

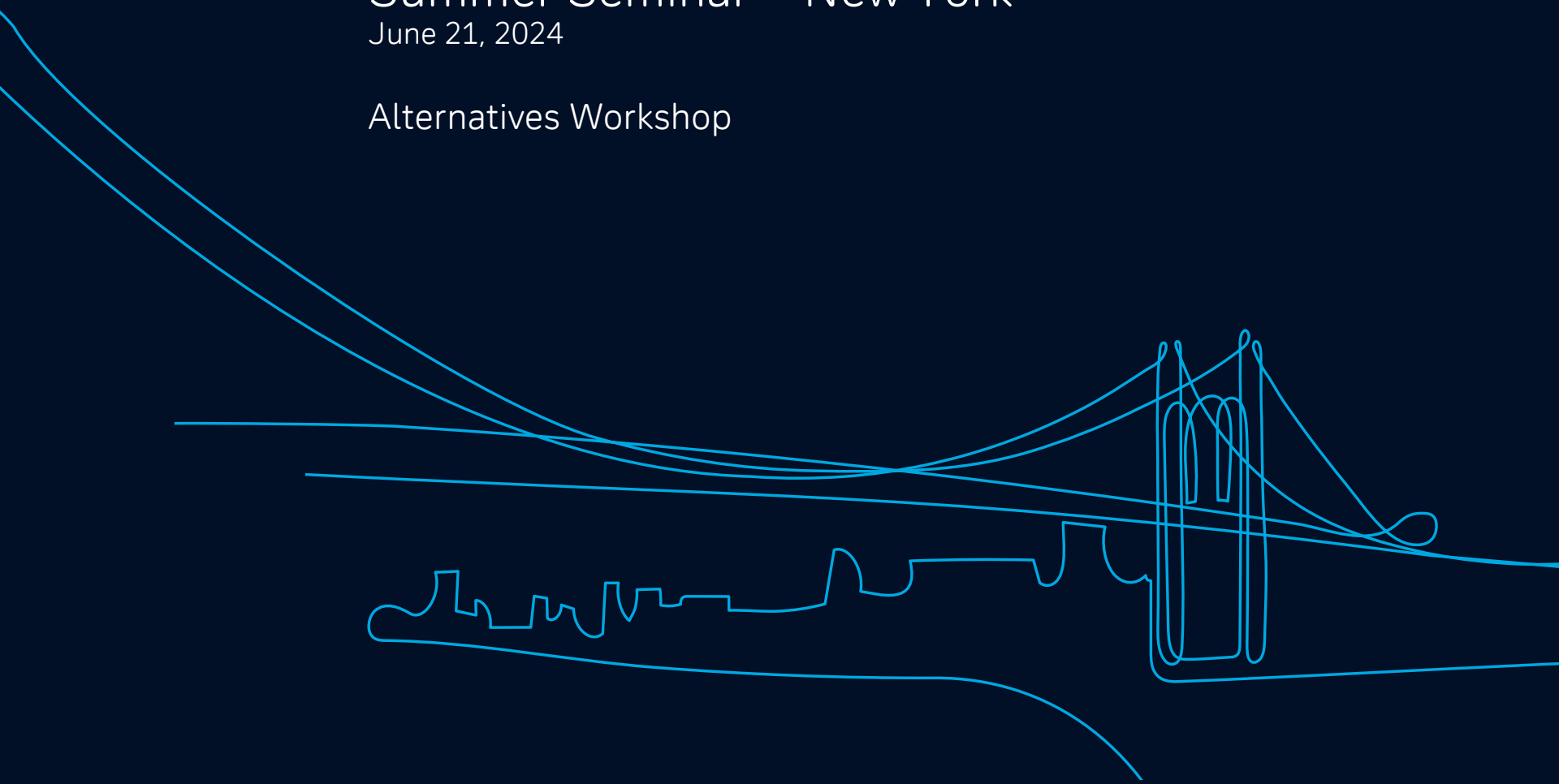


NextGen

Summer Seminar—New York

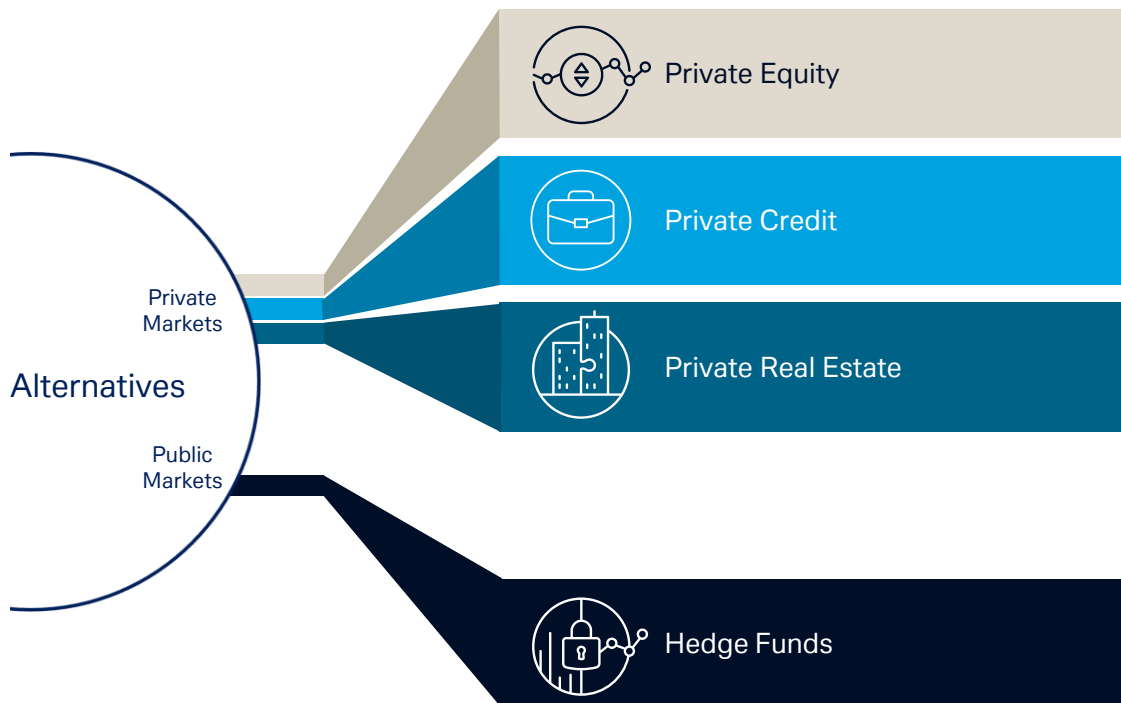
June 21, 2024

Alternatives Workshop



What are Alternatives?

Alternative investments can offer return streams with fundamentally different correlations and/or risk return profiles relative to traditional equities, fixed income and cash as well as long only strategies.



Alternatives Characteristics

Higher return potential

Can outperform major public indices and asset classes over the long-term investment horizon.

Diversification

Portfolio diversifier via different forms of exposures such as short selling.

