

# A SECOND WAVE OF OPPORTUNITY



## SUMMARY

The objective of this research paper is to:

- Explore the unique demographics and investment needs of 2<sup>nd</sup> Wave Boomers (currently aged between 44 and 52)
- Discuss the challenges and opportunities this generation in transition presents to financial services professionals
- Detail the investment strategies available to address these challenges and opportunities

2<sup>nd</sup> Wave Boomers are potentially the **largest** and most **affluent** segment of any U.S. generation. Financial professionals who can effectively address the unique needs of 2<sup>nd</sup> Wave Boomers have the potential to claim a competitive share of a growing asset base for decades to come.

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## EXECUTIVE SUMMARY

Much is made of the fact that the oldest baby boomers are beginning to retire, but this is just the beginning of the transition, and only part of the story. A second, even larger wave of younger boomers, born between 1956 and 1964, is cresting over the horizon, with unique investment and retirement needs. These affluent and high net-worth 2<sup>nd</sup> Wave Boomers are rolling into their peak earning years, with average household incomes above \$200,000 and nearly three-quarters of a million dollars in investable assets.

Although the aggregate income and asset levels of this demographic segment are impressive, the financial demands faced by many younger boomers are in many ways more pronounced than those of their older boomer counterparts—driven by having children at home or in college and/or caring for aging parents while facing the reality of a shrinking window of income-earning years prior to retirement. Furthermore, the experience of seeing the bull market of the '90s give way to the bear market of 2000–2002, as well as the more recent subprime-related correction and increased market volatility, has reminded pre-retirees of the importance of wealth protection in preparing for retirement. These realities converge to create what appear to be contrasting investment requirements for the 2<sup>nd</sup> Wave Boomers: growth and protection of their wealth. This dual requirement is at the core of the financial dilemma faced by the 2<sup>nd</sup> Wave Boomers and an opportunity for advisors that currently remains untapped.

Our survey has shown that although 58% of 2<sup>nd</sup> Wave Boomers make use of a financial advisor, more than half have not completed a financial plan and are less satisfied with their advisors than current retirees and 1<sup>st</sup> Wave Boomers. The majority of younger boomers' assets are currently in employer sponsored retirement plans (ESRPs) and are managed without an advisor. Only 2% of younger boomers are fully or partially retired and most still have four to twenty-two years of employment ahead of them. This places them in a distinct position between younger generations who are primarily focused on wealth accumulation and their older brothers and sisters who are already concentrating on wealth preservation and income. 2<sup>nd</sup> Wave Boomers are in the "GaP," a time and place when they need to both grow and protect assets. As defined benefit coverage continues to decline, they will be personally responsible for more of their retirement assets than previous generations.

2<sup>nd</sup> Wave Boomers are more risk tolerant than their elders, but have been well exposed to the recent volatility of markets and seen the impact of market corrections on their older siblings'

retirement plans. Servicing these younger boomers requires an awareness of their unique investment needs and the ability to offer creative solutions, especially to the 42% who currently do not use an advisor.

Advisors who develop customized financial plans for 2<sup>nd</sup> Wave Boomers that address the dual need of delivering both growth and protection of wealth will be better positioned to capture the assets of this affluent demographic segment. Recent financial product developments will facilitate the efforts of advisors in delivering such solutions. In particular, global equity and fixed income products as well as alternative asset classes (e.g., real estate, commodities, long/short asset portfolios, etc.) offer diversification benefits to advisors by reducing risk exposure to the U.S. equity and fixed income markets. Additionally, innovation in what is referred to as outcome-driven investments such as annuities, structured products, and mutual funds with defined distribution/return characteristics can assist advisors in effectively managing the growth/protection balance in caring for the retirement nest eggs of the 2<sup>nd</sup> Wave Boomers.

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## ABOUT THE STUDY AND ITS AUTHORS

The data examined for this paper comes from Cogent Research's benchmark Investor Brandscape™ 2007 study of affluent and high net-worth U.S. investors. Between October 6 and November 1, 2006, Cogent conducted an online survey with a representative cross section of 4,000 U.S. adults. To qualify for inclusion, survey participants were required to hold mutual funds and have at least \$100,000 in investable assets, excluding real estate.

A total of 728 2<sup>nd</sup> Wave Boomers were surveyed, representing 18% of the affluent and high net-worth investors in the study.

