



# Your Asset Management

Additional information  
on your 2016 reporting



# Table of contents

03	Introduction
04	Your reporting documents
06	Market report
14	Depositor information sheet

# Your reporting at a glance

This publication is intended to give you an overview of the various records you receive from your Commerzbank in connection with the end-of-year reporting for 2016. Please file these pages in your personal correspondence folder. This will enable you to refer to this supplemental information whenever you might need it.

On the following two 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 your tax records.

The market report compiled by Asset Management is an essential part of this publication. Aside from reviewing capital market trends of 2016, we provide you with a thorough outlook for the single asset classes for 2017. In addition, we present our strategic investment guidelines for the coming months.

Your personal advisor will be pleased to answer any questions that may arise regarding the topics discussed in this publication.

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## When will you receive which records?

Reported records		Date
1	Regular reporting / Statement of assets held / Market report	With this letter
2	End-of-year portfolio statement	Will be sent out early in January
3	Your 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

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# Your reporting documents

## 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.

coordinated guidelines of the banking industry associations. 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. Therefore, in the end-of-year portfolio statement the securities are valued at the end-of-year prices available at the time of preparing the report.

The following principles apply for the valuation of the securities held in your portfolio with respect to the preparation of the statement of assets. Every banking day the underlying portfolio of the asset management mandate will be valued by the Bank. The valuation is based on current prices at security exchanges or over-the-counter prices at which the securities can be sold. When no current market prices or prices determined or confirmed by an independent party other than the issuer are available, the valuation of portfolio securities is made by using relevant historic prices or other available indicative prices.

## 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.

#### **Portfolio account items valuation in the statement of assets**

In rare cases the statement of assets may show slight valuation differences in relation to the end-of-year portfolio statement (cf. no. 2). The uniform valuation prices for tax purposes are determined in accordance with

## 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. For detailed explanations on the structure and content of the tax records, please refer to the reference material accompanying your documents.

### 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 2016 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 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) or withholding tax amounts still to be taken into account are netted against profits (positive capital gains) of another account of the same client. This may result in a capital gains tax credit and /or a reduced utilisation of the tax allowance. 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 01.01.16 to 31.12.16. 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 (such as 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 appropriate supplementary agreement with Commerzbank AG then 50% of your all-in fee will be taken into account as a deductible expense, if you are subject to unlimited income tax liability in Germany – subject to a change in opinion of the tax authorities.

### 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: €801; jointly assessed persons: €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.

### Price changes for securities custody services for clients without an all-in fee agreement

As of 1 April 2017, the fee for custody services in your asset management portfolio will be modified as follows: The current fee differentiation for a portfolio size beyond €75,000 will be cancelled. Custody and management fees will be fixed at 0.195% p.a. (incl. VAT) for all portfolio sizes.

All other rates will remain unchanged. Please contact your personal advisor for Commerzbank's schedule of Commerzbank prices and services or go to [www.commerzbank.de/preise](http://www.commerzbank.de/preise). Your approval of the changes will be deemed to have been given unless you send us your rejection by 31 March 2017.

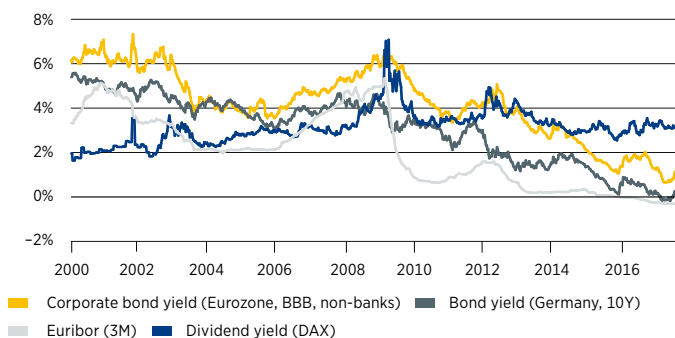
This change does not apply to clients who arranged the all-in fee pricing model with us. Your advisor will be pleased to present this alternative fee model to you.

# Market report

## 2016: The year of trend reversals and political surprises

2016 is nearly over and the year has been very challenging for investors. Early in the year, risky asset prices fell relentlessly and at breathtaking speed. The nightmare ended quickly, though, and risky asset prices started to rebound in mid-March, with early losers turning out to be the winners of the year, and vice versa. Emerging market equities and bonds, US equities as well as commodities were in high demand. During the year, ten-year high-quality government bonds in a number of countries fell to historic lows, while inflation expectations bottomed out as well. At times elevated financial market volatility was driven by uncertainty over the economic transition in China, rate increase expectations in the US, growing geopolitical tensions as well as surprising election outcomes in the UK, with a vote for Brexit, and in the US, with a vote for Donald Trump. Despite all this, we have never steered away from our investment principles over the course of 2016 and were able to generate a respectable performance in a difficult year.

