

# DWS Global Equity Thematic Fund

December 2011 Monthly Report



**The Fund returned -1.85% gross (-1.93% net) for the month, underperforming the benchmark by 2.06% gross (2.14% net)**

## Market review

The focus for December was again on Europe, as European Union leaders met for a two day summit to discuss closer political and economic coordination, as well as other measures to restore market confidence and stabilise the euro currency. The market initially responded positively towards the outcomes of the European leaders' summit which included an agreement to add an additional \$200bn to their bailout fund while also agreeing to tighter anti-deficit rules. Despite initial optimism, markets subsequently traded lower as investors questioned whether the measures announced at the summit went far enough. Adding to the negative sentiment was rating agency Moody's indicating that the summit offered little in new measures that would alleviate the risk of credit downgrades across the EU member states. Also in December, the European Central Bank (ECB) cut its key interest rate by 0.25% to 1%. The central bank was widely expected to cut its rates by up to 0.5%, as the risk of a broad recession in Europe continues to rise.

Meanwhile, conditions outside of the Continent remain relatively robust. US economic activity remained resilient in December and continues to outpace expectations. This includes declines in weekly claims for unemployment benefits, rising consumer confidence and an uptick in new home construction. Notably, initial jobless claims continued their positive trend, reaching their lowest level since June 2008. In China, growth is cooling but not much more than expected, major figures out in December, including IP and retail sales, were in line with expectations. Meanwhile, inflation continues to fall (the latest reading came in at 4.2%, below expectations of 4.5% and off meaningfully from the

6.5% hit over the summer), providing leeway for the PBOC to continue easing policy.

Elsewhere, geopolitical tensions in East Asia, especially the Korean peninsula increased as the North Korea media reported on December 19 that its leader Kim Jong Il had passed away.

## Performance review

The Fund returned -1.85% gross (-1.93% net) for the month, underperforming the benchmark by 2.06% gross (2.14% net).

In a reflection of the broader market environment in December 2011, four of our themes contributed to performance, among them Personalised Medicine and Security. The Supply Chain Dominance and Disequilibria themes were the main detracting themes from this month's performance.

Roche Holding, the Switzerland based global pharmaceutical company, was the leading contributor in our Personalised Medicine theme, 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". Roche announced positive results of its pivotal Phase III study for a new cancer drug (Pertuzumab in HER2-positive metastatic breast cancer), progression free survival extended to an impressive 18.5 months. The company's Personalised melanoma drug, Zelboraf, also received a positive European opinion following the FDA approval in August. Avastin, another major drug of Roche, also won EU approval for the treatment of newly diagnosed ovarian cancer. Roche has now delivered 21 successful clinical trial results over the past year. Roche also was named as a corporate partner for the recently

## Performance as at 31 December 2011

	DWS Global Equity Thematic Fund	DWS Global Equity Thematic Fund	MSCI World ex-Australia Index
	Gross Performance (%)	Net Performance (%)	(%)
1 month	-1.85	-1.93	0.21
3 months	0.36	0.13	2.00
6 months	-13.10	-13.49	-6.15
Financial year to date	-13.10	-13.49	-6.15
1 year	-13.29	-14.06	-5.34
2 years pa	-6.86	-7.70	-3.70
3 years pa	-0.95	-1.83	-2.58
5 years pa	-8.53	-9.35	-7.53
7 years pa	0.58	-0.32	-1.80
10 years pa	-1.19	-2.07	-3.54
Since commencement of Fund* pa	5.34	4.40	2.55
Exit price (\$)	1.0215		
Fund size	\$569.5 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)

announced New York Genome Centre that will open in 2012, underlying the company's focus and commitment to Personalised Medicine science. Qiagen was a slight detractor during the month, mainly due to weaker governments, academic funding concerns for life sciences R&D and increased competition in the US HPV testing market.

