

The logo for FIDUS capital is centered on the page. It consists of a grey square background. The word "FIDUS" is written in a bold, blue, sans-serif font at the top of the square. Below it, the word "capital" is written in a smaller, white, lowercase, sans-serif font.

FIDUS

capital

A revolutionary concept in Asset Management

**Information on the
Total Return Portfolio Index**

Portfolio Total Return Index: Background

Early 2007: Discussions about the development status of Indices and the ETF industry by reference to the equation:

Portfolio Return = Risk-free rate + \sum Risk Premiums + Management Performance

→ Roland Rousseau's study „Alpheta Rising“.

Early of 2008: Development of the Portfolio Total Return Index by an Index-committee led by FIDUS capital AG:

Portfolio TRN Index = Risk-free rate + \sum Risk premiums

(suitable for Investors with moderate risk appetite and a mid- to long term investment horizon, reference currency: Euro)

2009: FIDUS capital AG becomes responsible for the portfolio management as an asset allocator. Integration of ETF in the Deutsche Bank x-trackers universe. Rebranding as “db x-trackers Portfolio TRN ETF”

Early 2011: NAV achieved 82 Million Euro

Total Return Portfolio Index: Concept

The Portfolio Index

According to recent studies on portfolio management (e.g. Rousseau 2007 “Alpheta Rising” and 2008 “The Race for Scalable Excess Return”) portfolio returns can be explained as follows:

Portfolio Return = Risk-free rate + \sum Risk Premiums + Active Management Premium

The “risk-free rate” and the “ \sum Risk Premiums” are conceived as market returns (“Beta”). The Active Management Return is deemed as the excess above the systematic return due to management performance („Alpha“). Risk Premiums represent returns achievable through market mechanisms absent of any specific management contribution. Examples of such achievable risk premiums within international equity markets include the value-, small cap- or emerging markets premiums. Their existence has repeatedly been proven in numerous research endeavors (e.g. value premium: Hens et. al 2006 „An Evolutionary Explanation of the Value Premium Puzzle“).

Especially due to the uncertainty of positive returns achieved by active management (Sharpe 1981 „The Arithmetic of Active Management“) investors increasingly demand a stricter distinction between market returns (beta) and management performance (alpha).

The portfolio index has been developed in order to implement such a distinction in a transparent and efficient manner, – available as an ETF for investment purposes. Referring to the aforementioned understanding of the portfolio’s return, the index constitutes the component of the equation shy of management contribution („Risk-free rate + \sum Risk Premiums”). The index is applied across several asset classes and is suitable for risk-neutral Euro-investors.

Total Return Portfolio Index: Return

The Investment goal is the efficient participation to the returns generated by the global economy. The index invests in international equity and fixed income indices (an expansion to include global real estate indices is planned). Its composition replicates the total running investment returns, therefore includes dividends and bond coupons. The profitability comparison between stocks and bond index returns is performed on a risk-adjusted basis by means of the following equation (p depicts the probability of a dividend payment):

$$\text{DIVIDEND_YIELD(Index_Stocks)} * p = \text{CURRENT_YIELD (Index_Bonds)} - \text{Inflation} + \text{Risk Premium}$$

The excess return within each corresponding asset class is systematically achieved through the following risk premiums:

Stocks:	Value Premium, Small Cap Premium Emerging Markets Premium
Bonds:	Covered Bond Premium, Corporate Bond Premium Emerging Markets Bond Premium

The existence of the different risk premium types results from the capital market theory and has been proven repetitively in the past. However, excess returns cannot be anticipated in the short term. Hence, the investment strategy is subject to a time horizon of at least 5 years.

Wealth Management Index: Risk

Despite of markets efficiency, a static portfolio consisting of market indices is exposed to a risk of severe losses in the case of an asset bubble bursting. That problem has been ignored in many previous scientific studies, as the probability of an asset bubble bursting was deemed inconsistent with efficient markets. However, recent studies have incorporated the existence of bubbles in portfolio models (Shiller 2001 „Irrational Exuberance“, Hens 2009 „Handbook of Financial Markets Dynamics and Evolution“). The ex ante definition of a so-called bubble is defined as:

“A bubble depicts the exponential difference between prices of an investment class and their respective profitability”.