### Current yields at a glance



Source: Commerzbank, Bloomberg

- Fear of a global recession early in the year – risky asset prices in free fall
- Brexit vote in the UK at the end of June triggered a period of high volatility and significant sector rotation in equities
- US election outcome led to rising inflation expectations and a marked increase in ten-year US Treasury yields
- Has the unorthodox monetary policy reached its limits?

Early in 2016, we re-examined our strategic asset allocation stance for 2016/2017. Some observers were seeing the sell-off in equity and commodity markets as a harbinger of a global recession. These fears presented a sharp contrast to our own expectations of a moderate global economic rebound. Fortunately, our assumptions turned out to be right, seeing as the big global economic picture has hardly changed over the past 12 months, confirming our long-term economic outlook. Our rational approach, trusting numbers rather than emotions, paid off in retrospect. Once more, gold was a beneficiary of market panic. In addition, investors fled into high-quality government bonds and “safe haven” currencies (e.g. yen). These trends, however, gradually reversed during the year, which is why 2016 will be remembered as the year of trend reversals. Improving Chinese and US economic data contributed to a significant stabilisation of the financial market environment as early as the first quarter of the year.

### Trend reversals in 2016:

- Rising high-quality government bond yields, particularly in the US (yield curve normalisation as the term premium widened, with a bigger reward for exposure to longer maturities)
- Rising inflation expectations (particularly in the US)
- A pronounced bottom-building process in the emerging economies, which implies a significant EM economic improvement
- Moderate equity market gains (in general) – cyclical sectors with significant advances in the second half of 2016
- Rebound in industrial metals prices
- Policy rate cut in the emerging markets, albeit from very high levels



The UK's vote to leave the EU was a significant negative political surprise. A narrow majority voted for Brexit, triggering a brief but significant equity market sell-off. Sentiment improved quickly, however, and many investors took advantage of this opportunity to add risky assets to their portfolios.



In the second half of 2016, the media as well as market participants were fully focused on the US presidential election. While central banks caught some market attention at times, their actions did little to provide fresh momentum for asset prices. The financial market response to Trump's surprising victory in the US presidential election held a clear message: market participants had learnt from the Brexit vote and positioned very cautiously ahead of the US election day on 8 November. They displayed a similar behaviour prior to the Italian referendum. As a result, the market responses to these negative political outcomes were fairly subdued, which is in sharp contrast to the Brexit market response.

- USA: robust late cyclical economic growth
- Europe: growth still sluggish, but with potential to surprise on the upside
- Emerging markets: economic activity is bottoming out

## Global economy stabilises on the back of EM bottom building



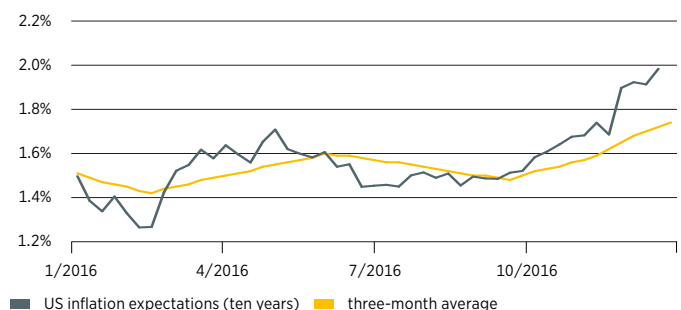
One of the major surprises in 2016 was that, after initiating its rate hike cycle in December 2015, the US Federal Reserve took a long time before deciding to lift rates again. Many market participants bet on growing monetary policy divergence in 2016, but these bets came too early. On the contrary: as a result of the sharp oil price plunge and concerns over Chinese currency policy, fears about the coming of a global recession spread widely in early 2016. In light of this uncertain environment, the US Federal Reserve postponed a second policy rate increase in the cycle for a significant period of time. This, and some disappointment over fairly low US economic growth in the first half of 2016, added to general market uncertainties. These concerns abated over the course of the year as economic data gradually improved.