### COGENT RESEARCH

Cogent Research helps clients gain clarity, obtain perspective, and formulate direction on critical business issues. Founded in 1996, Cogent provides custom research, syndicated research products, and evidence-based consulting to leading organizations in the financial services and life sciences industries. Through quality research, advanced analytics, and deep industry knowledge, Cogent Research delivers data-driven solutions and strategies that enable clients to better understand customers, define products,

and shape market opportunities in order to increase revenues and grow the value of their products and brands.

### DWS INVESTMENTS

DWS Investments is the U.S. retail brand name of Deutsche Asset Management (DeAM)—the global asset management division of Deutsche Bank with more than \$816 billion in assets under management globally (as of December 31, 2007). DWS Investments can trace its roots as a respected U.S. asset manager back to 1919.

With a strong commitment to superior performance, innovation, and leadership in intellectual capital, DWS Investments offers a comprehensive and diverse family of products available through financial intermediaries, retirement plans, and wrap programs. Through DWS Investments, investors can tap into DeAM's far-reaching global research organization of more than 750 investment professionals (as of December 31, 2007), who manage equity, fixed-income, balanced, cash, real estate, and hedge fund investments around the world.

## INTRODUCTION

As we mentioned earlier, the objective of this paper is to explore the unique demographics and investment needs of 2<sup>nd</sup> Wave Baby Boomers. This generation in transition presents financial service professionals with unique challenges as well as opportunities.

### WHO ARE THE 2<sup>ND</sup> WAVE BOOMERS

2<sup>nd</sup> Wave Boomers are those born between 1956 and 1964, the oldest of whom recently turned 52. They slot in between 1<sup>st</sup> Wave Boomers, now turning 62, and Generation X investors, who have (for the most part) not yet attracted the focus of financial services marketers.

### HOW 2<sup>ND</sup> WAVE BOOMERS ARE DIFFERENT

Further from retirement than 1<sup>st</sup> Wave Boomers, 2<sup>nd</sup> Wave Boomers are still primarily in the accumulation stage and in, or entering, their peak earning years. However, with each passing day, more 2<sup>nd</sup> Wave Boomers will be entering the “GaP” between accumulation and preservation/distribution, where they will need to both grow and protect their wealth. The financial demands faced by many younger boomers are in many ways more pronounced than those of their older boomer counterparts, driven by having children at home or in college and/or caring for aging parents while facing the reality of a shrinking window of income-earning years prior to retirement. Furthermore, the experience of seeing the bull market of the ‘90s give way to the bear market of 2000–2002, as well as the more recent subprime-related correction and increased market volatility, has reminded pre-retirees of the importance of wealth protection in preparing for retirement. These seemingly contrasting requirements of both growing and protecting wealth are at the core of the financial dilemma faced by the 2<sup>nd</sup> Wave Boomers, and advisors are increasingly being asked to address this challenge.

### OPPORTUNITY TO BE THE ADVISOR OF CHOICE

Fifty-eight percent of affluent and high net-worth 2<sup>nd</sup> Wave Boomers use an advisor, but they are less satisfied with the experience than older investors. Only 63% would recommend their current advisor to others, and 46% have not completed a financial plan.

Although they have seemingly limitless access to financial information, many 2<sup>nd</sup> Wave Boomers are realizing that their financial reach is beginning to exceed their grasp. U.S. markets have now lagged for several years, and the changing global investment environment requires advanced strategies aimed at investing for growth, diversifying portfolios, and managing risk. Financial professionals who can provide these strategies, and effectively address the unique needs of 2<sup>nd</sup> Wave Boomers, have an opportunity to claim a competitive share of a growing asset base for decades to come.

### CHARACTERISTICS OF 2<sup>ND</sup> WAVE BOOMERS

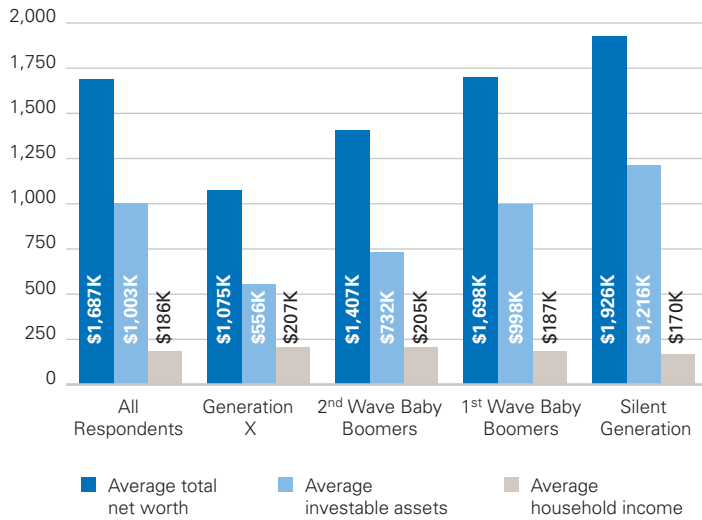
The majority of affluent and high net-worth 2<sup>nd</sup> Wave Boomers are employed full-time outside the home. Only 1% of the group reports being fully retired, compared to 14% for older boomers, and they have many years of income-earning potential ahead of them. Their earnings and investable assets make them an appealing target for financial advisors. Affluent and high net-worth 2<sup>nd</sup> Wave Boomer households have nearly three-quarters of a million dollars of investable assets and average household incomes above \$200,000.

