

**The Fund returned 0.22% gross (0.17% net) for the month, underperforming the benchmark by 0.16% gross (0.21% net)**

### Market review

After a strong start to 2012, market direction again has become somewhat beholden to the risks emanating out of Europe with data flow from the region pointing to downside risks over the month. Certainly the balancing act remains fragile and markets are increasingly concerned that austerity measures could in fact accelerate a fragmentation of the zone if signs of growth don't emerge soon. In that regard the manufacturing PMI indices across Europe remain firmly in recession territory (sub 50) and unemployment at dangerous levels, particularly youth unemployment where many peripheral countries have jobless rates well above 25%. Late in the month, preliminary data from the National Statistics Institute suggested Spain has slipped back into recession, with GDP shrinking 0.3% in the first quarter of 2012, the same result as the final quarter of 2011. This recession comes barely two years since Spain emerged from the last downturn, and coincides with an unemployment rate of 24.4% and youth unemployment near 50%. Against this backdrop, Standard and Poor's cut Spain's credit rating by two notches from A to BBB+, with a negative outlook.

In this environment, German 10yr bund and US treasuries performed strongly from already low yield levels as investors again placed pressure on Spanish and Italian bonds whose 10 year yields rose 43 basis points and 42 basis points respectively over the month. The spread between German bunds and Spanish 10 year bonds was 412 basis points at month end and some 120 basis points wider than the tightness reached in March. The German bund market continues to benefit from its relative safety which saw yields in the 10 year rally to their all time lows before finishing at 1.66%. German 2 year notes finished at an all time low of 8 basis points highlighting that return of principal for many European investors has again resurfaced as a priority rather than return on capital. We feel German bunds, whilst able

to remain supported, are increasingly pricing for a breakup, particularly one that sees Germany emerge relatively unscathed. Further underlying the nervousness in European markets is the risks that political unity could unfold. The first round of the French presidential elections took place on April 22nd, with the Socialist Party candidate Francois Hollande narrowly defeating the incumbent President Nicolas Sarkozy, with the country due to move to a second round runoff on May 6th. Meanwhile in Dutch politics, the fragile liberal-conservative coalition government collapsed, with politicians unable to come to an agreement on the European Fiscal Pact after the far right Freedom Party walked out of talks to implement \$14.5bn of cuts. We are nervous that Germany's hard line pro-austerity stance will lose supporters across the Eurozone if economic conditions worsen which could place more pressure on the European Central Bank to intervene even beyond its recent long term refinancing operation programs.

In this environment credit performed admirably with investors seemingly more willing to look through the volatility to underlying fundamentals which remain strong as endorsed by the US and European corporate earnings seasons. Credit default swaps (CDS) indices drifted wider, Aus iTraxx up 7 basis points, but we saw little evidence of selling in physical credit with investors reluctant to let go of securities unless genuine credit concerns are emerging.

Moving to Asia, Chinese GDP figures came in below expectations at 8.1% year on year the weakest result in three years, while industrial production increased 11.9% and retail spending was up 15.2%, both beating analysts' expectations. Australian CPI printed well below expectations late in the month which removed the last hurdle to the RBA beginning to ease in May.

### Performance as at 30 April 2012

	DWS Diversified Income Fund Gross Performance (%)	DWS Diversified Income Fund Net Performance (%)	UBSA Bank Bill Index (%)
1 month	0.22	0.17	0.38
3 months	1.89	1.72	1.11
6 months	3.43	3.09	2.31
Financial year to date	3.37	2.79	4.01
1 year	3.66	2.96	4.87
Since commencement of Fund*	4.77	4.07	4.88
Exit price	1.0034		
Fund size	\$29.6 million		

Performance inception date: 08 April 2010

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 performance of the Fund from the first full month of operation.