The economic outlook for 2017 is somewhat more positive. The new US government is very likely to implement some fiscal stimulus. At the same time, economic trends indicate that the economic rebound in the US is already at a mature stage:

- US economy operating close to full employment
- Robust consumption growth, also driven by wage growth
- Inflation expectations have turned higher for the first time in a long time
- Oil prices continue to rebound
- Leading economic indicators at solid levels

However, we warn investors not to become too euphoric. The financial and economic crisis peaked eight years ago, and the US economy is still dealing with the after-effects of that crisis. GDP growth, productivity growth or corporate investment growth have failed to return to levels seen prior to the outbreak of the crisis. However, economic data patterns still confirmed our expectations of a modest economic rebound. This is also because the second rate increase by the Fed in the current hiking cycle in December 2016 was completely rational. For 2017 we forecast a couple more policy rate increases by the Fed, which would bring rates slowly closer towards "normal" levels.

## Marked increase in US inflation expectations



Source: Commerzbank, Bloomberg



The euro area is at a much earlier stage of its economic rebound. Therefore, the ECB will maintain a very expansionary monetary policy, which has just been confirmed by the extension of its bond purchasing programme. However, euro area inflation expectations have started to climb as well. European governments would struggle to deal with the consequences of significantly higher interest rates, though, as the euro area debt mountain increased even further. 2017 will be a year with many political challenges for the euro area, which could prevent the right economic policies and reforms being put in place for a successful continuation of the monetary union. The Netherlands, France and Germany will hold elections as scheduled, and now Italy will see fresh elections after the resignation of the Italian government. Beyond that, the UK will probably officially request to exit the EU at the end of March, which will certainly make headlines. A return of EU-UK trade relations to the WTO standard would be a significant economic and political setback for the euro area. In any case, though, it will take years for Brexit to be fully implemented.

# Market report

High public debt prevents euro area governments from pursuing more comprehensive publicly financed infrastructure investments. However, euro area governments might follow the lead of the US, where the incoming government will be proposing a number of fiscal measures, incentivising private capital to finance part of the necessary investments. Any such fiscal stimulus in the euro area will not happen in quite some time, which is why it is quite understandable that the ECB will maintain its expansionary monetary policy stance for some time to come. The recent extension of the ECB's comprehensive government and corporate bond purchasing programme is no substitute for structural economic reforms that would really kick off a new virtuous economic upturn, but at least it will buy policymakers some valuable time. On balance, we forecast the modest economic rebound in the euro area to continue.



The Bank of Japan recently struck a new path in terms of monetary policy. It maintained its bond purchasing programme but introduced a more aggressive explicit inflation target. Instead of lifting inflation to 2%, the Bank of Japan now aims to inflation to exceed 2%. In addition, it no longer aims to achieve a steeper yield curve but has implemented an explicit yield target of 0% for ten-year Japanese government bonds. So far, neither the Bank of Japan nor the Japanese government under Prime Minister Abe, with its "Abenomics" economic policies, have achieved their goal of ending deflationary trends in Japan. This is unlikely to change in 2017.



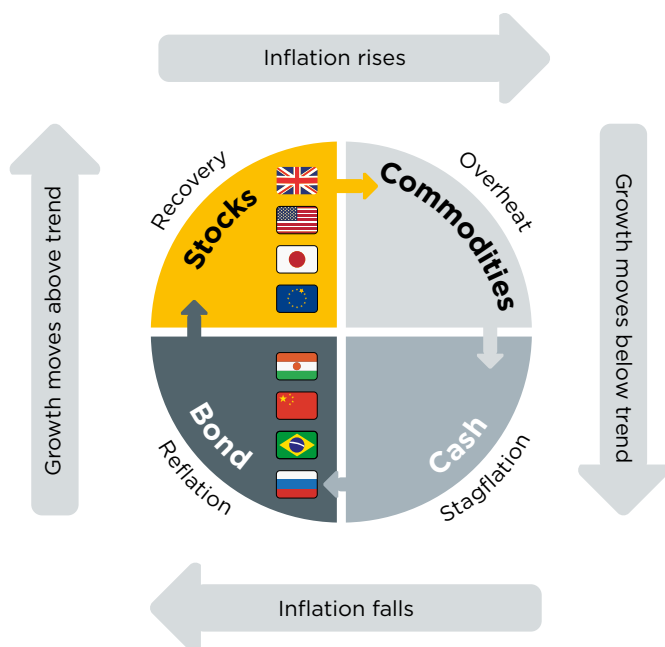
Emerging market economies have increasingly supported global economic growth over the course of the year on the back of a rebound in commodity prices. However, emerging market economies likewise failed to return to the growth path experienced during the boom years of the recent past. This is partly being driven by high public and private foreign debt levels. Debt securities are often denominated in US dollars, and recent significant US dollar appreciation has put upward pressure on debt service and debt levels in these countries when measured in local currency. At least, though, major EM countries like Russia and Brazil managed to end their deep recessions, while EM Asian economies continue to enjoy broad-based private consumption growth.

