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NEW GERMANY FUND INC
Form N-CSR
March 08, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM N-CSR

Investment Company Act file number 811-5983

The New Germany Fund, Inc.

(Exact Name of Registrant as Specified in Charter)

345 Park Avenue

New York, NY 10154-0004

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, including Area Code: (212) 454-7190

Paul Schubert

345 Park Avenue

New York, NY 10154-0004

(Name and Address of Agent for Service)

Date of fiscal year end: 12/31

Date of reporting period: 12/31/09

ITEM 1. REPORT TO STOCKHOLDERS

SUMMARY OF GENERAL INFORMATION

THE FUND

The New Germany Fund, Inc. (the "Fund") is a diversified, actively-managed closed-end fund listed on the New York Stock Exchange with the symbol "GF." The Fund seeks long-term capital appreciation primarily through investment in middle-market German equities. It is managed and advised by wholly-owned subsidiaries of the Deutsche Bank Group.

SHAREHOLDER INFORMATION

Prices for the Fund's shares are published daily in the New York Stock Exchange Composite Transactions section of newspapers. Net asset value and market price information are published each Saturday in *Barron's* and certain other newspapers in a table called "Closed End Funds." Daily information on the Fund's net asset value is available from NASDAQ (symbol XGFNX). It is also available by calling: 1-800-437-6269 (in the U.S.) or 212-454-6266 (outside of the U.S.). In addition, a schedule of the Fund's largest holdings, dividend data and general shareholder information may be obtained by calling these numbers.

The foregoing information is also available on our Web site: www.dws-investments.com.

There are three closed-end funds investing in European equities managed by wholly-owned subsidiaries of the Deutsche Bank Group:

- The European Equity Fund, Inc.—investing primarily in equity and equity-linked securities of companies domiciled in countries utilizing the Euro currency (with normally at least 80% in securities of issuers in such countries).
- The New Germany Fund, Inc.—investing primarily in middle market German companies with up to 20% in other Western European companies (with no more than 10% in any single country).
- The Central Europe and Russia Fund, Inc.—investing primarily in equity and equity-linked securities of issuers domiciled in Central Europe and Russia (with normally at least 80% in securities of issuers in such countries).

Please consult your broker for advice on any of the above or call 1-800-437-6269 (in the U.S.) or 212-454-6266 (outside of the U.S.) for shareholder reports.

These funds focus their investments in certain geographical regions, thereby increasing their vulnerability to developments in that region. Investing in foreign securities presents certain risks, such as currency fluctuation, political and economic changes, and market risks.

The New Germany Fund, Inc.

Annual Report

December 31, 2009

**The New Germany
Fund, Inc.**

LETTER TO THE SHAREHOLDERS

The year 2009 was characterized by progress toward emerging from "the Great Recession." A sudden shift in investor risk appetite saw equity markets strongly recover from their steep losses during the start of the year. Continued expansionary monetary policy and a mix of rising growth and earnings expectations fueled by low interest rates led to markets rallying strongly off their lows. In the first quarter, financial results for some banks and cyclicals were better than expected, and many companies used the improvement in equity markets and investor sentiment to increase their capital and strengthen their balance sheets. Improving leading economic indicators and the reduction of risk aversion were the main drivers of strong equity markets in the second quarter of 2009 as European equity indices rose more than 30% from their March 2009 lows through the end of June 2009.

In the fall, concerns over government stimulus exit strategies, the strength of the global recovery, and the credit repayment standstill in Dubai, which spread fears to other fiscally indebted nations, eventually stymied market momentum. Credit agency downgrades and warnings of heavily indebted economies such as Greece and Spain as well as companies connected to the Dubai government also spread fears into other economies such as Portugal, Ireland and the UK.

Sentiment shifted back into positive territory soon thereafter, though, with Dubai's bailout, merger and acquisition (M&A) activity and the Federal Reserve Board's upbeat assessment of the US economy cementing confidence in the market and providing the backdrop for a year-end 2009 rally. Towards the end of the fourth quarter, macroeconomic indicators in Germany came in somewhat stronger than US data, with the pace of economic growth in Germany surprising on the upside. Positive earnings surprises were near the highest on record, characterized by companies seeing their stock prices rise based on cost-cutting measures and better-than-expected sales. From a sector perspective, cyclicals beat expectations more than defensives. Overall expectations were beaten by 8.8% ex-financials, led by the materials and consumer discretionary sectors.

For the 12 months ended December 31, 2009, the Fund's total return was 45.22% based on net asset value and 52.07% based on share price. During the same period, the total return of the Fund's benchmark, the Midcap Market Performance Index, was 42.33%.¹

For the Fund's most recent fiscal year, by far the largest contribution to performance came from stock selection in the consumer discretionary sector. A slight overweight to financials was also additive.²

However, stock selection within the information technology sector detracted significantly from relative performance, while selection within health care also subtracted from returns.