Lower Volatility and Illiquidity

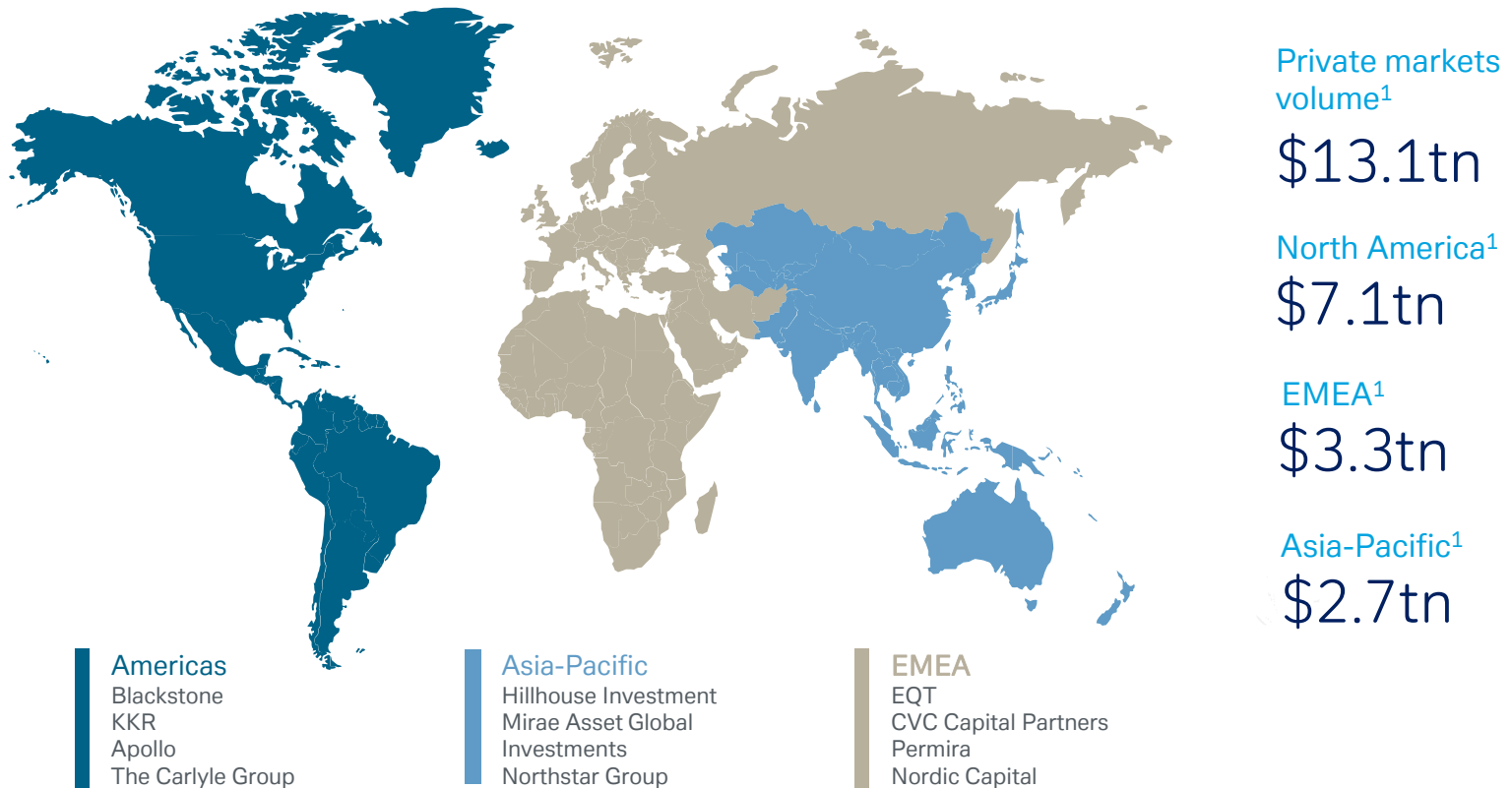
Low correlation to public markets & largely illiquid investments.

Unique Access & Higher Investment Minimums

Access to companies / investment vehicle not available on public markets and in different lifecycles.

Global Private Markets

Global view of private markets: key players and AUM



¹ McKinsey & Company: McKinsey Global Private Markets Review 2024: www.mckinsey.com

Diversifying across public and private markets

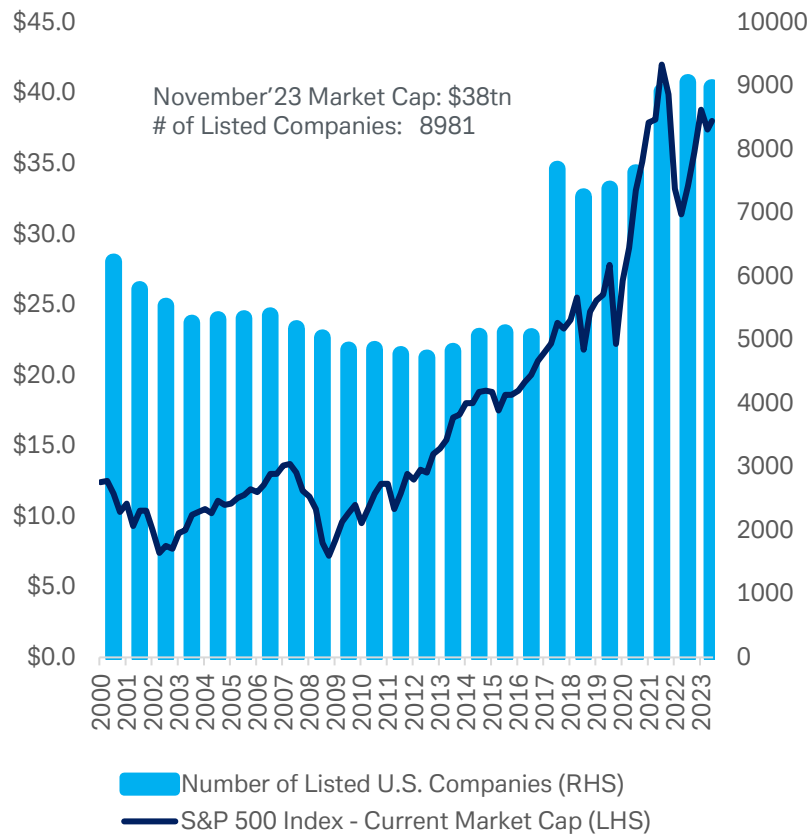
Public markets include:

Private markets include:

