DWS Strategic Value Fund

June 2010 Monthly Report

The Fund returned -1.35% net for the month

Market overview

Painful memories of the 'Great Recession' howled back to the surface in the second quarter, as asset classes across industries, geographies, and capital structures dramatically correlated to the downside. In fact, single stock correlations, as measured by the S&P 500 Index, spiked in May and June, reaching levels not seen since the crash of 1987. Perhaps even more revealing, however, is the fact that correlations in June posted higher than they did in late 2008. This is a critical though, generally unknown statistic, particularly when measured against the confluence of dramatic events that transpired over that period.

In short, for fundamental value-based strategies seeking to generate alpha, June was very difficult. In periods of extreme equity market polarization, whether it be to the upside or down, security selection opportunities – and consequently the ability of long/short equity strategies (for example) to profit – are limited. In times like these you are either invested or not, and success from fundamental stock picking is unfortunately hindered.

This most recent market tempest is a function of investors beginning to connect the dots between the rally in risk assets and its association with cheap government money. That is, the spectacular rebound we experienced post 2008 was largely synthetically driven, sponsored by government cheques from around the world. While the response to the crisis was swift and surprisingly effective (especially given that it spanned two administrations in the US and was implemented in a matter of months), it treated only the symptoms and not the cause. Essentially more leverage was added to the system, not removed. Debt was basically moved from one pocket to the other. In our view, this dynamic cannot be sustained, the financial sins of the last 10 or more years (unwarranted debt, spending, etc.) have yet to be fully atoned, and at some point the world's margins will have to be called.

Observing the market oscillations of late, we believe that investors are beginning to recognise that substantial structural challenges – including large fiscal deficits and sovereign debt risk – still persist. Consumers are still over-leveraged, housing inventories are still overstocked, and the strength of emerging market economic growth is still in question.

Performance review

Given the market severity, the great majority of the Fund's underlying managers were only successful in mitigating drawdowns relative to long only benchmarks, but were unable to generate positive absolute returns. The Fund returned -1.35% (net) in June, bringing the YTD performance to -0.93% (net). In aggregate the portfolio's Event Driven and Alternate Strategy funds contributed positively to performance, but those gains were offset by declines in Long/Short Equity.

Given the broad based flight to quality and somewhat indiscriminate selling of risk assets, the Fund's Long/Short Equity managers incurred significant headwinds in June. Our weightings in software and internet stocks were among the biggest detractors to performance, although in speaking with our managers they saw little fundamental reason to justify the weakness. Fund managers seemed to be divided over where to move gross and net exposure levels, but generally the tilt was towards reduction. The broad view is that liquidity is still coming out of the system, the market lacks any substantive traction, and

Net fund performance (%) to 30 June 2010

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2010	-0.54	1.00	1.08	0.57	-1.65	-1.35							-0.93
2009	1.28	1.26	0.18	1.17	1.81	1.11	0.72	0.78	0.76	-0.57	0.47	-0.59	8.58
2008	-2.36	1.85	-2.38	1.15	2.62	0.08	-2.60	-0.28	-8.74	-10.22	-3.32	-1.59	-23.65
2007	0.85	0.88	1.09	1.21	1.92	0.48	0.19	-2.36	1.93	3.15	-0.71	0.73	9.66
2006	2.91	1.01	1.86	1.52	-1.25	-0.06	0.01	1.15	0.46	1.45	1.62	1.77	13.09
2005	0.67	1.13	-0.16	-0.46	-0.13	1.17	1.69	1.08	1.50	-0.86	1.58	2.55	10.14
2004	1.47	1.04	0.15	0.14	0.32	0.56	-0.22	0.35	0.84	0.66	1.61	1.53	8.74
2003	1.55	0.64	1.08	1.17	1.18	0.72	0.46	0.24	0.76	0.90	0.87	1.06	11.16
2002	0.69	0.40	0.78	0.47	0.34	0.05	-0.90	0.21	-4.25	0.04	0.51	0.69	-1.09
2001	1.95	0.16	0.04	2.02	0.34	0.19	0.53	0.54	-0.22	0.67	0.39	0.60	7.42
2000	1.97	4.80	2.36	-0.92	-0.55	-0.38	-1.10	0.46	0.43	-0.76	-0.33	1.23	7.28
1999												3.12	3.12

Past performance is not an indication of future results. Performance figures are calculated using exit prices, net of fees and reflect the annual re-investment of distributions.

Performance review (continued)

the prospect for sustainable growth over the next 12-24 months is in question. As such, many have chosen to maintain/adopt below average exposure levels during this period of heightened volatility.

Specialist Credit was also modestly negative in June. Managers in general were whipsawed by choppy markets, though were successful in generating profits from shorts expressed via sovereign credit default swap protection, residential mortgage backed securities, and specific positions in less economically sensitive sectors such as food production. Gains were offset by exposures to more on-the-run securities and crowded hedge fund names, as market participants generally sold liquid exposures to reduce risk.

