ALTERNATIVE FUNDS

A member of Deutsche Bank Group

Alternative investments— Insight for individual investors

This is a challenging time for investors, as they face the prospect of stock and bond returns lower than those of the previous 25 years. Moreover, conventional diversification and long-term growth strategies need to evolve to keep pace with the vast number of Americans who are about to retire.

These factors, though challenging, also make it an exciting time for investors as they search for new asset classes that can potentially add value to their overall asset allocation. Many institutional investors and high-net-worth individual investors have discovered alternative investments. Are individual investors next?

In this paper, we will review the changing investment environment, define alternative investments, assess their potential and examine the role they can play in a portfolio positioned for new diversification and long-term growth opportunities. With this insight, you can appreciate alternative investments' potential to help investors pursue their long-term goals. (Keep in mind that diversification and asset allocation neither assure a profit nor guarantee against loss.)

THE CHANGING INVESTMENT ENVIRONMENT

Heightened volatility in the equity markets and record-low bond yields have made investment success more challenging for many investors. Added to that is the fact that individual investors are shouldering greater personal responsibility for their own retirement income. The consequences of poor investment decisions could, potentially, be more severe.

OUTLINE

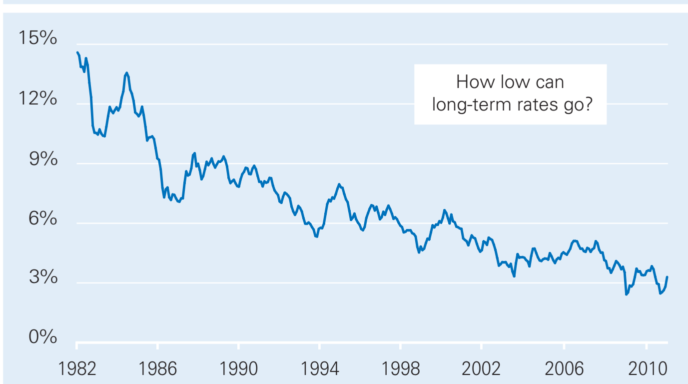
CONTRIBUTORS

- Christine M. Johnson, CFA, director of Alternative Strategy and Platform Development, DWS Investments
- Inna Okounkova, head of strategic asset allocation, QS Investors.

(see page 11 for bios)

The straightforward investment strategy of emphasizing US stocks and bonds that worked for previous generations of investors may not be enough going forward. It remains unclear what direction US stock and bond returns will go in the future. Is it possible that the 29-year cycle of falling interest rates that fueled US stock and bond returns from 1982 to 2010 is over?

10-YEAR US TREASURY YIELD (1982–2010)

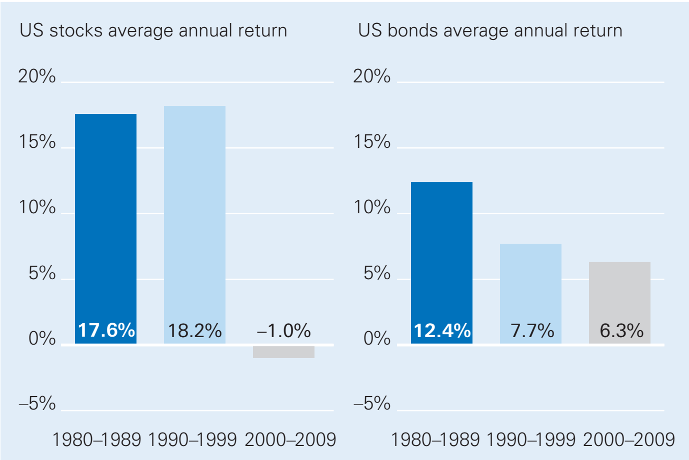


Source: www.treasury.gov. as of 12/31/10

DWS INVESTMENTS Deutsche Bank Group

Investors may no longer be able to rely on declining rates to drive stock and bond returns, which declined sharply from 2000 to 2009 compared to previous decades.

THE RETURN EXPECTATION REALITY



Source: Morningstar, Inc., as of 12/31/09. US stocks are represented by the S&P 500 Index, and bonds are represented by Barclays Capital (BarCap) US Aggregate Index. **Past performance is historical and does not guarantee future results.** Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index. The values of equity investments are more volatile than those of other securities. Fixed-income investments are subject to interest-rate risk, and their value will decline as interest rates rise.

For many investors, international investments have historically provided the dual benefit of broadening the investor's opportunity set while also adding meaningful portfolio diversification potential. However, the diversification benefit seems to be declining, as the United States and international markets become more correlated due to globalization.

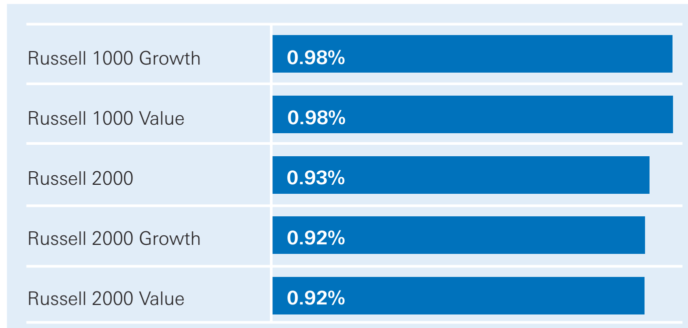
CORRELATION OF S&P 500 INDEX TO MSCI EAFE INDEX

Time period	Correlation of S&P 500 to MSCI EAFE
1980-1989	0.47
1990-1999	0.54
2000-2009	0.88

Source: Morningstar, Inc., as of 12/31/10. **Performance is historical and does not guarantee future results.** Correlation measures how assets perform in relation to one another. A 1.0 correlation indicates assets with exactly the same pattern. A -1.0 correlation indicates an exact opposite return pattern. A zero correlation indicates an unrelated return pattern. See page 11 for index definitions.

