

DWS active VIEW

EXPERT OPINION



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THEMES OF THE DAY

/ Following the Greek shock, the trends that will occupy investors in coming months are solidifying. /

A day like a life: Events of March 24, 2010, reveal a great deal about the situation in the capital markets. First of all, there was the **debt crisis**. On that day, Fitch lowered the rating of Portuguese creditworthiness from AA to AA-. A budget deficit equal to 9.3 percent of the country's 2009 gross domestic product, coupled with doubts about the potential for a rapid recovery, induced the rating agency to make the downgrade. As the report made the rounds, recollections of the Greek drama of the preceding weeks were aroused. The majority of European stock indices fell sharply into negative territory.

But there was also **liquidity**. After an hour of doom and gloom, the markets turned around and in many cases pushed into positive ground. The realization caught on that the countries' problems were not simultaneously companies' problems. It has already been observed for weeks

that confidence in states is diminishing. In certain cases, the risk premiums for corporate bonds are below those of government bonds. It's no wonder, since after all private debt in the industrialized nations is increasingly being converted into public debt. The consequence: a **fiscal fiasco**.

HIGH PRESSURE AREA

The industrialized nations have to consolidate their budgets, which puts pressure on the economy and accelerates the shift of power in the direction of less indebted **developing countries**. At the same time, the need to save is preventing an end to the expansionary monetary policy. After all, simultaneously stepping on the fiscal and monetary brake would be too much for the economy. Investors continue to be confronted with a **low-interest environment**—with consequences for the bond and stock markets (see the following pages).

QUICK VIEW

- > **Themes of the Day /**
Factors accelerating the shift of power in the direction of emerging markets. Page 1

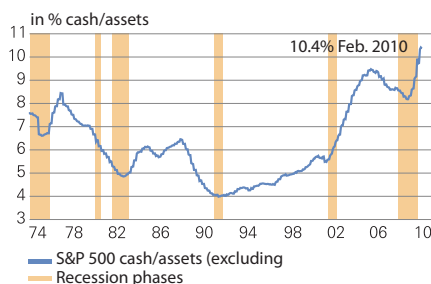
- > **Spring break /**
The focus on value stocks has further increased in charm. Page 2

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Why emerging markets corporates are highly regarded at DWS. Page 3

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Things remain the same: DWS sticks to the tactical over-weighting of stocks. Page 4

LIQUID ENTERPRISES

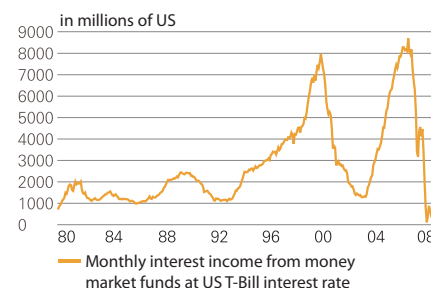
Many conglomerates are sitting on mountains of money. The cash flow can flow into dividends, reduction of debt and acquisitions.



Source: Goldman Sachs, DWS; As of: February 2010

NOT VERY APPEALING

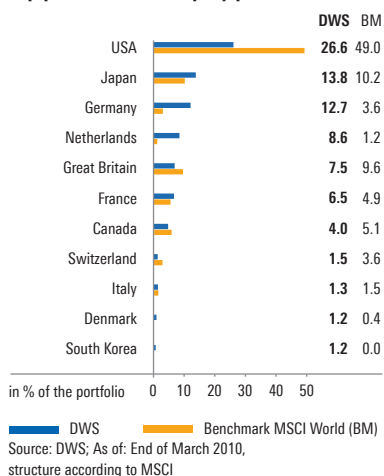
In light of low interest rates, investors have to take risks if they do not want to go without returns.



Source: Ned Davis Research; As of: March 2010

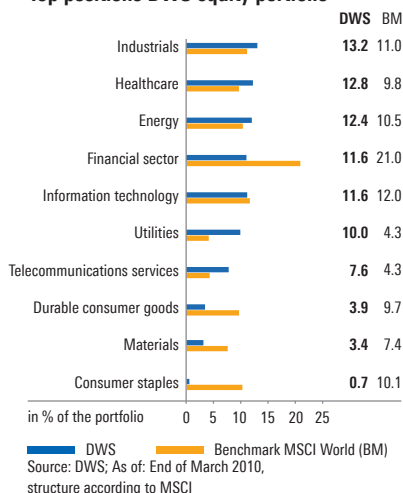
COUNTRY ALLOCATION

Top positions DWS equity portfolio



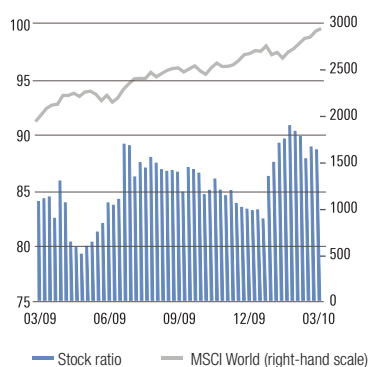
SECTOR ALLOCATION

Top positions DWS equity portfolio



DWS STOCK RATIO

> The market sentiment has lifted considerably within the past twelve months. Accordingly, DWS' equity fund management has raised its market exposure.