**2<sup>nd</sup> Wave Boomers report higher average household incomes than the overall affluent and high net-worth investor population.** On average, 2<sup>nd</sup> Wave Boomers report \$205,109 in average household income, roughly 9% higher than the average income of all surveyed investors (\$186,491) and of 1<sup>st</sup> Wave Boomers (\$186,757) (Exhibit 1).

**2<sup>nd</sup> Wave Boomers have \$731,777 in investable assets.**

On average, 2<sup>nd</sup> Wave Boomers report investable assets that are a full 30% higher than those of Generation X investors and 36% less than those of 1<sup>st</sup> Wave Boomers (Exhibit 1).

## EXHIBIT 1: FINANCIAL DEMOGRAPHICS

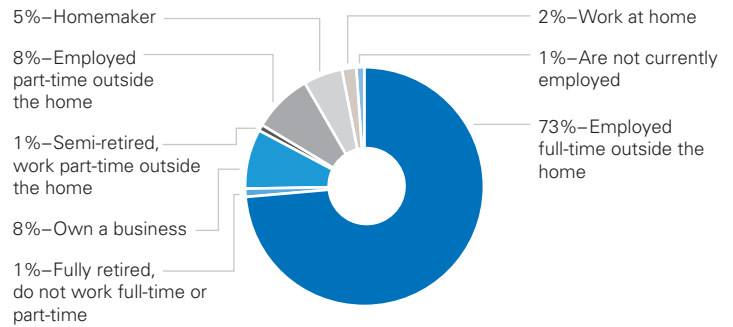


Source: Cogent Research, Investor Brandscape™: 2007

## Higher than average household income can be attributed to the fact that more 2nd Wave Boomers are employed full-time.

Seventy-three percent of 2nd Wave Boomers are employed full-time, outside the home, compared to 56% of 1st Wave Boomers and 53% of affluent investors overall (Exhibit 2).

## EXHIBIT 2: EMPLOYMENT STATUS

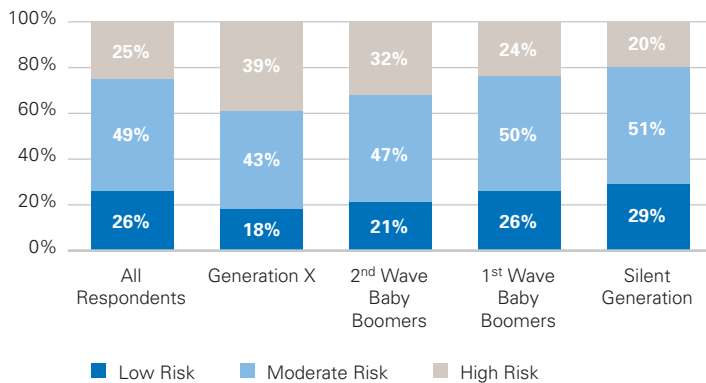


Source: Cogent Research, Investor Brandscape™: 2007

## THE INVESTMENT PROFILE OF A 2ND WAVE BOOMER

Affluent 2nd Wave Boomers' taste for risk is beginning to evolve from an aggressive stance to a slightly more moderate asset allocation strategy (Exhibit 3). This is a reflection of an awareness among these investors that they are entering the growth and protection years and looking to remove some risk from their portfolios.

