIA, Deutsche Asset & Wealth Management.

Commodities: Oil Obstacles

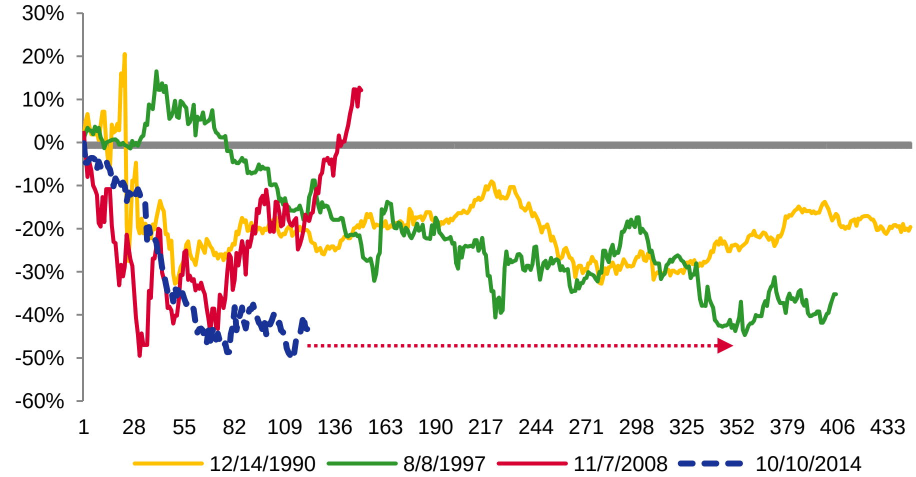
Rig Count Decline vs. Prices

Rig Counts Falling



Reduction in Baker Hughes Oil Rigs

Prices Falling At Rapid Pace



WTI Price Move During Rig Count Decline

— Due to the fall in oil prices, oil companies have cut capex spending to curb the loss in revenues.

— Due to the cut in capex spending, rig counts have fallen (-49%) at the second fastest pace since 1987.

— In comparison to other periods of rapid rig count reduction, oil prices during the current cycle have already fallen to the lowest level in percentage terms.

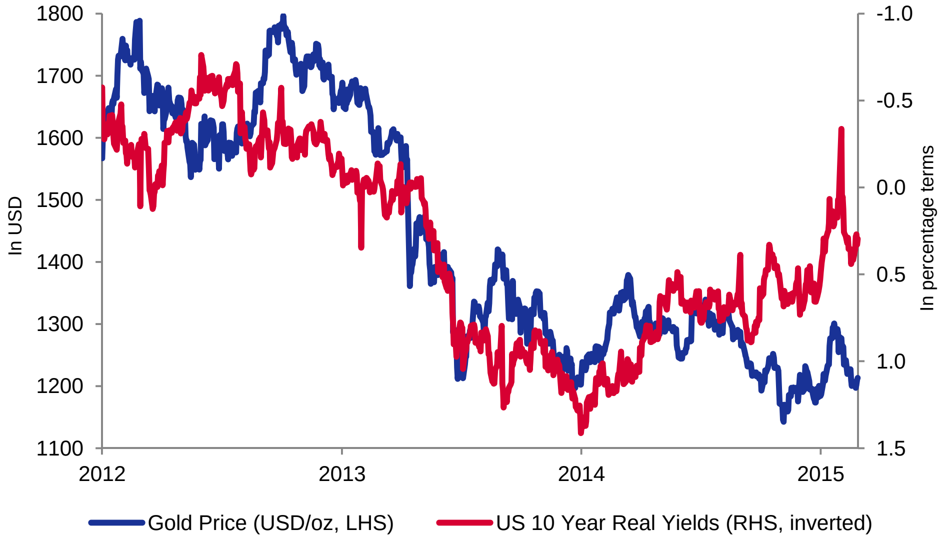
Footnotes: Data is weekly and as of March 30, 2015.
Source: Baker Hughes, Deutsche Asset & Wealth Management.