Global markets are not the only ones that seem to have become more closely correlated to the S&P 500 in recent years. As you can see from this chart, small-caps and large-caps, as represented by the Russell 2000 and Russell 1000 Indexes, respectively, have a fairly high correlation to the S&P 500 Index for the five years ended 12/31/10.

CORRELATION OF S&P 500 INDEX (2006-2010)

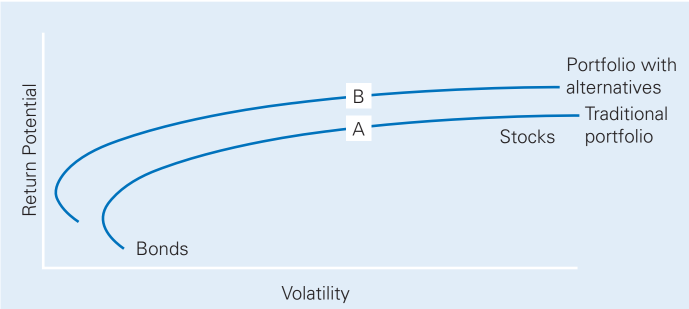


Source: Morningstar, Inc. as of 12/31/10. See page 11 for index definitions.

Perhaps the greatest individual investor challenges going forward are lowered return expectations combined with increased return requirements of pre-retirees and retirees. The "long-only liquid bonds and stocks" constraint still limits the overwhelming majority of US institutional and retail assets to these traditional types of investments. Is it possible for investors to create portfolios (using alternative investments) with similar risk characteristics and increased return potential?

This question (and potential response) can be illustrated by the "efficient frontier" graph shown on the following page. The concept for the efficient frontier is based on the theory that a portfolio is considered to be efficient if it has the best possible expected level of return for its level of volatility, usually shown by standard deviation. (The higher the standard deviation, the higher the volatility.)

EFFICIENT FRONTIER



Because of their potential for enhancing returns while mitigating volatility, alternatives can potentially help investors move from point A (the line representing a traditional portfolio) to point B (the line representing a portfolio with alternatives). This latter spot offers higher return potential with the same volatility.

ALTERNATIVE INVESTMENTS IN PERSPECTIVE

Alternative investments were once the sole province of institutions, endowments and high-net-worth individuals. There were barriers to entry that typical individual investors faced that made most alternative investments impossible investment options. In recent years, some of those barriers have lessened and alternative investment products are becoming available to the average investor. Before discussing alternative investments and their possible inclusion in an investor's portfolio, it's important to understand the different types of alternative asset classes.

The term "alternative investment" covers a broad range of investment strategies that fall outside the realm of traditional asset classes. Alternative investments are actually many different investment strategies—each with unique characteristics. The following profiles of the main alternative investment categories convey some of their unique properties.

COMMODITIES

Commodities include investments in energy, metals, agricultural products and currencies. However, commodity investments (such as commodity mutual funds) do not hold the actual commodities. Instead, they use commodity future instruments to establish investment positions.

Commodities may provide the greatest diversification benefit of any alternative investment, as correlations to US stocks and bonds have been low. Their low correlation stems from the fact that commodities tend to perform well when interest rates and inflation are rising—periods when most financial assets tend to suffer. Commodity prices usually rise when inflation accelerates. As demand for goods and services increases, so do their prices and the prices of the commodities used to produce them.

UNDERLYING ALTERNATIVE ASSET CLASSES SHOW LOW CORRELATIONS (10 years ended 12/31/10)

Asset class	Market Neutral	TIPS	Gold	EM bonds	EM stocks	US small caps	US bonds	Int. stocks	Cash	Gbl. real estate	Infra-struc-ture	Floating rate	Com-modi-ties	US stocks
Market neutral	1.00													
TIPS	0.04	1.00												
Gold	0.27	0.45	1.00											
EM bonds	0.04	0.48	0.41	1.00										
EM stocks	0.27	0.15	0.42	0.61	1.00									
US small caps	0.17	0.00	0.21	0.49	0.79	1.00								
US bonds	–0.10	0.79	0.29	0.48	0.02	–0.12	1.00							
Int. stocks	0.29	0.13	0.34	0.57	0.89	0.82	0.02	1.00						
Cash	0.20	–0.01	–0.03	–0.10	–0.03	–0.08	0.01	–0.06	1.00					
Gbl. real estate	0.20	0.25	0.32	0.60	0.77	0.80	0.16	0.84	–0.06	1.00				
Infrastructure	0.35	0.18	0.37	0.55	0.76	0.71	0.09	0.89	0.01	0.76	1.00			
Floating rate	0.27	0.19	0.12	0.41	0.54	0.50	–0.02	0.53	–0.15	0.60	0.47	1.00		
Commodities	0.48	0.24	0.48	0.35	0.69	0.53	–0.04	0.71	–0.05	0.57	0.66	0.51	1.00	
US stocks	0.14	0.03	0.19	0.52	0.82	0.89	–0.08	0.89	–0.06	0.78	0.83	0.50	0.57	1.00

Source: Morningstar. See page 2 for correlation information. See page 11 for asset class definitions.

EMERGING MARKETS (EM)

Emerging markets are the financial markets of a developing country—typically a small market with a short operating history. Emerging markets are characterized as transitional, meaning they are in the process of moving from a closed to an open market economy while building accountability within the system.