Event Driven managers were up marginally on the month. Merger arbitrage exposures were on average positive, as spreads tightened throughout the month and deals moved closer to closing. Losses this month came largely from the managers' credit and special situation exposures, which tend to be somewhat more sensitive to directional shifts and therefore to overall market volatility as well.

Portfolio versus market indices

30 June 2010	DWS Strategic Value Fund (Net AUD)	UBS Australia Bank Bill Index	MSCI World Index hedged in AUD	S&P/ASX Australian All Ordinaries Index
1 year net return	0.63%	3.89%	11.73%	9.55%
3 year annualised net return	-5.46%	5.56%	-12.85%	-11.83%
5 year annualised net return	1.88%	5.77%	-1.44%	0.44%
Since Fund Inception*				
Net return	4.50%	5.57%	-1.47%	3.37%
Standard deviation	6.16%	0.33%	15.91%	13.55%
Sharpe ratio	0.34	8.37	-0.18	0.12
Correlation (Fund vs Index)		-26.62%	62.06%	64.05%
Maximum drawdown^	-24.29%	0.00%	-52.38%	-51.37%
Best month	4.80%	0.71%	9.77%	7.64%
Worst month	-10.22%	0.25%	-18.90%	-14.00%
% positive months	75.59%	100.00%	55.91%	59.84%

Past performance is not an indication of future results. Source: K2 Advisors, Deutsche Asset Management (Australia) Limited, Bloomberg.
*Inception: 30 November 1999; this data represents the annualised performance of the Fund or Index from the first full month of operation of the Fund.
^Maximum drawdown refers to the largest overall drop in the Fund or Index value which occurred in a given period before it returned to its previous high.

Fund performance attribution – June 2010

Sector/Strategy	Number of Funds[a]	Allocation [a]	Monthly Return[b]	Monthly Contribution[b]	YTD 2010 Return[b]
Long/Short Equity	6	31.52%	-2.93%	-0.92%	-4.14%
Long/Short Equity Europe	1	5.11%	-2.03%	-0.10%	-3.43%
Long/Short Equity Sector Specific	4	21.82%	-2.36%	-0.51%	-3.74%
Event Driven	6	7.50%	0.37%	0.03%	2.03%
Specialist Credit	4	4.63%	-1.71%	-0.08%	-4.32%
Multi Strategy	1	0.08%	25.01%	0.02%	11.13%
Alternate Strategies	2	4.15%	2.24%	0.09%	1.85%
Relative Value	1	4.29%	-1.07%	-0.05%	3.09%
Cash		20.90%			
Total	25	100.00%			

Source: K2 Advisors.
For the row titled "Total" a sum greater than 100% indicates short-term leverage (typically 10-15 days) utilised by the Investment Manager to bridge purchases and redemptions.
(a) Number of Funds and Allocation columns are as of 30 June 2010. (b) These columns are net of underlying funds' fees but gross of the Fund's fees and expenses.
Sector and strategy returns referenced above represent the Master DB Strategic Value Fund (stated in USD) in which DWS Strategic Value Fund (in AUD) invests its assets.

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Hedge fund sector outlook

From a very high level we would say the environment for hedge funds looking forward is promising. While no one wins with panicked, indiscriminate, and forced selling – like that of 2008, modest volatility is good in that it provides intelligently hedged strategies an opportunity to earn fundamental alpha on both sides of the trade. This is the environment we anticipate for some time. Welcome to the new normal. We see the 'macro squalls' (episodes with oddly correlated behaviour across markets and asset classes) – like August 2007 or May/June 2010 for example – becoming more, not less, frequent. That said, we anticipate that these periods will not be as severe as the correction of 2008, but choppiness will recycle, and the pattern will repeat itself. Investing against a placid macro-economic backdrop is no longer a reality (at least for the foreseeable future), and even a theoretically well diversified portfolio can be impacted heavily in the environments we have experienced. In our view, flexibility is needed in the deployment of capital, in addition to the implementation of a full range of instruments (shorts, leverage, etc.) and asset classes for hedging. An approach that marries bottom-up fundamental analysis with an academic and meticulous top-down macro understanding and view will be key, such that the factors driving market shifts are better understood, the impacts better anticipated, and downside risks better hedged. Lastly, successful investing will demand the implementation of a system where true diversification is achieved, not just at the asset class level, but at a granular security level as well.

Top five holdings by size as at 30 June 2010

Manager	Strategy	Sub-Strategy
AJR International (BVI) Inc	Long/Short Equity	Long/Short Equity US
Coatue Offshore Fund Ltd	Long Short Equity Sector	Sector – Technology
Hunter Global Investors Offshore Fund Ltd	Long Short Equity	Long/Short Equity US
Seligman Tech Spectrum Fund	Long/Short Equity Sector	Sector - Technology
Ivory Offshore Flagship Fund Ltd	Long Short Equity	Equity Market Neutral US

Source: K2 Advisors

Top 5 managers represent 32.17% of DWS Strategic Value Fund assets as at 30 June 2010.

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Important Information