

# DWS Global Equity Thematic Fund (Fully Hedged)

July 2010 Monthly Report



**The Fund returned 6.62% gross (6.54% net) for the month, outperforming the benchmark by 0.65% gross (0.57% net)**

## Market review

Global equities were up in July, with broad-based gains around the world. Local currency returns were in the mid to high single digits for US, Asian and European markets, while the Euro and Yen gained 7% and 2%, respectively, over the US dollar.

The beginning of the month saw global stocks hit their lowest mark since August 2009, before a decent start to the Q2 earnings season and an easing of European sovereign concerns drove a healthy rally over the remainder of July.

In the US, while most big reporters in the first half of the earnings season - e.g. Alcoa, Intel, JP Morgan, GE, Bank of America - beat earnings estimates soundly, either top-line softness or guidance weakness led to a tempering of market reactions. In Europe, bottom-line results were more mixed, though the general trend was positive, in spite of how disastrous markets were in the quarter.

Economic data releases were also mixed in July. Economic activity in the American manufacturing sector expanded in July for the 12th consecutive month, and the overall economy grew for the 15th consecutive month, according to the ISM Report on Business. But these results belie a trend of slower growth in most manufacturing industries, and anecdotal evidence of a post-stimulus drop in backlog and new orders.

Eurozone data painted a similar picture, with Markit - a research group - reporting growth in its Composite Output Index for the region, from 56.0 in June to 56.7 in July (numbers of 50 imply growth). This unexpectedly strong start to the second half was led by domestic demand, as the New Export Orders Index faced declines. Reliance on domestic demand for a continued recovery could be a negative signal, as service sector surveys suggest the weakest one year outlook since last November.

Looking east, China's Manufacturing PMI (calculated by HSBC) fell below 50 in July, indicating the first sequential deterioration in Chinese manufacturing sector operating conditions in over a year. Data indicates that this cooling was led by state-owned enterprises, as part of a concerted effort by authorities to prevent overheating. Indeed, industrial production remains in the mid-low double digits, despite the evident slowdown.

Overall, business confidence in recovery remains intact, with optimism improving in the developed world and easing in emerging markets. Generally, manufacturers have greater confidence in the year ahead than service providers. Consumer confidence, however, ticked down in July by most measures, as unemployment remains high across the large consumer centres of the developed world.

## Performance review

The Fund returned 6.62% gross (6.54% net) for the month, outperforming the benchmark by 0.65% gross (0.57% net). The Distressed Companies theme, which targets holdings trading at excessively low valuations due to unwarranted pessimism or short-term misperceptions of risk, was led higher in July by its holdings in Societe General and Erste Group Bank. The European financial services companies based in Paris and Vienna, respectively, had been hurt over the past quarter due to Europe's sovereign debt crisis. Markets have begun to recognise that both companies remain in relative good health, and they continue to outperform most of their European peers. Bank of America was a slight detractor to the theme's monthly performance.

## Performance as at 31 July 2010

	DWS Global Equity Thematic Fund (Fully Hedged) Gross Performance (%)	DWS Global Equity Thematic Fund (Fully Hedged) Net Performance (%)	MSCI World ex-Australia Index (%)
1 month	6.62	6.54	5.97
3 months	-5.01	-5.22	-6.18
6 months	4.56	4.10	2.99
Financial year to date	6.62	6.54	5.97
1 year	17.18	16.13	12.38
2 years pa	-5.21	-6.06	-6.36
3 years pa	-9.15	-9.96	-8.36
Since commencement of Fund* pa	-3.67	-4.53	-4.01
Exit price (\$)	0.6458		
Fund size	\$32.8 million		

Past performance is not an indicator of future performance

\*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.

### Performance review (continued)

Hewlett-Packard drove monthly gains in the Supply Chain Dominance theme, which seeks companies that are gaining leverage over their suppliers, customers and competitors through economies of scale and/or cost savings. HP, the Palo Alto, California-based computing and imaging hardware giant, which reports on a July-end quarter, gained on positive read through on strong laser-printing results from competitors Lexmark and Cannon in Q2. Supply Chain Dominance had no detractors in July.

