



# Your Asset Management

Additional information  
on your 2019 reporting



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# Editorial



Michael Kohl,  
Division Head  
Asset Management

Dear Readers,

Despite a noticeable economic slowdown, 2019 was an outstanding year for the capital markets. Equities, bonds and commodities all delivered a strong positive absolute performance, allowing investors to forget the weak previous year. Together with you, we are pleased about this development, which is fully reflected in the performance of your asset management solutions.

However, it was not only the financial markets that were buoyant in 2019. We in Asset Management also made a number of changes to even better serve your needs. We have bundled the specialists from Asset Management, the Chief Investment Office (CIO) and Foreign Exchange and Financial Derivatives Trading under one roof, and are now operating under the name Asset Management.

We expect you and us to benefit greatly from this pooling of expertise and competence in asset management. As a first step, we have placed our investment process on a new foundation in order to set uniform strategic guidelines for both the advisory and asset management business and to align our actions accordingly.

In addition, you will experience with your mandates in the coming year that we will face comparison with a new, more market-oriented benchmark. This benchmark is much closer to the real portfolios than before. And I am very pleased to announce the following at this point: we have decided to take further steps towards sustainability with our asset management activities in the coming year. We have set ourselves the long-term goal of providing sustainable asset management. We will approach this goal in clearly defined steps. A small but directly noticeable step is that all customers who already use our electronic mailbox and/or online banking will only receive this supplementary reporting information electronically. This decision was deliberate: the elimination of printing and postal delivery saves paper and postage costs in the amount of around EUR 3,000. We will donate this money to the Bergwaldprojekt e.V. (Mountain Forest Project). If you are holding this document in your hands in printed form, we would be delighted if you, too, could register for the electronic mailbox in the future and thus join us in promoting sustainability.

A more detailed overview of our expectations for capital market trends in 2020 is provided below by our Chief Investment Officer Chris-Oliver Schickentanz. He also provides a review of 2019 and explains the positioning of Asset Management for the new year. In addition, Yasmin Lutz, Head of Product Management at Asset Management, will present you with more details on the subject of the new benchmark and the planned steps towards "sustainable asset management".

My entire team and I wish you and your family an enjoyable read of this publication and a healthy, prosperous and successful investment year 2020!

Sincerely,

A stylized, handwritten signature in black ink, consisting of a large 'M' followed by a series of loops and a final horizontal stroke.

Michael Kohl

# Market report



Chris-Oliver Schickentanz,  
Chief Investment Officer

## Capital markets outlook

### Making money will become more challenging in 2020

2019 was a phenomenal year for the capital markets: equities, bonds, commodities and real estate all delivered positive absolute returns, making investors forget the weak performance generated in 2018. And this despite the fact that global economic growth has cooled significantly and Germany was only just able to avoid a recession. Looking ahead, financial securities remain the ultimate investment choice, even if overall performance is likely to be more modest. Our six key messages for the coming year are as follows:

#### #1: The global economy will leave a “soft patch” behind

The trade dispute between the USA and China will continue to preoccupy us in 2020. We are optimistic that the negotiated truce between the two countries will hold, and that we will not see a further escalation in the form of additional punitive measures. Nonetheless, the existing import tariffs are likely to remain in place, further hampering global trade. The trade dispute is a much deeper conflict over political, economic and military supremacy in the 21st century.

After a long phase of globalisation, the trade dispute marks a turning point in the development of the global economy. It should herald a longer period of deglobalisation. Protectionist measures such as punitive tariffs or the protection of domestic industries are only the tip of the iceberg. All in all, this will reduce the global economic growth potential and increase the medium-term inflation risks.

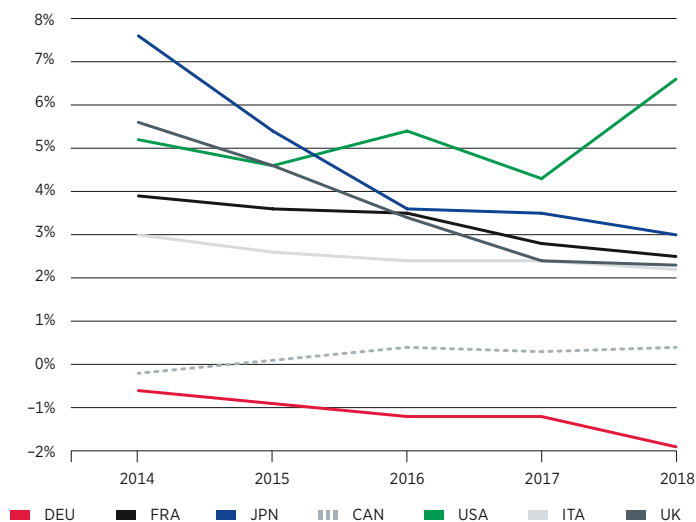
### No recession in sight

In spite of this, we do not expect a recession to occur within the next two years:

1. Central banks around the world reacted very early to the economic slowdown. Over 50 central banks have lowered their interest rates in recent months. This should have an effect in the short term. The biggest positive effect on economic momentum could come for the emerging markets. Here, lower interest rates have a direct impact on the financing costs of companies (and governments) and accordingly support the economy.
2. Overall, fiscal policy has become much more expansionary again. More and more countries are relying on higher spending to support the economy. This applies prominently to the USA, where the Trump administration is focusing primarily on targeted investments in agriculture and the industrial sector following last year's tax reform. China is making targeted use of public funds to mitigate the impact of the trade dispute. India has also provided tangible fiscal stimulus with a major tax reform worth about 7% of GDP. And in the euro area, 16 of the 19 euro area countries will have higher budget deficits in 2020 than in 2017.
3. Private household disposable income has grown significantly in recent years. Although this is an average with the usual pitfalls of statistical averages, it also suggests that private consumption remains an important pillar of growth.

