

Xtrackers Q&A

Changes to db x-trackers II Emerging Markets Liquid Eurobond UCITS ETF

Over recent years, Deutsche Asset Management (“Deutsche AM”) has successfully converted over 100 Xtrackers Exchange Traded Funds (“Xtrackers ETFs”) from indirect (swap-based) replication, to direct (physical) replication. As a result of these switches to direct replication, combined with the launch of new direct replication sub-funds, Xtrackers now manages around EUR 40 billion AUM¹ in direct replication Xtrackers ETFs. Since 2016, Deutsche AM has converted 38 fixed income Xtrackers ETFs from indirect to direct replication, including Xtrackers ETFs with exposure to Global, European and US government bonds, as well as a range of EUR-denominated Xtrackers ETFs with exposure to investment grade and high yield corporate bonds.

The next phase of this programme will involve the conversion of db x-trackers II Emerging Markets Liquid Eurobond UCITS ETF (the “ETF”). This ETF has an AUM of approximately EUR 550 million¹.

In addition to switching to direct replication, this ETF will also undergo additional changes as detailed below. The changes include a phased change of the ETF’s reference index.

All changes will appear on the website and factsheets following completion.

1. Why was this ETF selected for conversion?

In recent years investors have demonstrated clear demand for direct replication ETFs for certain exposures, and Deutsche AM’s aim is therefore to offer a suite of direct replication ETFs as building blocks in major asset classes. This is being achieved through a combination of new ETF launches and conversions from indirect to direct replication. This ETF will be an important part of the direct replication product suite.

2. How will this ETF replicate the underlying index post conversion?

The ETF will replicate its reference index by way of direct investment from the 7th of November 2017 onwards, i.e. directly purchasing emerging markets government and government-related bonds. The ETF uses a ‘Sampling’ approach (also often referred to as ‘Optimised Index Replication’) meaning the ETF will invest in a substantial number of the reference index constituents in a similar proportion to the reference index. Such Sampling approach allows for the risk and return characteristics of the reference index to be replicated with a sample of index bonds (or securities offering exposure similar to the index bonds) in order to efficiently manage the ETF.

3. Who will undertake portfolio management for this ETF?

From the point of its conversion to direct replication, the investment manager of the ETF will change from State Street Global Advisors (“SSGA”) to Deutsche Asset Management Investment GmbH (“DeAM GmbH”). Portfolio management will be sub-delegated to Deutsche Asset Management (UK) Limited (“DeAM (UK)”). The team has significant experience in managing index tracking physical securities portfolios, and is currently responsible for managing more than 140 physical Xtrackers ETFs.

4. Will the index change for this ETF?

Currently, the investment objective of the ETF is to reflect the performance of the Deutsche Bank Emerging Markets Liquid Eurobond Index[®] (the “Current Index”). Once the change is effective, the investment objective of the ETF will be to reflect the performance of the Citi Emerging Markets USD Government and Government-Related Bond Select Index, Currency-Hedged in EUR terms (the “New Index”), which is designed to reflect the performance of government and government-related bonds issued by emerging markets countries.

¹ As of 31/08/2017, Source: Deutsche AM



5. How do the Current Index and the New Index compare?

The following table provides a selection of important index rules and figures of the Current and New Index.

	Current Index	New Index
	Deutsche Bank Emerging Markets Liquid Eurobond Index®	Citi Emerging Markets USD Government and Government-Related Bond Select Index , Currency-Hedged in EUR terms
Bloomberg index ticker	DBNELQKL	CFIIEREC
Bond universe	Hard currency government and quasi-government bonds from emerging markets countries. Maximum of 15 countries.	USD-denominated government and quasi-government bonds from emerging markets countries.
Rating	Minimum B-/B3, maximum A-/A3	Minimum rating of C (excludes defaulted bonds)
Minimum amount outstanding	USD 150 million per bond, USD 1 billion per issuer	USD 1 billion per bond
Maturity	Minimum 5 years, maximum 30 years	Minimum 2 years (3 years at inclusion)
Country cap	None	Par amount of a country is capped at USD 25 billion
Number of countries	15 (capped)	49 (no cap)
Number of bonds	29	303
Duration	6.3	7.2
Yield to worst	3.4%	5.3%
Correlation	94.5%	

Source: DBIQ, Citi, Bloomberg, figures as of 31 August 2017. Yield figures do not include the cost of FX hedging. Correlation based on 5 years of monthly index returns. Past performance is not indicative of future returns.