SPRING BREAK

/ Stocks are imposing themselves in the low-interest rate environment—but not all stocks. What constitutes the difference. /

The forecasted cooling on the stock markets occurred at the beginning of the year; inflated expectations were dampened, as announced. Established indices like the Dow Jones and the Euro Stoxx 50 fell nearly 10 percent before buyers appeared on the scene to provide support. The market survived the short flare-up of the debt crisis on March 24 without price losses, because the overindebtedness of the countries is primarily being fought in the currency markets. Rightly so; after all, the majority of exchange-listed conglomerates have done their homework and lowered costs. Companies are earning money again, which is flowing into debt reduction, acquisitions—and, increasingly, dividends.

Companies listed on the S&P 500 have announced an increase in net dividends by 4.4 billion dollars since the beginning of the year. That is the highest increase in three years. For 2010, Standard & Poor's expects an increase of 5.6 percent compared to 2009. The focus on value stocks pursued by DWS for months has therefore further gained in charm. Important: Do not equate substance with size. Many small and medium-sized companies are currently shining by means of their high cash flows. In addition, takeover speculation can drive their prices, since large blue chips are also sitting on huge cash holdings. One reason for the good earnings situation of many companies is flourishing exports to developing countries. For this reason, DWS is specifically looking for stocks with a high share of exports in emerging markets. Likewise positive: The recent success of capital increases, initial public offerings and newly issued

corporate bonds further points to the fact that capital procurement—if it is even necessary—is currently not a problem.

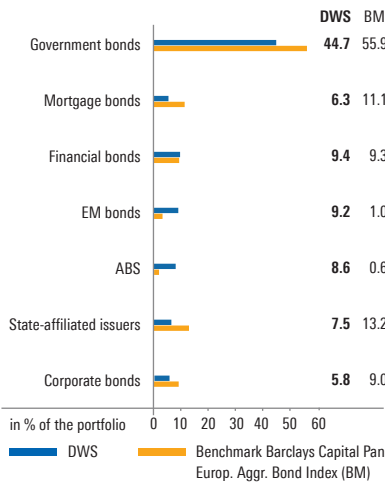
CHERRY BLOSSOMS IN THE CUSTODY ACCOUNT

Even though, as described, stock markets responded calmly to the crisis, investments are currently pushing less into countries with high rates of new indebtedness, such as Greece and Spain. Better: The recently weaker euro is helping the exporters from the core of Europe. As expected, Japan, which was praised as a tactical investment at the beginning of January, has outperformed Hong Kong and remains promising in the coming months. If the yen loses strength compared to the dollar and the euro, that will probably spur the country's export economy and ultimately quanto hedged investments.

Sectors that are resistant to the economic cycles are on the list of favorites not just in Japan, but transnationally as well. Financial stocks are celebrating a small comeback, even though they are still underweighted in many DWS portfolios as a result of their traditionally strong index weighting. The idea: If employment rises again, the sector that has been closely correlated with the labor market in the past will gain on the stock market. Likewise on the list: The US industrial sector seems attractive, and American pharmaceutical stocks are likewise attractively valued. The US health care reform has affected the sector less than initially feared. Caution, on the other hand, in the case of energy stocks: Particularly in the gas market, the conglomerates have to fight with overcapacities.

PORTFOLIO ALLOCATION

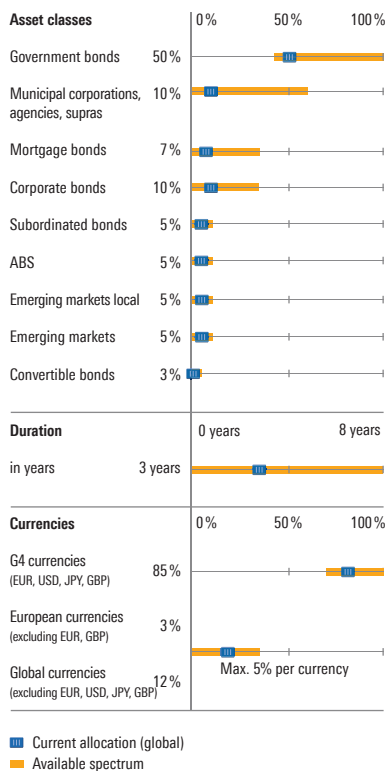
Top Positions DWS Bond Portfolio (Euro)



Source: DWS; As of: End of March 2010

GLOBAL ALLOCATION

> No large movements: In overall allocation, bond fund management has only turned a few placement screws. The share of government bonds rose from 40 percent (minimum amount for liquidity purposes) to 50 percent. Convertible bonds that had previously not played a role now make up three percent. On the other hand, mortgage bonds went in the opposite direction: from 20 percent to 7 percent. Duration is at three years instead of four.