However, a bubble doesn't always need to burst; it can eventually be absorbed through a dynamic development of the underlying industries. Independently of that, sound risk management models should detect a high risk of potential loss as soon as a bubble is identified according to the aforementioned definition.

The index has been designed to represent a mid- to long term investment strategy. It incorporates a two-stage risk management framework aiming to temper the negative effects of a crashing bubble. The first stage assesses the risk of a bubble by analyzing the fundamental data by comparing the relationship between the price levels and the underlying profitability. In case of excessive risk the weighting of a corresponding asset class will be reduced by 10 %. The second stage autonomously assembles sub-indices in order to avoid anomalies (e.g. of extreme overweights of certain sectors) within indices.

Portfolio Total Return Index: Key facts and background

Structure (31.12.2011) of a Total Return Index Portfolio :

- 50% Stocks (Min: 50% Max: 70%)
- 45% Bonds (Min: 30% Max 50%)
- 5% Real Estate (Stocks) (Min: 0% Max 10%)

Target structure of the index during normal market phases:

- 60% Shares / 30% Bonds / 10% Real estate (Stocks)

Benchmark:

- 60% Stoxx 50 (Stocks Europe) / 40% REX-P (Germany Treasuries)

Index committee:

- Director: Dr. Andreas Beck
- Representative: Dr. André Horovitz

The logo for FIDUS capital, featuring the word "FIDUS" in blue uppercase letters above the word "capital" in white lowercase letters, all contained within a grey square.

FIDUS

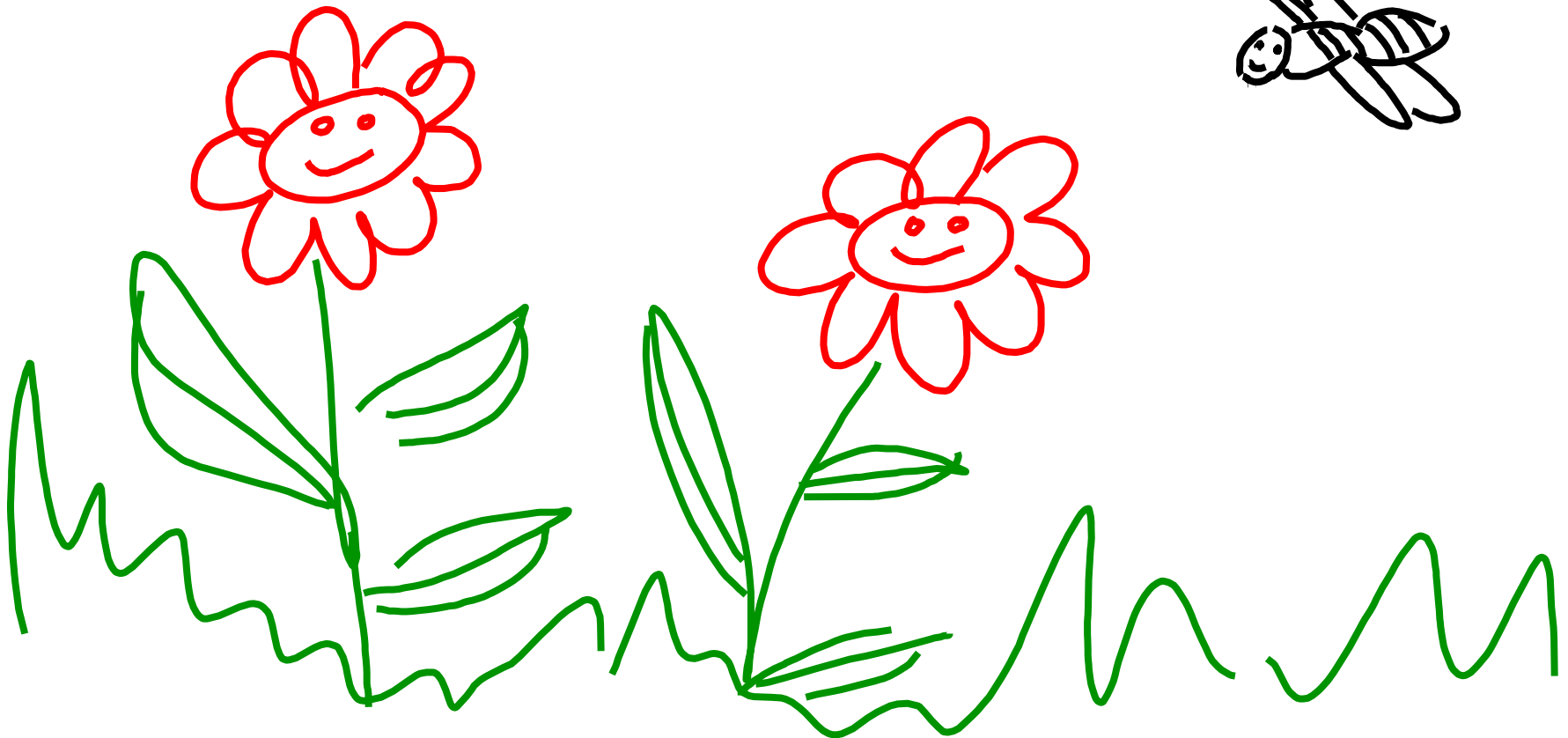
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**Information on
db x-trackers Total Return Index ETF Portfolio**