### Outlier Germany: government debt rises sharply

New debt in % of GDP



Source: OECD

## Europe: economy slowly gains momentum

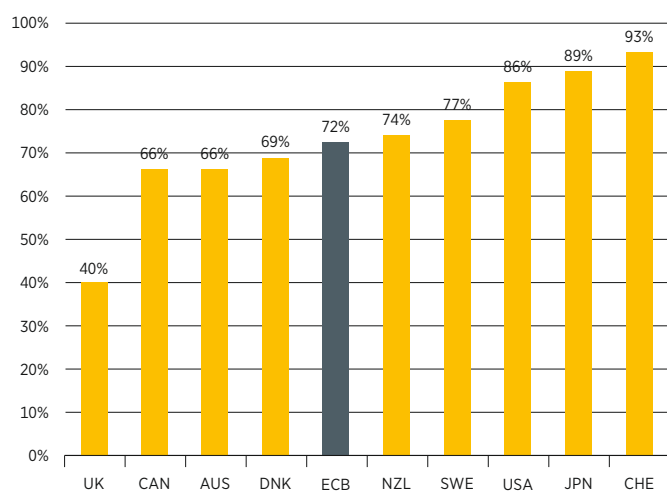
While the emerging economies and the US economy are expected to remain on a robust growth path in 2020, we anticipate a moderate improvement in economic momentum from a significantly lower level in Europe. In addition to a significantly higher number of working days (growth effect: +0.3 percentage points), the automotive industry appears to be slowly starting to recover. We also expect a Brexit deal to be approved by the end of January 2020, which should reduce uncertainty and result in more investment. The German economy has lost its relative competitive advantage of recent years and is likely to expand at a below-average rate in 2020.

## #2: Zero or low rates ahead for many years to come

Global central banks have again put their foot on the accelerator in 2019. They decided to cut interest rates and take new unconventional measures such as buying government bonds. In addition to the economic uncertainties caused by the trade dispute and Brexit, there is one main reason for the continued easy policies: hardly any central bank has been able to achieve its self-set inflation target. Since the end of the Great Financial Crisis, the European, US and Japanese monetary authorities have had to accept inflation rates that were widely below target in more than three quarters of this time period. But instead of having a discussion about the sense of rigidly defined inflation targets, the central banks have dogmatically followed their own script and pushed the accelerator further. The hope is that sooner or later inflation will rise. But this also means that there will be no quick interest rate hikes.

### Mission not accomplished: inflation is below target

Share of time central banks have fallen short of their inflation target since 2010



Source: DB Research

## Euro area: negative deposit rate to drop further

The ECB will continue its aggressive negative interest rate policy under the presidency of Christine Lagarde in 2020. On the one hand, the euro area is the laggard in terms of economic growth among major regions. On the other hand, the interest rate cuts by the US Federal Reserve have increased the pressure to act. The interest rate advantage of the US dollar against the euro has declined as a result, which should favour euro appreciation. But a strong euro is currently the last thing the ECB wants. This would dampen the export outlook for the European manufacturing sector and endanger the fragile “green shoots” of an economic upturn. And a stronger euro would further dampen inflation.

All in all, we therefore expect a further reduction in the deposit rate to minus 0.6% in the course of 2020. An increase in the bond purchase programme from the current EUR 20 billion per month is possible in principle, but only likely in the event of a further economic downturn. We do not anticipate the ECB to start raising rates before 2023. This means that only in 2025/2026 will policy rates probably reach a level close to inflation.

## USA: Wait and see ... and ignore the insults

After the three interest rate cuts in 2019, we expect the Federal Reserve to take a wait-and-see approach to interest rates. In our view, it is thus pursuing three goals: firstly, it does not want to put its good starting position completely at risk. The normalisation course of recent years has made the Fed the only central bank in the major economies to have created scope for interest rate cuts. The Fed wants to keep this powder at least partially dry. Secondly, the Fed must make it clear that the strong political pressure has no influence on its future decisions. And thirdly, the inflation risks in the US should not be underestimated in view of a well-utilised labour market.

Accordingly, we expect the Fed to cut interest rates further only if the US economy deteriorates noticeably. This would be the case, for example, if unemployment were to rise more sharply or if the weakness in manufacturing had a lasting impact on the service sector.

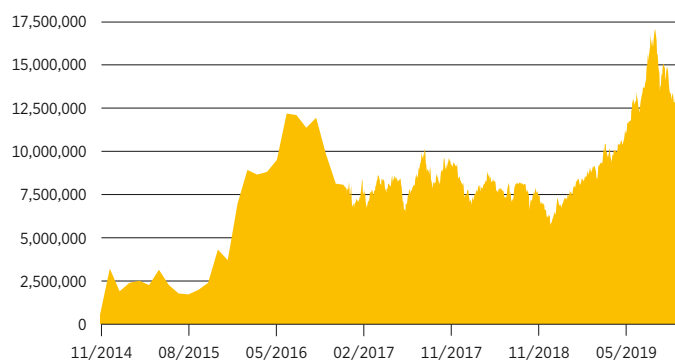
# Market report

## #3: Negative yields are the “new normal”

More than half of the world's outstanding government and corporate bonds outside the US are now trading at negative yields-to-maturity. This means that these bonds, if actually held until maturity, will certainly cause investors to lose money. While governments and companies are delighted about record low financing costs, conservative investors face great challenges.