## EXHIBIT 3: RISK TOLERANCE BY AGE



Source: Cogent Research, Investor Brandscape™: 2007

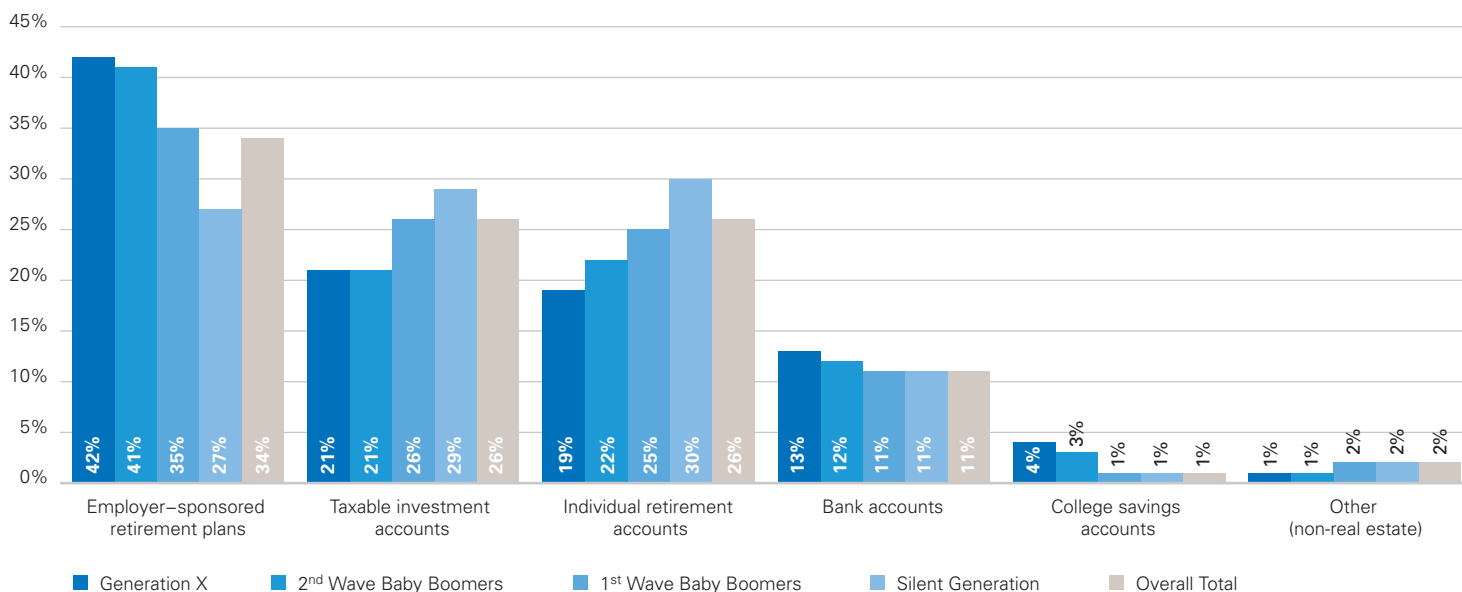
A transition looms for their investment accounts as well. The average age of retirement is actually decreasing, especially for the affluent. This doesn't necessarily mean full retirement, but often a job or career change that places many 2nd Wave Boomers on the verge of potentially shifting assets from employer-sponsored retirement plans (ESRPs) to individual retirement accounts (IRAs). In addition, 2nd Wave Boomers are growing assets in taxable brokerage accounts, perhaps as a result of their higher earning power and increasing focus on saving and investing.

**The inflection point for the shifting assets from ESRPs to IRAs lies with 2nd Wave Boomers.** 2nd Wave Boomers have invested an average of 41% of their total assets in ESRPs and 22% in IRAs. First Wave Boomers, on the other hand, put 35% into ESRPs and 25% into IRAs (Exhibit 4).

**The percentage of assets allocated to taxable investment accounts increases as investors age.** Taxable investment accounts garner 21% of Generation X assets, 21% of 2nd Wave Boomer assets, 26% of 1st Wave Boomer assets, and 29% of Silent Generation assets (Exhibit 4).

**2<sup>nd</sup> Wave Boomers have more assets dedicated to retirement savings than any other generation.** Sixty-three percent of 2<sup>nd</sup> Wave Boomer assets are held in a combination of ESRPs and IRAs, versus an overall average of 60% for all affluent and high net-worth investors. They also invest more in an ESRP than do other affluent and high net-worth generations, which is likely a direct result of their high level of full-time employment (Exhibit 4).

EXHIBIT 4: INVESTMENT ACCOUNTS



Source: Cogent Research, Investor Brandscape™: 2007

**THE NEED FOR INVESTMENT GUIDANCE**

Younger boomers are less likely to have pension plans than older boomers, meaning more of their retirement assets will ultimately be available to be managed. According to the BC Center for Retirement Research, 78% of American workers were covered by a defined benefit (DB) plan in 1983, while 37% participated in a defined contribution (DC) plan. By 2004, this had reversed with just 37% in a defined benefit plan and 81% in a defined contribution plan<sup>1</sup>.

