db Currency Harvest

Deutsche Bank Global Currency Harvest Index
Deutsche Bank Balanced Currency Harvest Index
Deutsche Bank G10 Currency Harvest Index

Introducing the Harvest Indices

The Deutsche Bank Currency Harvest Indices track the performance of a portfolio that systematically invests in a diversified basket of high yielding currencies, funded by going short a diversified basket of low yielding currencies.

The indices provide a transparent way of gaining exposure to the world's currency markets without needing to make payments in many different currencies. The indices are quoted in excess return terms representing the return from an unfunded investment. Each index is quoted in EUR or USD notional.

The pool of currencies eligible for inclusion in the indices is set out by region below:

- G10: USD, EUR, JPY, GBP, CHF, AUD, NZD, CAD, NOK, SEK
- Asia: KRW, SGD, TWD
- Latin America: MXN, BRL
- Emerging Europe and Africa: TRY, PLN, HUF, CZK, ZAR

The three variants of the strategy are:

1.Global: This is the benchmark Currency Harvest Index. The strategy is to invest in the 5 highest yielding currencies and to go short the 5 lowest yielding currencies regardless of their geographic region.

Pure global carry

2. Balanced: The strategy is to invest in the 2 highest yielding G10 currencies, and then the 3 remaining highest yielders from the whole currency pool. Additionally the strategy goes short the 2 lowest yielding G10 currencies and short the 3 remaining lowest yielders.

Constrained carry: maintains a balanced exposure between developed and EM markets

3. G10: The strategy is to invest in the 3 highest yielding G10 currencies and to go short the 3 lowest yielding G10 currencies.

Pure G10 carry

Investment Rationale:

- **Global access to the currency asset class**
- **Good liquidity and transparent index construction**
- **Diversified exposure**
- **Systematic approach to maximise carry**

Index Construction

All the Currency Harvest indices are calculated using the same generalised methodology which is designed to exploit the 'forward bias' in a simple and transparent manner. Whilst there are more complicated approaches one could take, the aim was to create rules that would capture the principle over the medium term rather than in the specific set of circumstances that would have maximised returns over the backtesting period.

Basic Methodology:

- Rank currencies by 3m Libor rates from transparent fixing pages to select current high and low yielding currencies for each strategy
- Invest in 3 month forwards - buy equal amounts of each selected high yielding currency, and sell equal amounts of each selected low yielding currency
- Spot and forward rates used in the index calculation are mid rates as per reliable and transparent third party fixing pages
- Re-balance quarterly, investing in 3 month forwards according to the latest 3 month Libor rankings
- Daily index closing levels are published to DBIQ and Bloomberg in EUR and USD denominations
- The indices are quoted in excess return terms net of transaction costs

Roll Window Feature:

- To prevent front-running in the market there is a mechanism built in to the indices which is designed to enhance returns
- A Roll Window is defined as the 5 days in the week of the third Wednesday in each quarter
- Two out of five possible Roll Dates are selected at random before the Roll Window starts
- Half of the position is rolled at the 3m forward rate as of the first selected Roll Date. The second half is rolled at the 3m forward fixing on the second Roll Date
- These dates are not released to the wider market until the end of the Roll Window period

