

# DWS Global Equity Thematic Fund

June 2009 Monthly Report



**The Fund returned -0.12% gross (-0.19% net) for the month, outperforming the benchmark by 1.55% gross (1.48% net)**

## Market review

Hopes for a swift economic recovery, which had propelled equity markets upwards over the first two months of the second quarter, faltered in June. The S&P 500 Index was essentially flat, returning just 0.2% in the month (in USD terms).

As the quarter closed, worse than expected US employment figures rattled investors. Non-farm payrolls fell by 467,000 in June, taking the US jobless rate to 9.5%, the worst level since 1983. However at least the rate of deterioration in employment is declining, with the US shedding jobs at an average rate of 691,000 per month during Q1 2009..

By the end of June, investor concerns were mounting that the upcoming company earnings season would disappoint. As confidence in a speedy recovery stalled, fears that government stimulus initiatives would lead to inflation began to appear overblown. The US economy is operating with a substantial output gap - that is, actual output is considerably below potential output - which is likely to act as a disinflationary force on wages and prices, at least in the near term. On June 24, the US Federal Open Markets Committee (FOMC) affirmed its accommodative stance and pledged to keep rates low for an extended period.

In parts of Europe, there was better news as it emerged that

German manufacturing orders had risen by 4.4% in May, the biggest gain since June 2007. But in the UK, a survey by the British Chamber of Commerce (BCC) found that sales and orders continued to fall in the three months to the end of June, although the decline was slower than in the first quarter. The BCC called on the Bank of England to expand its £125 billion asset-purchase program to spur the economy.

In Asia, the Chinese government reported that the national economy, on which hopes for a global economic recovery partly rest, was gathering momentum. China's central bank stated that growth might exceed 7.5% in Q2. The World Bank added to the positive sentiment on China's economic prospects, raising its 2009 growth forecast for the country to 7.2% from 6.5%. Meanwhile, Japan's coincident index, a widely followed composite of 11 economic indicators including manufacturing output and retail sales, recorded a second straight month of increase in May, climbing to 86.9 from 86 in April. The Japanese prime minister said the worst of the country's recession may be over. Even so, Japan's unemployment rate hit a five year high of 5.2% in May and wages declined for the twelfth consecutive month.

## Performance as at 30 June 2009<sup>†</sup>

	DWS Global Equity Thematic Fund	DWS Global Equity Thematic Fund	MSCI World ex-Australia Index
	Gross Performance (%)	Net Performance (%)	(%)
1 month	-0.12	-0.19	-1.67
3 months	7.80	7.56	3.53
6 months	-0.03	-0.47	-8.75
Financial year to date	-16.86	-17.60	-16.30
1 year	-16.86	-17.60	-16.30
2 years pa	-20.60	-21.31	-18.81
3 years pa	-9.86	-10.66	-10.77
5 years pa	1.89	0.99	-3.15
7 years pa	0.59	-0.31	-2.65
10 years pa	1.03	0.13	-2.99
Since commencement of Fund* pa	6.66	5.71	2.94
Exit price (\$)	1.0869		
Fund size	\$456.1 million		

<sup>†</sup>This figure represents the annualised performance of the Fund from the first full month of operation. Inception date: 4 December 1996.

Gross performance figures are calculated using exit prices, pre-fees and reflect the annual reinvestment of distribution.

Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Retail investors should refer to net returns. If investing through an IDPS Provider, the total after fees performance return of your investment in the Fund may be different from the information in this report.

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## Performance review

The Fund returned -0.12% gross (-0.19% net) for the month, outperforming the benchmark by 1.55% gross (1.48% net). The Fund outperformed its benchmark for the eighth consecutive month in June. Most of the strategy's themes made a positive contribution to performance, with the largest contributions made by Distressed Companies, Large Units and Global Agribusiness. Five themes detracted from performance, among them Asymmetric Negotiators, Market Hedge and Security.

The Distressed Companies theme, which seeks companies that are priced at low multiples due to unwarranted pessimism or short-term misperceptions of risk, was spurred by our holding in Bank of America. Our holding in Austria's Raiffeisen International Bank detracted marginally from performance during the month.

The Large Units theme invests in companies that are benefiting from the growth of middle classes and consumerism in emerging markets countries. China's GOME Electrical Appliances Holding, a leading retailer of electrical appliances and consumer electronic products, led the theme higher in June. Our holding in Industrial & Commercial Bank of China also made a strong contribution; our position in banking group, Standard Chartered, detracted from performance.

The Global Agribusiness theme, which seeks companies that stand to benefit from the rapidly changing dietary needs of a growing global population, also made a strong positive contribution. Holdings in two Brazilian companies in particular, SLC Agricola, an agricultural producer that focuses on cotton, soybean and corn, and Santos Brasil, a port/container terminal operator, contributed to performance. Our position in US based Monsanto detracted from performance.

The Asymmetric Negotiators theme, which seeks companies with access to resources in limited supply that allow them to conduct one-sided price negotiations, detracted from performance in June primarily as a result of energy sector declines.

The Market Hedge theme also declined, with gold producers AngloGold Ashanti and Gold Fields being the largest detractors from performance in June. After rising steadily in April and May, gold prices retreated in June partly in response to US dollar strength and declining inflation fears.