The Security theme, which seeks companies providing physical security, biological security, wealth preservation security or data security, had one of the main contributors to the strategy in the month under review in Julius Baer Group. The company is a leading Swiss private bank with a single-line focus on wealth management which allows us to invest in the theme of growing global demand for financial security. Julius Baer contributed positively to performance as Germany and Switzerland signed a tax treaty that removes uncertainty for German offshore private banking clients. The company also reported strong net new money inflow of 6%, at the top of its guidance and above the industry peers.

The Supply Chain Dominance theme detracted from performance in December mainly due to its holding in Volkswagen. Samsung Electronics and JPMorgan contributed to the performance of this theme, which seeks to invest in large dominant franchises that are likely to capture opportunities in margin and market share. Volkswagen (VW) shares fell in December after rising 27.6% in the first two months of the quarter. The negative contribution in December was also driven by a translation effect as the Euro weakened versus the US dollar, although a weaker Euro is fundamentally positive for VW's business. The sell-off was driven by renewed concerns over the European macro situation and its potential impact on 2012 auto demand, although VW continued to post strong vehicle delivery numbers. VW significantly outperformed the global auto market in 2011 and we believe that it will continue to post solid margins in the quarters ahead, surpassing analyst estimates. Samsung Electronics performed solidly, with strong results and continued momentum of smart phone sales. The company became the number one selling smart phone manufacturer in the world during the quarter. We believe the company remains undervalued as the transition from the cyclical PC memory market to the secular growth mobility market (smart phone and tablet) continues. This will warrant a new valuation level more comparable to franchise companies in the technology sector rather than DRAM manufacturers.

Metro, the German based retailer best known for its cash-and-carry stores as well as department stores, super and hypermarkets and consumer electronic stores was the main detractor in our Disequilibria theme, which seeks companies facing rapid changes in industry dynamics. The company surprised markets by lowering its full year guidance on a weaker than expected start to the important Christmas season. Metro has

recently appointed a new top management team (CEO and CFO) that, in our view, will lead to a restructuring of the conglomerate structure of the company which is not yet implied in the market

### Country allocation as at 31 December 2011

Country	Fund (%)	MSCI World Ex-Australia (%)
Austria	2.43	0.11
Bahrain	0.28	0.00
Belgium	0.00	0.42
Bermuda	0.66	0.00
Brazil	4.63	0.00
Canada	1.19	5.39
China	2.78	0.02
Denmark	1.15	0.46
Egypt	0.45	0.00
Finland	0.00	0.37
France	0.77	3.80
Germany	9.88	3.42
Greece	0.14	0.04
Hong Kong	0.53	1.24
India	2.69	0.00
Indonesia	0.69	0.16
Ireland	0.00	0.13
Israel	1.99	0.28
Italy	0.00	0.95
Japan	5.74	9.45
Luxembourg	0.00	0.18
Mexico	0.00	0.02
Netherlands	6.15	1.25
New Zealand	0.00	0.05
Nigeria	0.10	0.00
Norway	0.00	0.41
Panama	0.87	0.00
Portugal	0.00	0.10
Russia	0.40	0.00
Singapore	0.00	0.72
South Africa	2.24	0.05
South Korea	2.57	0.00
Spain	0.00	1.43
Sweden	2.64	1.32
Switzerland	3.55	3.78
Taiwan	1.21	0.00
Thailand	0.38	0.00
United Kingdom	0.78	10.24
United States	42.12	54.21
Cash	0.99	0.00

(Data in AUD)

### Performance review (continued)

valuation. Calpine Corporation (CPN), the US based power generator, performed strongly in December and contributed to the performance of the Disequilibria theme. Calpine is poised to benefit from expanding heat rates in its primary market, Texas, due to a strong regional economy as well as upcoming shutdowns of coal-fired power plants. CPN is financially hedged against natural gas price movements in the short term, and has an attractive portfolio of clean, modern natural gas assets which GTP believes are undervalued by the market given developments in regulation and the energy markets, which are improving the relative position of natural gas vs. coal as an electricity feedstock.

