

# DWS Global Equity Agribusiness Fund

July 2010 Monthly Report



**The Fund returned 7.74% gross (7.66% net) for the month**

## Market review

The past month has seen diverging data coming out of Europe. On one hand we have seen German manufacturing production surging along with the subsequent employment gains in that sector. On the other hand, Spain's manufacturing recovery has stalled as a result of their high cost production base, partially reflecting the general condition of indicators elsewhere in Europe. The EU banking stress tests, widely criticised as too lenient given only seven out of 91 banks failed, have helped support confidence as the new information that emerged helped to clear speculation on which particular banks were at risk. Outside of developed markets, recent inflation readings have had barely enough teeth to allow central banks to pursue gradual tightening. Chinese data released this month confirmed that authorities are reportedly slowing the economy. The property bubble appears to be contained for the moment. In contrast, US data releases have come in worse than expected with Federal Reserve Board (the Fed) Chairman Bernanke indicating the Fed will continue to keep monetary policy loose.

As global monetarists look to balance growth against inflation in setting policy, soft commodities have risen rapidly against this divided GDP growth backdrop of east and west. Wheat led the commodity complex last month, rising on concerns that floods in Canada combined with droughts in Russia would curtail production and tighten global supply balances. An interesting point to note is that Commodity Futures Trading Commission (CFTC) data shows that much of the wheat rally is a result of short covering rather than new outright long positions being established.

Given the outright destruction of wheat that has occurred it would be justified to question production concerns, but it should be noted that there is still an abundant supply of wheat around the

world. Recent history has shown that the US and Australia have quickly picked up the export slack of the other major producing countries in times of crisis (notably the 2007/2008 marketing year). The investment team continues to focus their efforts on finding those companies that can unlock value in the regional bottlenecks through their existing assets.

As wheat prices have increased over the past month, leading Australian grain managers have noted that mergers and acquisition in Australia may be driven by companies from Asia as industry consolidation gathers pace. Two years ago Australia ended the monopoly system for wheat exports, which induced investments from companies like Canada-based Viterra, seeking to secure agricultural supplies in the face of rising demand. Evidence of this trend continuing came this month when Singapore-based Wilmar International Ltd, the world's largest palm oil trader, agreed to buy CSR Ltd's sugar unit, Australia's biggest refiner, for \$1.5 billion, beating out a bid by China's Bright Food Group, Shanghai's biggest food company. In addition GrainCorp Ltd. agreed to buy AWB Ltd. for \$723 million to become Australia's top wheat exporter in supplying Asia, the biggest buyer of the grain.

## Performance review

The Fund outpaced the upward trending market throughout the month on positive news across the upstream assets of the agricultural supply chain. For the month of July the Fund derived a significant contribution from agriculture products and fertilizers. Within agriculture products, outperformance came from Viterra, the leading logistics company in Canada and Australia, continuing strategic acquisitions, reflecting the underlying value in the space.

## Performance as at 31 July 2010

	DWS Global Equity Agribusiness Fund Gross Performance (%)	DWS Global Equity Agribusiness Fund Net Performance (%)	^MSCI World ex Australia Index Hedged AUD (%)
1 month	7.74	7.66	5.97
3 months	-4.52	-4.73	-6.18
6 months	-0.76	-1.20	2.99
Financial year to date	7.74	7.66	5.97
1 year	17.11	16.06	12.38
2 years pa	-4.70	-5.55	-6.36
3 years pa	-3.24	-4.10	-8.36
Since commencement of Fund* pa	0.70	-0.19	-5.71
Exit price	0.8656		
Fund size	\$86.3 million		

Past performance is not an indicator of future results.

Performance inception date: 19 March 2007.

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.

\* This figure represents the annualised performance of the Fund from the first full month of operation.

^ The fund does not have a formal benchmark. The MSCI World Index is provided for comparative purposes only

### Performance review (continued)

In addition, we continue to see increased performance from the supply chain managers as dislocated crop conditions globally have increased profit opportunities. Apart from stock specific outliers, the crop protection segment unfortunately did not deliver their expected earnings and also could not provide us with a positive outlook at the time. Already being the cheapest subgroup on several valuation metrics, we believe that pricing pressure due to competition should ease soon. Although not a huge contributor yet, our food retail restructuring exposure turned around performance during the month of July helped by a less competitive announcement from Wal-Mart's food division, attractive valuations and the potential increase in food inflation. Staying the course with our holdings helped to achieve the performance for July which happened to be a tipping point for agribusiness investors. Not only did wheat prices shock the market but a fast read across to planting intentions for other crops occurred globally. It shows again that the whole value chain is impacted by these types of events. Combined with the current earnings season, we have seen many valuation dislocations and invested accordingly. We expect equity agri performance to catch up with global crop pricing and trade shifts over the next months, although investors might not factor in the full movement in wheat prices that we have seen recently. It helps to have an overlying tactical view on certain stocks but the recent crop hiccup shows how sensitive agribusiness investment is to sudden events.