The current economic rebound in the emerging markets is likely to continue in 2017. The positive economic outlook is supported by higher commodity prices. However, high US dollar debt levels will prevent EM economies from returning to elevated growth rates experienced during the commodity price boom. China and India will continue to serve as economic powerhouses despite their ongoing profound economic and political transformation processes. The long-term economic outlook for emerging economies remains promising: EM economic growth is expected to be 4.5-5% p.a. during the next three years, compared to an expected 2% annual growth in the developed economies. The main risk to this benign forecast is a sharper increase in US policy rates than currently expected by market participants. As described above in the big economic picture, this risk appears to be negligible, though.

## Conclusion

We are increasingly adjusting our long-term investment strategy for the next two years to the fact that the economic rebound is at a mature stage. With respect to our strategic asset allocation, this means that we are increasingly looking at investment instruments that generate decent returns during the economic recovery as well as in the economic boom stage.





Source: Commerzbank

## Excursus: the Investment Clock – the workings of our current positioning

The Investment Clock model is an easy way to combine the different stages of the economic cycle with the asset classes that typically perform best in the respective stage. The current position on the clock is determined by the level of GDP growth of major economic regions/countries as well as their respective inflation rates.

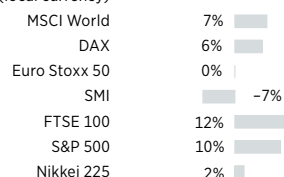
The asset allocation optimisation is based on the historic performance track record of indices best representing the individual asset classes. The results are translated through optimisation methods into target allocation structures (= strategic asset allocation). The process takes account of the fact that in each stage of the economic cycle, some asset classes perform better than others.

Our **current strategic target allocation** is based on the economy transitioning from the recovery to the boom stage. This is our so-called **base case scenario**. Shorter-term global economic trends are volatile because of external risk factors. Therefore, the investment strategy is regularly adjusted by our Investment Committee (= **Tactical Asset Allocation**). Historically, this model has delivered above-average returns in the long run.

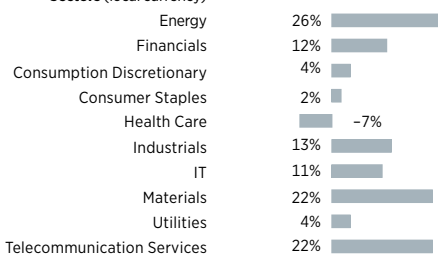
## Asset classes in 2016 at a glance

Year-to-date performance as at 19.12.2016

### Global equities (local currency)



### Sectors (local currency)



### Fixed Income (in EUR)



### Commodities (in USD)



### Currencies (vs. EUR)



-20% -10% 0% 10% 20% 30% 40% 50%

Status: 19.12.2016 Source: Commerzbank, Bloomberg

# Market report

Our positioning for 2017: reasons to be more optimistic – six theses provide the pillars for your portfolio allocation

## Thesis 1: The global economy moves at different speeds

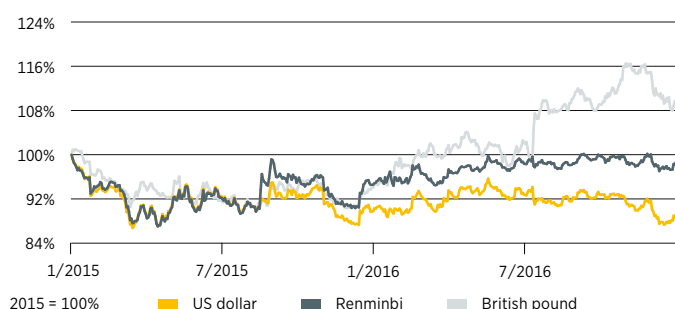
We are globally invested in bonds as well as in equities. A perfectly diversified portfolio needs to have allocations to global bonds, global equities as well as commodities.

A well-diversified portfolio with global exposure generated better returns in 2016 and was much less risky because of its positive diversification benefits compared to a portfolio with sole focus on European assets. In the past year our asset management mandates have benefited particularly from their global exposure, also because of our focus on balanced currency management. Because of this investment approach, we were able to compensate for risks and take advantage of opportunities in regions beyond Europe. For example, we added Emerging Market bonds, which more than compensated for the poor yields paid by traditional German Bunds.

## Thesis 2: Monetary policy divergence will increase

The continuation of the policy rate increase cycle in the US means more market volatility. Monetary policy divergence will lead to more exchange rate adjustments.