Julius Baer and UBS were the primary contributors to the Security theme, which performed well over the past month. The theme invests in companies providing physical, biological, data and wealth-preservation security services, with the aforementioned companies falling into the latter category. The Swiss companies focused on private banking and asset management, respectively, were also beneficiaries of the rebound in European financials. Along with the general easing of fears of systemic collapse as a legitimate tail risk, markets seemed to begin distinguishing between companies with exposure to stressed sovereigns and those without. SAIC Inc. was a marginal detractor from the Security theme's absolute monthly returns.

Personalised Medicine was the only detracting theme for the month, hurt by holdings in Medco Health Solutions and Life Technologies. The theme seeks companies at the forefront of the shift in medical care from "identify-and-cure" to "predict-and-prevent". Life Technologies, the biotech company with products and services in genome sequencing, mass spectrometry and cell culture, fell at the end of the month on concerns that Q2 earnings would disappoint. Despite exceeding Q2 expectations and guiding in line, the stock failed to bounce back due to management's cautious comments on research spending trends. Likewise, although Medco, a pharmacy benefit manager, beat

Q2 estimates and raised its outlook, the market remains concerned about pricing pressure in the industry.

### Market outlook and strategy

In July, our investments in European banks that displayed distressed valuation metrics on their asset bases and their valuable franchises - e.g. SocGen, Erste, Raiffeisen and Unicredito - worked well. Reason and rationale have returned to the interlinked state of the European banking system, and thus to the valuation of European sovereigns. As a result, we lowered some exposures to reflect the fact that the valuation of these firms increasingly reflects that they are a 'going-concern'.

In our Personalised Medicine theme, the month of July was less rewarding. A number of our holdings have been marked down as a result of near term cyclical pressures. In some cases it was diminishing government stimulus for academic research, in others a short term focus on reduction of insurance enrolment and fewer pre-employment laboratory studies. This does not impact our long-term view of any of the firms. In most cases, we used the corrections in our holdings to add to our exposure. Interestingly enough, the August 9th edition of the German weekly, Der Spiegel, dedicated its front page and the feature section to the topic of personalised medicine. This is yet another confirmation of the theme moving into the S-curve of our investment universe.

Our Global Agribusiness theme is benefiting from short-term weather-related soft commodity rallies, sparked by extreme conditions in Russia. We do not think they are sustainable. The main reason that some soft commodities are up by over 70% during the past eight weeks is the existence of unelected leaders that are the marginal buyers of crops at market-remote, i.e. non-fundamental prices. This is the price of fear, bid by an unelected leader imagining what might befall his regime if food riots break out. It has happened many times in history and it is always short lived.

### Top 10 holdings as at 31 July 2010

Stock	Country	Theme	% of portfolio
Pfizer Inc.	United States	New Annuities	3.18
Exxon Mobil Corp.	United States	Asymmetric Negotiators	3.09
Hewlett-Packard Co.	United States	Supply Chain Dominance	2.97
Erste Group Bank AG	Austria	Distressed Companies	2.66
Societe Generale S.A.	France	Distressed Companies	2.19
Deutsche Post AG	Germany	Private/Public Partnerships	2.08
MTN Group Ltd	South Africa	Large Units	1.85
Intel Corp.	United States	Talent & Ingenuity	1.81
Deutsche Telekom AG	Germany	Private/Public Partnerships	1.79
E.ON AG	Germany	Private/Public Partnerships	1.75

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## Market outlook and strategy (continued)

Today, there are at least three distinct sources of global risk that appear to take turns in commanding fear within markets: (1) The difficulty of modelling a positive risk trajectory for peripheral European sovereigns; (2) the unknown verdict on how jobless the US recovery will be, and to what extent we must continue to expect very little from the US consumer (and the US economy at large); and (3) the very difficult-to-quantify Chinese real estate situation and the secondary implications of potentially large losses that need to be realised by China's urban development investment corporations (UDICs). Global markets have spent the better part of this year in range-bound mode. The valuations are neither particularly cheap, nor are they expensive. Geopolitical risk is also in its normal range with the typical suspects voicing their unilateral concerns and claims. In the absence of large directional moves by the market, we would expect our themes, and our fundamental views, to prevail and reward us in idiosyncratic situations.