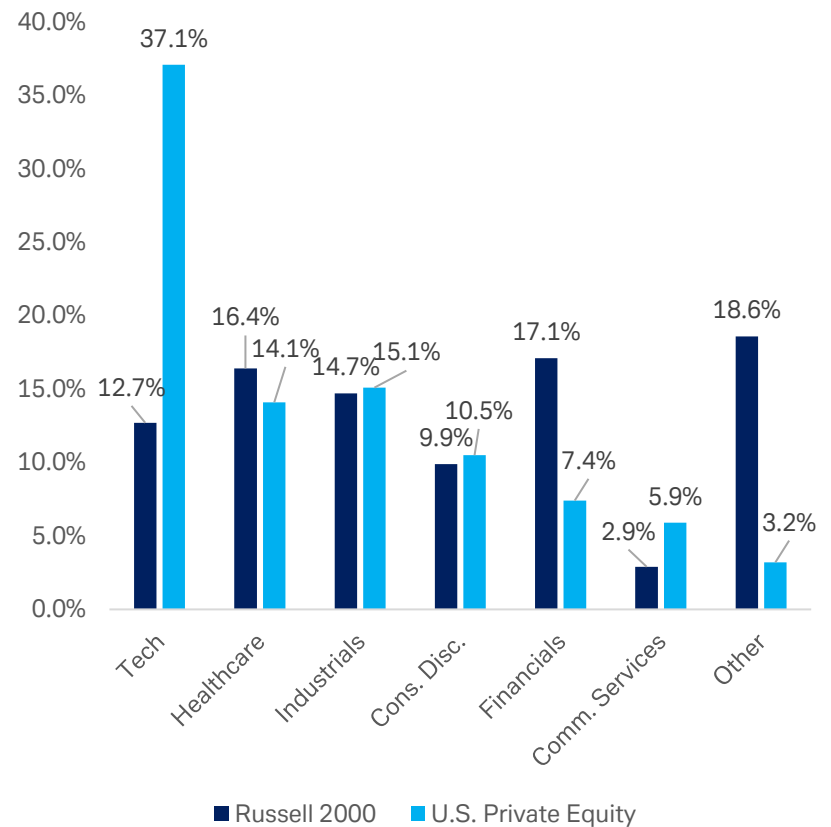
<ul style="list-style-type: none"> • Large-Cap • Small-Cap • Global 	<p>Equities</p>	<ul style="list-style-type: none"> • Venture Capital • Growth Equities • Buyout • Secondaries
<ul style="list-style-type: none"> • Investment Grade • High Yield • Municipal Bonds • Treasuries 	<p>Credit / Income</p>	<ul style="list-style-type: none"> • Direct Lending • Mezzanine Debt • Distressed Debt • Special Situations
<ul style="list-style-type: none"> • Public REITS • Commodities Futures • Listed Infrastructure 	<p>Real Assets</p>	<ul style="list-style-type: none"> • Core Real Estate • Opportunistic Real Estate • Infrastructure

U.S. public vs. private equity

Number of listed U.S. companies* and market cap (USD trillions.)

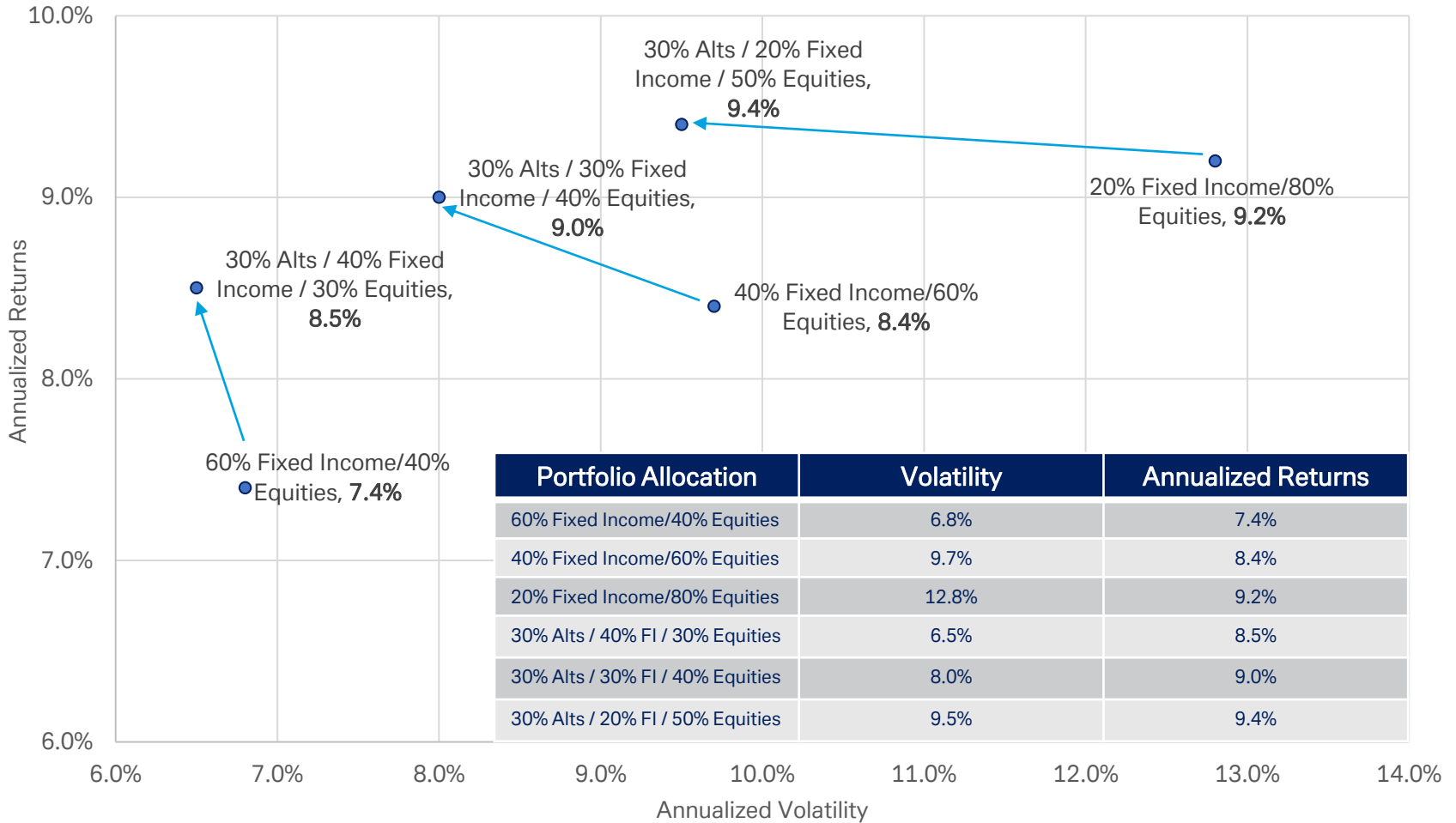


Private vs. public equity sector weights



Sources: Cambridge Associates, Russell, Bloomberg L.P., Deutsche Bank Wealth Management. *Number of listed U.S. companies is represented by the sum of number of companies listed on the NYSE and the NASDAQ. **Other includes real estate, utilities and energy. Percentages may not sum due to rounding. Sector weights are as of June 31, 2022. Data are based on availability as of November 7, 2023. Please see slide 21 for some of the potential risks when investing in Alternative Investments.