### Market outlook and strategy

If government debt of the largest economies in the world is deemed to no longer be safe, then what is? The answer is multi-fold and also somewhat individual. Safety, similar to wealth or for that matter health, is a relative concept.

There is no absolute wealth, nor is there absolute health or absolute safety. While asset pricing models still contain the misnomer of the “risk-free rate”, ownership of property or securities has long been tagged by occasional geometrically exploding uncertainty. Ask a citizen of Tsarist Russia whether property was safe, or a Zimbabwean farmer, and the concept of “investing in real assets”, which is touted so energetically by commercially-minded financial intermediaries, quickly takes on a different and more sobering meaning. Similarly, ask a 1930s US

citizen whether gold was safe, before Roosevelt directed the imprisonment of up to 10 years for any person who secretly and illegally held on to his bullion. What, then, is still safe today? Seemingly, the debt of high quality multinational companies has become the least risky asset class in some portfolios, often trading inside the yield curves of their respective domiciles. Despite governments’ inherent power to tax companies, markets perceive some multinationals to be safer than countries. This perception is presumably based on the fact that even during times of duress, countries will continue to compete fiscally to attract the most important companies to set up and maintain domicile within their jurisdictions. This competition should, at least in theory, keep excessive multinational taxation within limits and the contractual cash flows to bondholders intact.

Time magazine has just named the “Protester” the Person of the Year for 2011. The protester stands for democracy deficits in many undemocratic regimes, and in the West she stands for income inequality; therein we have another cause of uncertainty. Asset taxes for the wealthy are the subject of intense debate and inevitably the last recourse for fiscal authorities in a number of nations. Again, the question remains: If income is taxed more, and bonds are subject to restructuring, and acquired assets are potentially taxed every year, then what is safe? Our conclusion is premised on the belief that ultimate safety has to be aligned with the greater well-being or inalienable rights of a rapidly changing

### Key contributors and detractors as at 31 December 2011

Security	Theme	Contribution %
<b>Top 10 positive contributors</b>		
Calpine Corp	Disequilibria	0.15
Semen Gresik	Indian Ocean	0.14
Julius Baer Gruppe	Security	0.14
Exxon Mobil Corp	Asymmetric Negotiators	0.11
Roche Holding	Personalised Medicine	0.11
Samsung Electronics Co Ltd	Supply Chain Dominance	0.09
Apple Inc	Talent & Ingenuity	0.08
JP Morgan Chase & Co	Supply Chain Dominance	0.08
Williams Companies Inc	Disequilibria	0.07
Deutsche Post	Private/Public Partnerships	0.06
<b>Top 10 negative contributors</b>		
Metro	Disequilibria	-0.38
Volkswagen	Supply Chain Dominance	-0.24
Petrobras Petroleo Brasileiro	Asymmetric Negotiators	-0.18
ICICI Bank Ltd	Indian Ocean	-0.15
Larsen & Toubro Ltd	Indian Ocean	-0.15
VimpelCom Ltd	Disequilibria	-0.15
Newmont Mining Corp	Market Hedge	-0.12
Commerzbank	Disequilibria	-0.12
Ericsson	Disequilibria	-0.11
Home Inns & Hotels Management Inc	Large Units/Bottom Billion	-0.10

(Data in USD)

### Market outlook and strategy (continued)

society, as anything contrary to this end is vulnerable to appropriation or destruction by that society. Investing in enterprises that employ people and generate services or produce goods that are relevant are more likely to be relatively safe. The enterprise here is embedded in a notion of the common good. However, investing in companies that hold concessions from heavily lobbied government agencies lacking broad-based democratic support, or investing in enterprises whose main business strategy is to take advantage of a temporary situation without contributing to the well being of society at large, may be much riskier.