Footnotes: Data is daily and as of March 30, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Commodities: Gold Returns Remain Lackluster

Upside to Gold Prices Limited

Gold vs. Ten Year Real Yields

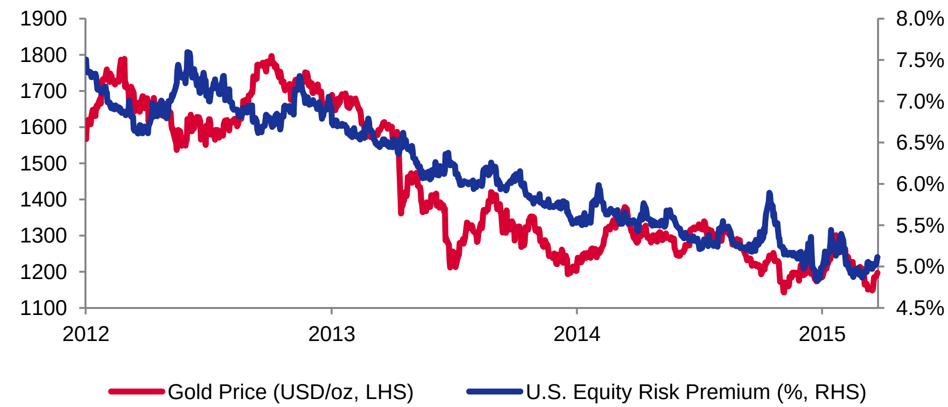


— Gold prices remain challenged by the potential for higher interest rates in the U.S. and a declining risk premium.

— In addition, when looking at the relationship between equities and gold it remains at the historical average.

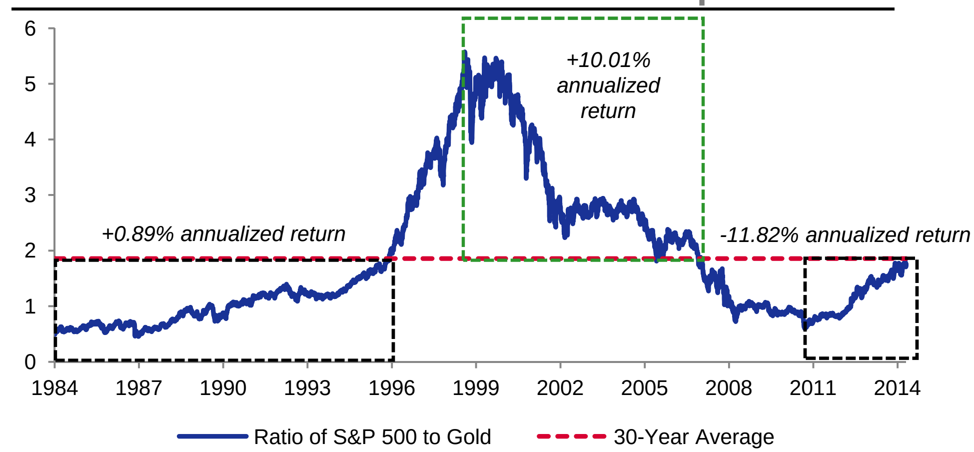
Footnotes: Data is weekly as of March 25, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Gold Falls With Risk Premium



Footnotes: Data as of March 26, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

S&P and Gold Relationship



Footnotes: Data as of March 31, 2015.
Source: FactSet, Deutsche Asset & Wealth Management.

Summary of Asset Class Attractiveness

Favor Equities over Bonds and Commodities

	Economy	Central Bank Policy	U.S. Dollar Strength	Valuations	Summary	Rationale
U.S. Equities	+	+	/	-	+	Favor Large Cap, Cyclicals over Defensives, Dividend growth stocks; Favorite sectors = Tech, Consumer Discretionary and Financials
International Equities	+	+	+	-	+	Developed Markets over Emerging Markets, Japan and Europe Favored, Asia over Latam, Hedge International Currency
Treasuries	-	-	/	-	-	Neutral Duration
Credit	+	/	+	-	+	Favor Higher Yielding Assets (High Yield and EM Hard Currency)
Commodities	+	-	-	/	-	Avoid Raw Commodities. Recommend Income Producing Real Assets (REITs, MLPs)
Dollar	+	+	+	/	+	Dollar over Developed Currencies. Hedge International Exposure

Footnotes: Data is as of April 7, 2015.
Source: Deutsche Asset & Wealth Management.