### Euro depreciation trend remains intact



Source: Commerzbank, Bloomberg

Rising policy rates in the US will add to monetary policy divergence between the US Federal Reserve, which is in tightening mode, and the Bank of Japan and the ECB, which continue to ease monetary policy. The policy shift in the US, on balance, adds to price risks in the bond markets, while the outlook for equity markets remains positive. Active currency management is still essential. For years now, we have been working with balanced foreign currency exposures in our global asset management portfolios. In this context we have focused on the US dollar. This was driven by the relative underlying fundamental strength of the US economy and associated higher economic growth. Besides its positive effects on performance, active currency management also helps to actively manage portfolio risks due to positive diversification effects resulting from broad exposure to global currencies.

## Thesis 3: Focus on flexible fixed income concepts and selected bond market segments

Selected and flexible fixed income concepts allow us to improve returns without adding significantly to portfolio risks. We will continue to focus on short maturities (durations) and will actively manage positioning.

### Ten-year yields



Source: Commerzbank, Bloomberg

High-quality longer maturity government bond yields marked new historic lows in a number of countries, including Germany, in 2016. Ten-year German Bund yields at times even turned negative. Risks of investing in these alleged “safe” assets increased to an even higher level because of existing extremely low yield levels. At the same time, risk premiums for bonds (credit spreads) massively tightened as well. Therefore, a “buy and hold” strategy in the fixed income asset class

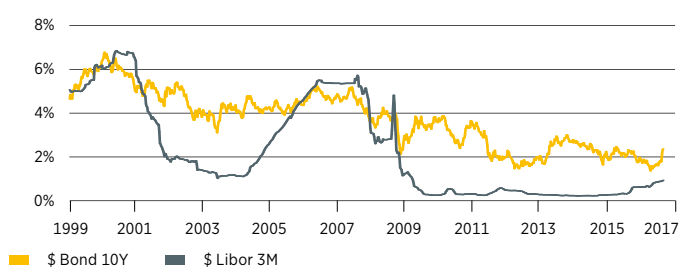
is unlikely to yield meaningful returns. Investors need to implement active strategies that can flexibly respond to the new environment.

The positioning in global fixed income sleeves of our asset management mandates is geared to a long-term trend towards a return to more “normal” yield levels from a historic perspective:

- Focus on short maturities in every bond segment
- Active and short-term-oriented maturity (duration) management
- Active management of exposure to riskier bond segments, such as EM bonds / high-yield bonds / foreign currency denominated bonds
- Protection against rising inflation through exposure to inflation-linked bonds
- Portfolio balancing by taking advantage of strategic investment components

This strategy worked out very well in 2016, generating a solid performance for our clients. This was helped in particular by our positioning for bond yields falling to record lows in the first half of the year, providing portfolios with a head start in terms of performance. While it was impossible to fully insulate portfolios from rising bond yields, and subsequently falling bond prices, in the second half of the year, we still managed to outperform our benchmark despite below-average risk exposure thanks to our active management approach.

#### Ten-year US Treasury yield vs. three-month USD Libor



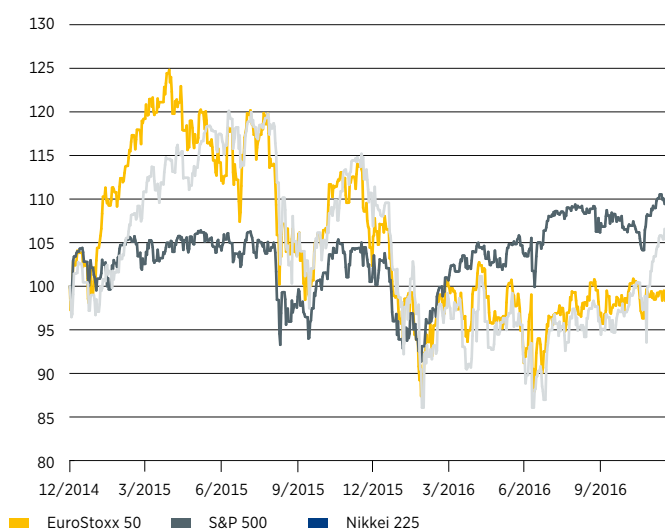
Source: Commerzbank, Bloomberg

The environment for bond investors will remain challenging in 2017 as global bond yields are expected to move modestly higher. However, a bond market crash of the kind experienced in 1994 is a highly unlikely scenario. Rising bond yields will translate into falling bond prices, particularly for longer maturity bonds, which is why this maturity segment remains unattractive for now. In this environment we will continue to actively manage fixed-income sleeves, trying to constantly optimise them from a risk perspective.

