

# DWS Global Equity Thematic Fund (Fully Hedged)

March 2012 Monthly Report



**The Fund returned 0.91% gross (0.83% net) for the month, underperforming the benchmark by 1.29% gross (1.37% net)**

## 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 GDP growth from 8% to 7.5%. 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. Given the slightly improved backdrop the MSCI World Index rose 1.29% in USD terms over March.

Fears of an impending attack on Iranian nuclear facilities have been superseded for the time being by the North Korean announcement of an upcoming "satellite launch". This has been widely viewed by the international community as a thinly veiled cover for the testing of long range missile technology, in breach of UN resolutions and a US North Korea agreement signed only last month.

## Performance review

The Fund returned 0.91% gross (0.83% net) for the month, underperforming the benchmark by 1.29% gross (1.37% net). The Fund performed positively for the month of March 2012, although less pronounced than the markets in general. However for the first quarter overall, the strategy enjoyed strong absolute and relative performance, benefitting from a substantial recovery in several of the themes which had driven underperformance in

2011. We believe this recovery in several of our key themes illustrates the importance of riding out short term volatility and taking advantage of investment opportunities where fundamental research reveals undervaluation on a longer term thematic basis. In the month of March, most of the themes contributed to performance, led predominantly by Supply Chain Dominance. Personalised Medicine and Talent & Ingenuity were further contributing themes, with Market Hedge being the main detractor.

JPMorgan Chase, Amazon.com and Copa Holdings were among the leading contributors in the Supply Chain Dominance theme, which invests in companies that are gaining leverage over their suppliers, customers and competitors through economies of scale and/or cost savings. JPMorgan continued to perform strongly based upon a number of supporting fundamentals: the company comfortably passed the US Federal Reserve's Comprehensive Capital Analysis and Review (CCAR) stress test in March with a 9% year end tier 1 ratio expectation; the foreclosure deal with the State Attorneys General has removed key uncertainty; JPMorgan is gaining market share in investment banking at the cost of weaker competitors, and the company is benefitting from an improving US economy given its large retail/commercial business presence. Amazon.com, the US based market leading online retailer, outperformed during March as e-commerce activity accelerated during the first quarter. During the month, the company also acquired warehouse automation robotics manufacturer Kiva Systems, which, we believe, will help reduce fulfilment expense going forward. Copa Holdings, the Panama based airline servicing Central and South American destinations continued to contribute to the theme's performance in the month under review as earnings improved strongly as load factors increased post several quarters of large capacity expansion. The company's stock price is also benefitting from a multiple rerating due to the resilience under

## Performance as at 31 March 2012

	DWS Global Equity Thematic Fund (Fully Hedged) Gross Performance (%)	DWS Global Equity Thematic Fund (Fully Hedged) Net Performance (%)	MSCI World ex-Australia Index (Hedged in AUD) (%)
1 month	0.91	0.83	2.20
3 months	13.93	13.68	12.25
6 months	21.79	21.24	22.01
Financial year to date	-1.88	-2.54	4.51
1 year	-2.69	-3.56	5.07
2 years pa	5.94	5.00	8.65
3 years pa	20.46	19.38	20.75
5 years pa	-1.81	-2.69	-0.12
Since commencement of Fund* pa	0.06	-0.83	1.25
Exit price (\$)	0.6159		
Fund size	\$15.6 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)

high oil prices and continued growth under varied economic environments. After recent consolidation, Copa Holdings is now among only three major listed airlines in Latin America.

Quest Software Inc., the US based company that provides innovative IT software solutions to global customers, was the main contributor in the Talent & Ingenuity theme. The theme seeks companies that thrive on human talent rather than relying on hard assets. Quest, which was active in areas such as identity management, virtualisation and remote monitoring, entered into an agreement in early March to be acquired by venture capital firm Insight Venture Partners for an 18.5% premium to the previous closing price. The theme also benefitted from a positive performance from Axel Springer Verlag, a major publishing company based in Germany.

Among the themes contributing to performance in March was Personalised Medicine, which targets companies exposed to the exponentially improving economics of genetic analysis and the consequent paradigm shift in medicine from “diagnose and treat” to “predict and prevent”. The theme benefitted from its holdings in Abbott Laboratories, a major US based health care company, which has consistently delivered double-digit EPS growth driven by pharmaceuticals, nutritionals and diagnostics. The stock price strengthened as management announced plans to unlock value by splitting into two companies, Diversified Medical Products and Research-Based Pharmaceuticals, by the end of 2012. Allscripts Healthcare Solutions, Inc., which develops and markets software for the healthcare industry, detracted from performance during the month on the back of analyst downgrades based on heightened competition in the electronic health record industry. However, recent contract wins combined with 35-40% penetration rates in the US suggest, in our view, that the company remains competitive, with the valuation discount to peers providing downside support.