### Negative yields are the “new normal”

Volume of outstanding global bonds trading at a negative yield-to-maturity in USD million



Source: Bloomberg

The average yield on long-term German Bunds in this decade has so far been well below the level recorded in previous decades – most recently, even long-maturity Bunds paid negative yields-to-maturity. It will be many years, if not decades, before bond yields will return to “normal” levels. But: a moderate rise in yields should already start in the coming year and cause losses for investors. However, bond yields will still remain at historically low levels. This is because potential growth has fallen significantly in most economies. This depresses the “fair” yield level. Core inflation has also fallen noticeably in most cases. In addition, central banks are still pushing the accelerator and, like the ECB, are buying bonds on the secondary market. All this points to a very tenacious normalisation of yields over a period of many years – and this despite the fact that a more expansionary fiscal policy is likely to boost the issuing activity of many governments.

### Selected corporate bonds remain attractive ...

Corporate bonds, as well, will not be able to completely escape the general trend towards higher yields. However, falling risk premiums should continue to compensate for some of the increase in underlying high-quality government bond yields. At a time when economic conditions are improving moderately and fears of recession are being priced out, we see the possibility that risk premiums could tighten even

further. We believe that the most attractive rating segment are the medium-quality BBB and BB segments, a combination of “weak” investment-grade bonds and “strong” high-yield bonds.

### ... but they are difficult to obtain for private investors

It is becoming increasingly difficult for private investors to gain direct access to attractive individual bonds. More and more issuers are now targeting their new issues only at institutional investors, as their demand is sufficient. In addition, issuers can thus avoid having to prepare a costly prospectus with considerable liability risks.

### What does this mean for the investment strategy?

Bonds belong in a diversified securities portfolio – even (or especially) if we do not expect any major performance contributions. They are important for hedging risks. After all, recent years have taught us that things can be other than you think. Accordingly, we would not completely abandon bonds despite the difficult investment environment for this asset class, but would assign a much lower allocation than a few years ago. As an alternative in Asset Management, we rely on liquid alternative investments with which we can generate steady returns outside the traditional forms of investment.

## #4: Equity exposure a must, but with the right dosage

Actually, we could make it easy for ourselves with the 2020 equity market outlook, because the statistics speak for themselves: historically, if leading economic indicators are on the rise, the average annual equity performance has been 15%. And the major political event of the year also argues for rising share prices. On average, equity markets in US election years increase by around 8%.

The problem is that in 2018 and 2019 historical statistics provided poor guidance. For example, at a time when the economic data were disappointing and there was a pronounced dent in global growth, equities were not supposed to deliver a performance of 20% this year.

### Valuations have increased significantly

An exemplary look at the market drivers for the S&P 500 shows the extent of positive future outcomes market participants have already priced in this year: only four percentage

points of the performance are attributable to increases in earnings and dividends, around 20 percentage points to higher valuation ratios. This is not a catastrophe, as the valuation ratios had fallen just below the long-term average after the weak fourth quarter of 2018, but it shows that the fundamental expectations for 2020 are quite high.

## 2020 fundamentals will improve ... but maybe by not that much

We assume that the improving global economic growth momentum will have a positive effect on corporate earnings. As a result, corporate earnings should grow more strongly again in the coming year. However, the majority of analysts expect a small “earnings miracle” and double-digit percentage growth. This seems too ambitious to us – especially since the positive effect of share buybacks is likely to be smaller in 2020.

## A very pessimistic positioning

And so much will depend on how the major institutional investors will position themselves. They systematically used the equity rally in 2019 to sell shares. Since the beginning of the year, almost USD 200 billion of equities have been sold and exchanged for bonds and cash. This is extremely unusual, and makes us optimistic for 2020. The difficult situation on the bond markets is likely to force many investors back into the equity markets sooner or later. The path to this is likely to be rocky and volatile, with the result that we expect price fluctuations to increase again after the very low volatility observed in 2019.

## Not being invested can come at a high price

MSCI Europe vs. MSCI Europe excluding the 25 best trading days



Source: Ned Davis Research

## Regional focus is on Europe

Looking at the regions, we see above-average return opportunities in Europe. On the one hand, the region is particularly unpopular with major institutional investors and heavily under-owned in most portfolios. However, as geopolitical risks (trade disputes, Brexit) diminish, Europe as a whole will become more “investable” again. On the other hand, the economic situation should improve most quickly here (to be fair, one should not conceal the fact that the starting point is also particularly low).