#### Thesis 4: Equities remain our favoured asset class

We continue to favour equities, particularly US and European equities, with Emerging Market equities also being an attractive addition to portfolios.

#### Equity indices



Source: Commerzbank, Bloomberg

Equities remain our favoured asset class. Market sentiment is extremely volatile as there is both a glass-half-full and a glass-half-empty story to be told: optimists are pointing to signs of rising economic growth momentum while pessimists refer to risks mentioned earlier, including US policy rate hikes. 2017 will probably turn out to be another volatile year with an underlying positive trend in the equity markets, which requires taking risks into consideration. The recipe for success is to ignore subjective sentiment changes and apply a rational and pragmatic equity strategy suitable for a late stage in the economic cycle. Our equity investment strategy will be based on:

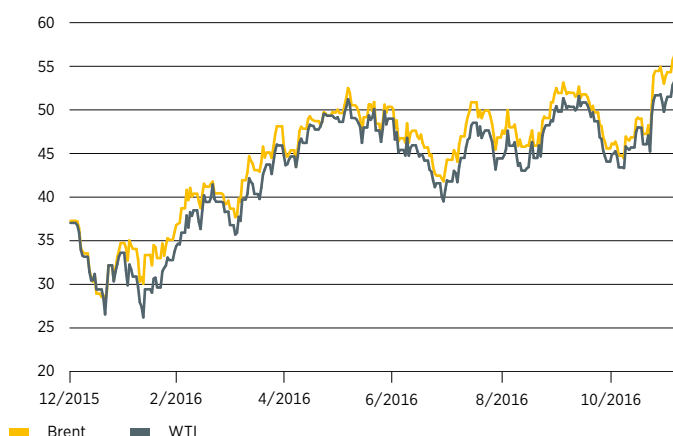
- An overweight in equities as well as a tactical overlay management – a significantly more flexible strategy with respect to the overall equity exposure (weighting range)
- Focus on selected value stocks with a sustainable dividend (moderate value approach or search for undervalued value stocks)
- Regional investment focus on Europe and the US
- Active sector management
- Rigorous risk management for single stock as well as fund exposure

# Market report

## Thesis 5: Commodities need to be added for diversification purposes

Commodities are a necessary component of any portfolio because of positive diversification effects, especially as the downward trend in prices is over. Careful selection is required because of diverging price trends of the single commodity segments.

### Brent oil and WTI in USD

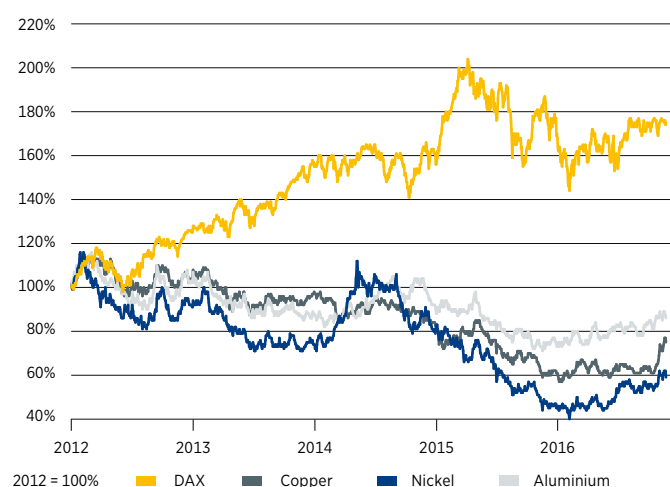


Source: Commerzbank, Bloomberg

Early in 2016, traditionally defensive investments, such as gold, quickly experienced price gains, while oil prices fell dramatically. This had observers worried as they saw this as a clear sign of global economic weakness, which weighed particularly on emerging market assets and currencies. A thorough analysis, though, revealed that actual oil demand continued to climb, suggesting that a supply glut was responsible for the renewed price drop. In fact, low oil prices acted as an economic stimulus for the global economy, lowering energy costs for consumers and the corporate sector. Following the sharp sell-off, commodity prices rebounded, confirming the end of a multi-year bear market, which was only logical from a fundamental perspective as our picture of a continued global economic rebound was confirmed. This price trend also had a profound impact on our portfolio performance. Commodities once again proved that they are a useful addition to any portfolio thanks to at times negative price correlations to equities and bonds. However, commodity price trends are likely to differ widely in the commodity segments going forward. All segments are exposed to particular and unique risks. Gold, for example, following a strong price rally earlier in 2016, is exposed to rising US interest rates, while oil prices continue to be capped by a supply surplus. In contrast, industrial metal supply is relatively tight and stronger global economic

growth is likely to translate into rising industrial metal prices, albeit at usually high price volatility. In 2017, we will again strive to take advantage of selected opportunities in the commodities asset class.