The main theme to detract from the month’s returns was Market Hedge, which had been a strong performer throughout most of 2011 and was thus susceptible to profit taking. In addition, several of the gold companies we own in this theme, such as Newmont Mining, detracted from performance as they were pressured by increases in operating costs from labour, energy and contractor services. As a result, Newmont had to raise its cash cost guidance for the financial year 2012. Newmont has been increasing dividends and progressing well toward their 2017 growth target of producing 7 million ounces per year.

The Asymmetric Negotiators theme also detracted from performance during the month mainly due to its holding in Petrobras Petroleo Brasileiro. The stock price of this major Brazilian energy producer with vast off-shore oil reserves weakened as market participants focused on only flat oil production near term, disregarding the growth expected from late 2012/early 2013 onwards when the large off-shore, pre-salt,

resources go online. In our view, these rather short term production concerns cloud what we consider to be the appropriate valuation of the vast resources and reserves of the company.

### Country allocation as at 31 March 2012

Country	Fund (%)	MSCI World Ex-Australia (%)
Austria	0.41	0.11
Bahrain	0.21	0.00
Belgium	0.50	0.45
Bermuda	0.63	0.00
Brazil	3.82	0.00
Canada	6.02	5.19
China	2.12	0.02
Colombia	0.42	0.00
Denmark	0.37	0.49
Egypt	0.50	0.00
Finland	0.00	0.38
France	0.55	3.86
Germany	7.04	3.73
Greece	0.03	0.04
Hong Kong	0.64	1.26
India	1.95	0.00
Indonesia	0.64	0.15
Ireland	0.00	0.12
Israel	2.05	0.28
Italy	0.00	0.97
Japan	2.94	9.41
Luxembourg	0.00	0.17
Malaysia	0.45	0.00
Mexico	0.96	0.02
Netherlands	6.54	1.25
New Zealand	0.00	0.05
Nigeria	0.18	0.00
Norway	0.00	0.42
Panama	1.13	0.00
Portugal	0.00	0.09
Russia	1.66	0.00
Singapore	0.00	0.78
South Africa	3.06	0.06
South Korea	1.67	0.00
Spain	0.00	1.26
Sweden	2.60	1.35
Switzerland	3.60	3.72
Taiwan	0.79	0.00
Thailand	1.04	0.00
United Kingdom	2.30	9.83
United States	38.24	54.54
Cash	4.94	0.00

(Data in AUD)

### Market outlook and strategy

#### In Defense of Optimism

As discussed in many previous monthly letters, GTP are fundamentally optimists. The exponentially compounding nature of the aggregate human knowledge is networked and shared faster and into more places than ever before. This applies to disease management via genetic insight, 3D printing of organs, global crowd-sourcing, education provided at a marginal cost of zero to virtually everyone on this planet, collaborative idea management, or maybe and most importantly, the ever blurring lines between work and life (as more people actually enjoy their work and see it as less of a “bread-job” and consequently become much more productive). Of course, subjects such as the smouldering, flickering and fledgling European fiscal unionism in the light of a crumbling macro-economic equilibrium in Southern Europe are an issue of concern. The frequently discussed (including last month in this letter) LTRO has now replaced the interbank market in Europe. We don't see the interbank market coming back for years to come, unless miracles appear and sovereigns such as Spain and Italy regain market access without LTRO funding help, this is not our base case. The situation of governments as the liquidity provider of first, not last, resort for banks may be here to stay.

Such interventionism has long-term implications for the functioning of a free market. However, opportunities have and will arise as market participants fail to accept the notion that Southern European debt stock will not be paid back at par (a thesis that is

no longer taboo and no longer mentioned in whisper tone across Europe). After all, the Greek restructuring worked quite well, at least without the often mentioned meltdown in pockets of finance that are unforeseen. We believe that the Greek restructuring has no fixed rules about every European nation state having to be competitive. Eastern Germany has partially been returned to nature as its most ambitious inhabitants left during the mid-1990s in favour of the big cities. Against this backdrop, the Basque lands and the Algarve may similarly be reclaimed by nature, not by man, in the future. It is part of a natural and time-tested process of evolutionary re-allocation. The only difference between today and the period when Mesopotamia was rendered less competitive is the enormous speed at which such processes take place. In some regions, the talent migration occurs within months not years (which is no surprise given that youth unemployment now exceeds 50% in Spain, people need to eat!). A continent and economic power zone such as Europe can easily afford regions of economic reversal. Only under central planning Council for Mutual Economic Assistance (Comecon) was there a belief that every region needs factories to contribute to economic output. Quick-fix political suggestions of Southern European devaluation combined with Euro exit and the regaining of a highly temporary terms of trade advantage are short lived measures and ill conceived. In a similar fashion, the US also has many regions that are not at the forefront of change and innovation. However this has not prevented ambitious young adults from Arkansas or South Dakota