FLOATING-RATE LOANS

Floating-rate loans are debt financing obligations generally issued by banks to corporations, and they hold legal claim to the borrower's assets above all other debt obligations. The loan is considered senior to all other claims against the borrower, which means that in the event of a bankruptcy, the senior bank loan is the first to be repaid. Corporate borrowers, who typically have credit ratings below investment-grade, pay interest rates that reset periodically (they "float") as interest rates change.[1]

GLOBAL TACTICAL ASSET ALLOCATION

Global Tactical Asset Allocation (GTAA) is a strategy that adds value through tactical asset allocation. This strategy seeks outperformance from macro or "top-down" decisions, which include broad asset classes (global bonds and currencies), regions/countries as well as sectors. Instead of deciding which individual securities to overweight or underweight, a GTAA manager decides which country indexes to overweight and underweight. This top-down distinction means that GTAA managers are not looking for inefficiencies between securities, but rather inefficiencies between entire markets and regions.[1]

HEDGE FUNDS

Hedge funds are structured as limited partnerships. They typically have broad latitude to use a combination of sophisticated investment techniques such as taking both long and short positions, using leverage and derivatives, and investing in a variety of markets.[2]

The term hedge fund includes a broad spectrum of investment strategies. At the conservative end of the spectrum are "absolute return" oriented market-neutral strategies—whose objective is to provide investors with a positive return regardless of the market environment. At the more aggressive end of the spectrum, global macro strategies make directional bets on currencies, stocks and interest rates and are often leveraged and highly volatile.[1]

INFRASTRUCTURE

Infrastructure consists of highly diverse assets, with no two having identical attributes. The asset class is an amalgamation of various sectors, including roads, bridges, dams, ports, airports, power generation and distribution, transmission of electricity, water and gas utilities and communications. Despite the differences, infrastructure assets have certain traits in common, including: high barriers to entry, high degrees of regulation, high initial capital expenditure, stable cash flow, inelastic demand, and long duration assets. Infrastructure is evolving into one of the hottest alternative asset classes.[1]

PRIVATE EQUITY

Private equity refers to equity investments in companies which are not listed on publicly-traded stock exchanges. Most institutional investors obtain private equity exposure via private equity funds which primarily invest in leveraged buyouts and venture capital.[1]

We believe new alternative asset classes will continue to evolve over time. In our view, it is important for investors to be able to adequately evaluate these investment options to determine whether or not they are an appropriate investment.

REAL ESTATE

Equity real estate includes investments in office, retail, residential and industrial properties. Institutional investors access real estate via both private and public vehicles.

Private equity real estate is typically offered via limited partnership funds. Public equity real estate is accessed by institutional investors via publicly traded real estate investment trusts (REITS). They are publicly traded entities that invest in office buildings, apartment complexes, industrial facilities, shopping centers and other commercial spaces. Most REITs trade on major stock exchanges.[1]

[1] See page 6 for risk information.

[2] The value of a short position rises when the underlying security falls. The value of a long position rises when the underlying security rises.

TIPS

TIPS stands for Treasury inflation-protected securities. Introduced by the US government in 1997, TIPS are designed to protect portfolios from declining purchasing power during inflationary periods. Like traditional US Treasuries, TIPS pay a fixed rate of interest, but their principal, to which the interest rate is applied, is linked to the current inflation rate. Therefore, TIPS have the potential to help investors manage inflation risk. TIPS are backed by the full faith and credit of the US government.[1]

CHARACTERISTICS OF ALTERNATIVES

Alternative investments have historically sought to provide investors with several potential investment advantages—diversification, risk reduction, higher returns and capital preservation in volatile markets. Not all alternative investments have all of these capabilities, but it's important to examine these potential advantages as well as the risks to fully understand the inclusion of alternatives in an investment portfolio.

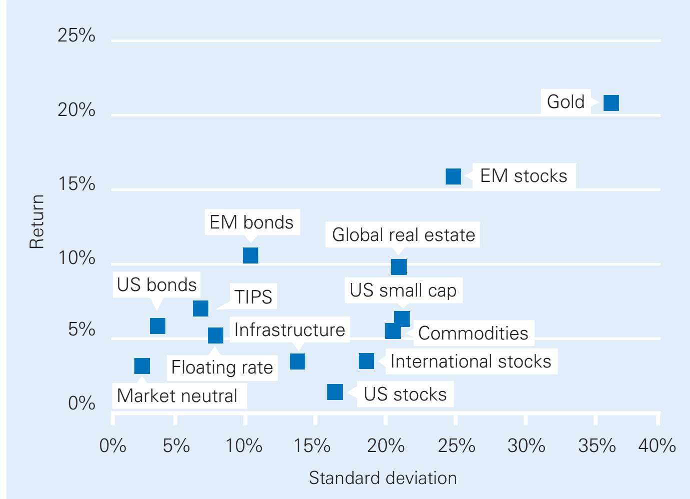
DIVERSIFICATION

Alternative assets typically have different return characteristics than traditional assets. Combining alternative strategies with traditional long equity and bond strategies has the potential to generate steady gains and preserve wealth through up and down markets. As we have discussed, correlation quantifies the diversification potential between different investments. Alternative assets have historically provided low correlations vs. traditional asset classes. In addition, many alternative sub-groups have also provided low correlations against each other. Keep in mind that diversification neither assures a profit nor guarantees against loss.