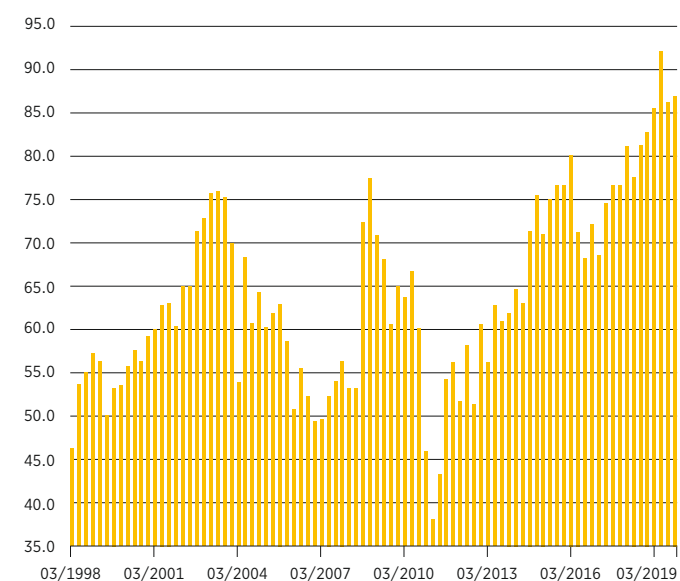
The average dividend yield of 3.5% is also attractive and should attract many distribution-oriented investors. This is because dividend strategies are likely to be in greater focus again in an environment characterised by low interest rates and expected bond price falls.

## #5: Commodities still attractive portfolio diversifiers

Even if, with a few exceptions, the central banks do not implement any further interest rate cuts in 2020, real interest rates (interest rates less inflation) are likely to remain low or negative, as inflation is likely to trend higher. This means that a key driver for higher precious metal prices will stay intact. In addition to gold, which also remains interesting as a hedge against political risks, the second-tier precious metals, silver and platinum, offer attractive opportunities.

## Relative attractiveness of silver remains high

Gold/silver ratio over time



Source: Bloomberg



# Market report

## Energy: politics vs overcapacities

We expect the energy subsegment to generate a muted performance in 2020. The politically driven production bottlenecks in Venezuela and Iran have lost their price-driving power. Correspondingly, concerns about supply surpluses should increase again in the course of the year. Thanks to the strong growth of the US oil industry, driven by the fracking technology, the USA has now become a net exporter of oil. At the same time, the production discipline of the OPEC countries is falling. All in all, this points to stable to slightly lower oil prices – with continued strong volatility.

## Industrial metals: nickel and copper as favourites

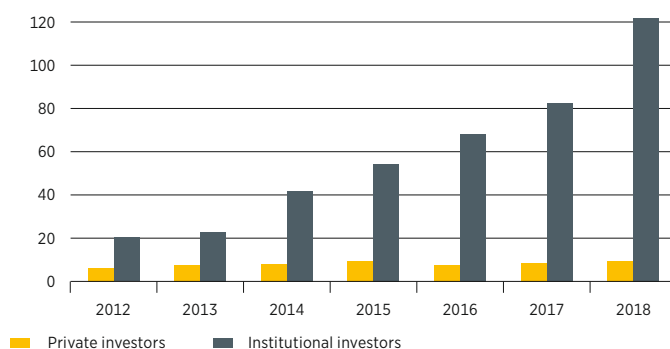
The significant weakening of the global economy has weighed on the price trend for industrial metals. This opens up opportunities again in the medium term. Inventories of many base metals are now extremely low again, and supply is correspondingly tight. Mining companies have noticeably reduced their investments and prefer to distribute cash to their shareholders. In addition, the politically driven shift towards more e-mobility has led to a structural demand increase for commodities needed for batteries. Copper and nickel prices in particular could benefit from this.

## #6: Strong returns and a clear conscience are no contradiction

The European Union wants the issue of “sustainability in financial investing” to be more firmly anchored in the retail and private banking business within 18 months at the latest. The aim is that every private investor should be consulted about the extent to which sustainability criteria are to be taken into account in the investment selection process. This is also a bitter necessity. Contrary to trends observed from institutional investors, German private households are still investing just as little of their assets in investment solutions with a sustainability focus as they did in 2015. And so at least no private investor will be able to claim that he or she did not know that investments can be made according to sustainability criteria. That would leave just a few other tenacious misconceptions.

## German private investors are sustainability stragglers

Volume of funds invested in line with sustainability criteria in EUR billion



Source: FNG (Forum Nachhaltige Geldanlagen)

## Misconception 1: Sustainability costs returns

The biggest misconception: investing with a sustainability focus costs returns. At first glance, this might even seem convincing. After all, sustainable investing means forgoing part of the available investment universe and giving up opportunities.

Empirical studies show, however, that the opposite is true. Those who invest sustainably achieve the same returns in the medium to long term as traditional investment solutions – but with a lower investment risk. This is because the focus on sustainability systematically excludes companies that you would not want to own in your portfolio anyway: corporations that do not use existing resources efficiently, that exploit their employees or suppliers, or that take considerable reputational risks due to inadequate control processes.

## Misconception 2: Sustainable investing is costlier




We are used to the fact that organic food in supermarkets is significantly more expensive than conventional products. Many private investors blindly apply this notion to their investments. However, the following is true: sustainable investments are no more expensive than their traditional equivalents. An asset management solution based on sustainability criteria costs exactly the same as a “normal” AM solution, sustainable investment funds can be purchased at the same conditions as all other fund products, and even in the ETF segment there are now numerous sustainability alternatives at no extra cost.



### Misconception 3: Sustainability = Ecology

Many investors believe that only wind power operators and solar cell manufacturers qualify for sustainable investment solutions. This is wrong! After all, sustainability means much more than just operating with a good ecological balance sheet. In addition to environmental aspects, social factors and reliable control processes also play a decisive role in sustainable investments.