Late in the period, we increased our weighting in the industrial sector, largely driven by the solid relative performance of our stocks. We trimmed our position in EADS following the stock's strong appreciation since the end of March 2009, and completely sold out of Vossloh following news that the company was unable to participate in new infrastructure projects in China. In the photovoltaic sub-segment, we added shares in Solarworld to bring our position in line with the benchmark. Despite having roughly halved our SGL Carbon position to a slight underweight, the relative overweight of the chemicals sector — our largest overweight sector — has further increased, as our individual stock picks have continued to perform well. Wacker Chemie, best known for its polysilicon business, has been a top contributor in this sector. As one of the main raw material suppliers to the photovoltaic industry, Wacker Chemie's stock closed the year just marginally below its 12-month

For additional information about the Fund including performance, dividends, presentations, press releases, daily NAV and shareholder reports, please visit www.dws-investments.com.

LETTER TO THE SHAREHOLDERS (continued)

high, as photovoltaic companies reported near-full utilization of capacities.

The single biggest weighting increase in the portfolio is in construction, as we added to our position in HeidelbergCement, following the company's capital increase, which led to a healthier balance sheet and a higher Index weighting. However, the stock is still our biggest underweight relative to the benchmark. Within financial services, our sole conviction holding is shopping center owner Deutsche Euroshop, after we sold down our position in real estate company IVG Immobilien from an overweight to an underweight. The company's low yield leaves it exposed to further negative revision risk and its future earnings profile is unconvincing. The technology sector is the Fund's largest underweight after we reduced our position in Infineon Technologies, following the company's strong share price move in the second and third quarters. By selling all of our position in Hugo Boss preferred shares, we moved the consumer sector from a market weight to an underweight position.

The Fund's discount to net asset value averaged 19.79% for the 12 months ended December 31, 2009, compared with 16.71% for the same period last year. The Fund purchased 830,339 of its shares in the open market during 2009. On October 26, 2009, the Fund announced that the Board of Directors has authorized the repurchase of up to 1,000,000 additional shares during the period November 1, 2009 - October 31, 2010. Purchases will be made when it is believed that such repurchases are advantageous to the Fund. The Fund further announced that it will provide monthly updates concerning its repurchase program on its Web site at www.dws-investments.com.

On January 26, 2010, the Fund announced that Rainer Vermehren was appointed Vice President of the Fund to assume during the second quarter of 2010 the oversight role of the Fund's investments as provided in the Fund's Investment Management Agreement with Deutsche Investment Management Americas Inc.

¹ The Midcap Market Performance Index is a total return index that is composed of various MDAX and TecDAX issues, reflecting the performance of the mid-caps across all sectors of the Prime Segment. MDAX is a total rate of return index of 50 midcap issues that rank below the DAX.

TecDAX is a total return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Segment beneath the DAX.

Index returns assume reinvested dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

² "Overweight" means the fund holds a higher weighting in a given sector or security than the benchmark. "Underweight" means the fund holds a lower weighting.

Sincerely,

Christian Strenger
Chairman

Ralf Oberbanscheidt
Lead Portfolio Manager

Michael G. Clark
President and Chief
Executive Officer

The views expressed in the previous discussion reflect opinions through the end of the period as stated on the cover. There is no guarantee that the views, opinions and forecasts expressed herein will come to pass. This information is subject to change at any time based on market and other conditions and should not be construed as a recommendation for any specific security. Past performance does not guarantee future results.

For additional information about the Fund including performance, dividends, presentations, press releases, daily NAV and shareholder reports, please visit www.dws-investments.com

ECONOMIC OUTLOOK

Following the gloom that overwhelmed markets a year ago, the outlook now looks much better, albeit from mere stabilization rather than outright signs of economic strength. Economic data continued to reveal a mixed picture and it is too soon to declare the recession over or have conviction regarding the path of recovery (L-shaped, V-shaped or W-shaped). In light of the current problems faced by some Eurozone countries, such as Greece and Spain, it will be important to monitor developments beyond Germany due to the potential impact on the market as well as the currency.

The German pace of economic growth was surprisingly positive in the third quarter of 2009, though still down year-over-year. The European Central Bank kept interest rates at a record-low of 1.0%. Inflation, after remaining subdued throughout most of the year — and even reaching into negative territory at some points — shot up 0.9% year-over-year in December. Unemployment remained fairly steady, ending the year at 8.1% compared to 7.7% at the end of 2008. While the US purchasing manager index has recently fallen short of expectations, the IFO Business Climate Index (IFO) has shown continued strength, posting a higher than expected number in November based on heightened expectations and a more upbeat assessment of the current situation.¹ During the final month of the year, the German ZEW Index declined for the third month in succession, while sentiment in Germany continued to brighten as the IFO posted its ninth straight advance.² German orders were recently up for the sixth month in a row, having risen by 17% from their low in February 2009, though still down 21% versus prior year levels.

The views expressed in the previous discussion reflect opinions through the end of the period as stated on the cover. There is no guarantee that the views, opinions and forecasts expressed herein will come to pass. This information is subject to change at any time based on market and other conditions and should not be construed as a recommendation for any specific security. Past performance does not guarantee future results.

¹ The IFO Business Climate Index is a closely watched indicator of German business conditions, based on a monthly survey of about 7,000 companies. It is widely seen as a barometer for economic conditions in the whole of the Eurozone, which is a term used to a currency union among European Union member states that have adopted the euro as their sole currency. Index returns assume reinvested dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

² The ZEW Index is a sentiment measure for German investor confidence.

