Buyers' market: Q&A

Which investment strategies and styles will enable fund managers to capture market inefficiency and deliver strong returns in 2010?

As the markets continue to recover, what is the best strategy for ensuring consistent outperformance over the coming year? We asked our panel of investment experts what approach they would be looking for from fund managers. **Pietro Cecere** compiles the results.

Fabrice Roy
Valartis Bank

With many uncertainties still in the markets and the macro figures, trend followers and global macro fund managers will find it difficult to generate strong performances this year.

In this environment, we favour market neutral hedge funds – such as the Exane Archimedes Fund – which benefit from their pair trading and relative value strategies. Alpha can also be generated from emerging markets where fund managers – for example Martin Taylor with the Nevsky Fund – can capture market inefficiency and deliver strong returns in 2010.

Dalibor Kolcava
VZ VermögensZentrum

As always there will be gems and laggards in every style box and fund segment. In general we like the traditional, solid but active long-only stockpicker approach, combined with innovative ideas in sector rotation. Equity investing along value chains will continue to grow as a promising concept. 'Index huggers' and 'buy and holders' do not qualify for our portfolios.

Due to the fact that there might be some heavier volatility ahead, we have a clear preference for larger cap quality and value. Tactical asset allocation is implemented as an overlay to our selection of potential outperformers, but we will not shy away from using tactical skills of experienced all-weather managers as a diversifier.

Open architecture is not just an empty shell but our daily credo, so we follow a very wide range of managers.

Marianne Rameau
ISGAM AG

Comparing fund performances to their stated benchmarks throughout the savage bear market of 2008 and spectacular bull run of 2009 is very interesting.

We use ETFs for core market exposure, adding active managers with proven stockpicking abilities to achieve incremental outperformance over the longer term. Last year was about oversold areas of the market catching up to discount a recovery, rather than an Armageddon scenario. This year the opportunities will be in identifying quality companies with sustainable business advantages in a low-growth environment.

We have taken some profits on our overweight Emerging Markets and Asia exposure but maintain core holdings in Lazard Emerging Markets and Hamon Asian Leaders funds. Sentiment is currently negative on Europe – as a result selected European companies are attractively valued. We use Jupiter European Opportunities and Alken European Opportunities funds, both high-conviction stockpickers.

The US, having underperformed the world index for the past decade, is also a market that could surprise on the upside as so many of its companies are lean, mean and will profit from the global economic recovery. We like Legg Mason Royce US Small Companies and Vanguard US Opportunities for their stock selection acumen.

We maintain a core exposure to the global resources sector. Funds that stand out in this area are Martin Currie Global Resources, Ian Henderson's JP Morgan Global Resources fund, and Graham French's M&G Basics fund.

In a stockpickers' market some experienced long/short managers will be able to shine – Gartmore's Alphagen range of funds has a good track record.

Finally, we think this year could be more difficult for bond investments after last year's spectacular run in corporate bonds, which we tend to buy as direct investments.

Incremental value could be added by investing in high yield bonds, an area where direct exposure becomes risky

Buyers’ market: Q&A

for individual investors and the diversification of a specialised fund is needed. Swiss boutique Fisch Asset Management has an interesting range of high yield and convertible bond funds.

Mirco Bongiovanni

Caricento

We believe 2010 is a year where active management will prevail and managers will be able to generate alpha.

Although lately small and mid caps have not been as attractive as large caps, we are searching for managers and funds that can take full advantage of the market inefficiency typical of S&M caps through deep research and analysis.

To mention a few: Franklin European Growth and Franklin Global Small-Mid Cap Growth, both managed by Edwin Lugo’s team for European and global areas; Aberdeen Emerging Markets Smaller Companies for emerging markets; and Nordea 1 Nordic Equity Small Cap for northern Europe. We are paying particular attention to the latter due to its vanguard in innovation, research and development, as well as for the potential currency appreciation.

Over the longer period, we favour the development and ‘megatrend’ of agri-food business covered by DWS Global Agribusiness, while for the second half of 2010 we expect a rise in risk aversion and an increase in equity market volatility. In such conditions, we believe that an interesting strategy will be the high dividend one, for which we consider funds managed by Nicolas Simar’s team of ING Investment Management a valuable solution.