#### Sustainability is more than just the CO<sub>2</sub> footprint

Sustainable investment factors		Handling of:
<b>E</b> 	Environment	Climate change risks
		Commodity and water scarcity
		Pollution and waste management
		Innovations in clean technologies, renewable energies
<b>S</b> 	Social	Personnel policy and personnel management
		Product liability and data security
		Responsible supply chains
		Social reports
<b>G</b> 	Governance	Ethical corporate governance, transparency
		Shareholder rights
		Diversity

### Misconception 4: Sustainable investing does not change anything

Many private investors are convinced that sustainable investing can soothe their own consciences, but otherwise does not bring about any change. That is wrong! The increasing investment volume in sustainable investment solutions raises the pressure on companies and governments to rethink and anchor sustainability more firmly in their actions. It is thanks to sustainable investors that environmental aspects are taken more into account in many commodity projects, that working conditions in emerging markets have noticeably improved, and that more and more corporations are decisively including sustainability in their corporate objectives.

Sincerely,



Chris-Oliver Schickentanz

# Market report

## At a glance: Our positioning in 2020

Investing must adapt to changes in the capital markets without becoming arbitrary. As an asset manager, we will continue to act as a conservative risk manager in 2020 and provide you with maximum support in achieving your investment objectives.

From our capital market outlook, we derive some basic convictions for the positioning of our asset management solutions:

1. The **economic upswing** is not over yet, the crisis talk is exaggerated. Accordingly, it makes sense to hold a sizeable exposure to risky assets such as equities or riskier bonds in the portfolio.
2. Significant regional **growth differentials** once again illustrate the advantage of a global investment approach. We expect to gradually shift the focus of our investments from the USA to Europe and Emerging Markets.
3. The **markets** have already priced in some positive developments in **2019** and are likely to become more volatile again in 2020. For us in Asset Management, this means that tactical fine-tuning will be much more important than in previous years. We expect shorter and more pronounced “mini cycles”. Accordingly, we will adjust our equity and risk exposure more frequently in the course of the year. In many product lines, the established rule-based equity management will support us in this process.
4. The rather bleak **return prospects on the bond side** mean that we will tend to expand liquid alternative investments at the expense of fixed income securities. This will enable us to tap new sources of returns, which will stabilise the portfolio while keeping risks manageable.
5. Commodities remain attractive as portfolio building blocks. In particular, they can help with risk diversification and therefore remain useful as a module within asset management portfolios.

Regardless of how quickly the economic and political environment and capital market trends will change, as Commerzbank Asset Management we will always be at your side in 2020.

# Asset Management raises the bar



**Yasmin Lutz,**  
Head of Product Management  
Asset Management

As Head of Product Management at Asset Management, I am pleased to be able to inform you about upcoming changes in the New Year. But first let me take a brief look back: Asset Management has grown tremendously over the past ten years. We have gained thousands of new clients and the asset volume we manage for our clients has grown to over




EUR 17 billion. We thank you for the trust you have placed in us and are aware of the responsibility we bear for you and your financial investments. For this reason, we constantly re-examine our approach and actions, explore new opportunities in the investment universe or of a technical nature, and test them for application or feasibility in Asset Management. We have identified two issues with room for improvement and are therefore setting new economic and sustainability standards for our actions in the new year.

## A new benchmark in Asset Management

We like to be measured in terms of the transparency we live by. This is why you are used to seeing the performance of your personal portfolio ranked against a benchmark. The benchmark used so far to measure investment performance was comprised of equity and bond indices as well as the EONIA overnight interest rate. Although the benchmark provided a good outline of current market trends, it was hardly directly related to the actual portfolio composition. Our aim is to facilitate a much more realistic comparison of your portfolio returns with performance trends in the capital markets. We have therefore refined the benchmark for Asset Management and added additional market segments that have not yet been taken into account. We are pleased to be able to present in the following the composition of the new benchmark, which we will use from 1 January 2020:

### Benchmark using the example of the “Dynamic Asset Accumulation” profile

(invests in global equities, higher risk bonds, includes commodities)

Share of asset class in overall portfolio	Percentage share within the asset class	Share of overall portfolio	Index name
<b>45% Equities</b> 	50%	22.50%	MSCI Europe ex UK (Net Return)
	30%	13.50%	MSCI USA (Net Return)
	10%	4.50%	MSCI Japan (Net Return)
	5%	2.25%	MSCI UK (Net Return)
	5%	2.25%	MSCI EM (Net Return)
<b>45% Bonds</b> 	70%	31.50%	Bloomberg Barclays Euro Government 1–10 Years
	30%	13.50%	Bloomberg Barclays Euro Aggregate Corporate Total Return
<b>10% Alternative Investments and Liquidity</b> 	50%	5.00%	Bloomberg Commodity ex-Agriculture and Livestock Capped Total Return
	50%	5.00%	€STR (Euro Short-Term Rate; previously EONIA)

## Your asset management – continuing on the path to sustainability

Our motto is “Invest with a clear conscience in the capital markets”. For more than three years now, our range of sustainable asset management products has met the needs of clients who focus on ecological and social responsibility. In the future, we will even align our general actions with global sustainability standards and base them on the UN Global Compact. As the first step, we will take strict exclusion criteria and controversies into account when selecting investment instruments for all future investment decisions. In the near future, we will classify the recommended individual securities according to ecological, social and governance criteria (ESG criteria) in a rating system. Here we make use of the vast expertise of our partner MSCI ESG. This will enable us to incorporate sustainability criteria into our investment process that are uniformly measurable and geared to specific sectors.