FUND HISTORY AS OF DECEMBER 31, 2009

All performance shown is historical, assumes reinvestment of all dividend and capital gain distributions, and does not guarantee future results. Investment return and principal value fluctuate with changing market conditions so that, when sold, shares may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Please visit www.dws-investments.com for the Fund's most recent performance.

TOTAL RETURNS:

	For the years ended December 31,				
	2009	2008	2007	2006	2005
Net Asset Value ^(a)	45.22%	(46.75)% ^(b)	25.17%	43.94%	13.68%
Market Value ^(a)	52.07%	(53.32)%	25.14%	44.13%	18.94%
Benchmark ⁽¹⁾	42.33%	(47.86)%	22.10%	42.51%	14.17%

^(a) Total return based on net asset value reflects changes in the Fund's net asset value during each period. Total return based on market value reflects changes in market value. Each figure includes reinvestments of dividend and capital gains distributions, if any. These figures will differ depending upon the level of any discount from or premium to net asset value at which the Fund's shares trade during the period.

^(b) Return includes the effect of the \$0.18 per share accretion associated with the Fund's tender offer in-kind. Excluding this accretion, total return would have been 0.95% lower.

⁽¹⁾ Represents the Midcap Market Performance Index.*

* The Midcap Market Performance Index is a total return index that is composed of various MDAX** and TecDAX*** issues, reflecting the performance of the mid-caps across all sectors of the Prime Segment.

** MDAX is a total rate of return index of 50 mid-cap issues that rank below the DAX. DAX is the total rate of return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange.

*** TecDAX is a total return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Segment beneath the DAX.

Index returns assume reinvestment of dividends and, unlike Fund returns, do not reflect any fees or expenses. It is not possible to invest directly in an index.

Investments in funds involve risks, including the loss of principal.

This Fund is diversified, but primarily focuses its investments in Germany, thereby increasing its vulnerability to developments in that country. Investing in foreign securities presents certain risks, such as currency fluctuation, political and economic changes, and market risks. This may result in greater share price volatility.

Closed-end funds, unlike open-end funds, are not continuously offered. Shares, once issued, are traded in the open market through a stock exchange. Shares of closed-end funds frequently trade at a discount to net asset value. The price of the Fund's shares is determined by a number of factors, several of which are beyond the control of the Fund. Therefore, the Fund cannot predict whether its shares will trade at, below or above net asset value.

The Fund has elected to not be subject to the statutory calculation, notification and publication requirements of the German Investment Tax Act (Investmentsteuergesetz). As a result, German investors in the Fund may be subject to less favorable lump-sum taxation under German law.

FUND HISTORY AS OF DECEMBER 31, 2009 (continued)**STATISTICS:**

Net Assets	\$ 271,345,123
Shares Outstanding	18,734,619
NAV Per Share	\$ 14.48

DIVIDEND AND CAPITAL GAIN DISTRIBUTIONS:

	Record Date	Payable Date	Ordinary Income	LT Capital Gains	Total
12/31/09	01/28/10*		\$ 0.160	\$ —	\$ 0.160
05/04/09	05/14/09		\$ 0.018	\$ —	\$ 0.018
12/15/08	12/31/08		\$ 0.127	\$ —	\$ 0.127
05/06/08	05/15/08		\$ 0.059	\$ —	\$ 0.059
12/21/07	01/10/08**		\$ 0.255	\$ —	\$ 0.255
05/03/07	05/15/07		\$ 0.340	\$ —	\$ 0.340
12/21/06	12/28/06		\$ 0.055	\$ —	\$ 0.055
05/05/06	05/15/06		\$ 0.150	\$ —	\$ 0.150
12/22/05	12/30/05		\$ 0.410	\$ —	\$ 0.410
05/19/05	05/27/05		\$ 0.140	\$ —	\$ 0.140
12/22/04	12/31/04		\$ 0.230	\$ —	\$ 0.230
05/06/04	05/14/04		\$ 0.050	\$ —	\$ 0.050
12/22/03	12/31/03		\$ 0.022	\$ —	\$ 0.022
07/24/03	07/30/03		\$ 0.003	\$ —	\$ 0.003
11/20/00	11/29/00		\$ 0.010	\$ 1.30	\$ 1.310
09/01/00	09/15/00		\$ 0.070	\$ 0.35	\$ 0.420

OTHER INFORMATION:

NYSE Ticker Symbol	GF
NASDAQ Symbol	XGFNX
Dividend Reinvestment Plan	Yes
Voluntary Cash Purchase Program	Yes
Annual Expense Ratio (12/31/09)	1.19%

Fund statistics and expense ratio are subject to change. Distributions are historical, will fluctuate and are not guaranteed.

* Although this distribution is payable in 2010, it may be taxable in 2009.

** Although this distribution was payable in 2008, it may have been taxable in 2007.

PORTFOLIO BY MARKET SECTOR AS OF DECEMBER 31, 2009 (As a % of Common and Preferred Stocks)

10 LARGEST EQUITY HOLDINGS AS OF DECEMBER 31, 2009 (As a % of Common and Preferred Stocks)

1.	HeidelbergCement	5.8
2.	Wacker Chemie	5.2
3.	Hochtief	4.9
4.	Software	4.9
5.	Rheinmetall	4.9
6.	GEA Group	4.8
7.	Lanxess	4.5
8.	EADS	4.5
9.	Wincor Nixdorf	3.9
10.	Bilfinger Berger	3.9

Portfolio by Market Sector and 10 Largest Equity Holdings are subject to change and not indicative of future portfolio composition.