WKN DBX0BT

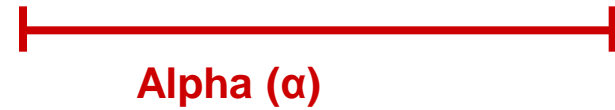
" Mommy, where do Returns
come from ? "

The sequential paragraph is based on:
Rousseau 2008 „The Race for Scalable Excess Returns“



Return = Risk-free rate + \sum Risk premiums + Active Management

Risk-free rate + \sum Risk premiums + Active Management

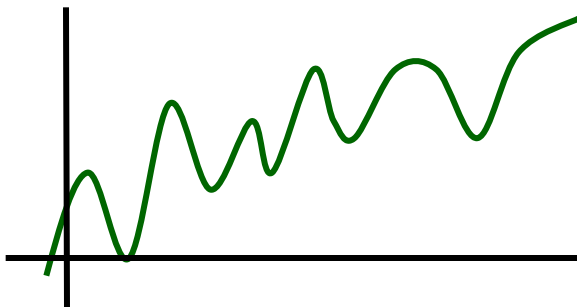


β measures the portfolio's systematic risk.

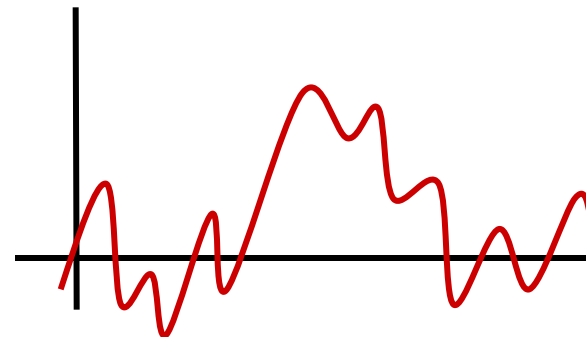
α represents the yield achieved through active management

The return on β summarizes the portfolio's performance independent of active management