This has the advantage that you will always have full transparency about the sustainability of your portfolio. And as already explained earlier in our “Capital Markets Outlook”, it has been scientifically proven that your performance will by no means suffer as a result. Quite the contrary: with your investment in sustainability-oriented companies, you not only contribute to ethical and ecological business practices, but promote jointly with us the preservation and expansion of the German tree population. Commerzbank has been supporting the Bergwaldprojekt e.V. since last year with a wide range of measures.

With our combined efforts, a forest area of 622,288 sq. m could be reforested by the beginning of December 2019. Asset Management plans to continue supporting the reforestation of woodlands in the coming year. We will be happy to inform you about the details in due course.



As of: December 2019

Information about the Bergwaldprojekt e.V. is available at <https://www.bergwaldprojekt.de>. We look forward to getting a lot done together with you.

Sincerely,

Yasmin Lutz

# Your reporting at a glance

In connection with the end-of-year reporting 2019, you hereby receive various records from your Commerzbank. On the following pages, we provide you with some additional information regarding the current reporting for your asset management and, in particular, your statement of assets held. Furthermore, we discuss the end-of-year portfolio statement and the tax records you will receive.

Finally, your personal advisor will be pleased to provide you with additional information regarding all themes pictured in this publication and will answer any other questions you might have.

## When will you receive which records?

Reported records		Date
1	Regular reporting	
	1.1 Statement of assets held	With this letter
	1.2 Market report	With this letter
2	End-of-year portfolio statement	Will be sent out early in January
3	Tax records	
	3.1 Annual tax certificate	Will be sent under separate cover, presumably in March
	3.2 Statement of income	Will be sent under separate cover, presumably in March

# Your reporting at a glance

## 1 Regular reporting

### 1.1 End-of-year reporting

End-of-year reporting comprises, among others, your portfolio statements, income credited and your statements of account for the last reporting period of the past year.

### 1.2 Statement of assets

Your statement of assets provides you with a full overview of your financial assets. In addition to the current prices of your securities, the statement also reflects prorated accrued interest on fixed-income securities and the credit balance of your investment account. Furthermore, the income generated as well as fees and charges incurred within the reporting period are shown in the statement of assets. The performance overview reflects your investment performance for the reporting interval as well as for the year as a whole. You will also find the performance of a benchmark in relation to your securities portfolio for comparison purposes.

## 2 End-of-year portfolio statement

The end-of-year portfolio statement, which we are obliged to prepare and send to investors in accordance with the Securities Account Act, will be sent to you in early January. The individual portfolio account items are valued on the basis of the so-called uniform valuation prices. These are determined and published by a working group of the association of German banks in cooperation with the securities information data service. This may lead to minor valuation differences in relation to the end-of-year statement of assets (cf. no. 1.2). The end-of-year portfolio statement contains neither prorated accrued interest on fixed-income securities nor a report of your credit balance as at the reference date. It is intended to provide you with assistance in verifying the securities held with our Bank.

If you maintain an O&F portfolio for options and futures contracts with us, you will receive a separate O&F end-of-year portfolio statement.

### Valuation of securities account items in the statement of assets

In specific cases, slight differences may arise in the statement of assets in relation to the prices reflected in the annual securities account reconciliation (cf. no. 2). The annual securities account statement is based on uniform valuation prices for tax purposes, determined in accordance with coordinated guidelines of the associations in the credit industry. Since the statement of assets should be as up to date as possible for you, when preparing the report we do not wait for the so-called uniform valuation prices, which are only available at a later date. Accordingly, in the securities account statement we evaluate the individual securities account items at the prices prevailing at the end of the year and available at the time of preparing the report. The following principles apply to the valuation of the securities in your portfolio in connection with the preparation of the statement of assets: on each banking business day, the Bank carries out an evaluation of the underlying portfolio under the asset management mandate. This evaluation is made on the basis of current securities exchange prices or other market prices at which the securities can be sold. If no current market prices or prices determined independently by issuers or confirmed prices are available, then the securities account items will be valued on the basis of relevant historic prices or other estimated prices available.

## 3 Tax records

Your private capital gains as well as net proceeds of sales are reflected in the annual tax certificate and in the statement of income. You will find detailed explanatory notes on the structure and content of the tax records in the reference texts to the annual tax certificate and the statement of income at [www.commerzbank.de/hinweise\\_jer](http://www.commerzbank.de/hinweise_jer). Alternatively, you can also obtain these from your branch.

### 3.1 Annual tax certificate

You will receive your annual tax certificate presumably in March. In accordance with the statutory provisions and an official specimen laid down by law, in particular the tax certificate reflects the extent of the capital income generated in the past calendar year 2019 on your securities, forward transactions and interest earned on your investment accounts

as well as withholding tax (capital gains tax, solidarity surcharge and church tax, if applicable) as well as foreign (withholding) tax already or still to be taken into account. In the event that you did not file an application for a certificate on the extent of losses not yet settled with Commerzbank AG at the end of the year, this loss certificate will be part of the annual tax certificate. If you submitted an application to us for exemption from income tax for your investment income in the past year, the income will be exempted from withholding tax up to the extent of your saver's allowance. Only investment income beyond this is liable to deduction of tax at source.