For more complete details about the Fund's investment portfolio, see page 15. A complete list of the Fund's portfolio holdings is posted as of the month end on www.dws-investments.com on or about the 15th day of the following month. More frequent posting of portfolio holdings information may be made from time to time on www.dws-investments.com.

Following the Fund's fiscal first and third quarter-end, a complete portfolio holdings listing is filed with the SEC on Form N-Q. The form will be available on the SEC's Web site at www.sec.gov, and it also may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling (800) SEC-0330.

INTERVIEW WITH THE LEAD PORTFOLIO MANAGER — RALF OBERBANNSCHEIDT

Question: Following the strong performance in 2009, how do German small- and mid-cap equities look from a valuation perspective?

Answer: The fourth quarter of 2009 was the third consecutive good quarter for the German stock market, though unlike the previous quarters, smaller-cap stocks no longer outperformed their larger peers. The prolonged quasi zero returns for money market investments and tighter spreads of credit-related assets will continue to lead to a further "hunt for yield." Analysts started to upgrade earnings expectations for companies in Europe predominantly on the basis of cost cutting. Revenue growth has not really been priced in, which suggests that any further economic recovery should lead earnings to continue to surprise on the upside, particularly for those corporations with exposure to emerging markets. In Germany, the company revision ratio has also stayed firmly positive. The MDAX and TecDAX are trading at a 2010 estimated P/E of 14.5x and 19.4x respectively, a premium versus the DAX at 12.8x.^{1,2} Earnings per share growth in 2010 is estimated at 58% for the MDAX and above 100% for the TecDAX. In the current environment of relatively low inflation, we believe equities are still attractively valued.

Question: If 2008 was defined by the market collapse and 2009 was defined by the market recovery, what can we expect for 2010? Will it be another year of extreme market activity?

Answer: Overall, we see 2010 as a transition period for global economies with the biggest issue being how the various government programs are eliminated and how the excess liquidity supplied to the markets over the past year is eventually withdrawn. Until a possible first interest rate hike by the Federal Reserve Board or European Central Bank, we see a continuation of the recovery path. Two long-term issues suggest that a cautious view is prudent. Firstly, governments' increasing budget deficits and accumulating debt load will be a structural drag on growth. Investors need to be on the lookout for the first failing bond auctions. The other issue concerns the ongoing trend towards regulation. Renewed financial regulation is in full swing, but other sectors may follow as a consequence of the stimulus programs.

Question: Given the export-oriented nature of the German economy, how has the global nature of the downturn, coupled with what looks like a recovery that will be region-specific, impacted the outlook for growth in Germany?

Answer: The dramatic drop in global trade during the recession clearly impacted the German economy, as German exports fell more than 20%. With nearly a quarter of German gross domestic product (GDP, the value of goods and services produced in an economy) and jobs depending on exports, the relationship between global GDP growth and German export growth is high. Exports began to recover in the third quarter of 2009, and German companies should see the benefit in terms of sales growth. This is already evident in some of the sentiment indicators in Germany. However, it is worth noting that the global recovery has been differentiated by region and, in some cases, even within regions. Overall, Asia appears to be driving the recovery in export demand. While Asia is a key export market for Germany, Europe – where demand has returned but less so than in Asia – represents a larger market for German exports. In addition, German exports are particularly dependent on discretionary spending. As a result, in 2009 Germany fell to the second spot, behind China, in terms of global exports after six years as the world's leading exporter of goods. From an industry perspective, the engineering, automotive, and chemicals sectors in German are most geared toward exports. For 2010, the German economy should see a boost from global demand recovery and those companies with a focus on Asia should benefit the most.

¹ MDAX is a total rate of return index of 50 mid-cap issues that rank below the DAX. TecDAX is a total return index that tracks the 30 largest and most liquid issues from the various technology sectors of the Prime Segment beneath the DAX.

Index returns assume reinvested dividends and, unlike fund returns, do not reflect any fees or expenses. It is not possible to invest directly into an index.

² A price-to-earnings ratio (P/E) ratio is a valuation ratio of a company's current share price compared to its per-share earnings.