Alexandre Ventelon

Crédit Suisse

We think 2010 is a year for bottom-up fund managers. The most favoured strategy will probably be long-only value, but some growth managers should perform well. We are convinced opportunities lie all across the market cap range.

We believe the year-long sharp rally on equity markets has created inefficiencies that should be caught mainly by the value fund managers. Nevertheless, we are confident the growth style is not yet overvalued and will continue to perform very well in the coming months.

Funds we are following include Janus All Cap Growth and Nordea EU Value.

Jean-Charles de le Court

Deltalux Consult

Market inefficiencies are growing along with an increasing discrepancy between a contracting real monetary base (the true store of value), and a parabolic growth of paper ‘fiat’ money jumping from one speculative opportunity to another, and eventually chasing a safe haven.

We’re experiencing a frenetic investment environment, with many false signals perturbing the quants and algorithmic managers, where I expect the patient stockpicker to thrive. We’ll see the outperformance of independent stockpickers versus index-huggers creep up over time – seasoned short-sellers might also find more opportunities.

So I’m following boutique managers, both long-only and long/short, combining value and growth criteria such as Bestinver, Glenrock or S-I-A.

Ulrich Voss

Blackhorse Investments

After having a nice liquidity-driven rally following the March 2009 lows, stock selection and tactical asset allocation should enable fund managers to produce good risk-adjusted returns. The easy money has been made in this cycle, and with a strong focus on companies having good balance sheets and free cashflows, downside risk should be minimised. Mega caps, especially, offer an attractive valuation.

FvS Fundament, IVI European and Pensato Europa are funds that should flourish in this kind of environment.

Stefan Ferstl

Ariquon Asset Management

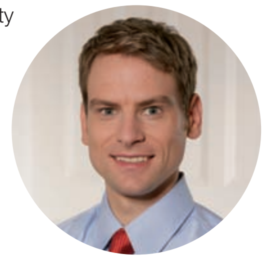
Two years ago we implemented a management style in our fund range with full flexibility of quick changes in asset allocation. In the current market environment we see this ability as a key strength for sustainable management success. Market inefficiencies in 2010 will enable approved tactical asset allocation models to provide above market results.

Particularly in difficult years like 2008 and 2009, it was very important to act very fast and to make strong asset allocation decisions to protect clients from huge draw-downs. As we still see strong risk aversion through our clients, we think that asset managers with approved and disciplined asset allocation models will further succeed in gathering money for clients.

For building our portfolios and our asset allocation we only use active long-only managers for equities and bonds, with clean and transparent strategies in single markets. We don’t follow asset allocation funds, because systematic asset allocation models are the key benefit we provide to our clients, from which we get more than 80% of our alpha.

Patrick Schultz

Donner & Reuschel



The massive provision of liquidity by the central banks triggered a boom, especially in credits and structured credits. Managers with directional strategies had an easy job last year. From 2010 onwards, credit markets will be much more volatile due to rising defaults and downgrades. Fund managers with a relative value approach will deliver more steady returns.

There are many opportunities to take profit from market discrepancies between cash instruments and the price for protection against default. We favour managers that have an

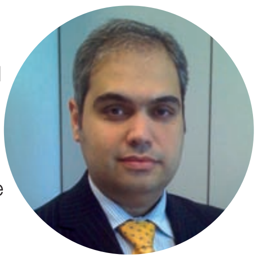
> We think 2010 is a year for bottom-up fund managers. We are convinced opportunities lie all across the market cap range.
>
> **Alexandre Ventelon**
> Crédit Suisse

Buyers' market: Q&A

expertise in these techniques and a proven track record – Assenagon has just launched its second fund: Assenagon Credit Basis II. We also like funds that add relative value strategies such as BlueBay Investment Grade Bond or Julius Baer Absolute Return Bond fund.