### Key contributors and detractors as at 31 March 2012

Security	Theme	Contribution %
<b>Top 10 positive contributors</b>		
Bank of America Corp	Distressed Companies	0.23
Deutsche Post	Private/Public Partnerships	0.21
SLC Agricola	Global Agribusiness	0.17
Calpine Corp	Disequilibria	0.15
JPMorgan Chase & Co	Supply Chain Dominance	0.15
Amazon.com Inc	Supply Chain Dominance	0.14
Abbott Laboratories	Personalised Medicine	0.14
Copa Holdings	Supply Chain Dominance	0.13
Mindray Medical International	Large Units/Bottom Billions	0.12
Symantec Corp	Security	0.10
<b>Top 10 negative contributors</b>		
Newmont Mining Corp	Market Hedge	-0.24
Allscripts Healthcare Solutions Inc	Personalised Medicine	-0.16
China Life Insurance Co	Large Units/Bottom Billions	-0.15
Petrobras Petroleo Brasileiro	Asymmetric Negotiators	-0.15
GOL Linhas Aereas Inteligentes	Large Units/Bottom Billions	-0.13
TransAlta Corp	Market Hedge	-0.13
Home Inns & Hotels Management	Large Units/Bottom Billions	-0.10
Barrick Gold Corp	Market Hedge	-0.10
Mosaic Co	Global Agribusiness	-0.10
Kinross Gold Corp	Market Hedge	-0.09

(Data in USD)

### Market outlook and strategy (continued)

to start a life and career in Boston, Austin or Silicon Valley. As New York City's mayor, Michael Bloomberg, stated a few days ago in his delightful FT column about the competitiveness of cities: capital will move where talent is. Capital and people have already left and continue to leave Southern Europe. The European nation state is no longer the relevant reference entity for economic measurement. Therefore, when we discuss fiscal union, we also must discuss the fiscal contribution of the talented young Spaniard to the Berlin fiscal base, and not only the fiscal contribution of Germany to bail-out funds for Southern Europe. It is a two way street, albeit still one with unequal flows. As equity managers we have a dual purpose: first to invest in those enterprises with the greatest long term promise, and secondly, to protect our investors from significant drawdown during periods of pessimism and fear. While we think the former is the norm, the latter seemingly has ruled most return periods since 2007, the crisis years. And we feel we could have done better at the latter task. We did not waver from our fundamental beliefs in 2008 and subsequently recorded a near record alpha year in 2009. Similarly in 2012, we are not wavering from our beliefs and likewise, we hope to regain the lost ground from 2011. Despite the backdrop of economic malaise and fiscal concerns, we highlight that the world of progress has not stopped during this period. Our thematic milestones have been validated. In fact, progress in most areas has accelerated. There will be a time, not a matter of if, but when, during which markets will accept that human productivity, fuelled by more ideas and better division of labour and energy, has actually accelerated while they were preoccupied with Italian debt and Californian mortgages (and increasingly of late, the inevitable "deceleration of China").

There should be a point when equity markets can command a higher level of valuation. This claim is even more valid when one paves the road for having discussions that are inclusive of the option of debt stock reduction, not simply a repetition of the 2011 ideas of more austerity and more structural reforms.

Far away from the policy makers and central bankers of Brussels and Frankfurt, young Spaniards and young Italians are seeking jobs in Berlin, Hamburg, Amsterdam, London and other cities of

vibrant energy and newly discovered entrepreneurship. There considers the lack of alternative return sources in bonds, particularly when the benchmark risk free rates are rigged by governments in the spirit of financial repression.