Risk premiums

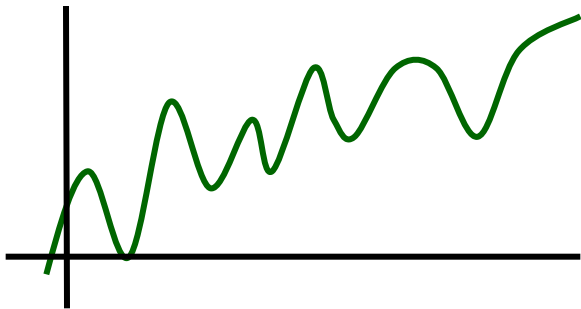


Risk factor



Distinction between Risk premiums and the Risk Factors

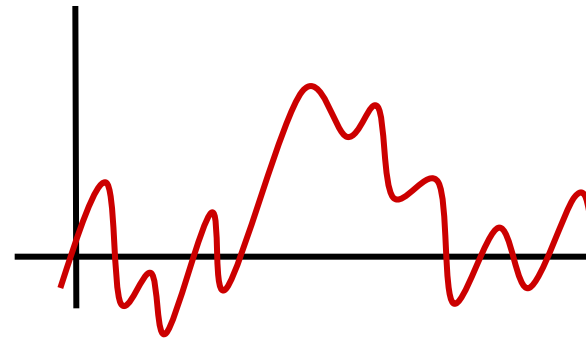
Risk premiums



Characteristics of Risk premiums:

- scientifically verifiable
- uncertain in the short term, can be anticipated in the long term.
- Emerges from market efficiency
- Examples: Value, Small Cap, Emerging Markets Premium

Risk factors



Characteristics of Risk factors:

- Uncertain in the short and long term
- Emerges from market inefficiency
- Demands advance levels of information
- Examples: Timing, Currency risks

Requirements for BETA (β) and ALPHA (α)

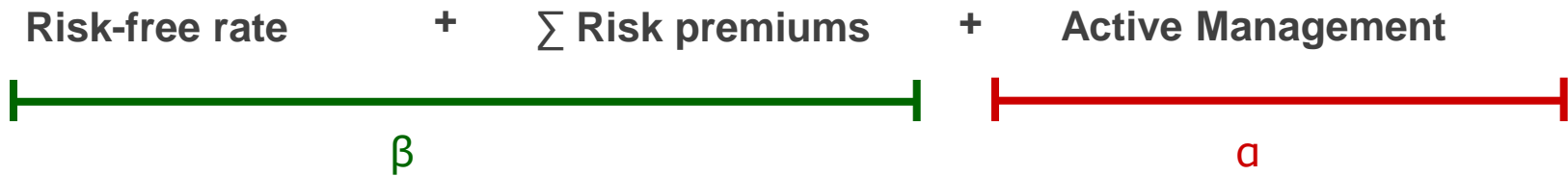
Requirements for β

- Systematic accumulation of risk premiums
- Avoidance of unsystematic (idiosyncratic) risks (e.g. currency risks)
- Avoidance of suboptimal portfolio structure

Requirements for α

- Specific management performance
- Exploiting special situations
- Low correlation with beta

The quest for an ideal investor's world



No advance knowledge is necessary for a manager

=>

Aim is to invest in indexes (ETFs) as efficiently as possible

Deliberate taking of “management risks” through the active manager.

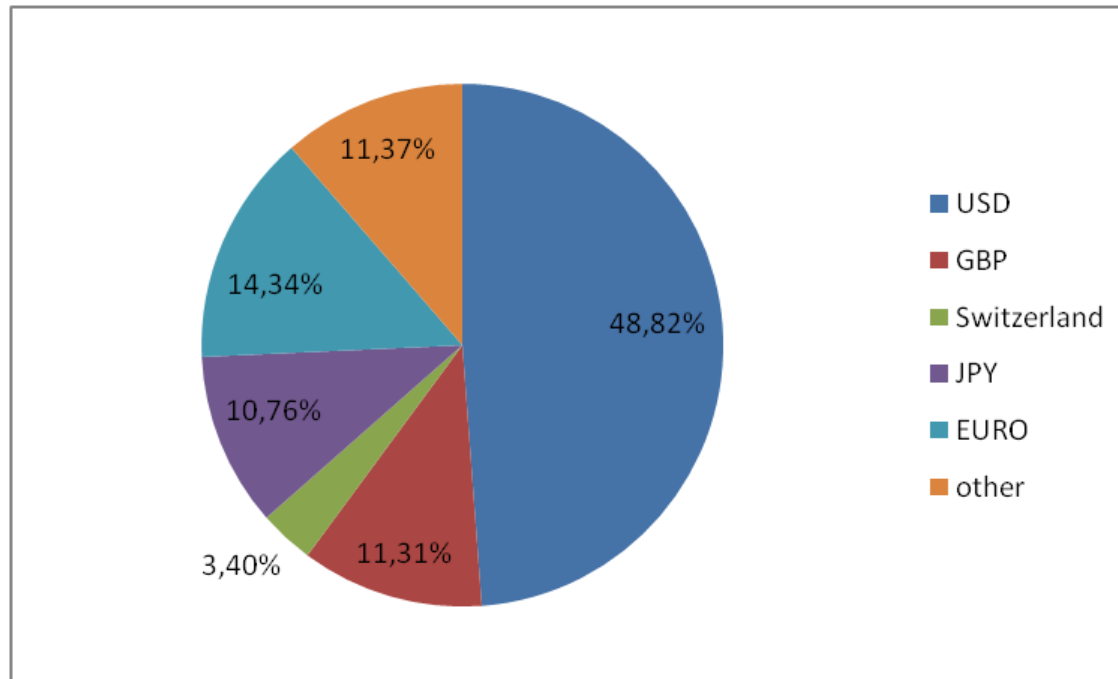
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Application of benchmark-free strategies or funds.