Source: DWS; As of: End of March 2010

TAKE TWO!

/ Two years—that currently appears to be the magical time period for interest hunters. /

Would you like an example of the current dreariness on the bond markets? At the auction of two-year US government bonds in mid-March, the supply of 44 billion dollars faced a demand of 130 billion dollars. What interest rate did the onrush trigger? One percent. Thus, anyone who does not want to do without returns will have to look for alternatives. The money market—this much is certain—will scarcely help (see chart on page 1).

A better two-year transaction recently beckoned in the European periphery. DWS pounced in the case of Greek bonds with an equal term—and posted a three-percent price gain about 20 days later. Caution: The attractive returns signal an increased risk. The likelihood of failure of Greek bonds that the market has factored into the prices from a perspective of five years was at a considerable 40 percent in mid-March. Direct investments for private investors are thus not imposing themselves. However, DWS took advantage of the fluctuations in order to rake in risk premiums. Not just in Greece, but also in Ireland, for example.

24 MONTHS

In the last two years, domestic demand in Ireland has fallen by 20 percent; unemployment quickly shot upward by nearly 10 percentage points. The reason: The economic disequilibriums were even more massive than in Greece. However, the country is already in the middle of the (painful) adjustment process—and is thus substantially further along than the Greeks. Comparably solid state finances also provide more leeway for

fiscal policy. This is one reason why the likelihood of failure that is priced into Irish bonds is only 10 percent—with a declining trend.

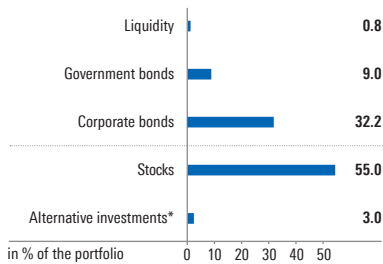
Low credit failures are one way companies from the emerging markets (EM) have been convincing in the last seven years. By comparison, conglomerates in the developing countries are doing better than their counterparts from industrialized nations. The developing countries will also care for their internationally active conglomerates; after all, these companies are helping to build up the capital stock these countries so urgently need. EM corporates are popular at DWS, since the market offers attractive risk premiums in spite of lower failure rates and care from the state.

CURRENCIES FLUCTUATE

The debt crisis is not leaving the currency markets—unlike the conglomerates—unaffected. And thus, March 24 was event-filled with the downgrade of Portugal. Above all, the euro is suffering under the new problems in the currency area—somewhat excessively to DWS' taste. After all, the US is imminently facing the same fiscal problems as the countries of Europe. Consequently, the second half of the year will probably be marked by a weak dollar. Likewise weak: The British pound is suffering from similar problems in Great Britain. The budget deficit in 2009 was 12 percent; national debt nearly doubled from 2006 to 2010, and 19 percent of all workers are employed in civil service. More than two years will pass before that is put back in order.

PORTFOLIO ALLOCATION

DWS Balance Portfolio



*Commodities (no equities), currencies, premiums (derivatives), absolute return strategies, real estate

Delta-weighted

Stock exposure (incl. derivatives): 53.1%
Net currency exposure: 26.8%

Source: DWS; As of: End of March 2010

POPULAR GIANTS

/ The second quarter is beginning the way the first quarter ended: Stocks remain tactically overweighted. /

Stocks were comparably overweighted in the Balance Portfolio for long stretches of the first quarter. Fund management only dialed the position back at the end of January and the beginning of February, when the stock markets were placed somewhat under pressure. The consequence: For a short time the stock ratio fell below the 50-percent mark. At the peak, however, the stock ratio made up about 66 percent of the portfolio.

Fund management mixed in tier 1 bonds.

A change in tactics is not in sight on the stock side at the beginning of the second quarter. Particularly popular: stocks from Europe and Japan. Large caps, stocks with above-average dividend returns and stocks from defensive and thus non-cyclical sectors appear particularly attractive. The line of approach also remains largely the same as the old one on the bond side, except for the increase of the duration to 1.5 years, the slight increase of the ratio of high-interest bearing corporate bonds and the minor increase of government bonds that had gone to the dogs in the course of the first quarter (from Spain and Greece, for example).

FOCUS ON LARGE CAPS

On the bond side, fund management likewise stayed by and large on the existing course. In addition to government bonds, a synthetic floater portfolio of corporate bonds was among the favorites.

DISCLAIMER

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DWS LONG-TERM VIEW

Strategic, long-term focus of DWS portfolios:

Long-term topics and trends will retain their validity apart from current events and short-term tactical positioning (3 to 6 months). DWS takes this into account in its allocation.

- > The trends with respect to infrastructure, agriculture and climate change remain intact
- > The world will have to live with low interest rates for a long time
- > Emerging markets will remain a substantial driver of the world economy and even gradually expand their contribution
- > The growth potential of the established economies will remain moderate
- > In the coming years, the problem of excess capacities will always be present
- > Commodities belong in every well-diversified portfolio