Today, enterprises are created faster and with less capital than ever. Externally imposed Environmental, Social and Corporate Governance (ESG) and transparency standards require those firms to often be better managed with special attention paid to their stakeholders and the environment at large. Ideas have a larger platform to succeed with the advent of digital research sharing platforms. Leading industrial countries, in the case of Germany, are taking difficult and bold decisions to aggressively phase out non-sustainable energy dependencies by harnessing funds and talent into giving up fossil and nuclear fuels over measurable time periods. What will the world look like once large industrialised countries stop sending billion dollar checks every few days to the Middle East for fossil fuels (money that in most cases drives up real estate in London and other low-economic multiplier "conspicuous consumption" categories)? What if those assets are redeployed into start-ups and sustainable businesses, or even simply allocated to university budgets? The next wave of

### Theme distribution & contribution as at 31 March 2012

Theme	% of Fund	Contribution to return (%)
Supply Chain Dominance	14.31	0.49
Talent & Ingenuity	4.79	0.32
Private/Public Partnerships	2.74	0.22
Security	4.45	0.2
Personalised Medicine	11.53	0.18
Distressed Companies	4.19	0.13
Disequilibria	14.07	0.06
Global Agribusiness	11.25	0.05
Indian Ocean	2.96	0.04
Sufficiency	1.48	0.03
Large Units/Bottom Billions	13.62	-0.19
Asymmetric Negotiators	7.56	-0.38
Market Hedge	6.97	-0.67

(Data in USD, ex cash)

### Top 10 holdings as at 31 March 2012

Stock	Country	Theme	% of portfolio
Unilever N.V.	Netherlands	Large Units/Bottom Billion	3.31
Laboratory Corp. of America Holdings	United States	Personalised Medicine	2.61
Mosaic Co.	United States	Global Agribusiness	2.37
Koninklijke KPN N.V.	Netherlands	Disequilibria	2.26
Deutsche Post AG	Germany	Private/Public Partnerships	1.97
Ericsson LM Shs B	Sweden	Disequilibria	1.96
Symantec Corp.	United States	Security	1.95
Abbott Laboratories	United States	Personalised Medicine	1.91
Roche Holding AG	Switzerland	Personalised Medicine	1.82
Inpex Corp.	Japan	Distressed Companies	1.76

(Data in AUD)

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## Market outlook and strategy (continued)

the leapfrogging progress may not come from a new technology such as the internet seventeen years ago, but possibly from a right sizing and reallocation decision of existing resources. Some of our themes, such as Sufficiency, which focuses on limited global bio-capacity (our newly initiated position in Waste Management should benefit from this trend) or Talent and Ingenuity are powerfully speaking to this idea. That we are just beginning to think about allocation and right sizing is anecdotally evidenced by the still ubiquitous nature of uncontrolled and time consuming email checking in large corporations. In some cases it leaves little time to work and time is spent without any consideration to its real scarcity.

On a different note, the work we foresee in our theme of Talent and Ingenuity is the work done by individuals not machines. Those companies are composed of individuals possessing a clearly definable characteristic of the irreducible human value-add. While we can easily replace the check-out clerk at the supermarket, or the check-in clerk at the airline, and recently also the receptionists at hospitals with machines (our holding in NCR Inc., one of the main providers of equipment disintermediating low value added jobs benefits from this trend), it is more difficult to replace the editor-in-chief of a relevant publication and his creativity to come up with the perfect headline every day that touches heart and mind (our holding in Axel Springer AG benefits from this characteristic). Obviously this is a large challenge. We are looking for industries whose hallmark is change that cannot be coded by machines, who only benefit from lateral association while meeting unexpected intersections. Sustainable value can be created in firms and industries where we can acknowledge that commoditisation of data and processes are not the sustainable

backbone of industrial strength. This leads us to many companies in our Supply Chain Dominance theme as well. It is here where research dollars are spent in areas that do not have an immediate IRR calculation attached. Our experience suggests that many new and breakthrough products are ultimately a function of good and consistent basic scientific research that eventually translates into the accidental or not-so accidental discovery of a product or process that is new and unique. While this is a simple thought, only the largest companies are positioned to have this luxury of allocating research into areas with no immediately visible P/L impact. One of our large holdings in this theme, Samsung Electronics, is a case example. Now the leading company in DRAM and NAND, Samsung has recently also engaged with personalised medicine and genetic sequencing. Naturally, the inevitable intersections between genetic sequencing and large data (Samsung Electronics is a world leading memory business), should position the firm well to become a formidable competitor to existing firms, and possibly a leader later this decade.

The challenge for investors today is to decipher the noise from the bigger picture as we stand at the intersection of two distinct debates: (1) the repetitious re-iteration of the problems of excessive government debt, decelerating China and the geopolitical crisis topic du jour, and (2) the accelerating progress in the human condition at large (health, education, science opportunities, etc.). While the former are stumbling blocks, the latter are so large they are hard to measure and price in securities. We believe the former are a result of the latter, not a predicament. And we will add to our positions of high thematic conviction during periods of stress induced by the former.

## Quarterly video commentary

Quarterly 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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