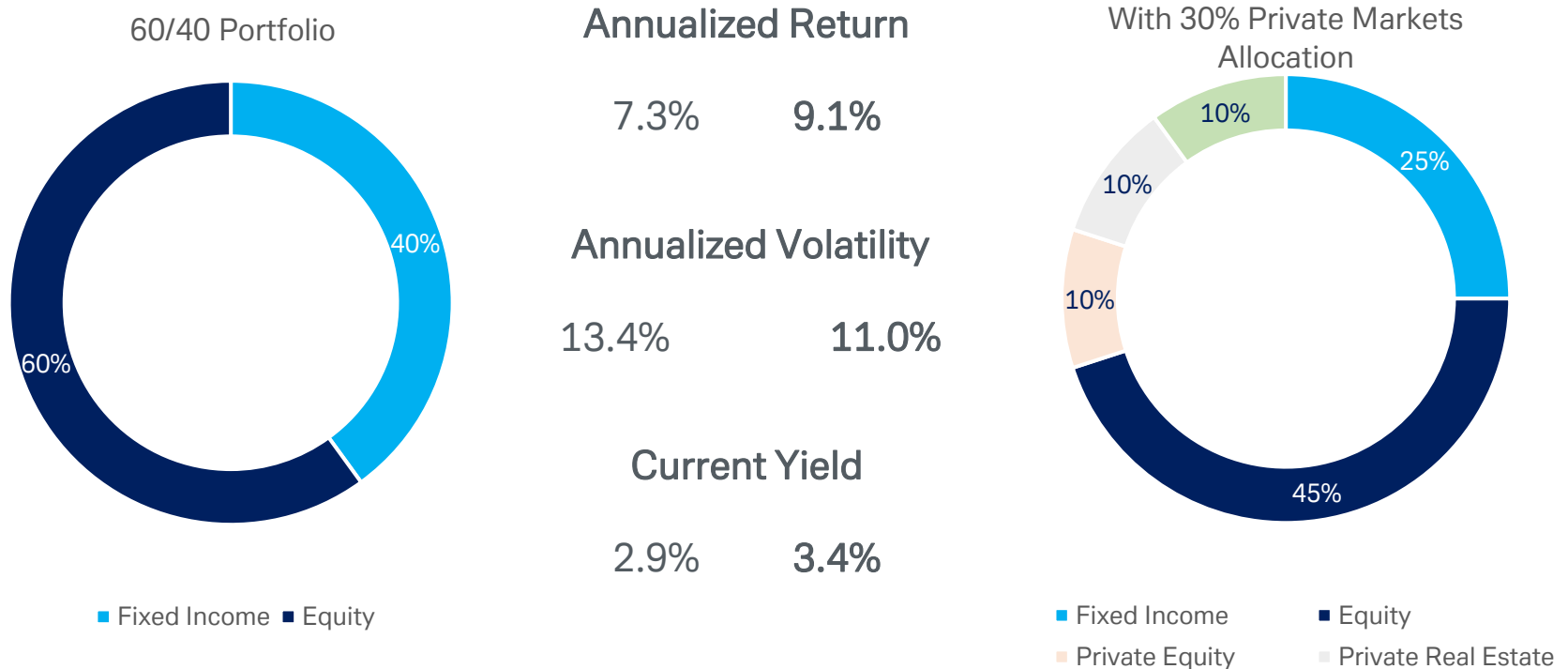
Volatility and Returns for Alternatives



Source: Bloomberg, Burgiss, HRFI, NCREIF, Standard & Poor's, FactSet, J.P. Morgan Asset Management, Deutsche Bank Wealth Management. Alts include hedge funds, real estate, and private equity, with each receiving an equal weight. Portfolios are rebalanced at the start of the year. Data are based on availability as of August 31, 2023. Please see slide 21 for some of the potential risks when investing in Alternative Investments.

Allocating to private markets: an illustration

Private market allocations in a traditional 60/40 portfolio context (2017-2023)¹



Source: Bloomberg, Morningstar, Cambridge Associates, NCREIF, Cliffwater, as of 3/31/2023. As commonly used in the industry, the 60/40 portfolio is 60% allocated to the S&P 500 Index and 40% is allocated to the Bloomberg US Aggregate Bond index. Private Credit is represented by the Cliffwater Direct Lending Index. Private Real Estate is represented by the NFI-ODCE Index. Private Equity is represented by the Cambridge Associates US Private Equity Index. Annualized returns and volatility are calculated based on the quarterly returns over the 5-year period from April 2018 to March 2023. The yield on the portfolio with a private market alternative allocation was calculated using the annualized S&P 500 Dividend Yield, the annualized Bloomberg US Aggregate Bond Yield, annualized Cliffwater Direct Lending Index quarterly income, and the annualized NFI-ODCE quarterly income. There is no yield from the private equity allocation, so private equity did not contribute to the annualized yield calculation. Past performance does not predict future returns. Please see slide 21 for some of the potential risks when investing in Alternative Investments.

Private Equity

Various private equity funds exist to meet the unique needs of the marketplace. Structured like an alternative investment, private equity funds directly invest in private companies or engage in buyouts of public companies.

Overview

These sponsors raise capital to invest in private companies where funding can be used for new technology, acquisitions, management change, expanse of working capital and balance sheet solidification

- The risk / return profile of private equity is higher than other asset classes, with return potential that has historically outperformed public indices
- Private equity funds attract investments from institutional and accredited investors (limited partners)
- Higher up the risk-spectrum, other strategies in this space pursue deals in complex leveraged buyouts and venture capital

Equity funds

Common private equity strategies fall under the following broad characterizations:

Leveraged Buyouts

- Acquisition of a company, business unit, or business assets from current shareholders

Growth Capital

- Minority investments in mature companies looking to expand, restructure, or enter new markets