### Industrial metal prices end downward trend



Source: Commerzbank, Bloomberg

## Thesis 6: rigorous risk management is key to success

Rigorous risk management is still key to success. An optimal allocation between bonds, equities, commodities and currencies remains crucial – broadly-based asset class diversification helps to reduce a fair amount of risks!

On balance, our portfolios generated respectable returns despite their in part more defensive positioning compared to the benchmark. In other words, we managed to generate positive returns at lower risks, benefiting from very active risk management. This means that the risk-return profile of our investment strategy improved further, helped in particular by our fixed income allocations despite very low bond yields and rising risks. Fixed income risks in our portfolios were limited to 30% of the benchmark risks, which is why they benefited from rising long-term bond yields on a relative basis. This proves the importance of an active tactical investment strategy for performance as well as active risk management.

We pursue a holistic risk management approach, which means that a comprehensive set of factors determines our decision-making process. These factors have a medium to

long-term relevance in contrast to short-term headlines and sentiment changes. However, our risk management certainly does intend eliminating all investment risks as we strive to generate the best possible risk-adjusted return, with risk-free returns virtually being non-existent in the current environment. Even at times of financial market stress, such as during the risk-off period in early 2016, a very defensive investment approach cannot guarantee full protection:

- The US dollar, deemed to be a “safe haven” currency, did not appreciate against historical patterns
- German Bund yields hardly moved lower
- Gold prices showed little reaction

As a result, very modest positive returns in US dollars, German Bunds and gold were not able to fully compensate for losses generated by equities during the sell-off early in the year. Over the course of the year, though, portfolio diversification significantly helped to stabilise returns as correlations returned to historic patterns thereafter. We maintained our investment strategy, and portfolio performance improved steadily over the year thanks to our modestly aggressive asset allocation stance (slight equity overweight, exposure to riskier but attractively priced bond market segments and commodity exposure).

In 2017 we will focus on the following risks.

- China: a complex economic transition
- Euro area: European elections in 2017 – quo vadis EU?
- High debt levels limit fiscal leeway in the US/Europe
- Unorthodox monetary policy is reaching its limits
- Continued geopolitical tensions
- Growing sentiment against globalisation

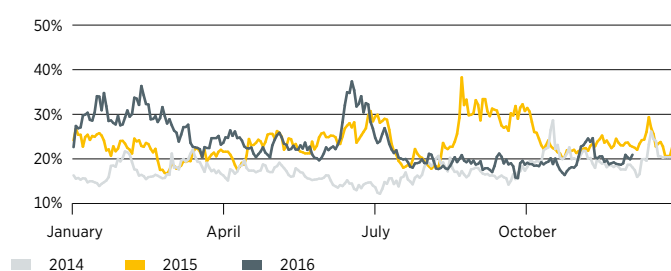
## Conclusion

On balance, 2016 was an eventful year – not just from a political perspective – confronting investors with numerous challenges and changing market environments. Once again the focus was on central banks and their ultra-expansionary monetary policy approach. However, the ongoing liquidity glut is having a declining impact on market trends and the economy.

Despite growing sentiment against globalisation, which in the worst case might impact global trade and global growth, we maintain our broadly based regional and country exposure. However, the described environment calls for even more active management and even more selective asset allocation. As a response to rising market volatility, we had already markedly increased the number of single investment positions in the portfolios, for example. This helped us within our conservative investment approach to maintain relative performance

stability. We supplemented our already robust portfolio structure with partial hedges, flexible investment concepts on the bond and equity side as well as discount certificates, which are attractively priced in times of elevated volatility.

### VDAX volatility in 2014/2015/2016 at a glance



Source: Commerzbank, Bloomberg

We expect financial market volatility to remain elevated in 2017. This is because the rally in equities and risky bonds is already well advanced. Despite an overall positive performance outlook, we will intensify our risk management beyond current levels. A well-diversified portfolio, including a broad range of asset classes, is the essential factor for a successful risk management approach. This reduces the level of dependency on single asset performance and allows us to take strategic advantage of the varying momentum in the financial markets. In times of financial repression, it is particularly important to preserve the real value of your liquid assets, always bearing your individual risk tolerance in mind. Being “The bank at your side”, our experienced investment experts as well as your personal advisors are ready to assist you with this goal at any time.