### Positive contributors

**CF Industries**, +27.96%, manufacturer and distributor of fertilizer products in North America, rallied this month on positive trends in nitrogen and phosphate fertiliser volumes and prices, and stable natural gas costs. CF was re-rated by Wall Street analysts throughout the month due to the company's ability to generate strong top-line growth and margins from the ammonia, urea, and diammonium phosphate (DAP) products.

**Viterra**, +17.14%, the operator of grain handling, processing, and marketing terminals in Canada and Australia, increased this month after estimates of global wheat production declined due to flooding in Western Canada and drought conditions in Eastern Europe. Despite the deteriorating conditions in Canada, Wall Street analysts focused on Viterra's positioning in Australia and its ability to increase marketing margins and handling volumes in the region. Later in the month Viterra closed an opportunistic private placement of \$400 million in 5.95% senior notes.

**Agrium**, +28.73%, the supplier of nitrogen, potash, and phosphate for agricultural, industrial, and specialty use, rose this month after announcing the acquisition of twenty four retail farm centres, and a crop-protection formulation facility in Argentina. Agrium stock gained further momentum on the improving outlook for urea and nitrogen products. By the end of the month Agrium's stock was re-rated on good weather conditions that

allowed for a wide window of planting and fertilisation.

**Incitec Pivot (IPL)**, +27.59%, a fertiliser manufacturer and supplier of explosive products with operations in the United States, Canada, Mexico and Australia, increased early in the month after the Australian government proposed a revised resource rent tax, which exempted IPL from a punitive tax rate on its phosphate mining operations. The stock continued to rise on reports of increasing volumes of DAP and coal exports. IPL finished the month on a strong note as farmer balance sheets in Australia improved on increasing wheat prices.

**Archer Daniels Midland**, +5.96%, the global intergrated supply-chain manager focused on processing, manufacturing, and distributing agricultural commodities and products, rose this month after announcing a \$100 million investment in the Agricultural Bank of China, and the opening of a Beijing office. ADM continued to perform well throughout the month after positive volume data regarding high fructose corn syrup exports to Mexico were released.

### Geographic distribution as at 31 July 2010

Country	% of Fund
Argentina	0.81
Australia	4.41
Austria	1.64
Brazil	6.02
Canada	8.33
China	2.90
Finland	0.31
France	2.54
Germany	3.81
Hong Kong	3.82
Indonesia	0.68
Ireland	1.33
Israel	0.81
Italy	1.87
Luxembourg	2.21
Mexico	0.63
Netherlands	2.16
Norway	1.53
Peru	0.14
Russia	1.39
Singapore	1.57
South Korea	1.48
Spain	0.40
Switzerland	5.32
Turkey	1.55
United States	36.05
Cash	6.30

(Data in AUD)

### Negative contributors

**Syngenta AG**, -5.4%, producer of crop protection products and seeds globally, fell early in the month after reporting first half results that fell short of analyst estimates. Syngenta's crop protection business suffered from margin deterioration due to weakness in pricing from an inventory overhang in North America. However, management assured investors that this issue was resolved, and suggested that the recent rally in grain prices should provide support for second half pricing negotiations.

**Nufarm Ltd.**, -24.04%, manufacturer and supplier of agricultural chemicals, dropped this month after the company reduced its forecast for net operating profit after poor weather conditions in Australia, Europe, and North America reduced demand for crop protection products. This profit reduction was the fifth consecutive downgrade by the company. After the share price fall, Wall Street analysts began to note the potential for Nufarm to be entirely consolidated by its minority shareholder Sumitomo.

**Life Technologies**, -9.02%, developer of biotechnology tools used by agricultural and scientific researchers worldwide, dropped late in the month after one of its competitors reported results that were weaker than consensus estimates. Subsequently, the company reported Q2 results that beat estimates; however, the company provided cautious guidance which tempered a share price movement reversal.

**China Agri-Industries Holdings**, -3.30%, processor of oilseeds and wheat and producer of bio-fuels and bio-chemicals, fell this month after announcing an equity and convertible bond issuance. Management indicated that half of the proceeds would be allocated for oilseed processing capacity expansion, and half for biofuels, rice and wheat trading and processing projects. At the end of the month Wall Street analysts released positive reports on the uses of the financing, providing a positive inflection point for the stock.

