

# DWS Global Equity Agribusiness Fund

March 2012 Monthly Report



**The Fund returned 3.08% gross (3.00% net) for the month**

## Market review

Global markets initially fell early in March as worries abounded about the swap of Greek debt by private creditors and weak signals regarding economic growth in Europe. Economic data on the Euro zone's combined fourth-quarter gross domestic product showed a slight contraction in the final three months of 2011. Another soft spot for global growth was China, which cut its 2012 target for economic growth. Also compounding concerns about a slowdown was Brazil, Latin America's largest economy, where data showed fourth-quarter GDP rose less than consensus expectations.

Markets regained footing later in the month as investors positively reacted to news that the majority of Greece's private-sector creditors had agreed to turn in their bonds for new ones with less than half the face value. This debt swap is the conclusion of the stymied efforts by Europe to rescue one of the more financially strained nations. The broad acceptance of the offer gave an indication that Greece will go ahead with the restructuring.

Over the past month in agriculture, the Centres for Disease Control (CDC) reported new findings on US food contamination from imported foods. It was reported that CDC researchers found 6.5 disease outbreaks from foreign foods a year, on average, between 2005 and 2010 more than double the average of 2.7 outbreaks annually between 1998 and 2004. The rise in imported food outbreaks into the US, mainly from fish and spices, highlights gaps in the food safety system. While law currently in legislation is drafted to address this and other food contaminates issues we have seen consumers react more quickly when notified about the true components of the foods they are eating. For example, when consumers realised the

production process for lean-beef trimmings ran counter to their diet, the demand for this product quickly evaporated.

The much anticipated US Department of Agriculture (USDA) Prospective Plantings and Grain Stocks reports were released this month with two interesting data points concerning US farming. The first is that if the planting intentions become a reality, corn plantings will be the largest since 1937. The second is that the aggregate amount of corn stocks in the US is reaching all-time lows.

The first data point was that the total planted acreage in 2012 is projected to increase by over 7% from 2011. The overall increase in total planted acreage is a result of the strong market incentives for farmers to plant more crops this year. The increase in corn planted acres was mainly driven by those states not mainly associated with corn production. The largest increases are expected in North Dakota (1.17 million acres), Minnesota (600,000), Iowa (500,000), South Dakota (300,000) and Nebraska (450,000). Of note is that nearly 1.5 million acres of new corn plantings are seen in North and South Dakota, states with yields well below the national average, 118/bu (bushels per acre) and 134/bu respectively versus the national average of 162/bu.

Now that planted acreage has been estimated, the 2012 year-end production estimate will largely be determined by the effectiveness of crop production. The government derived corn yield expectations have interacting factors. Yield estimates are derived using trend yield-lines, incorporating historical data. Yet the unusual recent warm weather conditions in the corn belt are far from historical norms. While not immediately dire, these

## Performance as at 31 March 2012

	DWS Global Equity Agribusiness Fund Gross Performance (%)	DWS Global Equity Agribusiness Fund Net Performance (%)	^MSCI World ex Australia Index Hedged AUD (%)
1 month	3.08	3.00	2.20
3 months	13.17	12.92	12.25
6 months	20.80	20.26	22.01
Financial year to date	-1.07	-1.74	4.51
1 year	-2.29	-3.16	5.07
2 years pa	8.09	7.13	8.65
3 years pa	25.85	24.73	20.75
4 years pa	2.13	1.22	1.93
Since commencement of Fund* pa	4.75	3.82	0.49
Exit price	0.9229		
Fund size	\$104.7 million		

Past performance is not an indicator of future results.

Performance inception date: 19 March 2007. \* This figure represents the annualised performance of the Fund from the first full month of operation.

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.

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

### Market review (continued)

conditions increase the uncertainty about the summer growing season and the final crop production.

The other data-point was the estimate of corn stocks in the US at 801 million bushels, which leaves inventories of corn 30% lower than last year's stocks. This inventory estimate implies that corn demand during the most recent winter quarter was very large compared to government estimates. This demand was driven by large livestock inventories, stable ethanol production and strong corn exports. Consensus expectations were that soft commodity prices were at levels high enough to ration demand. Going forward the soft commodity prices must reach a price that constrains usage so that stocks at the end of the current crop production at least exceed the minimum pipeline levels required by end-users.

The overall picture from these government reports is the inherent weakness in the global food supply/demand situation. There is an obvious need for US yields to be productive this year in order to rebuild Northern Hemisphere stocks to levels that could sustain a shock to the global production system.

### Performance review

The Fund returned 3.08% gross (3.00% net) for the month. The Fund outperformed the MSCI World Index as strong performance from the top ten performers was focused mainly in mid-stream agribusiness activity of supply chain managers and upstream nitrogen producers, with mixed performance from US and European food retailers.