The shift away from DB plans has not only created an unprecedented opportunity for the advisor community but also greatly enhanced the need for wealth and asset protection for the 2<sup>nd</sup> Wave Boomers. With the security of a DB plan, protection of a retirement nest egg was often a secondary priority relative to the income levels generated by DB plan payments. Without such plans, nest egg protection becomes the paramount priority in securing a financially independent retirement.

<sup>1</sup> Survey of Consumer Finance, CRR Analysis

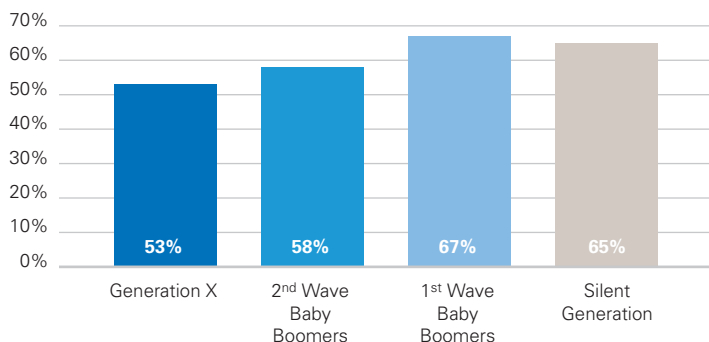
**2<sup>ND</sup> WAVE BOOMERS ARE MOST LIKELY TO SHIFT TO ADVICE/FINANCIAL PLANNERS TO SERVE THEIR INVESTMENT NEEDS**

Although currently less likely to have a financial advisor than 1<sup>st</sup> Wave Boomers, almost three out of five affluent 2<sup>nd</sup> Wave Boomers trust an advisor to assist them in making and executing investment decisions (Exhibit 5).

Fifteen percent identify a stock broker as their primary financial advisor (the individual turned to most for investment and financial planning advice), while a full 60% name a financial planner. However, younger boomers are not as satisfied with their advisors as are older investors, suggesting that many are somewhat wary of the benefits of the relationship.

**Many 2<sup>nd</sup> Wave Boomers are in the process of hiring an advisor.** Fifty-eight percent of 2<sup>nd</sup> Wave Boomers use a financial advisor compared to 53% of Generation X investors and 67% of 1<sup>st</sup> Wave Boomers (Exhibit 5).

EXHIBIT 5: FINANCIAL ADVISOR DEPENDENCE



Source: Cogent Research, Investor Brandscape™: 2007

EXHIBIT 6: SATISFACTION WITH PRIMARY FINANCIAL ADVISOR

	Generation X	2 <sup>nd</sup> Wave Boomers	1 <sup>st</sup> Wave Boomers	Silent Generation
Overall Satisfaction with Primary Financial Advisor*	64%	63%	75%	76%
Likelihood of Recommending Primary Financial Advisor*	60%	63%	71%	73%

\*Top 3 box on 10-point scale.

Source: Cogent Research, Investor Brandscape™: 2007

**2<sup>nd</sup> Wave Boomers are less satisfied with their current advisor than are affluent, older investors.**

Only 63% of 2<sup>nd</sup> Wave Boomers rate their satisfaction with their primary financial advisor at eight or higher on a 10-point scale (with 1 being not at all satisfied and 10 being extremely satisfied). Their average satisfaction rating is 7.91, compared to an overall mean of 8.23. Seventy-five percent of 1<sup>st</sup> Wave Boomers and 76% of Silent Generation investors rate their satisfaction at eight or higher (Exhibit 6).

**Younger boomers are less likely to recommend their advisor to friends or family members than are older investors.**

Only 63% of 2<sup>nd</sup> Wave Boomers rate their likelihood to recommend their current advisor at a level of eight or higher on a 10-point scale, compared to 71% of 1<sup>st</sup> Wave Boomers and 73% of Silent Generation investors (Exhibit 6).

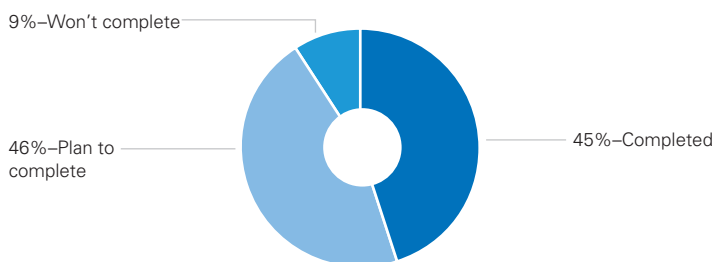
## 2<sup>ND</sup> WAVE BOOMERS ARE PREPARED TO IMPLEMENT A FINANCIAL PLAN

2<sup>nd</sup> Wave Boomers realize they are at an important crossroads in life and are prepared to get serious about their finances. As these investors move from thinking about a financial plan to actually creating one, they become an important opportunity for advisors.