RETURN POTENTIAL

While there can be no assurance or guarantee that alternative investments will outperform traditional asset classes in the future or that an alternative investment will be profitable, alternative assets have historically offered higher returns than traditional investments over time. Take a look at this volatility/return table.

PERFORMANCE VS. VOLATILITY (1999-2010)



Source: Deutsche Asset Management as of 12/31/10. **Past performance is no guarantee of future results.** Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index. Volatility is represented by standard deviation. Standard deviation is often used to represent the volatility of an investment. It depicts how widely an investment's return varies from the investment's average return over a certain period. Please refer to page 11 for index definitions.

As with traditional asset classes, alternative-class market leadership has changed over time and the benefits of diversification apply to alternative investments as well. The importance of maintaining a diversified portfolio does not just apply to traditional asset classes. As you can see from the chart on the following page, there have been substantial differences in the performance of the various asset classes we have described. Although past performance is no guarantee of future results, using a diversified blend of alternatives may potentially help to smooth the return stream over various market cycles.

[1] See page 6 for risk information.

ALTERNATIVE ASSET CLASS RETURNS (2001-2010)

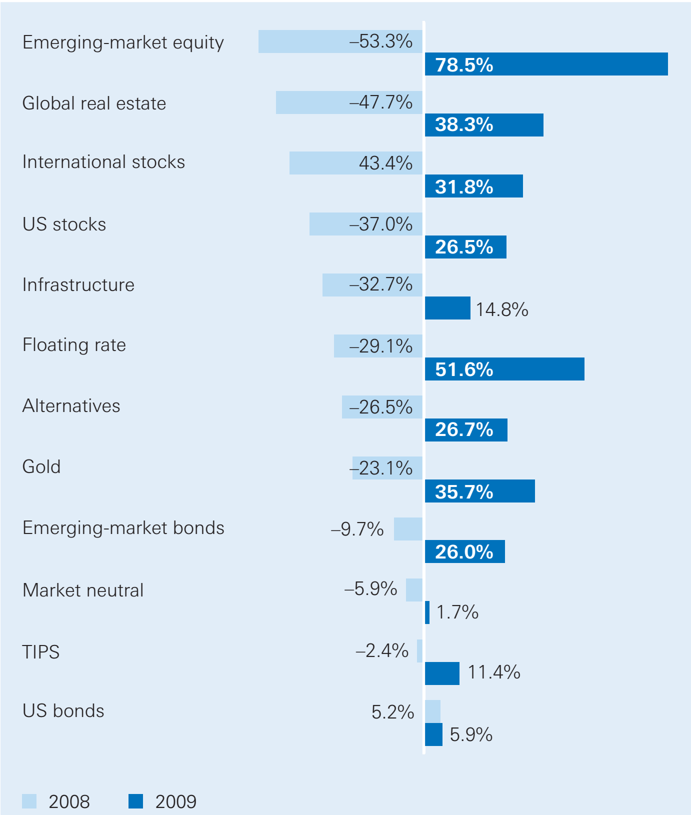
2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
GOLD 22.63%	GOLD 52.61%	EM EQUITY 55.82%	GLOBAL REAL ESTATE 37.96%	EM EQUITY 34.00%	GLOBAL REAL ESTATE 42.35%	EM EQUITY 39.39%	TIPS –2.35%	EM EQUITY 78.51%	GOLD 35.06%
TIPS 7.90%	TIPS 16.57%	GOLD 45.58%	EM EQUITY 25.55%	GOLD 28.35%	EM EQUITY 32.17%	COMMODITY 32.45%	MARKET NEUTRAL –5.92%	FLOATING RATE 51.62%	GLOBAL REAL ESTATE 20.40%
MARKET NEUTRAL 6.71%	EM INCOME 14.24%	GLOBAL REAL ESTATE 40.69%	INFRA-STRUCTURE 21.31%	COMMODITY 25.54%	INFRA-STRUCTURE 29.06%	INFRA-STRUCTURE 19.58%	EM INCOME –9.70%	GLOBAL REAL ESTATE 38.26%	EM EQUITY 18.88%
FLOATING RATE 4.24%	COMMODITY 12.81%	COMMODITY 29.08%	COMMODITY 20.82%	GLOBAL REAL ESTATE 15.35%	GOLD 20.13%	GOLD 18.62%	GOLD –23.10%	GOLD 35.74%	**ALTS 13.03%**
ALTS 0.24%	**ALTS 9.65%**	EM INCOME 28.83%	**ALTS 16.63%**	**ALTS 14.91%**	**ALTS 15.30%**	**ALTS 12.04%**	**ALTS –26.52%**	COMMODITY 28.03%	COMMODITY 12.55%
EM INCOME –0.79%	GLOBAL REAL ESTATE 2.82%	**ALTS 24.70%**	EM INCOME 11.77%	EM INCOME 11.86%	EM INCOME 10.49%	TIPS 11.64%	FLOATING RATE –29.10%	**ALTS 26.67%**	EM INCOME 11.83%
EM EQUITY –2.62%	FLOATING RATE 1.91%	INFRA-STRUCTURE 24.40%	TIPS 8.46%	MARKET NEUTRAL 6.22%	MARKET NEUTRAL 7.32%	EM INCOME 6.45%	INFRA-STRUCTURE –32.66%	EM INCOME 25.95%	FLOATING RATE 10.13%
GLOBAL REAL ESTATE –3.81%	MARKET NEUTRAL 0.98%	FLOATING RATE 9.97%	FLOATING RATE 5.17%	FLOATING RATE 5.06%	FLOATING RATE 6.74%	MARKET NEUTRAL 5.29%	COMMODITY –44.76%	INFRA-STRUCTURE 14.75%	INFRA-STRUCTURE 6.60%
INFRA-STRUCTURE –14.82%	EM EQUITY –6.17%	TIPS 8.40%	MARKET NEUTRAL 4.15%	INFRA-STRUCTURE 4.97%	COMMODITY 2.77%	FLOATING RATE 2.08%	GLOBAL REAL ESTATE –47.72%	TIPS 11.41%	TIPS 6.31%
COMMODITY –19.71%	INFRA-STRUCTURE –17.95%	MARKET NEUTRAL 2.44%	GOLD –5.54%	TIPS 2.84%	TIPS 0.41%	GLOBAL REAL ESTATE –6.96%	EM EQUITY –53.33%	MARKET NEUTRAL 1.17%	MARKET NEUTRAL 3.79%