Ideal World?

Insufficient eligibility of classical ETF/Indices for β (I)

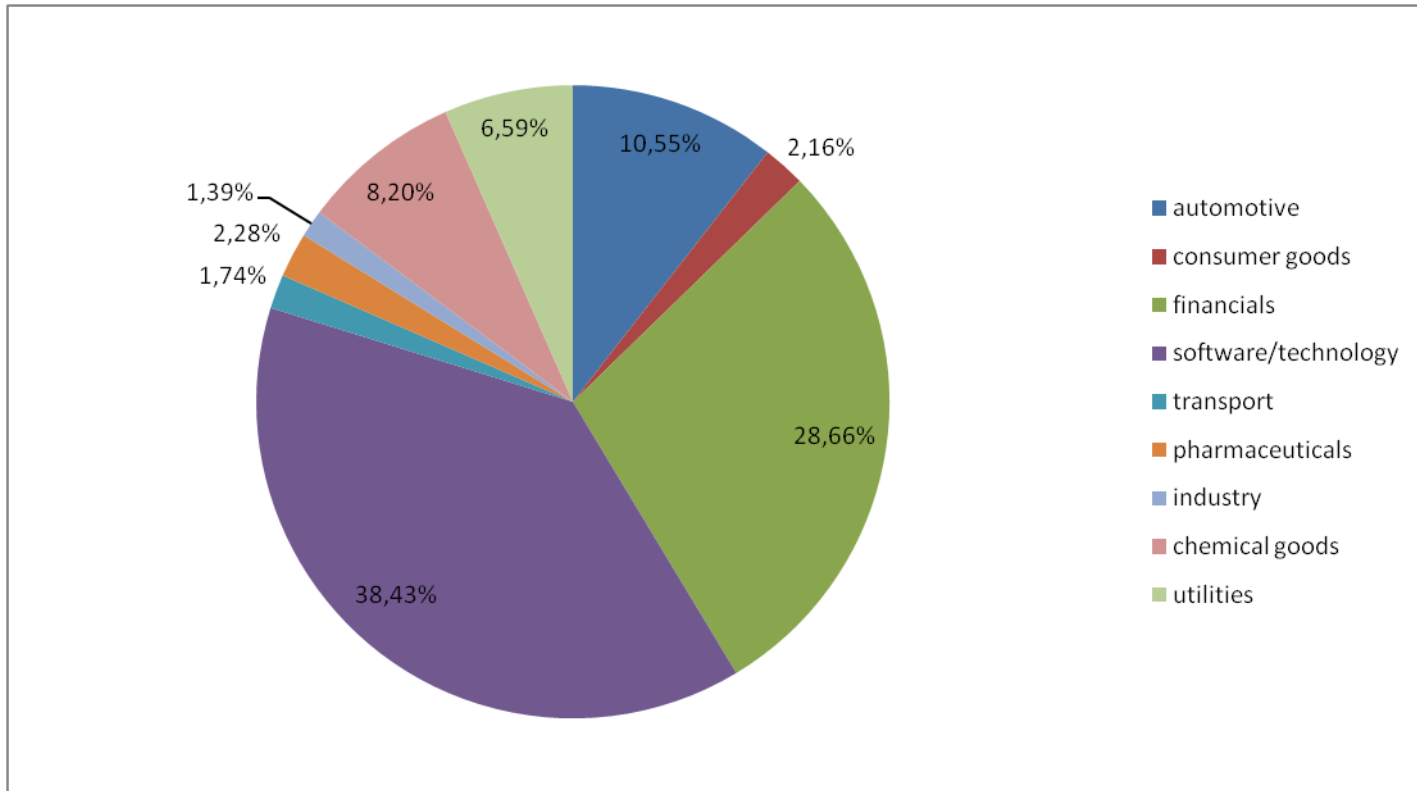
Example: The currency weighting of the MSCI World (31.07.2008) with a EURO-weighting of approximately 15% implies a severe idiosyncratic risk for a EURO-investor