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DIRECTORS OF THE FUND

Name, and Address, Length	Term of Office and Served†	of Time During Past Five Years	Principal Occupation(s) Other Directorships Held by Director
Detlef Bierbaum, I 67(1,2)	Class Partner of Sal. Oppenheim Jr. & Cie KGaA (investment management) (over five years). Since 2008		Director, The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Member of Supervisory Board, Tertia Handelsbeteiligungsgesellschaft mbH (electronics retailer). Member of Supervisory Board, LVM Landwirtschaftlicher Versicherungsverein (insurance). Member of Supervisory Board, Monega KAG. Chairman of Supervisory Board, Oppenheim Kapitalanlagegesellschaft mbH (investment company). Chairman of Administrative Board, Oppenheim Prumerica Asset Management S.a.r.l. (investment company). Member of the Supervisory Board of DWS Investments GmbH (since 2005), Member of the Board of Dundee REIT, Toronto. Member of Board of Cologne Re Ag (reinsurance), Member of the Board of CA Immo AG (real estate). Member of the Board, Bank Sal. Oppenheim jr. & Cie. (Österreich) AG. Member of the Supervisory Board, Douglas Holding AG (retailer). Member of the Board, Integrated Asset Management plc. (investment company). Chairman of the Board, IVG Immobilien AG. Chairman of the Board, IVG Institutional Funds GmbH. Member of the Board, Kölnische Rückversicherungs-Gesellschaft AG. Member of the Board, Lloyd George Management (B.V.I.) Ltd. Member of the Board, Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien.

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length Served†	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
John Bult, 73(1,2)	Class II Since 1990	Chairman, PaineWebber International (financial services holding company) (since 1985).	Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Director of The Greater China Fund, Inc. (closed-end fund).
Ambassador Richard R. Burt, 62(1)	Class I Since 2004	Managing Director, McLarty Associates (international strategic advisory) (since 2007). Formerly, Chairman, Diligence, Inc. (international information and risk management firm) (2002-2007). Chairman, IEP Advisors, LLP (information services firm) (1998-2001). Chairman of the Board, Weirton Steel Corp. (1996-2004). Partner, McKinsey & Company (consulting firm) (1991-1994). State Department, Chief Negotiator in charge of negotiating the Arms Treaty with Russia (1989-1991). U.S. Ambassador to the Federal Republic of Germany (1985-1989).	Director, The European Equity Fund, Inc. (since 2000) and The Central Europe and Russia Fund, Inc. (since 2000). Board Member, IGT, Inc. (gaming technology) (since 1995). Board Member, HCL Technologies, Inc. (information technology and product engineering) (since 1999). Member, Textron, Inc. International Advisory Council (aviation, automotive, industrial operations and finance) (since 1996). Director, UBS family of Mutual Funds (since 1995).
John H. Cannon, 67(1)	Class II Since 1990	Consultant (since 2002). Vice President and Treasurer, Venator Group/Footlocker Inc. (footwear retailer) (until 2002).	Director of The Central Europe and Russia Fund, Inc. (since 2004) and The European Equity Fund, Inc. (since 2004).
Richard Karl Goeltz, 67(1)	Class I Since 1990	Vice Chairman and Chief Financial Officer of American Express Co. (financial services) (1996-2000).	Director, The European Equity Fund, Inc. (since 2008) and The Central Europe and Russia Fund, Inc. (since 2008). Independent Non-Executive Director of Aviva plc (financial services) and The Warnaco Group Inc. (apparel). Member of the Court of Governors of the London School of Economics and Political Science.

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length Served†	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Dr. Franz Wilhelm Hopp, 67(1)	Class III Former Member of the Boards of Management of ERGO Insurance Group AG, ERGO Europa Beteiligungsgesellschaft Since AG, and ERGO International AG (insurance) (over five years 1993 until 2004). Former Member of the Boards of Management of VICTORIA Holding, VICTORIA Lebensversicherung AG (life insurance), VICTORIA Versicherung AG (insurance), VICTORIA International, VICTORIA Rückversicherung AG (reinsurance) and D.A.S. Versicherungs-AG. (insurance). Member of the Board of Management of KarstadtQuelle Pension Trust e.V. (since 2007).	Director of The European Equity Fund, Inc. (since 2008) and The Central Europe and Russia Fund, Inc. (since 2008). Member of the Administrative Boards of Frankfurter Volksbank (bank) and HSBC Trinkaus & Burkhardt (bank). Member of the Advisory Boards of Dresdner Bank AG; EnBW Energie Baden-Wuerttemberg AG (energy). Member of the Supervisory Boards of Ruhrland AG, Essen (car sales), Primion AG, Stetten (electronic products), Valovis Bank AG (mortgage bank).	
Dr. Friedbert Malt, 68(1)	Class III Vice Chairman and Member of the Executive Committee of NOL Neptune Orient Lines, Ltd., Singapore ("NOL"). Since Member of the Executive Board of DG Bank (now DZ Bank), 2007 Frankfurt (2001).	Director, The European Equity Fund, Inc. (since 2007) and The Central Europe and Russia Fund, Inc. (since 2007). Member of the Board of NOL (since 2000). Director, TÜV Rheinland of North America, Inc. (present) (independent testing and assessment services).	
Christian H. Strenger, 66(1,2)	Class I Member of Supervisory Board (since 1999) and formerly Managing Director (1991-1999) of DWS Investment GmbH Since (investment management), a subsidiary of Deutsche Bank 1990 AG.	Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Member, Supervisory Board, Evonik Industries (chemical, utility and property business) (since 2007), Fraport AG (international airport business) and Hermes Equity Ownership Services Ltd. (governance advisory).	