### Portfolio Review

The Fund returned 0.22% gross (0.17% net) in April underperforming the UBSA Bank Bill Index by 0.16% gross (0.21% net). The heightened uncertainty across markets now leaves us more active in cross market relative value strategies where we are long or short one market against another as these tend to be less volatile. The Fund's underlying credit position is now conservative with a total credit spread duration of 1.35 years which compares to 1.9 years around the middle of 2011. Whilst corporate credit is still attractive we are wary that risks from further European stresses could easily see spreads widen and so have actively looked to reduce risk to an appropriate level. Cash holdings now approximate 20% and running yield of 5.87% at month end is 187 basis points above the index. We believe these characteristics are consistent with a conservative but still appropriate balance between risk and return for the moment.

Our 10yr swap spread detracted over the month as the sharp rally in government bonds outperformed swap yields giving back some recent outperformance. We hold the position with spreads now at the widest they have been since the Lehman collapse and the likelihood of further RBA easing expected to be positive for swaps.

Across country spreads we closed out our long Canada/short US Treasury position for a small loss as treasuries started to rally.

We also closed out long Australia/short US Treasury and long Europe/short US Treasury positions for little impact.

In duration we initiated a small/long position in UK Gilts and, into the rally, began to build a short position in German bunds. Both positions are being closely monitored given the fluid dynamics in play but given the somewhat opposing directional views in these two decisions are prepared to manage these in order to realise expected value over time. In particular we believe the stretched pricing in bunds almost reflects an imminent Euro breakup and, whilst yields could move lower, we see the extent of this as limited. The positions detracted over April although the Gilt position has recovered into May.

Currency was neutral and we continue to hold our short EUR/USD position which has been resilient to weakness even in the face of renewed sovereign concerns in the region. In part we attribute this to the markets perception that Germany will continue to anchor the currency even if the periphery weakens but we remain confident that upside risks for the Euro are limited. The CDS indices category was mixed with a small short in the US Central Data Exchange closed for a profit whilst a long in Australian iTraxx detracted and we trimmed the position over the month.

### Sector Breakdown

Sector	% of Fund
Banks	29.7
Cash	18.2
Real Estate	17.6
Diversified Financials	15.5
Industrials	4.3
Utilities	3.4
Materials	3.3
Transportation	3.2
Telecommunication Services	3.0
Insurance	1.8

### Top 10 Holdings

Holding	% of Fund
Cash	18.2
Morgan Stanley	4.0
Stockland Trust Management Ltd	3.6
CFS Retail Property Trust	3.4
Barclays Bank Plc/Australia	3.3
Cooperative Centrale Raiffeisen-Boerenleenbank AB/Australia	3.3
Westpac Securities NZ Ltd	3.2
Credit Agricole SA/London	3.2
QIC Shopping Centre Fund Pty Ltd	2.1
Commonwealth Property Office Fund	1.8

### Portfolio Characteristics

	Portfolio	Benchmark
Average credit rating*	A	AA*
Duration (years)	0.14	0.12
Running yield (%)	5.78%	3.91%

\*NB: The average credit rating of the benchmark is implied

### Attribution from Macro Decisions

Country Spread	
Australia vs US	▲
Canada vs US	◆
UK vs EUR	
US vs Japan	
US vs Europe	▲
Currency	
AUD/USD	▲
CAD/USD	
CHF/EUR	
EUR/USD	▲
GBP/EUR	
HUF/EUR	
JPY/USD	▲
NOK/EUR	▲
PLN/EUR	
SEK/EUR	
ZAR/USD	
Macro Credit	
iTraxx Australia	◆
iTraxx Europe	
CDX NA	▲

Swap Spreads	
Australia 10yr	◆
Australia 3yr	
EUR 10yr	
EUR 2yr	
UK 10yr	
US 10yr	
US 2yr	
Duration	
Australia	
Euro	
Japan	
UK	
US	▲
Yield Curve	
Australia	
Euro	
Japan	
UK	
US	●

Legend:  
 ● Positive contribution  
 ▲ Neutral contribution  
 ◆ Negative contribution

### Quarterly video commentary

Quarterly video commentary for the DWS Diversified Income 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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