Paulo Gonçalves

Popular Gestão de Activos



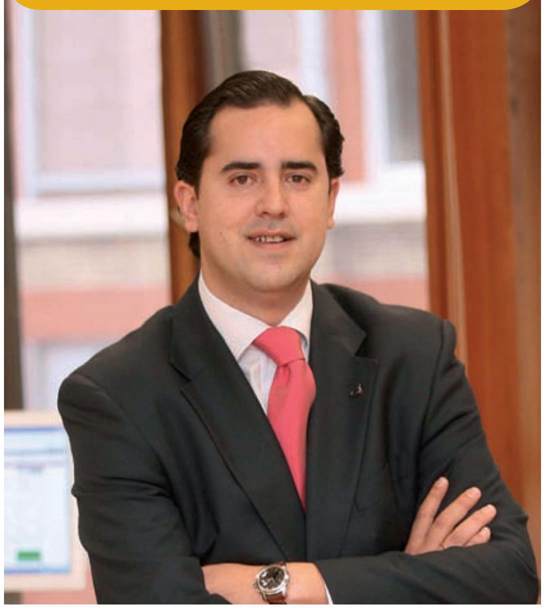
We think large cap growth is the style that will deliver the strongest returns. After a period of outperformance of small and mid caps that occurred simultaneously with the beginning of the recovery phase of the present economic cycle, and that led to a situation of expensive small and mid caps relative to large caps, we believe that 2010 will be a year of modest gains in the equity markets, with several swings in market trends that will to some extent resemble 2004.

In this environment we are anticipating that the quality and resilience of the results of the large cap growth stocks will lead to an outperformance of this style versus the small and mid caps, and also value style stocks.

We track several managers applying this style – to mention a few examples, we have Alliance Bernstein, Threadneedle and Allianz RCM that proved in the past to be very successful in managing with this style.

David Márquez

Cajacirculo



2009 was an easy year in terms of asset allocation as everything went up. However, 2010 has already proven a challenging year, in which returns depend largely on geographical, sector and industry allocation, as well as the type and size of the company. 2010 is a year of doubts, with unclear or short-lasting trends, and those doubts reflect in the market. However, we are still optimistic.

As for emerging markets, where we expect very good performance, we believe that is a market for stockpickers. We believe that mid and large cap with a light bias to growth will perform well in developed markets, especially in the industry and energy sectors. Examples of funds we follow are Franklin Templeton Global Bond, JPM Global Natural Resources, Fidelity American Growth or Ahorro Corporación Inversión Selectiva.

> We believe stockpicking is far more important than any other investment style or sector bet. It is better to bet on a few winning horses than dilute the rewards on a herd of ponies
>
> **Alessandro Malerba**
> Caja Murcia

Alessandro Malerba

Caja Murcia

We believe private bankers can obtain strong results in 2010 by offering two opposing strategies to investors, depending on their dynamics.

First, a bottom-up strategy aimed at the active stock-picker investor through a concentrated hedge fund. We believe stockpicking is far more important than any other investment style or sector bet. To be efficient, stockpicking should be concentrated, with no more than 25 stocks. Stock valuation is critical in this strategy, but it is better to bet on a few winning horses than dilute the rewards on a herd of ponies.

The second strategy is suitable for investors who prefer a more passive approach. We recommend a Value at Risk methodology, with top-down analysis through a highly diversified fund of funds. Troop recruitment is left to fund managers and the focus is on rigorous risk control.

A consistent VaR methodology will offer a clear perspective to investors to evaluate an optimal risk/profitability variable over the advised investment period of generally two years.

In any situation, investment managers must be forward-looking, react quickly to market events and never forget what Winston Churchill once said: 'However beautiful a strategy, you should occasionally look at the results.'

In the case of hedge funds, we like highly concentrated funds like Cajamurcia Selección Dinámica, or Ahorro Corporacion Conservador VAR 3 as a diversified fund of funds.

Pedro Mello e Castro

Banif Gestão de Activos

We think 2010 will be a volatile year, so investors should combine different strategies in order to diversify the sources of return and reduce portfolio's volatility.

In the traditional long-only world, we recommend, on the equities front, emerging market equities and high-dividend yield stocks, whereas in bonds we have strong convictions on convertibles, subordinated debt and sovereign debt issued by peripheral eurozone countries.