Specifically, supply chain managers in North America added 429 basis points of performance as one of the major operators, Viterra, received a takeover proposal suggesting a previous under appreciation for its book value. Some companies rallied in sympathy although all companies that fall into this peer group operate on different crop, different region or different trading patterns. There is no obvious read across to other companies from this one transaction. The commonalities however include: sizeable asset base, valuation below book value, strategic value of physical assets and beneficiaries of an increased imbalance in global trade. Therefore, the portfolios positions in Bunge, Petra and Graincorp contributed to performance as well. With expectations for good volume and market share gains, our holdings in the seed universe this month also performed well.

Within the food technology complex, Life Technologies and Eurofins delivered good results and highlighted the relevance of seed/genomic sequencing and food testing respectively. With prices for nutrients stabilising and volumes of fertiliser finally being pushed through the system globally, it is surprising that upstream companies underperformed, although only mildly in absolute terms and about 100 basis points on a relative basis. A historic significant disconnect is happening between share prices and

crop prices, volumes and prices of fertilisers. Application season in the Northern Hemisphere is starting right now. We expect more direction from the outlook of these companies during their first quarter 2012 results.

### Positive contributors

**Viterra**, +46.5%, performed well this month after the company received an all cash takeover bid from Glencore. The bid, which received unanimous approval from the Board and largest shareholder, represented a 48% premium and an approximately 11.0x EV/EBITDA multiple. Glencore negotiated separate deals with both Agrium and Richardson International for rights to certain retail facilities and grain handling assets, respectively.

### Geographic distribution as at 31 March 2012

Country	% of Fund
Argentina	0.36
Australia	4.77
Austria	1.08
Brazil	5.21
Canada	6.65
China	2.10
Cyprus	0.23
France	2.13
Germany	6.93
Hong Kong	1.29
India	0.97
Indonesia	0.25
Ireland	0.21
Israel	0.12
Mexico	0.15
Netherlands	1.96
Norway	5.07
Poland	0.42
Russia	0.32
Singapore	0.70
South Africa	1.51
South Korea	0.42
Spain	1.91
Switzerland	7.12
Uruguay	0.24
United Kingdom	1.87
United States	41.98
[Cash]	4.03

(Data in AUD)

### Positive contributors (continued)

The transaction now faces regulatory and anti-trust review by the Government of Saskatchewan in Canada.

**SLC Agricola**, +15.4%, improved this month after reporting fourth quarter results which exceeded analyst expectations. SLC achieved the highest annual profit margin in its history as it increased planted acreage and capitalised on strong commodity prices for cotton, corn, and soybeans. The company also provided a strong outlook for 2012 indicating planted acreage would grow another 10%, and that it had hedged a significant amount of production at higher levels than the previous year.

**Syngenta**, +5.5%, increased this month after announcing the placement of \$750 million in new bonds. The purpose of the offering was to increase balance sheet flexibility, to complete tactical and opportunistic share buybacks, and for potential acquisitions. Additionally, the company received approval for the cultivation of quadruple stack corn in Argentina, a product that is expected to be launched in 2014. Analysts also suggested that Syngenta could benefit from the increased corn acreage expected in the US.

**Monsanto**, +3.1%, performed well this month as analysts upgraded earnings estimates in expectation of a strong second quarter earnings release. The upgrades were driven by a

perceived lack of price competition, strong penetration of the refuge reduction family of products, and the likely greater incremental market share of new corn acres. Furthermore, analysts suggested that Monsanto was less impacted by supply constraints for seed production in Argentina.

**K+S AG**, +4.2%, improved this month after reporting fourth quarter results that exceeded analyst expectations. Management was able to produce solid results despite the cautiousness exhibited in fourth quarter fertiliser demand from the trade sector, and the mild winter impacting salt demand. Management also provided 2012 guidance, indicating only a slight EBIT contraction due to continued weaker de-icing salt demand, which exceeded analyst expectations. Lastly, the company noted that price level of agricultural crops should continue to drive increased fertiliser demand.

### Negative contributors

**Mosaic**, -4.3%, decreased this month after reporting third quarter results that were weaker than consensus expectations. The company reported strong phosphate volumes, but lower average selling prices and slightly higher costs, and weaker potash volumes with better average selling prices. Mosaic also provided conservative fourth quarter guidance indicating lower potash and

### Key contributors and detractors in March 2012

Security	Sub-industry	Contribution %*
<b>Top positive contributors</b>		
Viterra Inc	Agricultural Products	2.87
SLC Agricola	Agricultural Products	0.33
Syngenta	Fertilisers & Agricultural Chemicals	0.23
Monsanto Co	Fertilisers & Agricultural Chemicals	0.14
K+S AG	Fertilisers & Agricultural Chemicals	0.14
Graincorp Ltd	Food Distributors	0.14
Petra Foods Ltd	Packaged Foods & Meats	0.13
Bunge Ltd	Agricultural Products	0.11
Eurofins Scientific	Health Care Distributors	0.09
Life Technologies Corp	Life Sciences Tools & Services	0.08
<b>Top negative contributors</b>		
Mosaic Co	Fertilisers & Agricultural Chemicals	-0.35
Incitec Pivot Ltd	Fertilisers & Agricultural Chemicals	-0.22
SUPERVALU Inc	Food Retail	-0.21
AGCO Corp	Construction & Farm Machinery & Heavy Trucks	-0.20
Yara International	Fertilisers & Agricultural Chemicals	-0.17
BrasilAgro-Companhia Brasileira de Proprie	Agricultural Products	-0.17
All America Latina Logistica	Railroads	-0.13
China Agri-Industries Holdings Ltd	Agricultural Products	-0.10
Potash Corp of Saskatchewan Inc	Fertilisers & Agricultural Chemicals	-0.10
CF Industries Holdings Inc	Fertilisers & Agricultural Chemicals	-0.09