Most importantly, however, our portfolio is not positioned to benefit from the elimination of any of the three aforementioned risk categories (peripheral European sovereigns, US consumer, Chinese real estate). These issues are likely to persist for some time. If those risk categories were to improve, markets would benefit and we would expect to hold our own against them, though possibly at a lesser pace. If those risk categories become more acute and threatening, we would expect to lose less than markets. The team will continue to measure the magnitude with which those risks are priced into assets (European bonds and OIS spreads, Chinese banks and A-Shares, and the US treasury market, unemployment, and retailers in the US). At this point there is probably a path of analysis emerging that could make a

case for a number of global and US-centric retailers. In many cases, those businesses are priced for long term languishing performance. This could well be an inaccurate reflection of reality, and our New Annuities theme cluster has begun to analyse such situations.

## Country Allocation as at 31 July 2010

Country	Fund (%)	MSCI World Ex-Australia (%)
Austria	3.71	0.15
Belgium	0.00	0.46
Bermuda	1.09	0.09
Brazil	3.75	0.00
Canada	0.00	5.31
China	2.22	0.01
Cyprus	0.00	0.02
Denmark	0.00	0.48
Egypt	0.62	0.00
Finland	0.00	0.51
France	2.11	4.57
Germany	7.47	3.70
Greece	0.33	0.14
Hong Kong	1.58	1.20
India	1.08	0.00
Indonesia	1.48	0.00
Ireland	0.12	0.13
Israel	0.35	0.37
Italy	1.85	1.38
Japan	2.38	10.54
Kazakhstan	0.46	0.00
Luxembourg	0.55	0.25
Malaysia	0.33	0.00
Mexico	0.33	0.01
Netherlands	0.78	1.35
New Zealand	0.00	0.05
Norway	0.00	0.34
Panama	0.99	0.00
Portugal	0.00	0.13
Russia	0.78	0.00
Singapore	0.04	0.80
South Africa	2.35	0.00
South Korea	1.69	0.00
Spain	0.00	1.83
Sweden	1.46	1.39
Switzerland	5.15	3.66
Thailand	1.00	0.00
United Kingdom	9.06	10.30
United States	40.02	50.83
Cash	4.87	0.00

## Theme distribution & contribution

as at 31 July 2010

Theme	% of Fund	Contribution to return (%)
Supply Chain Dominance	13.52	1.32
Distressed Companies	13.21	2.00
Personalised Medicine	9.64	-0.44
Security	8.80	0.98
Large Units	7.43	0.84
Talent & Ingenuity	7.24	0.40
Indian Ocean	7.05	0.62
New Annuities	6.92	0.35
Asymmetric Negotiators	6.73	0.56
Private/Public Partnerships	6.57	0.86
Disequilibria	6.41	0.32
Global Agribusiness	4.00	0.37
Market Hedge	2.48	0.13

(Data in USD, ex cash)

(Data in AUD)

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## Key contributors and detractors as at 31 July 2010

Security	Theme	Contribution %
<b>Top 10 positive contributors</b>		
Societe Generale SA	Distressed Companies	0.58
Erste Group Bank AG	Distressed Companies	0.55
Deutsche Post AG	Private/Public Partnerships	0.35
MTN Group Ltd	Large Units	0.35
Julius Baer Group AG	Security	0.35
Banco Bradesco ADS	Large Units	0.33
UBS AG	Security	0.29
UniCredit SpA	Distressed Companies	0.25
Deutsche Telekom AG	Private/Public Partnerships	0.23
Hewlett-Packard Co	Supply Chain Dominance	0.20
<b>Top 10 negative contributors</b>		
Medco Health Solutions Inc	Personalised Medicine	-0.20
FTI Consulting Inc	Talent & Ingenuity	-0.20
Life Technologies Corp	Personalised Medicine	-0.16
Roche Holding AG	Personalised Medicine	-0.10
Laboratory Corporation of America Holdings	Personalised Medicine	-0.06
Qiagen NV	Personalised Medicine	-0.05
Bayer AG	Global Agribusiness	-0.02
Bank of America Corporation	Distressed Companies	-0.02
Kinetic Concepts Inc	Personalised Medicine	-0.02
Hidustan Unilever	Large Units	-0.01

(Data in USD)

## Monthly video commentary

Monthly video commentary for the DWS Global Equity Thematic Fund is also available via the Ironbark Asset Management website. Visit [www.ironbarkam.com](http://www.ironbarkam.com) and click on the link in the 'Videos' section on the home page.

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Alternatively, visit the Ironbark Asset Management website at [www.ironbarkam.com](http://www.ironbarkam.com)

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