Multi Asset Investment Committee Forecasts

April 2015

GDP Growth *in %*	2015	2016
World	3.4%	3.7%
USA	3.2%	2.8%
Euroland	1.3%	1.6%
UK	2.3%	2.2%
Japan	1.2%	1.2%
China	6.8%	6.8%

Inflation *in %*	2015	2016
USA (core PCE)	1.5%	1.8%
Euroland	0.0%	1.3%
UK	0.5%	1.8%
Japan	1.0%	0.8%
China	2.0%	2.2%

Curr Acct Balance *in % of GDP*	2015	2016
USA	-3.0%	-3.5%
Euroland	3.0%	3.0%
UK	-3.7%	-3.2%
Japan	1.0%	1.0%
China	2.0%	2.0%

Fiscal Balance *in % of GDP*	2015	2016
USA	-2.5%	-2.5%
Euroland	-2.2%	-1.9%
UK	-4.5%	-3.8%
Japan	-6.5%	-6.5%
China	-2.0%	-2.2%

Key Interest Rates	Current[1]	12 Mo Forecast (Mar 2016)
USA (Fed funds)	0.25%	**0.75-1.00%**
Euroland (Refi rate)	0.05%	**0.05%**
UK (Repo rate)	0.50%	**0.75%**
Japan (Mmkt rate)	0.10%	**0.10%**

Currencies	Current[1]	Next 3%+ Move	12 Month Forecast (Mar 2016)	12 Month Return (Mar 2016)
EUR vs. USD	1.08	↓	**1.00**	**-7.3%**
USD vs. JPY	119.97	↔	**125.00**	**4.2%**
EUR vs CHF	1.04	↓	**1.10**	**5.5%**
GBP vs USD	1.49	↔	**1.47**	**-1.5%**
USD vs CNY	6.20	↔	**6.40**	**3.2%**

Commodities	Current[1]	Next 3%+ Move	12 Month Forecast (Mar 2016)	12 Month Return (Mar 2016)
Oil (WTI) in USD	50	↔	**70**	**38.8%**
Gold in USD	1203	↔	**1250**	**3.9%**

Equities	Current[1]	Dividend Yield	P/E (LTM)[2]	NTM P/E Forecast[3]	NTM EPS Forecast[3]	Next 3%+ Move	12 Month Forecast (Mar 2016)	12 Month Return (Mar 2016)
USA (S&P 500)	2082	1.9%	17.7	17.0	126	↔	**2150**	**5.2%**
Euroland (Euro Stoxx 50)	3743	2.8%	17.2	15.0	252	↔	**3800**	**4.3%**
Germany (DAX)	12036	2.1%	16.7	15.0	805	↔	**12100**	**0.5%**
UK (FTSE 100)	6937	3.5%	15.1	15.0	453	↔	**6800**	**1.5%**
MSCI Japan (JPY)	976	1.6%	17.7	16.0	61	↔	**980**	**1.9%**
Asia ex Japan (MSCI in USD)	614	2.0%	14.1	13.0	47	↔	**620**	**3.0%**
Latin America (MSCI in USD)	2613	2.3%	16.1	14.0	173	↓	**2400**	**-5.8%**

Sovereign Rates	Current[1]	Next 3%+ Yield Move[4]	12 Month Forecast (Mar 2016)	12 Month Return (Mar 2016)
USA	1.90%	↔	**2.15%**	**-0.1%**
Euroland (German Bund)	0.16%	↔	**0.35%**	**-1.4%**
UK	1.61%	↔	**2.00%**	**-1.2%**
Japan	0.36%	↔	**0.35%**	**0.3%**