Distressed Equity

- Purchase of existing equity obligations that are trading at “stressed” levels

Mezzanine Capital

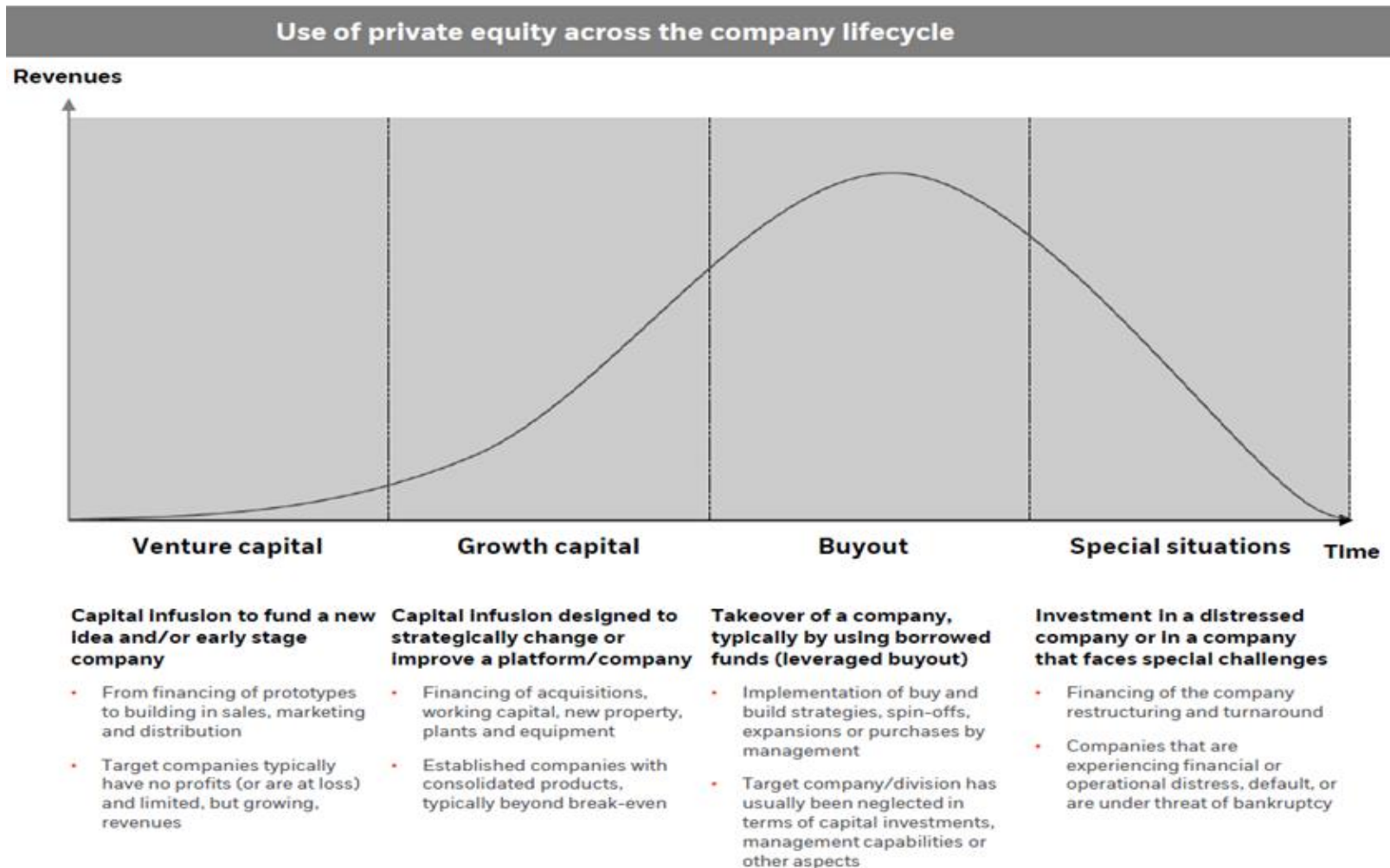
- Asset-backed finance in preferred equity securities

Venture Capital (VC)

A growing segment of the private equity market is Venture Capital, which raises private capital to provide direct investments to seed, startup, or early-stage companies

- VC investments are found in the application of new technology, marketing concepts, and products without a proven track record or market fit
- Stages of VC Funding: Pre-seed, Seed, Early, Growth, Late (pre-IPO)
- VC investments are characterized to be riskier due to long term investment periods and lack of proven models

Private Equity represents investments in different stages of private companies



Private Equity Strategies – An Overview

	Venture Capital	Growth Capital	Buyout
Business Life Cycle of Company	Development / Early Growth	Established / Expansion	Mature
Investment Size	\$0m – \$10m	\$10m – \$100m	\$100m – \$10bn+
# of deals	25 – 40	15 – 20	10 – 15
Stake	Minority	Minority	Majority / Control
Investment Holding Period	6 – 9 years	4 – 6 years	4 – 6 years
Term of Fund	10 years	10 years	10 years
% of write-offs	30%	20%	15%
Multiple on “good” deals	3.0x – 5.0x	2.5x – 3.5x	2.0x – 2.5x
Multiple on “great” deals	5.0x – 10.0x	3.5x – 5.0x	2.5x – 4.0x

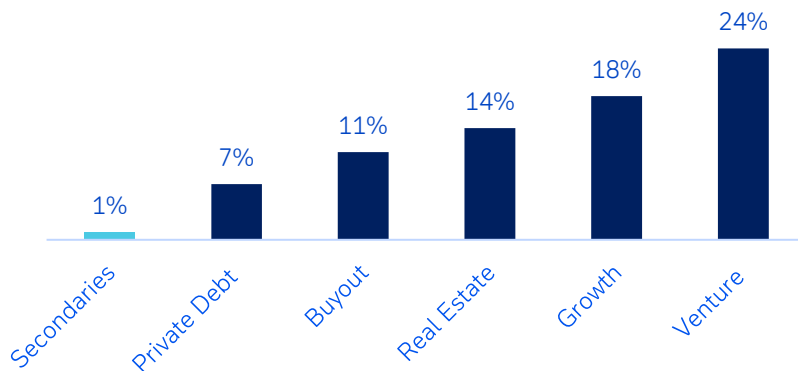
Private Equity Secondaries

Market characteristics

- Liquidity crunch in the market fuelled growth in secondaries
- LPs are using secondaries to rebalance portfolios while GPs are looking at secondary market to generate liquidity (continuation funds)
- Secondaries market has grown 4x in the last 10 years

Secondaries have relatively low capital at risk

Ratio of funds returning less than 1x Net TVPI (2003-2022)



Opportunity

Mitigated J-curve effect

Reduced blind pool risk

Increased **diversification across vintages, strategies and industries**



A PE secondary strategy is **complementary** to PE primary portfolio

Focus on experienced managers with proven track record across market cycles

Private Credit

Various private credit funds exist to meet the unique needs of the marketplace. Structured like an alternative investment, private credit funds buy existing debt or directly lend to private companies.

Overview

These sponsors raise capital to invest in less-liquid debt issuances and the liabilities of private companies.

- The universe of private credit is rather broad, and the risk/return profile of a specific strategy will vary based on the segment of the market that the fund is involved with
- Many traditional private credit funds invest in the senior or mezzanine debt that is created as part of private equity buyout transactions
- Higher up the risk-spectrum, other strategies in this space pursue deals in distressed assets and issues with very low liquidity

Credit funds

Common private credit strategies fall under the following broad characterizations:

- Sponsor-oriented mezzanine and senior debt funds
- **Distressed credit**
These funds purchase existing debt obligations that are trading at “stressed” levels
- **Opportunistic credit**
These funds target complex financing arrangements (i.e. restructuring events)
- **Specialty Finance**
Asset-backed finance, non-performing loan strategies

Business development companies (BDCs)

A growing segment of the private credit market are BDCs, which raise private capital to provide direct lending to private companies

- These strategies typically directly originate and service senior unsecured loans to middle-market corporate borrowers
- These loans tend to be either first or second lien debt
- Some BDC managers will seek to take the company public once fully invested, offering the chance for early liquidity for initial investors

Private Credit

With interest rates trending lower, we expect investors to increasingly seek **alternatives to traditional fixed income products and term deposits in 2025**. In such an environment, **careful product selection is paramount** for this sought-after asset class as eventually cycle will turn and default rates pick up.