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length Served†	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Dr. Frank Trömel, 73(1)	Class III Since 1990	Deputy Chairman of the Supervisory Board of DELTON AG (strategic management holding company operation in the pharmaceutical, household products, logistics and power supply sectors) (2000-2006). Member (since 2000) and Vice President (2002-2006) of the German Accounting Standards Board.	
Robert H. Wadsworth, I 69(1,3)	Class I Since 1992	President, Robert H. Wadsworth Associates, Inc. (consulting firm) (May 1983-present).	Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990) as well as other funds in the Fund Complex.
Joachim Wagner, 62(1)	Class II Since 2009	Chief Financial Officer, RAG Beteiligungs AG/Evonik Industries AG, Germany (mining holding company) (2006-2009). Formerly, Chief Financial Officer, Degussa AG, Germany (chemical manufacturer) (2001-2006).	Director of The European Equity Fund, Inc. (since 2009). Member of the Advisory Board of Bankhaus Metzler Frankfurt, Germany (since 2006). Member of the Supervisory Board of Degussa Bank Frankfurt, Germany (since 1996). Treasurer, Dechema Frankfurt, Germany (since 1996).

DIRECTORS OF THE FUND (continued)

Name, Address, Age*	Term of Office and Length Served†	Principal Occupation(s) During Past Five Years	Other Directorships Held by Director
Werner Walbröl, 72(1)	Class Delegate for North American Humboldt Universitat (Berlin). II Formerly, President and Chief Executive Officer, The Since European American Chamber of Commerce, Inc. (until 2008). 2004 Formerly, President and Chief Executive Officer, The German American Chamber of Commerce, Inc. (until 2003).	Director of The European Equity Fund, Inc. (since 1986) and The Central Europe and Russia Fund, Inc. (since 1990). Director, TÜV Rheinland of North America, Inc. (independent testing and assessment services). Director, The German American Chamber of Commerce, Inc. President and Director, German-American Partnership Program (student exchange programs).	

(1) Indicates that each Director (except Dr. Trömel, who serves only as a Director of The New Germany Fund, Inc. and Mr. Wagner, who also serves as a Director of The European Equity Fund, Inc. only) also serves as a Director of The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc., two other closed-end registered investment companies for which Deutsche Investment Management Americas Inc. acts as Manager.

(2) Indicates "interested" Director, as defined in the Investment Company Act of 1940, as amended (the "1940 Act"). Mr. Bierbaum is an "interested" Director because of his affiliation with Sal. Oppenheim Jr. & Cie KGaA, which engages in brokerage with the Fund and other accounts managed by the investment advisor and manager; Mr. Bult is an "interested" Director because of his affiliation with PaineWebber International, an affiliate of UBS Securities Inc., a registered broker-dealer; and Mr. Strenger is an "interested" Director because of his affiliation with DWS-Deutsche Gesellschaft für Wertpapiersparen mbH ("DWS"), a majority-owned subsidiary of Deutsche Bank AG and because of his ownership of Deutsche Bank AG shares.

(3) Indicates that Mr. Wadsworth also serves as Director/Trustee of the DWS Investments' open-end and closed-end investment companies. These Funds are advised by Deutsche Investment Management Americas Inc., an indirect wholly-owned subsidiary of Deutsche Bank AG.

* The address of each Director is 345 Park Avenue, New York, NY 10154.

† The term of office for Directors in Class I expires at the 2010 Annual Meeting, Class II expires at the 2011 Annual Meeting and Class III expires at the 2012 Annual Meeting.

OFFICERS OF THE FUND*

Name, Age	Principal Occupations During Past Five Years
Michael G. Clark ^(1,2) , 44 President and Chief Executive Officer	Managing Director ⁽³⁾ , Deutsche Asset Management (2006-present); President of DWS family of funds; Director, ICI Mutual Insurance Company (since October 2007); formerly, Director of Fund Board Relations (2004-2006) and Director of Product Development (2000-2004), Merrill Lynch Investment Managers; Senior Vice President Operations, Merrill Lynch Asset Management (1999-2000)
Paul H. Schubert ⁽²⁾ , 46 Chief Financial Officer and Treasurer	Managing Director ⁽³⁾ , Deutsche Asset Management (since July 2004); formerly, Executive Director, Head of Mutual Fund Services and Treasurer for UBS Family of Funds (1998-2004); Vice President and Director of Mutual Fund Finance at UBS Global Asset Management (1994-1998)
David Goldman ^(2,4) , 36 Secretary	Director ⁽³⁾ , Deutsche Asset Management
John Millette ^(5,6) , 47 Assistant Secretary	Director ⁽³⁾ , Deutsche Asset Management
Rita Rubin ^(7,8) , 39 Chief Legal Officer	Vice President and Counsel, Deutsche Asset Management (2007-present); formerly, Vice President, Morgan Stanley Investment Management Inc. (2004-2007); Attorney, Shearman & Sterling LLP (2004); Director and Associate General Counsel, UBS Global Asset Management (US) Inc. (2001-2004)
Alexis Kuchinsky ^(8,9) , 33 Chief Compliance Officer	Vice President, Deutsche Asset Management
Jason Vazquez ^(8,10) , 37 Anti-Money Laundering Compliance Officer	Vice President, Deutsche Asset Management (since 2006); formerly: AML Operations Manager for Bear Stearns (2004-2006); Supervising Compliance Principal and Operations Manager for AXA Financial (1999-2004)

Each also serves as an Officer of The European Equity Fund, Inc. and The Central Europe and Russia Fund, Inc., two other closed-end registered investment companies or which Deutsche Investment Management Americas Inc. acts as Manager.