Source: Morningstar, as of 12/31/10. Past performance is historical and does not guarantee future results. See page 11 for index definitions and page 7 for the "alternative" definition.

RISK INFORMATION:

Commodities: Market price movements or regulatory and economic changes will have a significant impact on commodity performance. Commodity-linked derivatives may subject a fund to special risks. **Emerging markets:** Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Stocks may decline in value. **Floating-rate loans:** Loan investments are subject to interest-rate and credit risks. Floating-rate loans tend to be rated below investment grade and may be more vulnerable to economic or business changes than issuers with investment-grade credit. Adjustable-rate loans are more sensitive to interest rate changes. In certain situations, it may be difficult or impossible to sell an investment at an acceptable price. **Global tactical asset allocation:** Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. **Hedge funds:** Leverage results in additional risks and can magnify the effect of any losses. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. Short sales-which involve selling borrowed securities in anticipation of a price decline, then returning an equal number of the securities at some point in the future-could magnify losses and increase volatility. Forward commitment transactions which could subject an investor to counterparty and leverage risk. A counterparty may decline in financial health and become unable to honor its commitments, which could cause losses. Investing in derivatives entails special risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. **Infrastructure:** Various stages of an infrastructure project involve specific risks. Development risk: The initial very high-risk phase where only equity capital can be used for financing. Construction risk: Cost and time spillovers may distort future revenue generation and profitability. Operating risk emerges due to underestimation of operating costs and occasionally, an overestimation of the output from the proposed infrastructure facility. Other potential risks include demand risk, relating to the demand and "willingness to pay" for the proposed infrastructure facility; financial risk such as foreign exchange and interest rate risks; market risk, when consumers can choose alternative services; and political risks relating to government policies and selection procedures. **Private equity:** There are several key risks in any type of private-equity investing. Companies that specialize in certain industries can carry additional risks such as technology risk, market risk and company risk. Any investment focused on one industry will generally be more volatile than one that invests more broadly. Investments in foreign markets, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes, and market risks. Fees relating to private-equity investments may be higher than those of more conventional investments such as mutual funds and may reduce returns. As private-equity investing opportunities become more widely available, the ability for private-equity firms to locate investment opportunities may be reduced. Some private-equity investment vehicles may not have long histories for comparison with other investments. Private equity investments may be illiquid, meaning it may be difficult or impossible to sell an investment at an acceptable price. **Real estate:** Any investment concentrated in a particular segment of the market will generally be more volatile than one that invests more broadly. There are special risks associated with an investment in real estate, including REITS. These risks include credit risk, interest rate fluctuations and the impact of varied economic conditions. **TIPS:** Although inflation-indexed bonds are expected to be protected from long-term inflationary trends, short-term increases in inflation may lead to a decline in value.

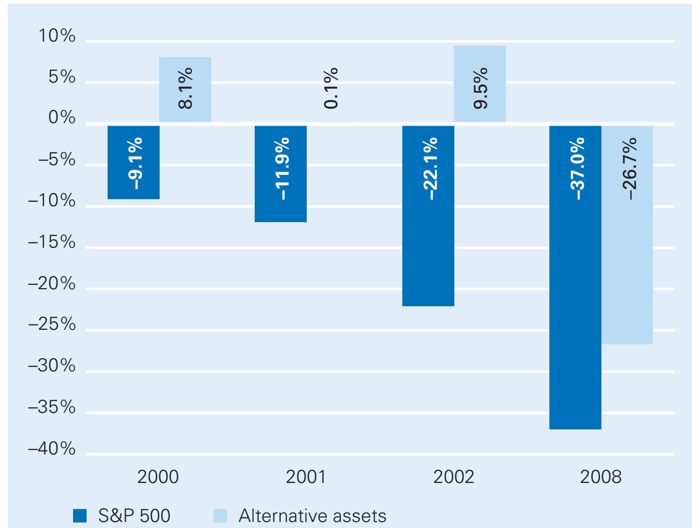
SUMMARY OF 2008 AND 2009 PERFORMANCE



Source: Morningstar. **Performance is historical and does not guarantee future results.** Index returns assume reinvestment of all distributions and do not reflect fees or expenses. It is not possible to invest directly in an index. This illustration does not represent the performance of any DWS Investments fund and is for informational purposes only. See page 11 for asset class definitions.

Let's take a look at a how a hypothetical alternative portfolio allocated to a combination of alternative asset classes (specifically real estate, market neutral, TIPS, commodities, emerging-market stocks, emerging-market bonds and gold) performed during a series of bear markets.