**Almost half of 2<sup>nd</sup> Wave Boomers have created a financial plan.** Forty-five percent of younger boomers have created a financial plan that includes investments, insurance, and estate plans, compared to 55% of older boomers and 61% of Silent Generation investors (Exhibit 7).

**And almost half of 2<sup>nd</sup> Wave Boomers intend to create a financial plan.** Forty-six percent still plan to create or complete a financial plan. The potential that younger boomers represent over 1<sup>st</sup> Wave Boomers is noteworthy. They will likely have a larger percentage of available assets to invest as pension plan participation declines (freeing money for individual investment) and as existing former employer ESRPs are rolled over into IRAs (Exhibit 7).

EXHIBIT 7: CREATION OF A FINANCIAL PLAN



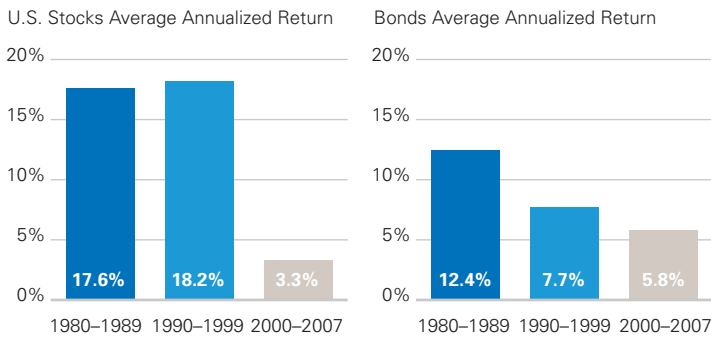
Source: Cogent Research, Investor Brandscape™: 2007

## UNIQUE OPPORTUNITIES, UNIQUE CHALLENGES

Investment wise, 2<sup>nd</sup> Wave Boomers were not born yesterday. Most saw their portfolios battered by the bear market of 2000–2002 and should be well aware that as retirement approaches, the long-term impact of short-term market volatility can increase.

The primary risk that all investors need to face is an obvious one that most should be familiar with. Markets may not perform in the future as they have in the past. Specifically, U.S. equity and bond markets are forecasted to provide returns that are much lower than those of the 1980's and 1990's (Exhibit 8).

## EXHIBIT 8: RETURN EXPECTATION REALITY



Source: Morningstar, Inc, 12/31/07. US stocks are represented by the S&P 500 Index. Bonds are represented by the Barclays Capital Aggregate Bond Index. **Past performance is historical and does not guarantee future results.** The value of equity investments are more volatile than other securities. Fixed-income investments are subject to interest-rate risk, and their value will decline as interest rates rise. Equity index returns assume reinvestment of all distributions. Index returns, unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index.

This trend is already well underway. It is critical that 2<sup>nd</sup> Wave Boomers understand and acknowledge this market reality in light of the confluence of financial pressures associated with retirement financial planning, including multi-generational family support, the decline in employer-sponsored DB plans, extended time horizons for retirement with lifespan increases, and healthcare cost inflation, etc.

Market volatility coupled with these financial pressures place a premium on developing retirement financial plans that offer growth potential for assets without fully exposing the retirement nest egg to market risk. The traditional approach to delivering this growth/protection balance is a domestic stock/bond allocation that weighs more heavily to bonds over time.

## EXHIBIT 9: DIVERSIFICATION BENEFITS OF GLOBAL/INTERNATIONAL PRODUCTS

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
US 28.38%	US 22.37%	GBL 39.41%	US -6.84%	US -13.81%	INTL -16.54%	GBL 34.31%	INTL 17.41%	INTL 14.81%	INTL 24.76%	INTL 12.71%
GBL 11.74%	GBL 13.49%	INTL 39.01%	GBL -10.17%	GBL -17.72%	GBL -19.57%	INTL 33.36%	GBL 15.18%	GBL 11.42%	GBL 19.63%	GBL 11.28%
INTL 5.38%	INTL 12.55%	US 19.98%	INTL -16.58%	INTL -21.42%	US -22.48%	US 27.09%	US 27.86%	US 5.87%	US 14.01%	US 6.16%

Source: Morningstar, as of 12/31/07. **Performance is historical and does not guarantee future results.** These charts are for illustrative purposes only. Global, US and international funds are represented by the Morningstar World Stock, Large Blend and Foreign Large Blend categories, respectively. It is not possible to invest directly in a category. Category returns assume reinvestment of all distributions.