On account of statutory regulations, the extent of your saver's allowance claimed is likewise included in your annual tax certificate. If an application for tax exemption is in hand for different accounts/securities portfolios with an identical account holder, losses will be netted once only at the end of the year. Nettable losses (negative capital gains) are netted against profits (positive capital gains) of another account of the same client. This may result in a reduced utilisation of the tax allowance and/or a capital gains tax credit note. This will also apply if still accountable withholding tax amounts are netted against amounts of capital gains tax withheld. Losses are reported in accordance with this loss netting that extends to include all the client's account numbers. If spouses/registered partners submitted a joint application for exemption from taxation, the losses will be reported after the netting of losses has been carried out for both spouses/registered partners.

Please note that the netting of losses may have already reduced or even completely settled any previously existing losses.

### 3.2 Statement of income

The statement of income serves to explain the annual tax certificate or – if applied for – the loss certificate along with detailed information on income on capital assets you generated in the income period from 01.01.2019 to 31.12.2019. In addition to current income, such as interest payments on investment accounts, dividends paid out, interim profits collected as well as income from investment fund units, this statement also reflects profits and losses (including accrued interest on bonds) from the sale of securities and capital growth realised, along with gains and losses of sales resulting from forward transactions. Moreover, the statement of income includes premiums collected on options. Expenses are only certified to the extent that they arose in connection with the account and/or portfolio management (securities custody

fees and remuneration for management services). Actual other expenses incurred (e.g. securities custody fees) are not deductible. Ancillary costs of acquisition and sale (such as charges or expenses) are taken into account in determining the assessment basis for tax purposes.

In the case of agreed all-in fee models, for instance, the transaction cost share specified in the Asset Management Agreement may be taken into account as a lump sum for tax purposes provided it does not exceed 50% of the all-in fee. In this case, individual costs of sale – apart from third-party charges being passed on – may not be taken into account. If you have entered into the relevant supplementary agreement with Commerzbank AG, the Bank will only take account of the transaction cost share for private investors fully liable to income tax in Germany – subject to a change in the opinion of the fiscal administration (currently depending on the variant adopted by Asset Management, up to 50% of the lump-sum fee incl. value added tax) – in the loss settlement fund “Miscellaneous” as a deductible expense.

### 3.3 Church tax

For church members we will automatically pay the church tax on capital gains tax to the inland revenue if the capital gains exceed the lump sum for savers (single persons: EUR 801; jointly assessed persons: EUR 1,602). To simplify the process, we request information on your religious affiliation each year from the Federal Central Tax Office (Bundeszentralamt für Steuern – BZSt). If you would not like the Federal Central Tax Office to send encrypted information on your religious affiliation, you may object to this procedure by 30 June each year ([www.formulare-bfinv.de](http://www.formulare-bfinv.de), “Kirchensteuer” = church tax). A blocking notice already applied for remains in force until revoked; we will not withhold any church tax in this event. In the following year, you will be obliged to submit a tax return for assessment of church tax.



# Information on the Investment Tax Reform Act (Investmentsteuerreformgesetz – InvStRefG)

On 1 January 2018 the Investment Tax Reform Act (Investmentsteuerreformgesetz – InvStRefG) came into force. The objectives of the legislative amendments to taxation of investment funds include equal treatment for tax purposes of domestic and foreign investment funds (adjustment to EU law), the avoidance of special tax constructions and simplified taxation of income derived from investment funds.

We would like to inform you about the application of the partial exemption rates and the advance lump sum.

## 1. Partial exemptions

At the investor level – in compensation for certain income being subjected to corporation tax as well as the lack of accountability of foreign withholding taxes at the investment fund level – as of 1 January 2018 parts of the distribution of the advance lump sum and profit on the sale of investment fund units will remain tax-exempt (referred to as a partial exemption).

The extent of the partial exemption of investment income is as follows for a private investor who is fully liable to taxation:

- 30% for equity funds (investment of more than 50% in capital participations, e.g. equities)
- 15% for mixed funds (investment of at least 25% in capital participations)
- 60% for real estate funds (investment of at least 50% in real estate and real estate companies)
- 80% for real estate funds (investment of at least 50% in foreign real estate and real estate companies)
- 0% for all other investment funds

The following applies if you hold investment units in working capital:

For corporate investors, the aforementioned partial exemption rates for private investors are generally taken into account as part of withholding tax.

You can claim the following different partial exemption rates for corporate investors only within the scope of your assessment by your revenue office.

A possible refund of excessive capital gains taxes withheld can only be provided by your revenue office.

Fund category	In working capital pursuant to Section 3 No. 40 of the German Income Tax Act (EStG) (e.g. sole traders, partnerships)	In working capital pursuant to Section 8b paras. 1 and 2 of the German Corporate Taxation Act (KStG) (e.g. joint stock companies, unincorporated associations)
Equity funds (investment of more than 50% in capital participations, e.g. equities)	60%	80%
Mixed funds (investment of more than 25% in capital participations, e.g. equities)	30%	40%
Real estate funds (investment of more than 50% in real estate)	60%	60%
Real estate funds (investment of more than 50% in foreign real estate)	80%	80%
Other investment funds	0%	0%

### Example of a partial exemption:

Distribution of an equity fund in the amount of EUR 1,000.00.

Assumptions: no exemption order, loss settlement fund "Other" is equal to zero, no non-assessment certificate exists.

Of the EUR 1,000.00 payout, 30% (EUR 300.00) is tax-exempt due to the partial exemption for equity funds. For private investors, EUR 700.00 therefore is liable to taxation and subject to German capital gains tax (KESt) plus the solidarity surcharge (SolZ) as well as church tax (KiSt), if applicable.