Timeline for re-balancing

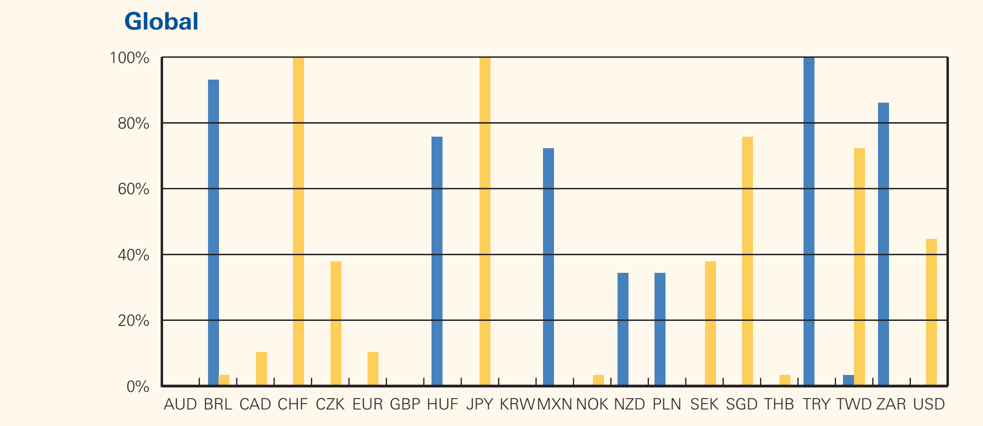
Wed	Thu	Fri	Mon	Tue	**Wed IMM**	Thu	Fri	Mon
Observation Date (IMM – 5 days) Currencies are ranked		Two Roll Dates within the Roll Window are determined	Roll Window					The two chosen Roll Dates are made public

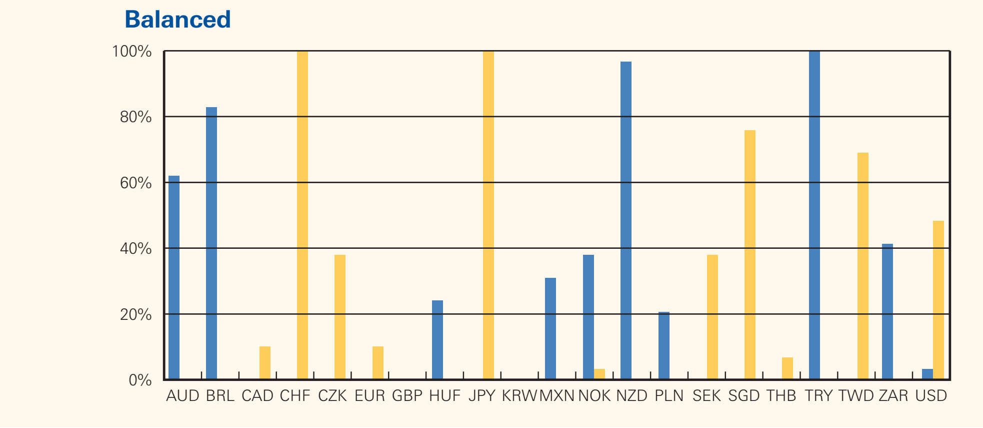
Historical Composition

The historical composition of each index between
September 2000 and October 2007 is represented below.

Global and Balanced:

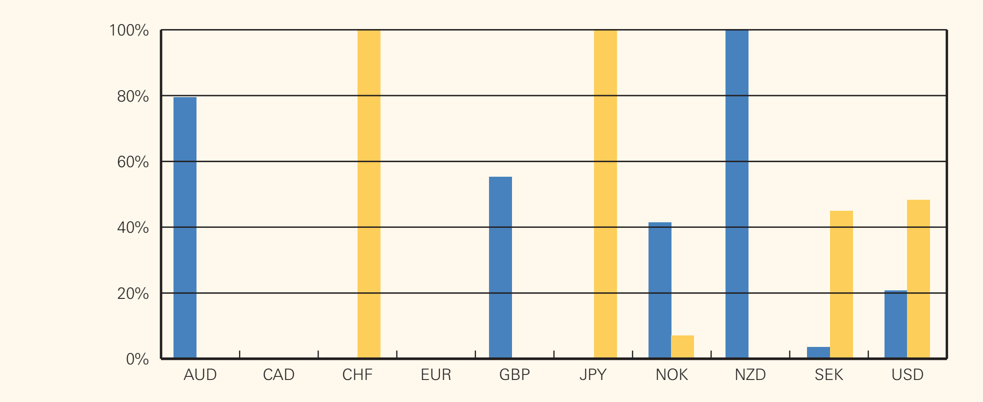
Position rotation has been much more varied as one would expect from
a more diversified index. NZD, TRY, BRL and ZAR have been the core longs,
with JPY and CHF and SGD being the predominant shorts.