6. How will the change of reference index happen?

To reduce the potential for market impact on the trading of the underlying bonds, the change of reference index will be effected over a period of 20 days (the "Index Switch Period"). During the Index Switch Period, the aim will be to reflect the performance of a combination of the Current Index and the New Index, such that on each day the exposure to the Current Index decreases by 1/20th and the exposure to the New Index simultaneously increases by 1/20th.

The Index Switch Period will commence on the 6th of October 2017 and end on the 6th of November 2017 (representing 20 working days, excluding certain local bank holidays). For the avoidance of doubt, the other changes to this ETF, including the switch to direct replication and the change of investment manager, will be effected on 7 November 2017, i.e. the first business day after the Index Switch Period.

7. Will ISINs, WKNs tickers and other codes change?

There will be no change to the ISIN and WKN code of the ETF.

8. Are there any cost implications as a result of these changes?

Any costs or expenses associated with the implementation of the conversions, will **not** be borne by the ETF or its shareholders.

Nevertheless, from the date of the notice publication (4 September 2017) until the completion of the changes, the bid offer spreads quoted for the ETF in the primary and secondary markets may widen due to the investment objective (reference index) switch and direct replication switch.

The TER of the ETF will be reduced from "up to 0.55% p.a." to "up to 0.40% p.a." as of 7th of November 2017.

9. Summary of changes being made to the ETF:

Current name	New name	Share class / ISIN	Switch of Investment Policy	Change of Investment Manager	TER	New Reference Index
db x-trackers II EMERGING MARKETS LIQUID EUROBOND UCITS ETF	db x-trackers II EMERGING MARKETS USD BOND UCITS ETF (DR)	1C / LU0321462953	From Indirect Investment Policy to Direct Investment Policy (Optimised Index Replication)	From SSgA to DeAM GmbH (Sub-Portfolio Management conducted by DeAM (UK))	Decreased from "up to 0.55% p.a." to "up to 0.40% p.a."	Citi Emerging Markets USD Government and Government-Related Bond Select Index, Currency-Hedged in EUR terms

10. Do investors need to take any action?

In terms of the operational functioning of the ETF, the conversion to direct replication is expected to take place seamlessly



from the investor's perspective. However, investors may wish to speak to a professional advisor to consider whether the change to the New Index fits with their investment preferences. There will be no change to how the ETF is traded. Investors can simply continue to hold shares in this ETF.

11. What is the expected impact on my investment from a tax perspective?

All investors are strongly advised to consult their tax advisor to assess (1) the impact of the above changes and any potential tax consequences thereof and (2) any potential changes between the current and / or future taxation of their investment under the laws of the countries of their nationality, residence, domicile or incorporation.

12. Contact us

For more information, please contact:
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Key risk factors

An investment in an Xtrackers ETF may not be suitable for all investors. Past performance is not a reliable indicator of future results. Investments in funds involve numerous risks including, among others, general market risks, credit risks, foreign exchange risks, interest rate risks and liquidity risks. As such, the value of an investment in an Xtrackers ETF may go down as well as up and can result in losses, up and including a total loss of the amount initially invested.

Investors should be aware that Deutsche Asset Management (UK) Limited, any of its parents or any of its or its parents subsidiaries or affiliates (together referred to as Deutsche Asset Management) may from time to time own interests in the Fund which may represent a significant amount or proportion of the overall investor holdings in the Fund. Investors should consider what possible impact such holdings, or any disposal thereof, may have on them.

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Concept Fund Solutions is incorporated in Ireland with registered number 393802 and has its registered office at 78 Sir John Rogerson's Quay, Dublin 2, Ireland.

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