Additionally, we favour long/short strategies with low net exposure, and tactical asset allocation approaches that actively trade the most important asset classes.

We suggest high yielding assets, which we believe can outperform in a low interest rate environment; an exposure to emerging market equities, given their structural growth; and investment in tactical asset allocation strategies to take

Alessandra Manzuoli

Asset Management Team, Nextam Partners S.g.R

During the course of 2010, investors will re-focus their attention on company valuations and improving their profits. Not all market cycles characterised by growing profits follow the same pattern – a lot depends on valuations.

Today valuations are attractive and provide adequate protection from current risks. They also offer potential returns superior to those normally associated with the initial phase of this new profit-growing market cycle. Moreover, equity risk premium is still elevated relative to historic levels. There could be many reasons for today's high risk premium, but the same high premium also suggests that prospective returns should be superior to the norm.

As we enter into the phase of the cycle characterised by growing profits, investors will focus their attentions on companies with sustainable earnings growth, taking a much more selective approach.

During the phase of the cycle characterised by falling earnings, which we are now leaving behind us, we typically see the following phenomena:

- Cyclicals outperform, their valuations tending to converge towards the valuations of defensive sectors;
- Within each sector, companies with weaker financial positions tend to outperform companies with more solid ones.

By contrast, during the phase of the market cycle characterised by growing profits, which we are now entering, stockpicking dominates, so we can expect a greater dispersion in company valuations (today historically reduced) and performances.

With this in mind, we choose investors who focus on selecting quality companies. We like Bestinver International in Europe and First State Asia Pacific Leaders in Asia Pacific ex Japan. ■

When it comes to investing in China, leave it to the locals.

DWS Invest Chinese Equities – award-winning performance through local expertise.[1]

Tackling the Chinese market can be a daunting task. That's why we rely on the local expertise of our partner Harvest, one of China's leading asset managers. Our approach sets this fund apart from most Chinese portfolios, giving European investors access to what is perhaps the largest growth market of the 21st century.

Not surprisingly, **DWS Invest Chinese Equities** has been named Europe's best-performing Chinese equity fund over three years by Lipper.[1]

You, too, can profit from the perspective of local experts and the award-winning funds of DWS – the 1st choice for your money.

» For more information, visit our local websites.

LIPPER FUND AWARDS 2010 EUROPE

★★★★ Morningstar Rating™

1ST CHOICE FOR YOUR MONEY.

DWS INVESTMENTS
Deutsche Bank Group

[1]Source: http://excellence.thomsonreuters.com/awards/lipper, 25 Mar 2010. Source: © [2010] Morningstar, Inc. All rights reserved. The information contained herein (1) is copyright protected for Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not guaranteed to be accurate, complete or up-to-date. Neither Morningstar nor its content providers are responsible for any damages or losses that may arise from use of this information. Past performance does not guarantee future performance. Important information: The information contained in this document does not constitute investment advice and is merely a brief summary of key aspects of the fund. Further details, especially concerning the fund's composition and risk profile, can be found in the investment information. Full details of the fund can be found in the simplified or full sales prospectus, supplemented in each case by the most recent audited annual report and the most recent half-year report, if this report is more recent than the most recently available annual report. These documents constitute the sole binding basis for the purchase of fund units. They are available free of charge in either electronic or printed form from your advisor, from DWS Investment GmbH, Mainzer Landstrasse 178-190, 60327 Frankfurt am Main, Germany, or – where Luxembourg-based funds are involved – from DWS Investment S.A., 2, Boulevard Konrad Adenauer, 1115 Luxembourg. All opinions given reflect the current assessment of DWS Investments, which may change without notice. In cases where information contained in this document derives from third parties, DWS Investments accepts no liability for the accuracy, completeness or appropriateness of such information, although DWS Investments only uses data that it deems to be reliable. Further information on taxation can be found in the simplified and full sales prospectuses. DWS Invest Chinese Equities LC: Total expense ratio (as of: 26 Feb 2010): 1.77% plus performance-related fee 1.07%.