BEAR-MARKET PERFORMANCE



Source: Deutsche Asset Management. **Past performance is historical and does not guarantee future results.** Stocks are represented by the S&P 500 Index. Alternative assets are represented by 20% FTSE EPRA/NAREIT Index, 20% HFRI Equity Market Neutral Index, 20% Barclays Capital TIPS Index, 15% commodities blend (50% S&P Goldman Sachs Commodities Index, 25% MSCI World Energy Index, 25% MSCI World Materials Index), 10% MSCI Emerging Markets Equity Index, 10% JPMorgan Emerging Markets Bond Index and 5% S&P/Citigroup Global Gold BMI Index.

RISK

As with any investment, there are risks associated with alternative assets. The higher return potential often results in higher risk and volatility. Some alternative investments are in thinly traded markets and securities, which could potentially limit position liquidation, particularly in a severe correction. Many alternative asset classes (unlike most traditional investments) lack longer-term track records and often the return numbers are self-reported. Risk changes over time. As volatility increases, risk often increases. For example, during the financial crisis of 2008, we saw risk dramatically increase across many asset classes.

INSIGHT FROM INSTITUTIONAL INVESTORS

The Bank of New York Mellon publishes information on institutional investor returns. While it is virtually impossible to compare these returns to an average investors, it is possible to compare the returns to an appropriate benchmark portfolio without alternative investments.

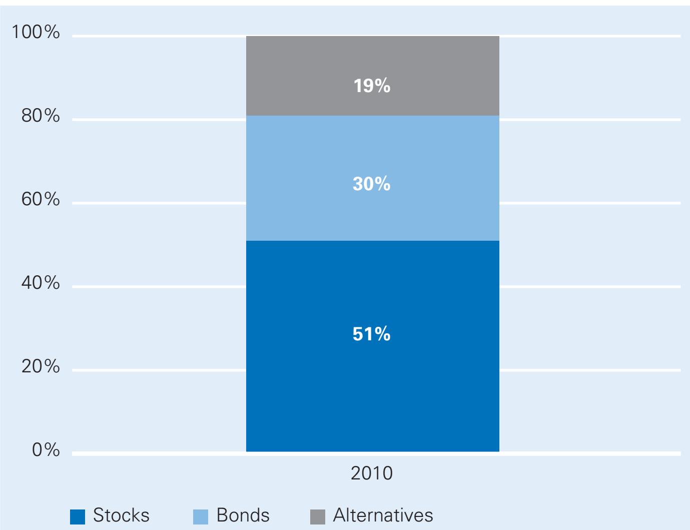
BNY MELLON TRUST MEDIAN PLAN RETURNS

(Period ended 12/31/10)

	5 years	10 years
Corporate plans	4.76%	4.97%
Endowments	5.21%	5.25%
Benchmark	3.45%	3.05%

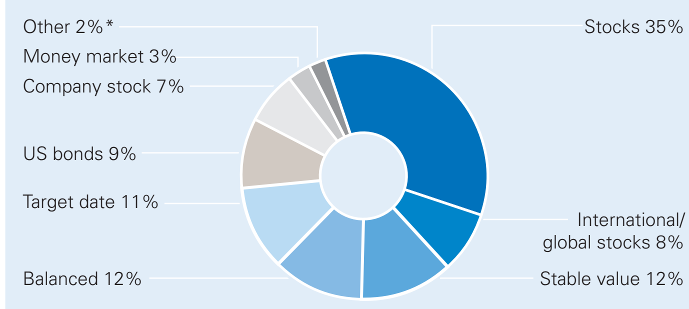
Source: BNY Mellon, as of 12/31/10. The benchmark is the Universe Custom Composite Benchmark, which consists of nearly 700 corporate, foundation, endowment, public, Taft-Hartley and health care plans. **Past performance is historical and does not guarantee future results.**

ASSET ALLOCATIONS CONTINUE TO SHIFT TO ALTERNATIVES



Source: BNY Mellon, as of 2/10/11.

OVERALL ALLOCATION OF 401(K) ASSETS IN THE UNITED STATES, BY TYPE OF INVESTMENT



Source: Callan DC Index, as of 12/31/10. Percentages do not add up to 100% due to rounding. *Includes emerging-market equity and self-directed brokerage accounts.

Individual investors, however, are still trailing institutional investors in their allocations to alternatives.

INDIVIDUAL INVESTORS AND ALTERNATIVE INVESTMENTS

Alternative investments were once investment options for institutions, endowments and high-net-worth individuals. There were barriers to entry that deterred the average investor. They were typically structured as limited partnerships sold only to qualified investors. Minimum eligibility requirements were often a net worth of greater than $1.5 million for individuals (with spouse, excluding primary residence) and $5 million for entities and minimum investment requirements were as high as $5 to $10 million. This has made it difficult for the average investor to invest in alternatives.

In addition, alternative investments may have the following characteristics, which could make them potentially unattractive to individual investors. They may:

- Involve shorting, derivatives, and/or leverage
- Be less liquid than traditional asset classes
- Have less information on valuations/pricing—reliance on appraised value
- Have less transparency
- Not be tax-sensitive
- Be difficult to model within an overall asset allocation

The barriers to entry for retail investors mentioned above have changed in recent years—as some mutual funds are now being structured to include investments in alternative asset classes.

THE ROLE OF ALTERNATIVES IN AN INVESTMENT PORTFOLIO

The inclusion of alternative investments in a portfolio, while possibly reducing overall portfolio risk, can be a complicated process. Considerable investment expertise may be required to analyze the risk associated with differing investment styles and to allocating to these investments. The question for individuals and institutions alike is—what is the optimal allocation to alternatives and what are the alternative asset classes to invest in?