* As a result of their respective positions held with the Manager, these individuals are considered "interested persons" of the Manager within the meaning of the 1940 Act. Interested persons receive no compensation from the Fund.

(1) Since June 15, 2006.

(2) Address: 345 Park Avenue, New York, New York 10154.

(3) Executive title, not a board directorship.

(4) Since July 14, 2006.

(5) Since July 14, 2006. From January 30, 2006 to July 14, 2006 served as Secretary to the Fund.

(6) Address: One Beacon Street, Boston, Massachusetts 02108.

(7) Since July 21, 2008.

(8) Address: 280 Park Avenue, New York, New York 10017.

(9) Since August 24, 2009.

(10) Since October 23, 2009.

SHARES REPURCHASED AND ISSUED

The Fund has been purchasing shares of its common stock in the open market. Shares repurchased and shares issued for dividend reinvestment for the past five years are as follows:

Fiscal years ended December 31,	2009	2008	2007	2006	2005
Shares repurchased	830,339	278,800	—	155,500	689,500
Shares issued for dividend reinvestment	—	—	—	—	369,273

PRIVACY POLICY AND PRACTICES

We never sell customer lists or information about individual clients (stockholders). We consider privacy fundamental to our client relationships and adhere to the policies and practices described below to protect current and former clients' information. Internal policies are in place to protect confidentiality, while allowing client needs to be served. Only individuals who need to do so in carrying out their job responsibilities may access client information. We maintain physical, electronic and procedural safeguards that comply with federal and state standards to protect confidentiality. These safeguards extend to all forms of interaction with us, including the Internet.

In the normal course of business, we may obtain information about stockholders whose shares are registered in their names. For purposes of these policies, "clients" means stockholders of the Fund. (We generally do not have knowledge of or collect personal information about stockholders who hold Fund shares in "street name," such as through brokers or banks.) Examples of the nonpublic personal information collected are name, address, Social Security number and transaction and balance information. To be able to serve our clients, certain of this client information may be shared with affiliated and nonaffiliated third party service providers such as transfer agents, custodians, and broker-dealers to assist us in processing transactions and servicing the client's account with us. The organizations described above that receive client information may only use it for the purpose designated by the Fund.

We may also disclose nonpublic personal information about clients to other parties as required or permitted by law. For example, we are required or we may provide information to government entities or regulatory bodies in response to requests for information or subpoenas, to private litigants in certain circumstances, to law enforcement authorities, or any time we believe it necessary to protect the firm from such activity.

PROXY VOTING

A description of the Fund's policies and procedures for voting proxies for portfolio securities and information about how the Fund voted proxies related to its portfolio securities during the 12-month period ended June 30 is available on our Web site — www.dws-investments.com or on the SEC's Web site — www.sec.gov. To obtain a written copy of the Fund's policies and procedures without charge, upon request, call us toll free at (800) 437-6269.

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THE NEW GERMANY FUND, INC.
SCHEDULE OF INVESTMENTS — DECEMBER 31, 2009

Shares	Description	Value(a)
INVESTMENTS IN GERMAN SECURITIES – 90.8%		
COMMON STOCKS – 89.3%		
AEROSPACE & DEFENSE – 2.6%		
129,084	MTU Aero Engines Holding	\$ 7,071,680
AIRLINES – 0.3%		
170,000	Air Berlin†*	916,932
AUTO COMPONENTS – 3.4%		
90,000	Continental*	4,863,385
188,344	ElringKlinger	4,376,908
		9,240,293
CONSTRUCTION MATERIALS – 5.7%		
222,500	HeidelbergCement	15,393,871
CHEMICALS – 12.4%		
317,760	Lanxess	12,006,476
360,000	Symrise	7,735,971
79,364	Wacker Chemie	13,903,076
		33,645,523
COMMERCIAL BANKS – 2.5%		
210,000	Deutsche Postbank*	6,892,486
COMPUTERS & PERIPHERALS – 3.8%		
152,727	Wincor Nixdorf	10,439,490
CONSTRUCTION & ENGINEERING – 9.3%		
44,341	Bauer	1,860,509
133,181	Bilfinger Berger	10,301,316
171,567	Hochtief	13,179,344
		25,341,169
ELECTRICAL EQUIPMENT – 4.1%		
50,000	Q-Cells†*	817,665
100,686	SGL Carbon†*	2,997,007
201,957	Solarworld†	4,441,213
164,800	Tognum	2,742,305
		10,998,190
HEALTH CARE PROVIDERS & SERVICES – 4.2%		
130,000	Celesio	3,300,785
329,946	Rhoen Klinikum	8,103,025
		11,403,810
HOUSEHOLD DURABLES – 0.6%		
118,886	Loewe	\$ 1,534,878