A very private and personal hedge against this recalibration of safety would be to invest in one's own education. This arguably allows for the understanding and mapping of a life path that is more aware and possibly richer in understanding the nuances and delicacies of life and its corollaries, everyone's inalienable right. From a timing perspective, investing in the "here and now", as opposed to deferred uncertain consumption may also be a path to reduce risk, the opposite of "deferred consumption", one of the few characteristics that consistently separates animals and humans, as my colleague recently pointed out to me. Wealth and assets are necessarily safer when they are part of the economic metabolism as opposed to sitting in the pantry. Equity of the right enterprises certainly is more likely an integral part of the former, not the latter. Cash in the bank or stored wealth for future consumption is an obvious target, either to the consequences of monetary repression, such as crawling inflation, or to crawling fiscal expropriation.

During 2011, volatility and correlations prevented many of our investments from asserting their claim on what we consider appropriate valuations. In most cases our thematic milestones have been met, as we outline throughout the remainder of this letter, but nevertheless, the market has remained focused on more immediate and potentially overwhelming matters, which obscured investors' focus on longer-term thematic value drivers. We witnessed a similar situation before in 2008. To better

illustrate the evolving sources of uncertainty and their path toward higher volatility, we have mapped below the main events of volatility/uncertainty over the past few years.

This exercise raises the important question of whether the challenges to the thematic strategy will continue, that is, the nature of uncertainty that translated into higher volatility and consequently a higher S&P 500 Volatility (VIX). Our view is very simple: The nature of uncertainty has migrated from relatively small and relatively local sources, such as SARS in late 2003, to very large and globally relevant questions, such as whether Europe's monetary union will survive. From this perspective, having travelled from isolated events to questions of supranational sustainability, we may have arrived near the end of a road of sources of uncertainty. While the future will certainly bring new and unforeseen challenges, the past five years have brought a series of progressively larger and unprecedented crises whose novelty and scale would be difficult to match over the next five years. Although the European question is still very much a 'live' source of uncertainty, our base case of muddling through with a potentially narrowing but deepening core union is probably not priced into the global equity markets. Given the current importance of this subject, we share our view on Europe in summarised terms:

- (1) The economies of core Europe are in reasonable shape when compared to the rest of the world. Budget deficits and debt/GDP ratios are better in many cases. The European economy has the potential to be more resilient and diverse than many other economic areas (US: consumer-centric; China: reliant on capital investment; Australia: resource-centric; etc.).
- (2) The European periphery is less well equipped to sustain its debt. Greece already has been marked down in most books and as such it is most likely to be treated as a post-mortem. In our view, a more aggressive restructuring here would have helped and may still happen. The concern that not enough real pain was taken in Europe

### Top 10 holdings as at 31 December 2011

Stock	Country	Theme	% of portfolio
Laboratory Corp of America Holdings	United States	Personalised Medicine	3.06
Unilever	Netherlands	Large Units	2.91
Ericsson	Sweden	Disequilibria	2.64
Life Technologies Corp	United States	Personalised Medicine	2.38
Exxon Mobil Corp	United States	Asymmetric Negotiators	2.08
Williams Companies Inc	United States	Disequilibria	2.08
Erste Group Bank	Austria	Disequilibria	2.05
ICICI Bank Ltd	India	Indian Ocean	2.03
Deutsche Post	Germany	Private/Public Partnerships	2.00
Petrobras Petroleo Brasileiro	Brazil	Asymmetric Negotiators	1.98

(Data in AUD)

### Market outlook and strategy (continued)

could have been mitigated early on if debt haircut incrementalism had not been the prevailing policy of the ECB/EU. A unilateral Greece step-out after a potential change in government in April still leaves room for significant uncertainty, as there is no clearly defined exit mechanism for a member. The main residual risk for Greece thus centres around the when and how of a potential exit, and less the economic impact.