Financial product innovation in recent years has offered advisors and investors two additional means of complementing this traditional approach.

1. The first is what can be broadly defined as “portfolio diversifiers,” most prominently global/international equity and fixed income investments and alternative asset classes. [As with any investment, there are also risks associated with alternative assets. The higher return potential often results in higher risk and volatility. In addition, some alternative investments are in thinly traded markets and securities, and many alternative asset classes (unlike most traditional investments) lack longer-term track records. It is important that investors be fully aware of the possible investment risks associated with alternative assets.]

Global and international exposure is readily accessed by advisors and investors with mutual funds and exchange traded funds (ETFs). Alternative asset classes have been more difficult to access for mainstream investors, but are becoming increasingly available through mutual funds, ETFs/ETNs, and structured notes. Although specific alternative asset classes are subject to market volatility (and hence have not typically been considered appropriate for a retirement portfolio), diversification across these asset classes (e.g., long/short products, commodities, real estate, private equity, etc.) can serve to enhance a portfolio’s growth potential with a risk/return profile that is not highly correlated to the U.S. equity markets, which in turn serves to reduce overall portfolio volatility (see Exhibit 9 and 10).

## DIVERSIFICATION BENEFITS OF ALTERNATIVE ASSETS

EXHIBIT 10: UNDERLYING ALTERNATIVE ASSET CLASSES SHOW LOW CORRELATIONS (10 YEARS ENDED 9/30/08)

Asset Class	Market Neutral	TIPS	Gold	Global Real Estate	Commodities	Emerging Market Debt	Emerging Market Equity	Floating Rate Notes	Infrastructure	U.S. Small-Cap Equity	Fixed Income	International Equity	Cash	U.S. Large Cap Equity
Market Neutral	1.00													
TIPS	0.16	1.00												
Gold	0.14	0.25	1.00											
Global Real Estate	0.30	0.06	0.28	1.00										
Commodities	0.32	0.10	0.49	0.30	1.00									
Emerging Market Debt	0.24	0.23	0.28	0.53	0.24	1.00								
Emerging Market Equity	0.39	-0.12	0.32	0.64	0.52	0.56	1.00							
Floating Rate Notes	0.26	-0.07	0.03	0.47	0.31	0.24	0.39	1.00						
Infrastructure	0.24	0.06	0.24	0.62	0.37	0.35	0.54	0.44	1.00					
U.S. Small-Cap Equity	0.14	-0.22	0.17	0.59	0.28	0.46	0.69	0.39	0.55	1.00				
Fixed Income	0.04	0.81	0.14	0.09	-0.05	0.34	-0.14	-0.05	0.09	-0.16	1.00			
International Equity	0.38	-0.13	0.26	0.68	0.53	0.53	0.83	0.44	0.68	0.72	-0.12	1.00		
Cash	0.41	0.02	-0.06	-0.01	-0.02	0.02	-0.01	0.02	-0.07	-0.03	0.10	0.00	1.00	
U.S. Large-Cap Equity	0.30	-0.21	0.03	0.59	0.30	0.47	0.73	0.35	0.46	0.72	-0.18	0.84	0.04	1.00

Source: Deutsche Asset Management as of 9/30/08. **Past performance is historical and does not guarantee future results.** Please refer to page 9 and 10 for an explanation of the index information. 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.

2. The second means of complementing the traditional approach to developing retirement portfolios is through the introduction of an ever-broadening array of “outcome-driven products,” which are investments that predefine a given level or type of return. (It is important to remember that the outcome-driven products are often backed by insurance companies, financial warranties or banks. The ability of these products to make the defined payouts is based on the claims paying ability of the entity backing the product.) These investments are often used to mitigate a specific market or personal risk, and hence can be valuable in potentially optimizing growth and protection within a retirement portfolio. The most prevalent outcome-driven product in the U.S. market is an annuity, which delivers a specific investment outcome such as fixed annual payments for a period of years or until death. Recently, there have been substantial innovations within annuities (e.g., guaranteed

minimum withdrawal benefits, joint annuities, etc.) as well as beyond annuities. Principal-protected products, targeted income products, and health care inflation-indexed products are all examples of investments that predefine a type of return, and as such they serve to reduce certain types of risks within a retirement portfolio. These types of products have historically been packaged as structured notes underwritten by investment banks, however, they are increasingly being delivered through mutual funds.

The innovation in portfolio diversifiers and outcome-driven products will continue in the coming years, as banks, insurers, asset managers, and advisory firms seek to customize and enhance the investment solutions available to meet the myriad financial challenges facing the 2<sup>nd</sup> Wave Boomers and their advisors.