Ideal World?

Insufficient eligibility of classical ETF/Indices for β (II)

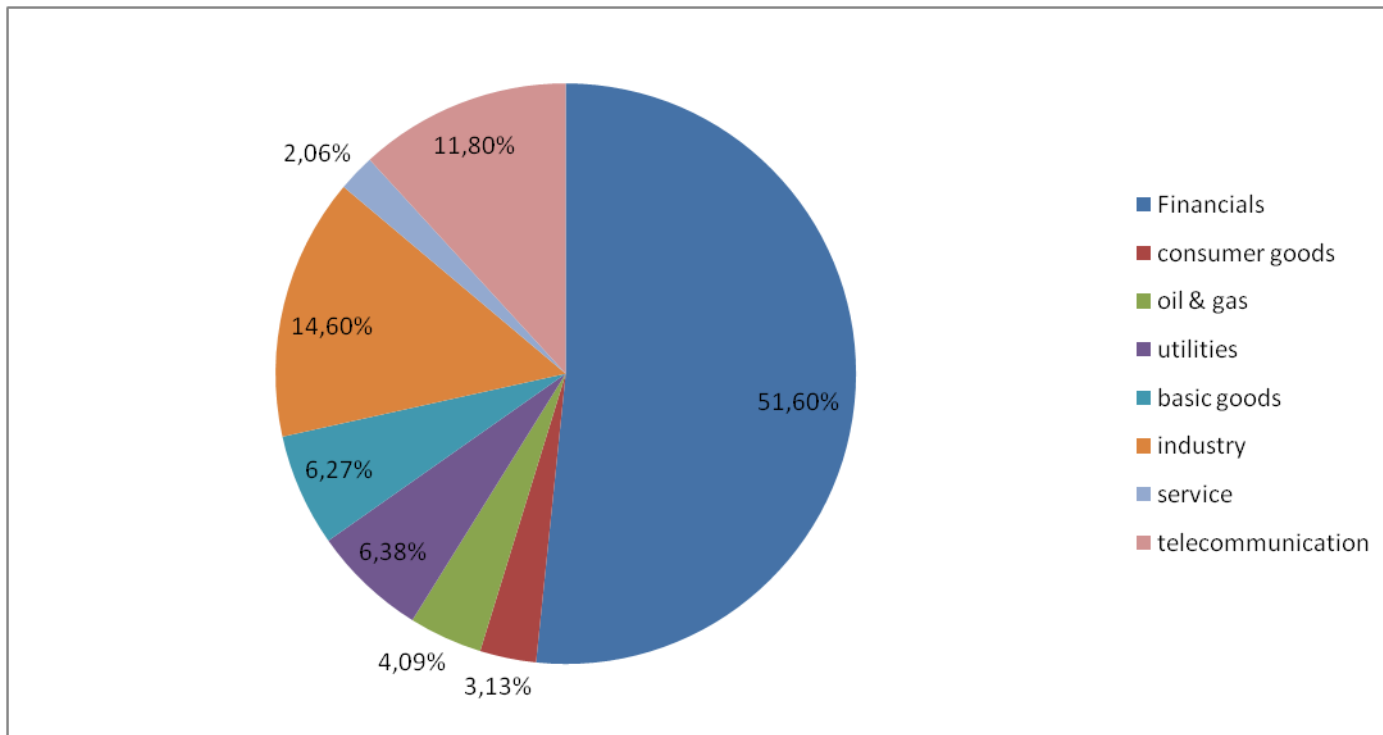
Example: The dotcom-bubble led to an extreme focus on the technology/software segment in the DAX (as of 01.09.2000). That idiosyncratic risk has caused enormous losses in 2001/2002.