(\*in USD terms)

### Negative contributors (continued)

phosphate volumes than the market expected. Nevertheless, analysts remained positive on the stock due to recent litigation settlements and strong supply and demand fundamentals.

**Incitec Pivot**, -7.4%, was negatively impacted following analyst downgrades to DAP (diammonium phosphate fertiliser) pricing and volumes. The revisions were due to weaker than expected US demand and simultaneous cuts in India fertiliser subsidies. Additionally, wetter than expected

weather in Australia has created logistical challenges in supplying fertiliser to local farms. Analysts were also concerned about the potential for a weaker North American explosives market due to soft coal and construction demand.

**SUPERVALU**, -12.6%, fell this month as industry data suggested that sales in the fourth quarter could be weaker than market expectations, due to volume weakness. The company is currently engaged in revising its pricing strategy, targeting a 10-15% gap vs. Wal-Mart; however, the market is concerned that it will be difficult to offset this price investment without eroding profitability. Lastly, it has been postulated that the unseasonably warm winter shifted some consumers from food at home to the restaurant channel.

**AGCO Corp**, -2.3%, decreased slightly as commodity prices moderated over the month. Despite the commodity movement underlying demand fundamentals remain strong, used farm machinery inventory is declining, and the company's order book continues to grow. Analysts continue to believe that there is higher visibility into earnings than in prior years, but some remain concerned about the potential for a contraction in 2013.

**Yara International**, -3.5%, fell in-line with the Oslo index despite improving Urea prices and volume. In the corn belt granular urea increased to the highest price since the financial crisis, and the spread to black sea prilled urea began to close. Nevertheless, some optimism regarding realisation of these

profits was mitigated as analysts suggested that Yara's European gas costs were rising alongside crude.

### Investment strategy and outlook

As recent events such as the increase in contaminated food imports and Germany's E. Coli outbreak remind us, global nutrition also frequently plays a challenging role in our everyday lives. In support of this demand, healthcare and agribusiness in all their forms, from disruptive sequencing technology to crop yield enhancements, has fostered a climate of numerous technological advances, wealth creation, and improved quality of life. In addition to speeding innovation, these areas of the global economy have triggered wars, generated environmental problems, and accelerated deteriorating health conditions.

The thematic reasons to own personalised medicine and agribusiness hold true: Developments in economics, social science, culture and, above all, natural science are highly non-linear developments; all come with inflection points, features that are unlikely to change in the near term. Specifically, the technology that is driving aspects of personalised medicine and agribusiness has experienced a significant shift over the past several years through the innovations in research that incorporates aspects of both themes. Each of these themes has a distinct grouping of measurable catalysts. Some of the catalysts are themselves correlated in terms of global health. The correlation between catalysts can be made evident by looking at these key elements between each theme and then arranging them into like groups; this exercise reveals several overarching categories of catalysts, each of which drives agribusiness and personalised medicine. This process has allowed GTP to identify key tailwinds of nutrition deficiencies and technology growth that will move our thematic thesis forward.

The GTP team found more evidence of urbanisation driving food consumption. With annual urbanisation growth exceeding 2.5%

### Top 10 Holdings as at 31 March 2012

Stock	Country	Sector	% of Equity
Mosaic Co	United States	Fertilisers & Agricultural Chemicals	7.27
Bunge Ltd	United States	Agricultural Products	7.25
CF Industries Holdings Inc	United States	Fertilisers & Agricultural Chemicals	6.23
Monsanto Co	United States	Fertilisers & Agricultural Chemicals	5.30
Yara International	Norway	Fertilisers & Agricultural Chemicals	4.80
Syngenta	Switzerland	Fertilisers & Agricultural Chemicals	4.52
Potash Corp. of Saskatchewan Inc	Canada	Fertilisers & Agricultural Chemicals	4.52
K+S AG	Germany	Fertilisers & Agricultural Chemicals	3.65
Archer Daniels Midland Co	United States	Agricultural Products	2.95
Incitec Pivot Ltd	Australia	Fertilisers & Agricultural Chemicals	2.69

(Data in AUD)

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## Investment strategy and outlook (continued)

in many Indian Ocean located countries, one could deduct a food consumption growth triple that number i.e. 7-8% p.a., depending on income growth.

As an example, in China there has been a tripling of income in

large cities versus the Chinese average within eight years. We will continue to closely monitor this trend given its importance to the agribusiness value chain.

## Quarterly video commentary

Quarterly 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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