



Dear Investors,

It is important to me that I personally reach out to you today. We are currently facing an extremely serious and challenging situation both in our private lives and as investors, undoubtedly the most severe health crisis of the century. First and foremost, I do wish that we can all withstand this epidemic and remain healthy, that is obviously the most important.

However, we shouldn't lose sight of financial markets. As the virus has spread from China to Europe and now the US, capital markets have been crashing at an unprecedented speed. The DAX, the German stockmarket index, has dropped considerably from its all-time high on Feb. 20 this year. This week alone the index has realized a large part of the losses, opening twice significantly below the previous day's closing value. In the US, markets were suspended twice intra-day this week as they exceeded the "Limit Down".

Under such extreme circumstances, risk management is obviously particularly complicated. As it is not possible to gradually reduce risk with downside moves of such magnitude, sizable positions must be liquidated forcefully at any cost. This explains why stockmarkets are under intense pressure. Even professional investors are compelled to sell at any price because of such external shocks, be it the coronavirus pandemic or the oil price slump.

Although we aim to mitigate downside risk and control for drawdowns, we by no means intend to throw out the baby with the bathwater. As you have entrusted us with your assets, we feel responsible for acting in your best interest at all times. In the case of DWS Concept Kaldemorgen, we do have to ask ourselves a very concrete question: are we ready to sell stocks at prices we deem ridiculously low to remain within our risk target? Actually not. We believe that the current equity market weakness could be temporary and essentially triggered by an external shock. As and when the infection rate eventually subsides, equity markets are likely to offer significant upside potential. The current situation is by no means comparable to a systemic crisis such as in 2008, which was then triggered by a financial crisis. As much as a dramatic drop in economic activity appears very likely, if not a recession even, this weakness could still be temporary.

Indeed, production capacity is not affected by the virus. At worst it will merely be shut down or put on hold for some time. What could be here to stay though is above all US interest rates at lower levels than before the crisis. This makes equities even more appealing.

For these reasons, we, the portfolio management team, have decided to temporarily waive the max drawdown limit in order to take full advantage of such opportunities in the medium to long term. The net equity exposure of the fund currently stands at 38 percent while cash accounts for 12 percent of the portfolio. In addition, we have a 22 percent position in sovereign bonds and almost 9 percent in gold.

We are convinced that a slightly higher loss tolerance will provide us with the necessary leeway to act rationally and navigate the current panic-stricken markets effectively.

I am confident that in a few months from now not only the coronavirus pandemic but also the equity market crisis will be no more than a bad memory. We will keep you posted of all subsequent developments.

Yours sincerely,  
Klaus Kaldemorgen

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DWS International GmbH. As of: 13.03.2020