## 2. Distribution of portfolio commissions from funds taking account of partial exemption rates

In a letter dated 17 January 2019, the German Federal Ministry of Finance (BMF) issued a new version of marginal note 84 as a supplement to the BMF letter of 18 January 2018 on specific questions with regard to withholding tax. Evidently, the refund of portfolio commissions on fund units constitutes capital gains as contemplated by Section 20 para. 3, read in conjunction with Section 20 para. 1 no. 3 of the German Income Tax Act (EStG), in terms of which the capital gains tax is to be withheld at the partial exemption rates prevailing at the time of the refund.

This requirement is applicable to all refunds of portfolio commissions carried out since 1 January 2019. In the 2019 calendar year, no intra-year partial exemptions have yet been taken into consideration as part of withholding tax. For this reason, the correction of portfolio commissions refunded in 2019 until November will probably be executed in March 2020 in order to take account of the partial exemption rates applicable to private investors who are taxable without limitation. Since December 2019, these partial exemption rates have been taken into account in the monthly refunds made.

### 3. Advanced lump sum

At the beginning of 2020, a so-called advance lump sum will be charged for the preceding calendar year. The advance lump sum payment at this time is subject to tax deduction, taking account of the respective partial exemption rate by the office managing the securities account. It serves as a minimum tax payable (basis for tax assessment purposes) if no payouts were made in the previous year or if the payouts of the investment fund were lower in the preceding year than a risk-free market interest rate achievable, published by the German Federal Ministry of Finance at 0.52% for 2019 (referred to as a basic interest rate\*). This is to ensure that a minimum amount is liable to taxation on the investor side even in the case of non-distributing investment funds or investment funds with low distributions.

In economic terms, the advance lump sum reflects a kind of anticipatory taxation on future value increments. Accordingly, the advance lump sum taxable during the holding period is deducted from the sales profit actually generated on the sale of the investment units. This serves to prevent double taxation. The extent of the advance lump sum is limited to the increase in value of the investment fund during the calendar year (taking account of disbursements, if any) and cannot be negative. In the calendar year of the fund unit acquisition, the advance lump sum decreases by 1/12 for each full month preceding the month of acquisition. No advance lump sum applies in the year of the sale of investment fund units since non-distributed income may already be included in the proceeds of the sale and, therefore, in the taxable proceeds of the sale in question.

The advance lump sum is deemed to have been paid to the investor on the first working day of the following calendar year. The tax booking entries possibly resulting from the advance lump sums payable for 2019 are expected to be finalised by the end of January 2020. These entries are made without a prior liquidity inflow (cashless capital gains). Existing exemption orders, non-assessment certificates as well as any losses possibly taken into account (settlement fund "miscellaneous") are taken into account for tax deduction purposes.

#### How is the advance lump sum calculated?

##### Advance lump sum = basic income less distributions

Basic income = redemption price of the investment fund unit at the beginning of a calendar year (2019) x risk-free basic interest rate\* x 70%, but no more than the increase in value of the investment fund unit in the calendar year plus distributions within the relevant calendar year.

##### Example for calculating the advance lump sum payable:

Assuming the basic interest rate amounts to 0.52% and an investor acquires a share in a non-distributing bond fund (no partial exemption) on 05.01.19. The unit price at the beginning of the calendar year 2019 amounts to EUR 100.00; the last unit price fixed in 2019 is to amount to:

- a) EUR 99.00
- b) EUR 100.30
- c) EUR 102.00

The advance lump sum to be applied on 2 January 2020 is as follows:

a) EUR 0.00  
 $\text{EUR } 100.00 \times 0.52\% \times 70\% = \text{EUR } 0.36$  but the maximum increase in value in calendar year 2019. Owing to the loss in value, no advance lump sum is to be applied.

b) EUR 0.30  
 $\text{EUR } 100.00 \times 0.52\% \times 70\% = \text{EUR } 0.36$  but the maximum increase in value in calendar year 2019 amounts to  $\text{EUR } 100.30 - \text{EUR } 100.00$ .

c) EUR 0.36  
 $\text{EUR } 100.00 \times 0.52\% \times 70\% = \text{EUR } 0.36$ , since the basic income is lower than the increase in value in calendar year 2019.

Further particulars on the advance lump sum are available at [www.commerzbank.de/vorabpauschale](http://www.commerzbank.de/vorabpauschale).

The information above was carefully compiled and is based on the situation under statutory law known to Commerzbank AG as at November 2019. No warranty can be assumed for the correctness and completeness of the information in question. The information must not be misunderstood as a warranty in a context that has not yet been finally clarified for tax purposes. The taxation of capital investments may change in the course of future amendments to statutory regulations. As it has not been finally adjudicated by supreme court rulings or decrees by the fiscal administration to date, it cannot be ruled out that the fiscal administration and/or authorities may consider some other tax-related assessment to be appropriate. Commerzbank AG wishes to point out that the present content constitutes neither an individual legal, technical accounting, tax-related or any other piece of expert information or a recommendation and is not suitable as a substitute for individual advisory services by experts, and taking account of the specific circumstances in each individual case. Please contact your tax consultant if you should have any further questions on the impacts of the Investment Tax Reform Act on your personal situation.

\* The basic interest rate is derived from the long-term government bond yield. It relies for guidance on the interest rate calculated by Deutsche Bundesbank according to the term structure of interest rates data for the first day of securities exchange trading of the year. The Federal Ministry of Finance publishes the relevant interest rate in the Federal Tax Gazette.





Axel Rungweber, Managing Director at Dr. Bronner's Europe

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