G10:

Long positions have been predominantly in NZD and AUD.
CHF and JPY have been the core shorts.
USD, NOK and SEK have spent time on either side.



Percentage of time as a selected ‘long’ currency
Percentage of time as a selected ‘short’ currency

Forward Bias in the World's Currency Markets

Currency forwards are derived from non-arbitrage arguments based on nominal interest rates. Research shows that currency forwards may be a biased predictor of future spot. In other words statistical analysis demonstrates that high yielding currencies tend to over-compensate investors for depreciation risk.

Eg:

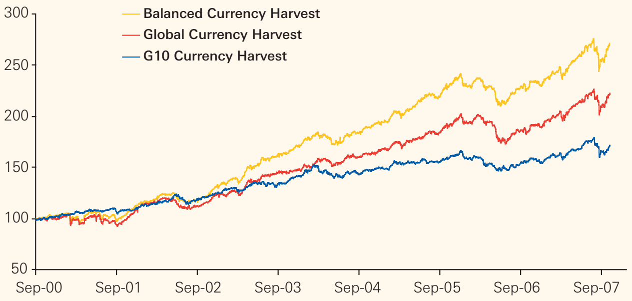
- Currency 1 has a nominal yield of 10%
- Currency 2 has a nominal yield of 5%,
- The 1 year currency forward has to be priced such that it is expected Currency 1 will depreciate by 5% in 1 year's time otherwise an arbitrage would be possible.

Historically there has been a bias that Currency 1 tends not to depreciate as much as the 5% that the forward has priced in.

Historic Performance of the Indices

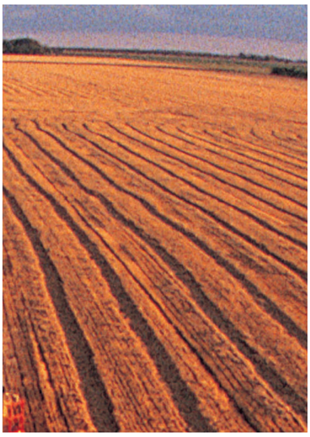
The historic performance of the Deutsche Bank Currency Harvest indices is shown on an excess return basis net of costs.

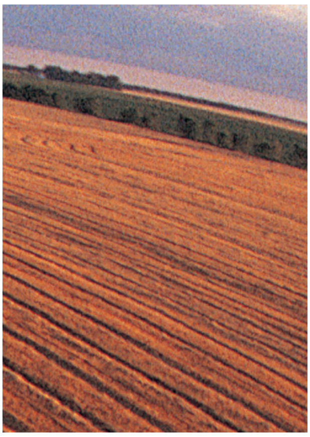
Performance of the Currency Harvest Indices: Excess Return September 2000 – October 2007



Source: Deutsche Bank

The effective annual return over the period from the Balanced Currency Harvest was 15.22%. The Global currency harvest returned 12.07% and the G10 Currency harvest returned 8.02%. The Sharpe ratios for the Balanced Currency Harvest, Global Currency Harvest and G10 Currency Harvest over the period were 1.60, 1.23 and 1.07 respectively. (The returns are in USD terms from an investment made on the 18th of Spetember 2000 and held until the 3rd of October 2007. These returns are quoted on an annual effective basis).





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Or, for an on-line interactive flash demo, go to **www.autobahnfi.db.com**

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Index Name	Bloomberg Ticker
DB Currency Harvest G10 (EUR)	DBHVG10E <Go>
DB Currency Harvest G10 (USD)	DBHVG10U <Go>
DB Currency Harvest Global (EUR)	DBHVGEUI <Go>
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