## Market outlook and strategy

We believe that the coming quarters will see a continuation of discussions between creditors and debtors. This happens at the large company level, where debt covenants require renegotiation of terms, and it happens at the retail level, where loan modifications have become customary. Banks lower the risk of losses, and collect (in most cases) higher lending rates for the remainder of the loan. Debtors have time to breathe and re-set their cash flows to service the debt. The system is thus in repair mode.

## Theme distribution and performance as at June 30 2009

Theme	Portfolio ending weight (%)	Contribution to return (%)
Distressed Companies	4.55	0.63
Large Units	8.42	0.56
Global Agribusiness	11.36	0.55
New Annuities	13.63	0.41
Personalized Medicine	7.62	0.40
Supply Chain Dominance	15.10	0.29
Talent & Ingenuity	8.62	0.09
Indian Ocean	2.86	0.01
Private/Public Partnerships	3.50	-0.01
Disequilibria	6.91	-0.03
Security	4.18	-0.14
Market Hedge	2.03	-0.18
Assymetric Negotiators	11.24	-0.87

(Data in USD)

## Geographic distribution as at 30 June 2009

Region	Portfolio Ending Weight (% of Equity)
North America	45.81
Europe	32.54
Asia/Pacific (ex-Japan)	9.06
Japan	6.18
Latin America	5.06
Cash	1.35

(Data in AUD)

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## Key contributors and detractors as at 30 June 2009

Security	Theme	Total Return %	Contribution %
<b>Top 10 positive contributors</b>			
Bank of America Corp.	Distressed Companies	17.23	0.46
GOME Electrical Appliances Holding Ltd.	Large Units	72.37	0.37
Microsoft Corp.	New Annuities	13.79	0.19
Laboratory Corp. of America Holdings	Personalized Medicine	11.20	0.18
iShares NASDAQ Biotechnology Index Fund	Talent & Ingenuity	7.59	0.15
SLC Agricola S/A	Global Agribusiness	17.31	0.15
Hewlett-Packard Co.	Supply Chain Dominance	12.76	0.14
Industrial & Commercial Bank of China Ltd.	Large Units	10.69	0.14
Santos Brasil SA	Global Agribusiness	10.56	0.13
CVS Caremark Corp.	Supply Chain Dominance	6.95	0.13
<b>Top 10 negative contributors</b>			
Hess Corp.	Asymmetric Negotiators	-19.15	-0.19
Apache Corp.	Asymmetric Negotiators	-14.37	-0.15
Monsanto Co.	Global Agribusiness	-9.18	-0.14
UBS Ag	Security	-18.76	-0.12
Devon Energy Corp.	Asymmetric Negotiators	-13.61	-0.12
General Electric Co.	New Annuities	-12.33	-0.09
Deutsche Lufthansa AG	Supply Chain Dominance	-9.38	-0.09
Toyota Motor Corp.	Supply Chain Dominance	-4.70	-0.08
Shin-Etsu Chemical Co. Ltd.	Asymmetric Negotiators	-11.00	-0.08
Morgan Stanley	Talent & Ingenuity	-5.97	-0.08

(Data in USD)

## Top 10 holdings as at 30 June 2009

Stock	Country	Theme	% of portfolio
iShares NASDAQ Biotechnology Index Fund	United States	Talent & Ingenuity	2.47
Nestle S.A.	Switzerland	Global Agribusiness	2.25
Exxon Mobil Corp.	United States	Asymmetric Negotiators	2.12
CVS Caremark Corp.	United States	Supply Chain Dominance	2.10
Bank of America Corp.	United States	Distressed Companies	1.90
McDonald's Corp.	United States	Supply Chain Dominance	1.79
Pfizer Inc.	United States	New Annuities	1.76
Laboratory Corp. of America Holdings	United States	Personalized Medicine	1.75
GlaxoSmithKline PLC	United Kingdom	New Annuities	1.74
Qiagen N.V.	Netherlands	Personalized Medicine	1.73

(Data in AUD)

## Market outlook and strategy (continued)

Going forward, cyclical considerations are the main issue to focus on. We have recently been in the UK and Ireland, examining the nature of the collapse. The Irish economy is an interesting case study: the last 10 years had blessed Ireland with EU transfer payments, foreign direct investment on a large scale committed by global firms looking for a launch pad into Europe, low interest rates, a construction boom, and, as a result, a fast-growing economy. However now it has collapsed. A vast pile of developer loans (amounting to a considerable percentage of

GDP) must be written off, bank balance sheets exhibit funding gaps, and unemployment has soared as construction levels have collapsed and will likely remain subdued for a long time.

Ireland is just one example that illustrates how an economy needs to rethink just about everything that worked in the past, and figure out a way to position itself in the decades to come. A young, educated, flexible and pragmatic population clearly helps. As such it will attract investment in the future and will remain a precious springboard for global firms into Europe. But what if the

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government decides to raise taxes and consequently reduce the attractiveness of the Irish economy? This is a real risk and is illustrative of the discussions taking place in New Jersey and California. For the next year it will be critical to assess to what extent various regimes are inclined to invite free markets and

enterprise, and to what extent short term neo-Keynesian activity will prevail. As Ian Bremmer, the noted American political scientist, recently stated: "New York City used to be the world's financial capital. It is no longer even the financial capital of the United States: Washington is".



Monthly video commentary for the DWS Global Equity Thematic Fund is also available via our website. Visit [www.dwsinvestments.com.au](http://www.dwsinvestments.com.au) and click on 'Straight from the Source' on the home page.

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