**American Dairy**, -17.05%, producer and distributor of milk powder, soybean milk powder, and dairy products in China, decreased this month after there were reports of two cases of

melamine contamination. Despite the fact that American Dairy was not involved, and that the management team confirmed that 100% of their fresh milk supplies were uncontaminated, the stock fell in sympathy with the rest of the Chinese milk market.

### Investment Strategy and Outlook

Farmers' cash receipts are projected to gather pace as soft commodity prices rise and fundamentals improve, likely around the fourth quarter of this year into next. Corn, wheat, soybean, and sugar all seemed to have stabilised at a new baseline following the bearish news of overproduction and lack of demand. At this point, it would seem that bearish news is exhausted and the balance of power is shifting to the production side of the equation as farmers are projecting increased cash flows going into year-end. The investment team remains cautious regarding those end-users of this production. Although local feed costs in Latin America are currently low, the cost inputs globally are likely to drift upwards as a result of the volatile weather we have seen in Russia and elsewhere, with negative implications more broadly for animal protein producers.

The rapidly deteriorating weather may have a net positive effect on crop protection companies. As we saw in last year's results, grower attitudes were focused on minimizing costs to compensate for higher inputs. Higher soft crop prices may now entice farmers towards investing to maximize yield. The major drought should lower grain production by around 25 million tonnes in Russia. Although this represents about only 1.0% of global supply, this modest decline, after the recent short covering has triggered a massive bid for grain markets largely because it should materially lower stocks.

With all short-term overbought conditions in financial markets, wheat production will be brought online to meet the incremental demand and prices should fall. What this episode does illustrate is that the delicate balance of three months' supply of grains is structurally inflationary if we do not continue to invest to meet the challenges of delivering sustained yield growth to meet ever increasing urbanization and population demands.

### Top 10 Holdings as at 31 July 2010

Stock	Country	Sector	% of Equity
Archer Daniels Midland Co.	United States	Agricultural Products	5.93
Bunge Ltd.	United States	Agricultural Products	5.91
Viterra Inc.	Canada	Agricultural Products	5.09
Syngenta AG	Switzerland	Fertilisers & Agricultural Chemicals	4.31
CF Industries Holdings Inc.	United States	Fertilisers & Agricultural Chemicals	4.09
Safeway Inc.	United States	Food Retail	3.28
SUPERVALU Inc.	United States	Food Retail	3.02
Mosaic Co.	United States	Fertilisers & Agricultural Chemicals	2.64
Vilmorin & Cie.	France	Agricultural Products	2.32
Kernel Holding S.A.	Luxembourg	Agricultural Products	2.32

(Data in AUD)

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## Investment Strategy and Outlook (continued)

Over the next few months we would expect the global political debate on food security to heat up again with equity investments to follow. Russia's shortfall might be extended into next year's planting season and could have a structural impact on how the

government is reducing agri risk going forward. The Fund's agri investments are positioned well strategically, not only in terms of valuation but also in terms of relevancy to combat long term inefficiencies in several regions globally.

## Key contributors and detractors in July 2010

Security	Sub-industry	Total Return %*	Contribution %*
<b>Top positive contributors</b>			
CF Industries Holdings Inc	Fertilisers & Agricultural Chemicals	27.96	1.10
Viterra Inc	Agricultural Products	17.14	0.67
Agrium Inc	Fertilisers & Agricultural Chemicals	28.73	0.47
Archer Daniels Midland Co	Agricultural Products	5.96	0.37
Incitec Pivot Ltd	Fertilisers & Agricultural Chemicals	27.59	0.36
Kernel Holding	Agricultural Products	14.48	0.32
Bunge Ltd	Agricultural Products	0.94	0.31
SLC Agricola	Agricultural Products	15.07	0.30
Erste Group Bank	Commercial Banks	24.28	0.27
Vilmorin & Cie	Agricultural Products	12.52	0.26
<b>Top negative contributors</b>			
Syngenta AG	Fertilisers & Agricultural Chemicals	-5.40	-0.29
Nufarm Ltd	Fertilisers & Agricultural Chemicals	-24.04	-0.21
Life Technologies Corp	Life Sciences & Biotechnology	-9.02	-0.05
China Agri-Industries Holdings Ltd	Food Products	-2.84	-0.05
Kohn Kaen Sugar Industry	Packaged Food & Meats	-8.40	-0.05
American Dairy Inc	Food Products	-17.05	-0.04
Cafe de Coral Holdings Ltd	Restaurants	-6.34	-0.03
Sanderson Farms Inc	Food Products	-7.57	-0.02
Gruma SAM de CV	Packaged Food & Meats	-3.37	-0.01
Noble Group Ltd	Supply Chain Management	-0.91	-0.01

\* in USD terms

## Monthly video commentary

Monthly video commentary for the DWS Global Equity Agribusiness 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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