Ideal World?

Insufficient eligibility of classical ETF/Indices for β (III)

Example: The finance- bubble led to an extreme focus on the financial sector in the DJ EuroStoxx Sel. Div. (as of 30.06.2008). That idiosyncratic risk has also caused enormous losses.



Implications for modern portfolio management

■ Existing situation

Classical index investments are by and large cost-efficient. However, they only depict „ β “ incompletely as they neither accumulate risk premiums, nor systematically avoid risk factors.

■ Solution: The Total Return Portfolio Index as ETF

- **Complete investment universe: Stocks, bonds, real estate**
- **Developed countries and emerging markets**
- **Systematic accumulation of risk premiums**
- **Avoidance of unsystematic risks**
- **As ETF: transparent, liquid and efficient**
- **For private investors: easy and cost-efficient core investment**
- **For institutional investors: Simple accounting processes**
- **For asset managers: Easy distinction between Alpha and Beta in portfolios**

Summary: Total BETA (β) with a ETF

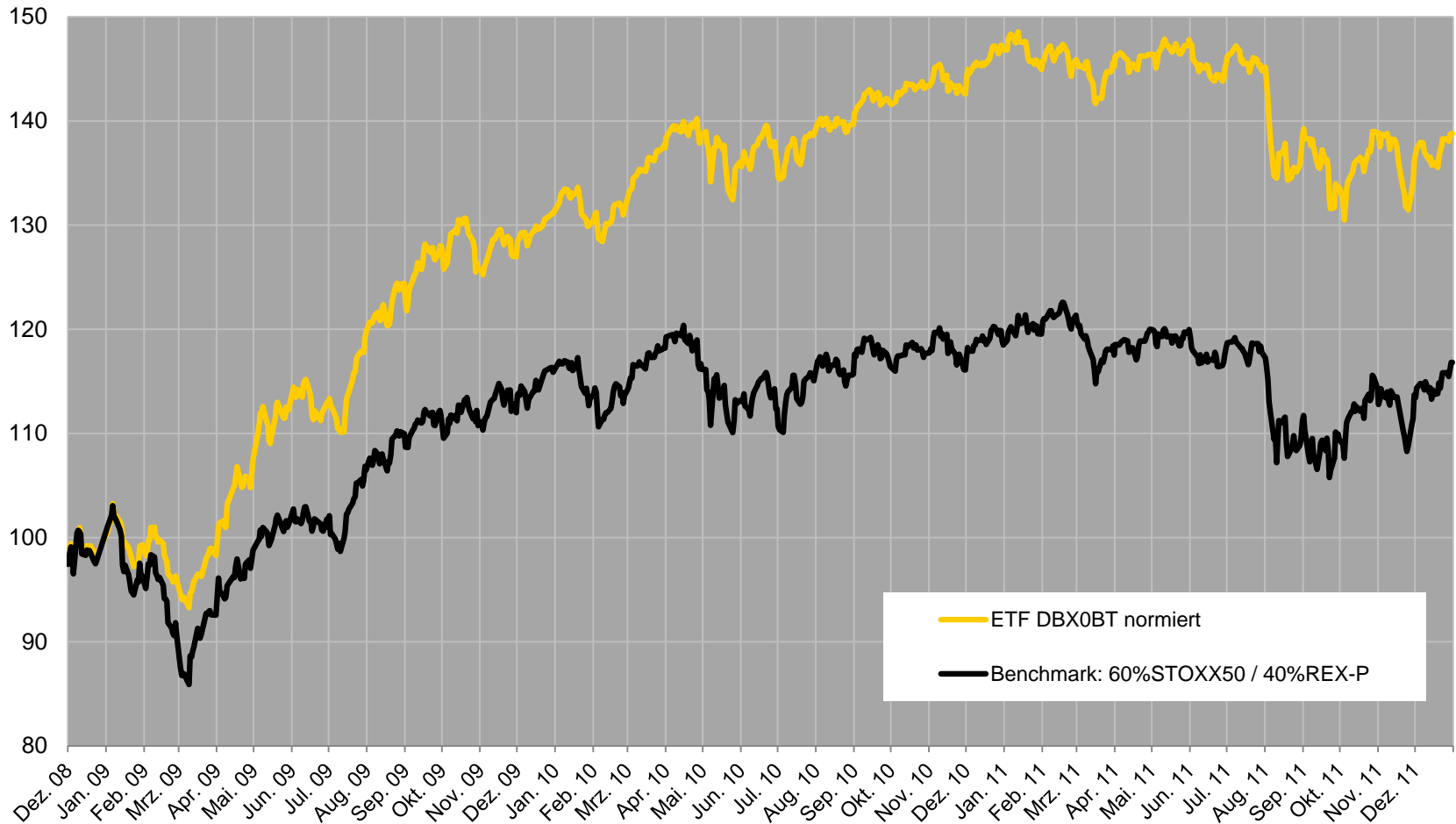
- risk-adjusted return mechanism as the fundamental control variable enforces “smart investing instead of speculating”
- unique valuation model
e.g. Profitability Stocks \geq Profitability Treasury Bonds