- (3) Italy's net worth is considerable due to the large fiscal base of its private citizens and its economy, but fiscal implementation is key. So far, the new government is moving in the right direction. Italy has a large funding schedule for 2012 and market access is important. If growth fails to materialise, additional fiscal austerity measures will be needed to compensate, which could initiate a now familiar vicious cycle. Alternatively, if credible fiscal measures are announced and growth expectations of 1.0-1.5% materialise, a positive trajectory could begin, causing yields to decline. The most recent ECB bank funding program is one of the first counter-cyclical measures taken by policy-makers. The challenge of collecting more taxes from a heavily cash-based economy, dominated by small and medium-sized enterprises, is formidable. But it could be here where outcomes positively surprise debt markets. Conversely, Italy has an abysmal growth record. Without growth, it will be more difficult to re-establish debt sustainability.
- (4) European asset prices have begun to reflect both an inability and a lack of willingness to resolve the crisis. We do not share the latter view. While there is a visible lack of willingness from the UK, this may be a blessing in disguise as Merkel-Sarkozy-Draghi (or more broadly known as the core of the Frankfurt Group) now have an even larger incentive to truly work together and prevent the detractors in the UK from seeing Europe falter.
- (5) We believe the ECB will not be able to step away from a more expansionary role. The current treaty renegotiation will make this more politically acceptable, and intervention will be justifiable on the basis of maintaining financial market stability while important economic, structural and political reforms and processes are underway. It is important to note that German policy makers playing hardball with the ECB/Europe is a natural strategy in any negotiation. If a party never shows its willingness to walk away from the table, it has very little power to assert its goals. The market should read this dynamic in a more nuanced way. We note that a less incremental expansion (see US as a comparison below) may have prevented the continuing uncertainty.

- (6) Europe is not the only region with debt sustainability questions; indeed, the US and Japan are also at serious risk if markets expect a real rate of return commensurate with the risk of holding their debt. We assessed debt sustainability in the 25 most highly indebted countries, composing about 55% of the world economy. We computed that there is approximately USD 11 trillion too much debt outstanding, much of it residing outside of Europe.
- (7) The current advantage of Europe is the relative urgency with which treaties and convergence towards initial steps of fiscal union were taken. This will not be a crisis wasted. But as always, politicians will commit "tough action" which requires joint liability Eurobonds only when the perception of inactivity carries a higher or almost infinite cost. In the meantime, pending French elections will make a grand Franco-German deal unlikely as Sarkozy will most likely seek to have his mandate confirmed first.
- (8) As always, every discussion about Europe has to be assessed in light of what is already implied in asset prices. There could be a situation under which there will be a gradual deepening and narrowing of the European Union. While the market may first label this a "disintegration", we would argue that it would more likely be a "cementation" of the core European economies while giving some peripheral nations more flexibility to adjust their level of prices in assets, services and labour.

### Theme distribution & contribution as at 31 December 2011

Theme	% of Fund	Contribution to return (%)
Personalised Medicine	11.68	0.10
Private/Public Partnerships	2.01	0.06
Security	4.27	0.04
Talent & Ingenuity	5.95	0.03
Sufficiency	0.87	-0.08
Asymmetric Negotiators	8.15	-0.10
Market Hedge	3.79	-0.12
Indian Ocean	3.37	-0.14
Market-Implied Distressed	8.85	-0.15
Global Agribusiness	8.38	-0.31
Large Units/Bottom Billion	8.73	-0.35
Disequilibria	16.63	-0.57
Supply Chain Dominance	16.78	-0.62

(Data in USD, ex cash)

### Market outlook and strategy (continued)

- (9) The core problem of Europe is its North-South balance of payments deficit (which is an oxymoron, as it theoretically does not exist). But in the case of many Southern European economies, the current account and capital account deficits have led to a transfer of monies and resultant increases in prices of labour and assets. This is more likely to reverse in the future as competitiveness needs to be restored and public entitlements need to be curtailed. In the meantime, we expect prices of labour and assets in Northern Europe to increase.

### 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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