ASSET ALLOCATION

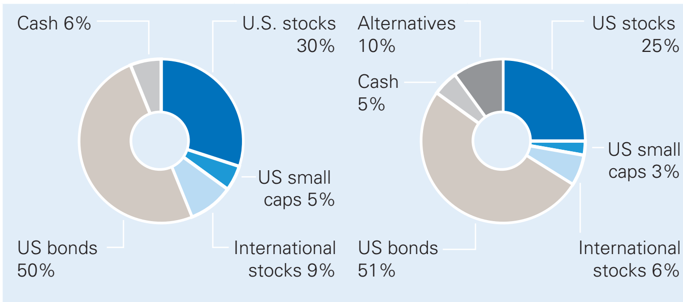
Most investors recognize that a traditional asset allocation refers to a "traditional" portfolio with an allocation to stocks and an allocation to bonds, with these percentages being further subdivided by style. In the past, this blend of capital appreciation from stocks and capital preservation from bonds seemed a reasonable solution for many investors—institutional and individual alike. Will this hold true in the future and are there other options aside from traditional long-only portfolios?
A new generation of portfolio construction techniques has evolved to address many of the challenges that have existed with alternative investments in traditional asset allocation models.

One portfolio construction technique utilizes a factor-based model to evaluate alternative asset classes. This allows a comparison of traditional and alternative investments on a common footing. In addition, advanced portfolio optimization allows an investor to evaluate the probability of achieving a given return and incorporates downside measures of risk. These advances in portfolio construction methodology allow investors to evaluate the role of alternatives within their overall investment framework.

HYPOTHETICAL PORTFOLIOS

Let's take a look at several different hypothetical portfolios (using traditional asset classes and comparing a similar portfolio using alternative investments). Examining the historical performance of a traditional portfolio alongside a more "sophisticated" portfolio that includes alternative assets, reveals that alternative assets can benefit a portfolio by adding additional return with a minimal impact on risk. As you can see, the portfolios generally produced slightly higher returns (for the 10-year period ended 12/31/10) with lower risks. Asset allocation neither assures a profit nor guarantees against loss. (Please note that the scenarios below are hypothetical and are not intended to represent the performance of any DWS fund. Actual rates of return cannot be predicted and will fluctuate.)

SCENARIO 1: 10% ALTERNATIVES



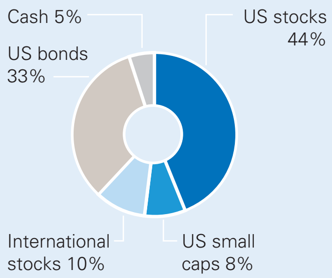
Traditional portfolio

Portfolio with alternatives

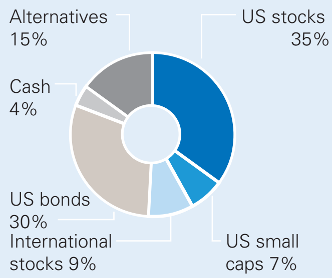
Scenario 1	Traditional portfolio	Portfolio with alternatives	Value added
Return	4.54%	5.13%	0.59%
Standard deviation	7.53%	6.82%	–0.17%

See page 10 for important information about these scenarios and for additional information about the alternatives portfolio.

SCENARIO 2: 15% ALTERNATIVES



Traditional portfolio

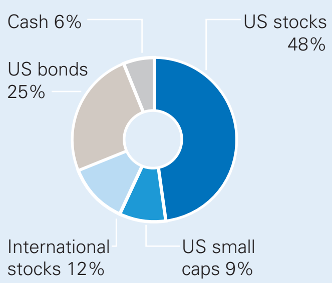


Portfolio with alternatives*

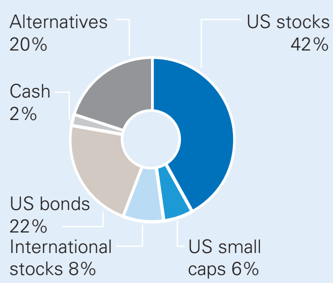
Scenario 2	Traditional portfolio	Portfolio with alternatives*	Value added
Return	3.95%	4.86%	0.91%
Standard deviation	10.43%	9.99%	–0.44%

See below for important information about these scenarios.

SCENARIO 3: 20% ALTERNATIVES



Traditional portfolio



Portfolio with alternatives*

Scenario 3	Traditional portfolio	Portfolio with alternatives*	Value added
Return	3.66%	4.74%	+1.08%
Standard deviation	11.61%	11.18%	–0.42%

Source: Deutsche Asset Management as of 12/31/10. *Alternative investments represented by 20% FTSE EPRA/NAREIT Index, 20% HFRI Equity Market Neutral Index, 20% Barclays Capital US TIPS Index, 15% commodities blend (50% Goldman Sachs Commodity Index, 25% MSCI World Energy Index, 25% MSCI World Materials Index), 10% MSCI EAFE® Emerging Markets Equity Index, 10% JP Morgan EMBI, 5% S&P Global Gold BMI Index. **Past performance is no indication of future results.** Index returns assume reinvestment of all distributions and, unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index.

CONCLUSION

In this paper, we have examined the changing investment environment, defined key alternative asset classes, explored advantages and disadvantages of alternative investments, and compared the risk/return characteristics of hypothetical traditional and non-traditional portfolios. We have discovered how many institutional investors, leading university endowments, and high-net-worth individuals successfully utilize alternative investments. This leads to a vital question: is the general investing public next?

Many individual investors faced with lower return expectations, the increased correlation of most "traditional" asset classes, and the need to take greater personal financial responsibility are seeking consistent, risk-adjusted returns for future financial needs. Following the example of institutions, numerous individual investors are pursuing alternative investments and many are finding that the decision-making process quickly becomes complicated. In addition to determining the appropriate percentage to invest in alternatives, there is selecting the asset class for investment as well as rebalancing. These are important and sometimes difficult decisions to make.