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	INDUSTRIAL CONGLOMERATES – 4.8%	
202,583	Rheinmetall	13,001,682
	INTERNET SOFTWARE & SERVICES – 3.7%	
750,966	United Internet*	9,932,344
	LIFE SCIENCES TOOLS & SERVICES – 1.3%	
108,287	Gerresheimer	3,650,436
	MACHINERY – 7.3%	
50,000	Demag Cranes	1,672,627
573,046	GEA Group	12,790,857
298,963	MAX Automation	1,020,692
52,714	Pfeiffer Vacuum Technology	4,423,667
		19,907,843
	METALS & MINING – 1.4%	
85,000	Aurubis	3,684,800
	PHARMACEUTICALS – 3.2%	
247,563	Stada Arzneimittel	8,594,125
	REAL ESTATE MANAGEMENT & DEVELOPMENT – 2.2%	
153,937	Deutsche Euroshop	5,226,871
84,364	IVG Immobilien*	647,458
		5,874,329
	SEMICONDUCTORS & SEMICONDUCTOR – 1.2%	
235,000	Infineon Technologies*	1,307,977
160,766	Kontron	1,838,032
		3,146,009
	SOFTWARE – 4.8%	
120,000	Software	13,151,496
	SPECIALTY RETAIL – 3.0%	
30,000	Douglas Holdings†	1,464,481
50,000	Fielmann	3,683,796
263,465	Praktiker Bau- und Heimwerkermaerkte	2,929,039
		8,077,316
	TEXTILES, APPAREL & LUXURY GOODS – 0.7%	
5,647	Puma	1,878,048

The accompanying notes are an integral part of the financial statements.

THE NEW GERMANY FUND, INC.
SCHEDULE OF INVESTMENTS — DECEMBER 31, 2009 (continued)

Shares	Description	Value(a)
INVESTMENTS IN GERMAN SECURITIES – 90.8% (continued)		
	TRADING COMPANIES & DISTRIBUTORS – 1.3%	
140,000	Kloeckner & Co.*	\$ 3,584,816
	TRANSPORTATION INFRASTRUCTURE – 2.3%	
120,000	Fraport	6,245,239
	WIRE & CABLE PRODUCTS – 1.3%	
150,000	Leoni	3,518,111
	WIRELESS TELECOMMUNICATION SERVICES – 1.9%	
390,646	Freenet*	5,261,984
	Total Common Stocks (cost \$172,705,671)	242,386,900
	PREFERRED STOCKS – 1.5%	
	HEALTH CARE EQUIPMENT & SUPPLIES – 0.5%	
62,632	Sartorius (cost \$691,434)	1,428,545
	TELEVISION – 1.0%	
225,000	ProSiebenSat.1 Media (cost \$1,854,304)	2,601,466
	Total Preferred Stocks (cost \$2,545,738)	4,030,011
	Total Investments in German Securities (cost \$175,251,409)	246,416,911
INVESTMENTS IN DUTCH COMMON STOCKS – 7.3%		
	AEROSPACE & DEFENSE – 4.4%	
589,645	EADS†	11,913,737
	LIFE SCIENCES TOOLS & SERVICES – 2.9%	
355,887	QIAGEN†*	7,974,321
	Total Investments in Dutch Common Stocks (cost \$12,260,299)	19,888,058
	Total Investments in Common and Preferred Stocks – 98.1% (cost \$187,511,708)	266,304,969
SECURITIES LENDING COLLATERAL – 8.6%		
	CASH EQUIVALENTS – 0.1%	
23,248,753	Daily Assets Fund Institutional, 0.17% (cost \$23,248,753) ^{(b)(c)}	\$ 23,248,753
161,943	Central Cash Management Fund, 0.14% ^(c) (cost \$161,943)	161,943
	Total Investments – 106.8% (cost \$210,922,404)	289,715,665

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Other Assets and Liabilities, Net – (6.8%)	(18,370,542)
NET ASSETS–100.0%	\$ 271,345,123

† All or a portion of these securities were on loan. (See Notes to Financial Statements.) The value of all securities loaned at December 31, 2009 amounted to \$22,283,151 which is 8.2% of net assets.

* Non-income producing security.

(a) Value stated in US dollars.

(b) Represents collateral held in connection with securities lending. Income earned by the Fund is net of borrower rebates.

(c) Affiliated fund managed by Deutsche Investment Management Americas Inc. The rate shown is the annualized seven-day yield at period end.

The accompanying notes are an integral part of the financial statements.

THE NEW GERMANY FUND, INC.
SCHEDULE OF INVESTMENTS — DECEMBER 31, 2009 (continued)

Fair Value Measurements

Various inputs are used in determining the value of the Fund's investments. These inputs are summarized in three broad levels. Level 1 includes quoted prices in active markets for identical securities. Level 2 includes other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds and credit risk). Level 3 includes significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments). The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used as of December 31, 2009 in valuing the Fund's investments. For information on the Fund's policy regarding the valuation of investments, please refer to the Security Valuation section of Note 1 in the accompanying Notes to Financial Statements.

Category	Level 1	Level 2	Level 3	Total
Common Stocks and/or Other Equity Investments ^(d)				
Netherlands	\$ 19,888,058	\$ 0	\$ 0	\$ 19,888,058
Germany	246,416,911	0	0	246,416,911
Short-Term Instruments	23,410,696	0	0	23,410,696
Total	\$ 289,715,665	\$ 0	\$ 0	