



DDH Australian Small Companies Fund

Performance Report for the Quarter Ended 31 March 2010

Investment objective

The DDH Australian Small Companies Fund invests in the QIC Active Small Companies Fund which aims to capture the performance of small companies listed on the Australian sharemarket by investing in a diversified portfolio of listed and unlisted securities and by the use of associated derivatives.

Commentary and outlook

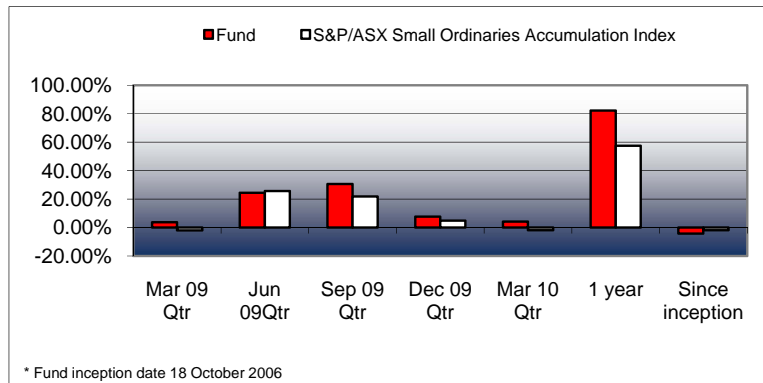
The performance of the DDH Australian Small Companies Fund is set out below. Refer to the attached performance report from QIC. Please note that the performance figures quoted in QIC reports relate to the underlying QIC wholesale funds.

Performance

	3 months %	6 months %	1 year %	2 year % p.a.	3 year % p.a.	Since Inception % p.a.	QIC Fund Since Inception % p.a.
Total return	4.18	12.16	82.28	-5.41	-9.28	-4.19	4.01
Growth return	3.77	11.26	78.12	-9.27	-16.06	-12.72	
Distribution return	0.41	0.91	4.16	3.86	6.78	8.52	
Benchmark	-1.94	2.85	57.46	-7.59	-7.60	-1.90	3.83

Performance notes:

1. DDH Australian Small Companies Fund inception date - 18 October 2006.
2. QIC Active Small Companies Fund inception date - 10 December 2005.
3. DDH fund returns are calculated on an exit price basis after fees have been deducted and assuming reinvestment of distributions. No allowance is made for tax.
4. QIC fund returns are before investment management fees.
5. Fund benchmark - S&P/ASX Small Ordinaries Acc. Index.



Unit Price as at 31 March 2010

Entry price (ex distribution)	\$0.6277
Exit price (ex distribution)	\$0.6251

Income distribution

The distribution for the quarter ended 31 March 2010 is 0.25 cents per unit. Details of the final tax components of the distribution, including franking credits, will be advised to unitholders after 30 June 2010.

Asset allocation

	As at 31-03-10 (%)
Australian shares - small companies	100

QIC Active Small Companies Fund

Fund details at 31 March 2010

Profile

Description	The Fund captures the performance of smaller capitalisation companies listed on the Australian Stock Exchange, by investing in a diversified portfolio of listed and unlisted securities and by the use of associated derivatives.
Objective	To outperform the S&P/ASX Small Ordinaries Accumulation Index by 5.00% per annum over a 3 year period.
Inception	December 2005
Size	AUD \$101.6 million

Performance

Gross period returns (%)

Period	Fund	Benchmark
1 month	7.94	6.84
3 months	4.61	-1.57
Financial year to date	48.96	25.76
1 year	86.80	58.06
3 years	-8.47	-7.47
Since inception	4.01	3.83

Market Overview

The S&P ASX Small Ordinaries Accumulation Index gained 6.84% for the month.

Following the relatively lacklustre performance of the index in February, the month of March provided some much needed positive momentum for the Small Ordinaries index. The theme for the month was the preference towards the small resources, gaining 11.5% compared to a more measured 1.6% gain for the small industrials.

The ASX200 also had a very strong month, with the ASX200 index having its best month since September 2009 and came very close to the 12 month high that was struck in January 2010. The Australian market was helped by global equity markets posting a strong performance for March, on the back of generally stronger economic data. The MSCI World ex Australia index (in US dollar) was up 6.2% in March. This index takes into account the performance of the world's major share markets except for the Australian market.

Performance Drivers

The Fund posted a return of 7.94% for the month, against the S&P / ASX Small Ordinaries Accumulation Index return of 6.84%, outperforming by 1.1%.

The top performers to our performance included:

SMS Management & Technology (SMX) – SMX is an IT consulting business concentrating on high end solutions for their clients. They are involved in large scale IT projects for major banks, government and Telstra. SMX outperformed the market during the quarter after reporting a first half net profit of \$13.3 million which was above analyst expectations. The company also provided a positive outlook with the company increasing its staff numbers in response to improved demand for the company's services. The Fund had an overweight position in SMX which added 0.65% to performance for the quarter.