## CONCLUSION

2<sup>nd</sup> Wave Boomers are potentially the largest and most affluent segment of any U.S. generation. However, the opportunities that they represent to advisors are accompanied by significant challenges. The good news is that, as a group, younger boomers are receptive to working with an advisor. In addition, though they have more resources than ever for doing their own investing, the growing complexities of markets and the need to both grow

and protect assets provide financial services professionals with a unique value proposition. Utilizing global and international product offerings as well as alternative and outcome-driven products will assist advisors in seeking to deliver both asset growth and protection to these 2<sup>nd</sup> Wave Boomers, allowing for a successful investment transition from asset accumulation to income distribution during retirement.

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## IMPORTANT RISK INFORMATION

The following indexes were used for charts on page 8.

Past performance is historical and does not guarantee future results. Please keep in mind that equity index returns assume reinvestment of all distributions. Also, index returns, unlike mutual funds, do not reflect fees or expenses.

It is not possible to invest directly in an index.

**Commodities** – 50% S&P Goldman Sachs Commodity Index, 25% MSCI World Energy Index, 25% MSCI World Materials Index

**Emerging Market Debt** – JP Morgan EMBI+

**Emerging Market Equity** – MSCI EAFE® Emerging Markets Equity Index

**Fixed Income** – Barclays Capital US Aggregate Index

**Floating Rate Notes** – S&P LSTA Leveraged Loan Index

**Global Real Estate** – FTSE EPRA/NAREIT Index

**Gold** – S&P/Citigroup Gold & Precious Metals Index

**International Equity** – MSCI EAFE® Index

**Infrastructure** – UBS Infrastructure Index

**Market Neutral** – Credit Suisse First Boston Equity Market Neutral Index

**TIPS** – Barclays Capital Inflation-Linked Securities Index

**U.S. Large-Cap Equity** – S&P 500 Index

**US Small-Cap Equity** – Russell 2000 Index

**CSFB/Tremont Equity Market Neutral Index** is a sub-strategy of the CSFB/Tremont Hedge Fund Index, and is comprised of funds that target beta and/or currency neutral returns typically by leveraging long and short positions in matched equity portfolios.

**The Emerging Markets Bond Index Plus (EMBI+)** tracks total returns for traded external debt instruments in the emerging markets. The instruments include external-currency-denominated Brady bonds, loans and Eurobonds, as well as U.S. dollar local markets instruments.

**FTSE EPRA/NAREIT Global Real Estate Index** is a market capitalization-weighted index based on the last trade prices of shares of all eligible companies.

**Barclays Capital Aggregate Bond Index** represents domestic taxable investment-grade bonds with average maturities of 1 year or more. (Formerly Lehman Brothers Aggregate Bond Index)

**Barclays Capital Inflation Linked Securities Index** tracks US Treasury inflation-linked securities. (Formerly Lehman Brothers Inflation Linked Securities Index.)

**JP Morgan Emerging Markets Debt Index** tracks U.S. dollar and other external currency-denominated Brady bonds, loans, Eurobonds and local-market debt traded in emerging markets.

**MSCI EAFE Emerging Markets Index** measures equity market performance in 26 global emerging markets.

**MSCI EAFE Unmanaged Index** is a measure of stock market performance in Europe, Australia, and the Far East in U.S. dollar terms. Index returns assume reinvestment of dividends and capital gains and, unlike fund returns, do not reflect fees or expenses.

**MSCI World Energy Index** measures the performance of energy equities in developed markets around the world.

**MSCI World ex-U.S. Index** is a free float-adjusted market capitalization index that measures global developed market equity performance.

**MSCI World Materials Index** measures the performance of material equities in developed markets around the world.

**Russell 2000 Index** is an unmanaged index that measures the performance of the 2,000 smallest companies of the Russell 3000 Index.

**Russell 3000 Index** offers investors access to the broad U.S. equity universe representing approximately 98% of the U.S. market.

**S&P/Citigroup Gold & Precious Metals Index** consists of securities classified under the GICs Gold sub-industry.

**Standard & Poor's Goldman Sachs Commodity Index** is a composite index of commodity sector returns representing unleveraged, long-term investment in commodity futures.

**Standard & Poor's 500® Index (S&P 500®)** tracks the stock performance of 500 companies. These companies, while not the largest in the U.S., were chosen for their market size, liquidity, and because they are leaders in wide areas of the economy. The S&P 500® is often considered one of the best overall indicators of market performance.

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