$$\text{DIVIDEND_YIELD}(\text{Index}_{\text{Stocks}}) * p \geq \text{CURRENT_YIELD}(\text{Index}_{\text{Bonds}}) - \text{Inflation} + \text{Risk premiums}$$

- Concentration on essential risk premiums as the return driver. Avoidance of risk factors.
- As ETF investible at a total expense ratio of max. 0,72% p.a.
(composition: administration- & custody expenses 0,30% (equivalent to „TER“ for classical Funds), Execution- and other expenses 0,42%)
(classical investment funds/asset managers do not reveal these openly)
- tradable on stock exchanges (z.B. XETRA): ISIN LU0397221945 / WKN DBX0BT
- OTC-tradable (without exchange fees and spread) from 0,5 Mio. Euro.

Performance:

In 2009: return of 31,32% with a volatility of 11,68%,
in 2010: return of 11,96% with a volatility of 7,33%,
in 2011: return of -5,48% with a volatility of 8,56%.



Source: db x-trackers, Deutsch Börse AG
Date 31.12.2011, percentage points

Important Information

ETFs are linked to an index, whose values can be positive or negative, thus changing the value of the investment. The value of shares in a fund can always fall below its initial price, at which an investor bought its shares, resulting in losses. The different shares in a fund can be issued in different currencies. Should an investor use a different currency than the currency used for the issued fund, one should be aware of the fact that exchange rate fluctuations may negatively affect the price or return. The sub-funds invest in stocks or investment-grade bonds as well as in transactions of derivatives. Therefore, in case a counterparty cannot fulfil its obligations, a counterparty risk of 10 % can affect the capital of a fund (subject to the European fund regulation regarding Transferable Securities (UCITS), policy 2001/ 107 / EWG and 2001 / 108 / EWG (UCITS III)). The sub-funds can invest in derivative instruments or securities that deviate from their base values. Derivative techniques are used to link the value of investments to the price development of the base value. The careful application of such derivatives can be of advantage, however, also comprises risks that can have a greater impact than risks linked to traditional investment vehicles.

The company has to comply with the present policies, restrictions and regulatory laws regarding the execution and processing of investment vehicles. Such an obligation compels the company, if necessary, to change or adapt its investment strategy to recent changes in the regulatory environment. The NAV of a sub-fund, the base value and the derivative techniques as well as their interlinked relationship may be subject to changes in policies, restrictions and/or regulatory laws, which may have an effect on the investment's overall value.

Disclaimer

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