Market characteristics



Attractive yields



Floating rate loans reducing volatility

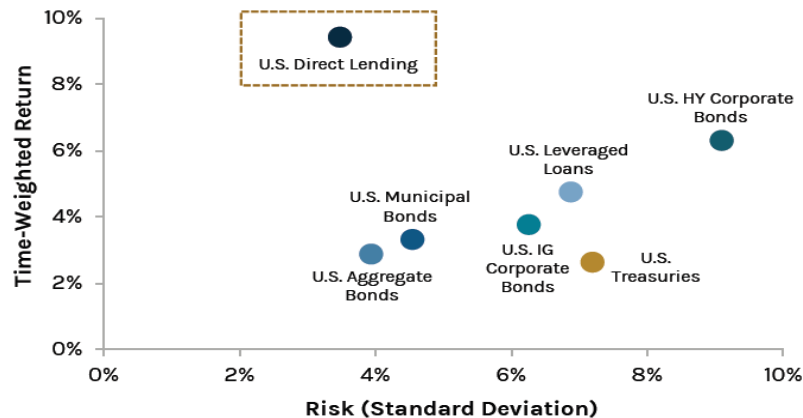


Increased **market access** due to shifting dynamics



Bespoke terms from larger managers

Strong risk return characteristics



Opportunity

- ✓ Experienced managers with proven track record across market cycles
- ✓ Products with **high credit quality and default protection** (e.g.: senior secured direct lending focus) more important than highest return promise
- ✓ Younger products with **post-COVID vintages**
- ✓ **Evergreen solutions** that reduce complexity and enhance client experience
- ✓ **Strong alignment of interest**

FIRST LIEN SENIOR SECURED DEBT

SUBORDINATED DEBT

EQUITY
LTV of at least 50%

Private Real Estate

Private real estate is an alternative asset class made up of private investments that are pooled together and professionally managed. Investing in private real estate involves acquisition, financing and ownership of real estate via a fund.

Example of a typical fund strategy

- Invests in a diverse variety of spaces including commercial and retail properties
- Large scale investments in the fund through different sectors and demographics
- Can have the ability to invest in markets across the world
- Portfolios might include investments in different sectors such as: logistics, rental housing, office and life science offices, hospitality and retail properties

Compared to public REITs, investing in private real estate funds requires higher investment minimums and are subject to liquidity limitations.



Main Hedge Fund Strategies



Equity
Long/Short

This strategy is known as the traditional hedge strategy, also referred to as “equity hedge.” The Portfolio Manager combines core long holdings of equities with short sales of stock or stock options. The fund buys long a security the manager thinks is undervalued, anticipating its price to go up and sells short a security the manager thinks is overvalued, anticipating its price to go down. Portfolios can be net long or net short. Long/short managers generally increase net long exposure in bull markets and decrease net long exposure or even are net short in bear markets. Typically, the short exposure is intended to generate an ongoing positive return in addition to being a hedge against a general stock market decline. The focus of these funds can be regional, sector specific, style specific or general.



Equity Market
Neutral

The market neutral managers seek to generate returns in both up and down markets by selecting securities with a total net exposure of zero. The strategy is designed to exploit market inefficiencies. By taking long and short positions in equal amounts, the equity market neutral manager seeks to eliminate the market exposure. Returns are derived from the long/short spread, or the amount by which long positions outperform short positions. This strategy seeks to produce consistent returns with low correlation and low volatility. Securities moving against the manager’s position will likely result in losses.



Global Macro

Discretionary managers structure their portfolios to reflect their view on the various fixed income, currency, commodity, and equity markets traded around the world. Managers analyze macroeconomic factors (such as GDP, trade deficits, unemployment figures, political climate, etc.) to formulate their positions. Managers can be differentiated by their time horizons, asset class focus, and directional views. Some managers are trading oriented and take concentrated positions in a relatively small number of markets. Others have longer-term views and are well-diversified across geographical regions and market sectors.



CTAs

Systematic managers (often called “trend-followers” or CTAs) utilize computerized trading systems designed to capture the trending tendencies of global markets. Systematic managers analyze price movements and volatility to anticipate when a certain asset is likely to exhibit continued upward or downward movement, and attempt to “ride the wave.” Positions are exited when trends reverse or fail to maintain momentum. Because they can go both long and short they have the ability to make money in both rising and falling markets. They trade in these markets using futures, forwards and options contracts in everything from grains and gold, to currencies, stock indexes and government bond futures.

Main Hedge Fund Strategies



Credit

The strategy seeks to exploit inefficiencies in the fixed income market through “spread trades” which derive returns from the relationship between two related securities rather than from the direction of the market. This strategy often takes offsetting long and short positions in similar or related securities when their values, which are mathematically or historically interrelated, are temporarily distorted. Profits are derived when the skewed relationship between the securities returns to normal. Credit strategies seek to deliver steady returns with low volatility. Leverage is used to take advantage of the small spreads. Risk is a change in the relationship of the securities which could lead to losses.



Distressed

Managers consider the situations of companies in bankruptcy or near-bankruptcy. Distressed securities managers invest primarily in securities and other obligations of companies that are encountering significant financial or business difficulties. Managers will seek profit opportunities arising from inefficiencies in the market for such securities and other obligations. Negative events may create a severe market imbalance as some holders attempt to sell their positions at a time when few investors are willing to purchase the securities or other obligations of the troubled company. Profits in this sector result from the market’s lack of understanding of the true value of the deeply discounted securities. Results are generally not dependent on the direction of the markets, and have a low to moderate expected volatility.



Event Driven

Merger Arbitrage strategy, also known as risk arbitrage, involves investing in securities of companies that are the subject of some form of extraordinary corporate transaction, including acquisition or merger proposals, exchange offers, cash tender offers, and leveraged buy-outs. These transactions will generally involve the exchange of securities for cash, other securities or a combination of both. Typically, a manager purchases the stock of a company being acquired or merging with another company, and sells short the stock of the acquiring company. A manager engaged in merger arbitrage transactions will derive profit (or loss) by realizing the price differential between the price of the securities purchased and the value ultimately realized when the deal is completed. Profits are made by capturing the spread between the market and takeover price. Risk is that the deal may not go through.

In an activist strategy, a hedge fund purchases large numbers of a public company's shares and/or tries to obtain seats on the company's board with the goal of effecting a major change in the company. A company can become a target for activist investors if it is mismanaged, has excessive costs, could be run more profitably as a private company.

Hedge Funds - Portfolio Benefits

Including hedge funds in portfolios offers a number of advantages

Benefits to Our Clients

Capital Preservation

Focus on risk and volatility management helps to limit drawdowns and reduce overall portfolio risk without sacrificing return.

Differentiated Performance

Unique, uncorrelated sources of returns with unconstrained/flexible investment mandates allow to dynamically allocate capital across various opportunities.

Increased Expected Returns

Hedge fund managers can invest across the spectrum of global markets to identify specific areas or pockets of opportunity and act quickly to exploit market inefficiencies. Access to some of the world's most talented investment managers.