Typically, institutional investors have considerable expertise or hire experts with deep experience in alternative investments. Individual investors can also follow this model by tapping into their financial advisors' knowledge and fully understanding the risks and potential benefits of alternative investments. There are innovative funds designed to bring alternative investments to the general investing public, and it is essential for individual investors, intrigued by these offerings, to gain the insight and foresight to make an informed decision.

Asset class	10-yr. return	10-yr. volatility
US stocks	3.29%	15.98%
US small cap	7.87%	20.95%
International stocks	5.39%	18.36%
US bonds	5.56%	3.80%
Cash	2.12%	0.48%

Source: Morningstar as of 3/31/11. **Past performance is historical and does not guarantee future results.** Stocks may decline in value. Stocks of smaller companies involve greater risk than securities of larger, more-established companies. Investing in foreign securities, particularly those of emerging markets, presents certain risks, such as currency fluctuations, political and economic changes and market risks. Bond investments are subject to interest-rate and credit risks. When interest rates rise, bond prices generally fall. Although US government securities are backed by the full faith and credit of the US government, their prices fluctuate. Investors may lose principal if the securities are sold prior to maturity. See page 6 for additional risk information.

CHRISTINE M. JOHNSON

Johnson, CFA, is director of Alternative Strategy and Platform Development for DWS Investments. She has a bachelor's degree from Pace University and a master's degree in business administration from Fordham University.

INNA OKOUNKOVA

Okounkova is head of strategic asset allocation at QS Investors. She has a master's of science degree from Moscow State University and a master's degree in business administration from the University of Chicago. QS Investors was formed within Deutsche Bank in 1999 and launched as an independent firm in 2010 based in New York City. The firm has $12.8 billion under management across and over $90 billion under advisory as of 3/31/11.

INDEX/ASSET CLASS DEFINITIONS

Cash: Citigroup 3-Month US Treasury Bill Index, an unmanaged index reflecting monthly return equivalents of yield averages that are not marked to the market and are an average of the last three, three-month T-bill issues. **Commodities:** 50% S&P Goldman Sachs Commodity Index, which represents commodity sector returns of an unleveraged, long-term investment in commodity futures; 25% MSCI World Energy Index, which measures the performance of energy equities in developed markets; 25% MSCI World Materials Index, which measures the performance of material equities in developed markets. **Emerging-market equity/stocks:** MSCI Emerging Markets Equity Index, which measures equity market performance in global emerging markets. **Emerging-market income/bonds:** JP Morgan Emerging Market Bond Index, which tracks Brady bonds, loans, eurobonds and local-market debt traded in emerging markets. **US bonds:** Barclays Capital US Aggregate Index, which represents domestic, taxable investment-grade bonds with average maturities of one year or more. **Floating-rate:** S&P/LSTA Leveraged Loan Index, an unmanaged, market-value weighted total return index that tracks outstanding balance and current spreads over LIBOR for fully funded loan terms. **Global infrastructure:** UBS Global Infrastructure Index: UBS considers utilities to be a subset of infrastructure; however, due to the size and relative maturity of utilities as an asset class, UBS has chosen to identify "infrastructure" and "utilities" separately as second-tier indices (UBS Infrastructure Index, UBS Utilities Index). The UBS Global Infrastructure & Utilities (UBS I&U) Indices are calculated based on free-float market capitalization, as defined by S&P. **Global real estate:** FTSE EPRA/NAREIT Developed Index, a market capitalization-weighted index based on the last trade prices of shares of all eligible companies. **Gold:** S&P/Citigroup Global Gold BMI Index, which represents the precious metals industry component of the S&P/Citigroup global equity family of indices. **International stocks:** MSCI EAFE Index, a free-float-adjusted, market-capitalization-weighted index designed to measure developed-market equity performance. **Market neutral:** HFRI Equity Market Neutral Index, which is designed to represent the performance of equity market neutral strategies. **TIPS:** Barclays Capital US TIPS Index, which tracks US Treasury inflation-linked securities. **US stocks:** The S&P 500 Index, which represents the US equity market in general. **US small-cap stocks:** Russell 2000 Index, which tracks the performance of the 2,000 smallest companies of the Russell 3000 Index. The **Russell 1000 Growth Index** tracks the performance of those Russell 1000 Index stocks with higher price-to-book ratios and higher forecasted growth rates. The **Russell 1000 Value Index** tracks the performance of those Russell 1000 Index stocks with lower price-to-book ratios and lower forecasted growth rates. The **Russell 1000 Index** tracks the performance of the 1,000 largest stocks in the broad Russell 3000 Index. The **Russell 2000 Growth** Index tracks the performance of those Russell 2000 Index stocks with higher price-to-book ratios and higher forecasted growth rates. The **Russell 2000 Value Index** tracks the performance of those Russell 2000 Index stocks with lower price-to-book ratios and lower forecasted growth rates. Index returns assume reinvestment of all distributions but do not reflect fees or expenses. It is not possible to invest directly in an index.

The opinions and forecasts expressed herein by the authors do not necessarily reflect those of DWS Investments, are as of 3/31/11 and may not come to pass.

DWS Investments Distributors, Inc.
222 South Riverside Plaza Chicago, IL 60606-5808
www.dws-investments.com inquiry.info@dws.com
Tel (800) 621-1148

DWS INVESTMENTS
Deutsche Bank Group