# Depositor Information Sheet

## Please do not sign and do not return

With the following "Depositor Information Sheet", we wish to inform you – pursuant to Section 23a (1) sentence 3 of the German Banking Act (Kreditwesengesetz, KWG) – about the statutory Deposit Guarantee Scheme.

In addition, your deposits are covered by the contractual Deposit Protection Fund (Einlagensicherungsfonds) of the Association of German Banks (Bundesverband deutscher Banken).

Further details are available at [www.bankenverband.de/einlagensicherung](http://www.bankenverband.de/einlagensicherung).

Deposits at Commerzbank AG are protected by:	Entschädigungseinrichtung deutscher Banken GmbH <sup>1)</sup>
Limit of protection:	EUR 100,000 per depositor per credit institution <sup>2)</sup> The following trademarks are part of your credit institution: Dresdner Bank
If you have more deposits at the same credit institution:	All your deposits at the same credit institution are 'aggregated' and the total is subject to the limit of EUR 100,000 <sup>2)</sup>
If you have a joint account with other person(s):	The limit of EUR 100 000 applies to each depositor separately <sup>3)</sup>
Reimbursement period in case of credit institution's failure:	Within 20 working days until 31 May 2016, from 1 June 2016 within 7 working days <sup>4)</sup>
Currency of reimbursement:	Euro
Contact:	Entschädigungseinrichtung deutscher Banken GmbH Postal address: Burgstr. 28 Postfach 11 04 48 10178 Berlin 10834 Berlin Germany Germany Telephone: +49 (0)30 59 00 11 960, Email: <a href="mailto:info@edb-banken.de">info@edb-banken.de</a>
More information:	<a href="http://www.edb-banken.de">www.edb-banken.de</a>

### Acknowledgement of receipt by the depositor:

Place, date \_\_\_\_\_

Signature \_\_\_\_\_

1) Your deposit is covered by a statutory Deposit Guarantee Scheme and a contractual Deposit Guarantee Scheme. If insolvency of your credit institution should occur, your deposits would in any case be repaid up to EUR 100,000.

2) If a deposit is unavailable because a credit institution is unable to meet its financial obligations, depositors are repaid by a Deposit Guarantee Scheme. This repayment covers at maximum EUR 100,000 per credit institution. This means that all deposits at the same credit institution are added up in order to determine the coverage level. If, for instance, a depositor holds a savings account with EUR 90,000 and a current account with EUR 20,000, he or she will only be repaid EUR 100,000.

[Only where applicable:] This method will also be applied if a credit institution operates under different trademarks. The Commerzbank AG also trades under: Dresdner Bank.

This means that all deposits with one or more of these trademarks are in total covered up to EUR 100,000.

3) In case of joint accounts, the limit of EUR 100,000 applies to each depositor.

Deposits in an account to which two or more persons are entitled as members of a business partnership, association or grouping of a similar nature, without legal personality, are aggregated and treated as if made by a single depositor for the purpose of calculating the limit of EUR 100,000.

In the cases listed in Section 8 (2) to (4) of the German Deposit Guarantee Act (Einlagensicherungsgesetz) deposits are protected above EUR 100,000.

More information can be obtained from the website of Entschädigungseinrichtung deutscher Banken GmbH at <http://www.edb-banken.de>

4) Reimbursement

Guarantee Scheme is

Entschädigungseinrichtung deutscher Banken GmbH

Postal address:

Burgstr. 28 Postfach 11 04 48

10178 Berlin 10834 Berlin

Germany Germany

Telephone: +49 (0)30 59 00 11 960, Email: [info@edb-banken.de](mailto:info@edb-banken.de).

It will repay your deposits (up to EUR 100,000) within 20 working days at the latest until 31 May 2016, from 1 June 2016 within 7 working days.

If you have not been repaid within these deadlines, you should contact the Deposit Guarantee Scheme since the time to claim reimbursement may be barred after a certain time limit. More information can be obtained from the website of Entschädigungseinrichtung deutscher Banken GmbH at [www.edb-banken.de](http://www.edb-banken.de)

### Other important information

In general, all retail depositors and businesses are covered by Deposit Guarantee Schemes. Exceptions for certain deposits are stated on the website of the responsible Deposit Guarantee Scheme. Your credit institution will also inform you on request whether certain products are covered or not. If deposits are covered, the credit institution shall also confirm this on the statement of account.



**Commerzbank AG**  
Kaiserplatz  
Frankfurt am Main  
[www.commerzbank.de](http://www.commerzbank.de)

Postal address  
60261 Frankfurt am Main