Manager selection plays a key role in hedge fund investing given the wide dispersion of returns for hedge funds managers

Reduced Risk

Hedge funds use a range of tools to mitigate or eliminate broad market and specific investment risks, including:

- Short exposure
- Hedging
- Risk systems/processes

Increased Diversification

Various types of exposures allow hedge funds to generate uncorrelated returns to equity and fixed income markets. Diversification benefits result from:

- Strategy
- Style
- Region
- Asset Class
- Investment
- Time Horizon

Opportunistic Investing

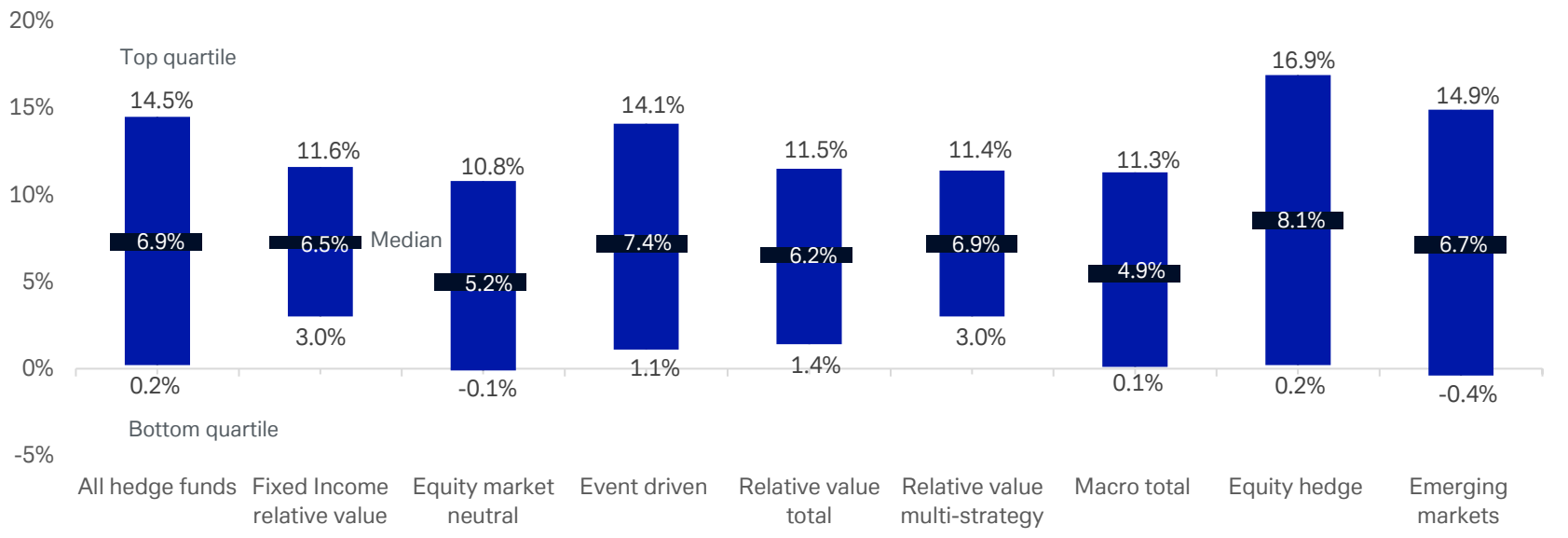
Hedge fund managers generally employ more complex and sophisticated investment techniques and usually have flexibility that allows them to identify and capitalize on specific opportunities.

- Opportunistic and efficient approach
- Target unique situations
- Skillful investment timing and sizing

Hedge Funds and Manager Selection

Hedge fund manager dispersion based on 10-year trailing returns

Manager selection is the key to successful investing. The dispersion between top and bottom quartile manager performance highlights the importance of manager selection.

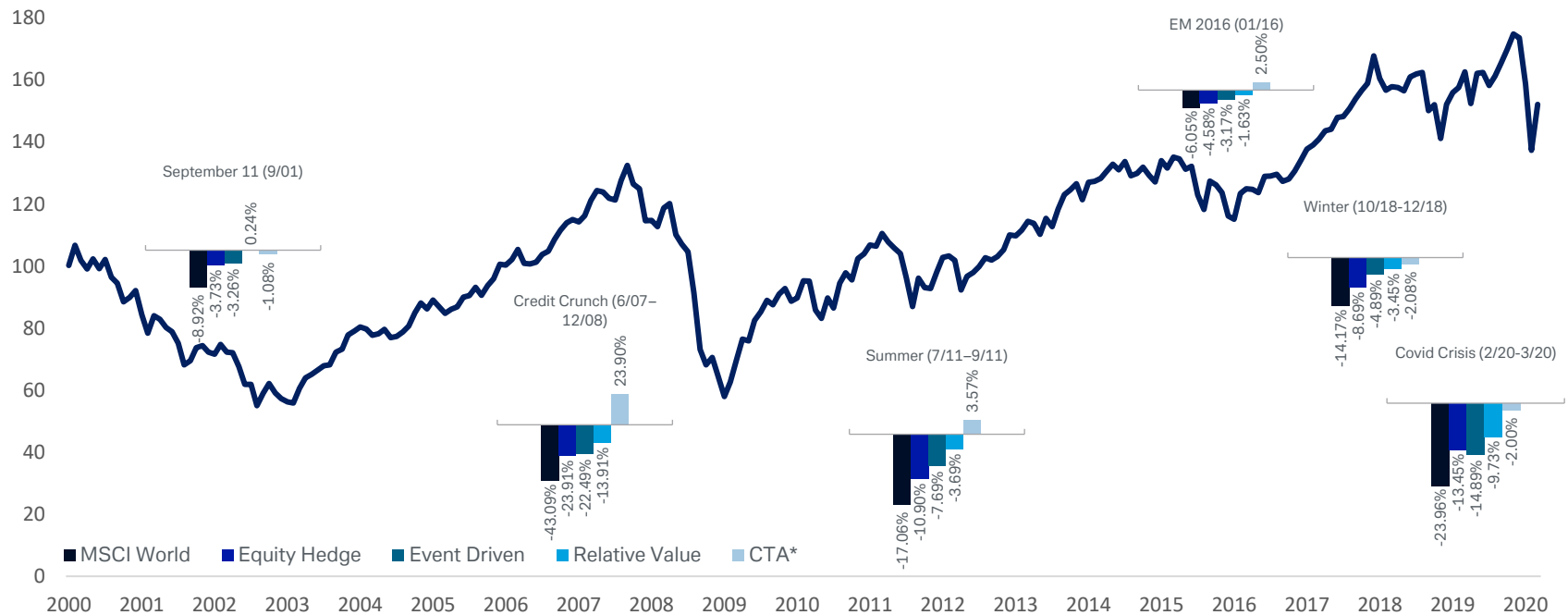


Source: PivotalPath, JP Morgan Asset Management
 Manager dispersion is based on monthly returns for hedge funds. Dark blue bar denotes median. All hedge funds: Fund Weighted Composite Index, Equity market neutral: Equity hedge – equity market neutral, Event-driven: Event-Driven (Total), Relative value: Relative Value (Total), Relative value multi-strategy: Relative Value Multi-Strategy, Macro total: Macro (Total), Equity hedge: Equity Hedge (Total), Emerging markets: Emerging Markets Global. All data is as of Q1 2023.