Credit	Current Coupon[1]	Yield	Current Spread[5]	Next 3%+ Move[6]	12-Month (Price Return Estimate)	12 Month Return (Mar 2016)
Barclays U.S. High Yield	6.80%	5.98%	464	↔	**1.8%**	**8.6%**
JPM GBI- EM Global Diversified (Local)		6.21%		↔		
JPM EMBIG (EM Broad Index) (Hard Currency)			345	↔		

Footnotes: Macro estimates are according to Deutsche Asset & Wealth Management and are as of March 2015. Next 3%+ move uses a 1-3 month time horizon and is updated on a monthly basis. [1] Current as of April 7, 2015. [2] LTM stands for last twelve months. [3] P/E and EPS forecasts are according to Deutsche Asset & Wealth Management. [4] Direction in sovereign bonds is yield move. [5] High yield spread is high yield versus five year Treasury. [6] Next 3% move in credit is return move.
Source: FactSet, Deutsche Asset & Wealth Management.

Investment Strategy Group

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Investing in financial markets involves a substantial degree of risk. There can be no assurance that the investor will achieve positive results. Investment losses may occur, and investors could lose some or all of their investment. No guarantee or representation is made that any investment idea, including, without limitation, the investment objective, diversification strategy, or risk monitoring goal, will be successful, and investment results may vary substantially over time. Investment losses may occur from time to time. Nothing herein is intended to imply that an investment may be considered "conservative", "safe", "risk free" or "risk averse". Economic, market, and other conditions could also cause the investments to alter their investment objectives, guidelines, and restrictions.

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Investments in Foreign Countries - Such investments may be in countries that prove to be politically or economically unstable. Furthermore, in the case of investments in foreign securities or other assets, any fluctuations in currency exchange rates will affect the value of the investments and any restrictions imposed to prevent capital flight may make it difficult or impossible to exchange or repatriate foreign currency.

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Important Information

Emerging markets may be in transitional or formative stages and thus may be significantly less stable than developed markets. Changes in emerging markets government structures or other political instability may result in nationalization, expropriation, ad hoc regulation, or foreign investment restrictions. Emerging market investments are at risk for currency devaluation, as well as convertibility, liquidity and transparency constraints. The high volatility and speculative nature of emerging market investments may result in both significant losses or profits.

Foreign Exchange/Currency - Such transactions involve multiple risks, including currency risk and settlement risk. Economic or financial instability, lack of timely or reliable financial information or unfavorable political or legal developments may substantially and permanently alter the conditions, terms, marketability or price of a foreign currency. Profits and losses in transactions in foreign exchange will also be affected by fluctuations in currency where there is a need to convert the product's denomination(s) to another currency. Time zone differences may cause several hours to elapse between a payment being made in one currency and an offsetting payment in another currency. Relevant movements in currencies during the settlement period may seriously erode potential profits or significantly increase any losses.

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Direct Participation Program Securities (e.g. partnerships, limited liability companies, and real estate investment trusts (“REITS”), which are not listed on a national securities exchange or on The Nasdaq Stock Market, Inc. are generally illiquid. No formal trading market exists for these securities and their values will be different than the purchase price. Unless otherwise indicated, the values shown herein for such securities have been provided by the management of each program and are updated quarterly. These values represent management’s estimate of the investor’s interest in the net assets of the program. Therefore, the estimated values shown herein may not necessarily be realized upon sale of the securities.

Such investments may be or become nonperforming after acquisition for a wide variety of reasons. Nonperforming real estate investments may require substantial workout negotiations and/or restructuring. Environmental liabilities may pose a risk such that the owner of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, about under or in its property. Additionally, to the extent real estate investments are made in foreign countries, such countries may prove to be politically or economically unstable. Finally, exposure to fluctuations in currency exchange rates may affect the value of a real estate investment.

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