Hedge Funds Protect in Down Markets

Broad Measures of Hedge Fund Strategies Show Outperformance During Market Sell-Offs Since 2000

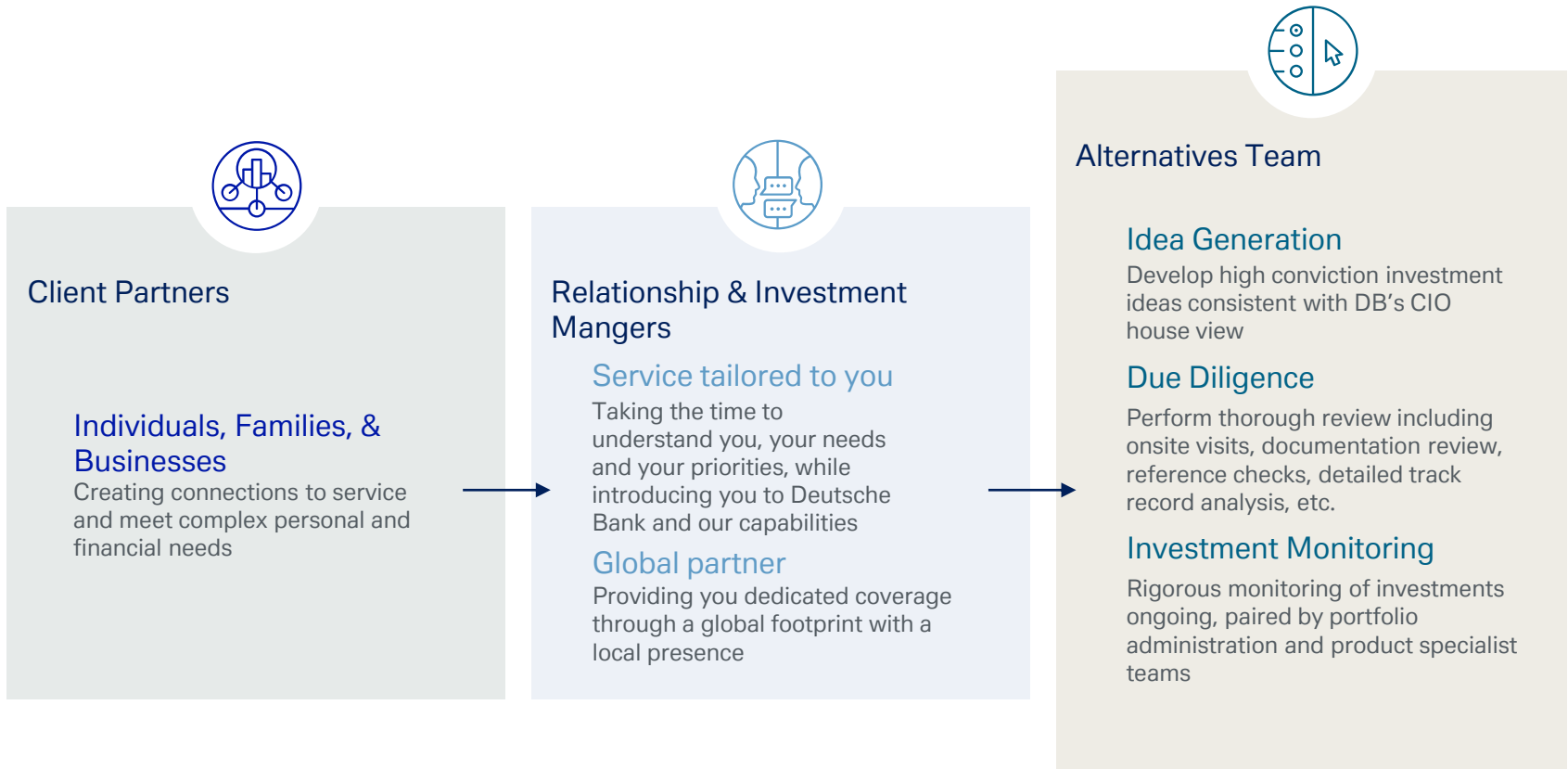
Hedge Fund Performance during crises



Past performance is no guarantee of future results; nothing contained herein shall constitute any representation or warranty of future performance.

Source: HFR Indices: Equity Hedge: HFRI Equity Hedge (Total) Index; Event Driven: HFRI Event-Driven (Total) Index; Relative Value: HFRI Relative Value (Total) Index; CTA: HFRI Macro: Systematic Diversified Index. MSCI World. *CTA: Commodity Trading Advisors.

Connecting with the Alternatives Team



Important information for client facing professionals

An investment in private funds entails a risk of loss. Investors should carefully consider the risks involved in an investment in a private fund, including but not limited to those described below. Prospective investors should consult their own legal, tax and financial advisors regarding an investment in a private fund and the risks associated with such an investment. Each prospective investor should carefully read the entire private placement memorandum associated with the private fund under consideration, including the risk disclosures contained therein that may describe risks other than those described below.

An investment in a private fund is speculative and involves significant risks and no assurance can be given that the investment objective of the fund will be achieved. Investors should understand those risks and have the financial ability and willingness to accept such risk for an indefinite period of time.

A private fund's performance can be volatile, and an investor could lose all or a substantial amount of his or her investment.

A private fund manager typically has total trading authority over the fund, meaning an investor will have no control over a private fund's individual investments. Additionally, some of these investments may be hard to value.

A private fund may use significant leverage, which will amplify losses.

A private fund's limits, exposure, leverage and general risk management strategy may change over time.

A private fund is typically not restricted as to the amount of capital it may commit to any one investment.

A private fund is generally not intended to provide an investor with an investment program that is diversified or otherwise tailored to suit any investor's overall investment needs.

There is typically no secondary market for the investor's interest in a private fund. In addition, there are typically severe restrictions on transfers, sales or redemptions.

The fees and expenses associated with a private fund can be high and may offset that fund's trading profits.

A private fund manager may be subject to certain conflicts of interest.

A private fund may be a recently formed entity with only a limited operating history. In addition, past performance of a private fund is no guarantee of future results.

This document does not identify all the risks (direct and indirect) or other considerations which might be material to you when entering into a transaction. Before entering into a transaction, you should consult your own business, tax, legal and accounting advisors and you should refrain from entering into a transaction with us unless you have fully understood its associated risks and have independently determined that a transaction is appropriate for you.

Investments are subject to various risks, including market fluctuations, regulatory change, possible delays in repayment and loss of income and principal invested. The value of investments can fall as well as rise and you might not get back the amount originally invested at any point in time. Furthermore, substantial fluctuations of the value of the investment are possible even over short periods of time.

The terms of any investment will be exclusively subject to the detailed provisions, including risk considerations, contained in the offering documents. When making an investment decision, you should rely on the final documentation relating to the transaction and not the summary contained herein.

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