TPG Telecom Limited (TPM) – TPM sells fixed broadband products to residential and small businesses customers. This broadband product has been phenomenally successful with the growth in subscriber numbers is well above its nearest competitors. Most of the subscriber growth has come from Telstra customers. During the quarter, TPM successfully completed the takeover of Pipe Networks. Pipe will allow TPM, over time, to use the "Pipe network" for internet traffic to and from the USA rather than renting capacity. The company indicated that the potential synergies from the acquisition will be around \$100 million over 4 years. This has led to substantial profit and valuation upgrades resulting in the shares outperforming the small companies market by 40% for the quarter. The Fund is overweight and this added 0.64% performance for the quarter.

Sigma Pharmaceuticals (SIP) – SIP is a wholesale distributor of pharmaceuticals and a manufacturer and distributor of generic and over the counter drugs. SIP declined during the quarter after reporting a full year profit that was significantly below expectations. SIP also announced that it needs to sell assets to meet its revised debt covenants. The Fund had an underweight position in SIP which added 0.60% to performance.

The main detractors from performance were:

Alesco Corporation (ALS) – ALS is a wholesale distribution company supplying kitchen and laundry products, construction products, garage doors, and water products. ALS downgraded its full year profit forecast after a weaker than expected starts to the second half. The company said the recent recovery in approvals for new housing and renovation have not yet flown through to increased demand for ALS's products. The company also said its water business earned less than expected in its third quarter. The Fund had an overweight position which detracted 0.83% from performance for the quarter.

WDS Limited (WDS) – WDS is a contracting business with operations in coal mining, infrastructure and coal seam gas. WDS announced a weak first half result. The company's mining contracting division had a strong result with earnings before interest and tax (EBIT) up 17% for the half. However, this was offset by a loss in the infrastructure division caused by lower coal seam gas and civil infrastructure work and cost overruns on some projects. The Fund's overweight position detracted 0.74% of performance for the quarter.

Norfolk Group (NFK) – NFK provides electrical contracting services and mechanical services including air-conditioning maintenance and installation. NFK underperformed during the quarter after announcing a 2 for 9 rights issue. The capital raising will improve NFK's balance sheet and give the company greater bonding capacity to bid for new projects. NFK's electrical contracting business is well positioned to win work for rail and other infrastructure sectors. The Fund had an overweight position which detracted 0.42% from performance.

Top contributors to active return for the financial year to date (%)

Name	FYTD Contribution	Active Weight
Virgin Blue Holdings Ltd.	1.57	1.87
The Mac Services Group Ltd.	1.42	1.64
SMS Management & Technology Ltd.	1.19	1.79
Sigma Pharmaceuticals Ltd.	1.15	-1.04
IOOF Holdings Ltd.	0.95	2.68
REA Group Ltd.	0.90	1.64
Transfield Services Ltd.	0.87	0.72
Austin Engineering Ltd.	0.75	0.84
Webjet Ltd.	0.74	1.14
Gunns Ltd.	0.71	-0.42

Top detractors from active return for the financial year to date (%)

Name	FYTD Contribution	Active Weight
Alesco Corporation Ltd.	-0.82	1.56
Challenger Financial Services Group Ltd.	-0.79	0.00
WDS Ltd.	-0.77	0.23
Flight Centre Ltd.	-0.62	-1.16
Aquila Resources Ltd.	-0.57	-1.55
Emeco Holdings Ltd.	-0.44	1.60
Probiotec Ltd.	-0.39	0.89
Tower Australia Group Ltd.	-0.36	-0.66
Graincorp Ltd.	-0.35	-1.06
Perseus Mining Ltd.	-0.32	-0.60

Outlook

The QIC Australian Small Companies team remain optimistic on the outlook for the Australian share market returns over the medium to long term, as we expect the market will continue to recover ahead of global economic growth, albeit off a lower base. In the near term, we expect volatility will remain at above average levels as the recovery in the real economy is likely to experience several 'false dawns' and markets will trade heavily around this. However we expect that as revenue growth returns, corporate profitability is likely to show considerable operating leverage for a diverse range of companies that have actively reduced costs and conserved capital.

More specifically in 2010 we expect margin expansion to feature despite revenue growth remaining fairly subdued. The previous two years of soft economic growth have focused companies on reducing their cost bases and as such as the economy improves, we have high expectations for margin expansion in the worst affected sectors.

The significant amount of stimulus enacted by the Government will positively impact consumer behaviour and has effectively capped unemployment levels at much lower levels than anticipated. The upcoming reporting season is likely to see a range of company upgrades as the benefits from the Government stimulus and the stronger economic growth flows through to company balance sheets. However the interest rate cycle is once again on the rise and will mitigate a large proportion of the induced demand.

Economic data from the US indicates that their economy is recovering. Trade and inventories data provided a strong boost for the US economy in late 2009. However, as the inventory cycle turns, credit conditions remain

tight, and consumer spending loses the support of government stimulus programs, it is likely the recovery will be at a more subdued pace in 2010. While economic data released will be mixed, the recovering US economy will be positive for market sentiment in Australia.

Our focus remains unchanged in terms of investing in stocks where the potential growth and quality of a company's earnings profile and asset base has been underestimated and therefore undervalued by the market.

The Fund has selectively moved more towards a growth position, generated from our bottom-up stock selection process. We believe the market will grind higher over the next three to six months, and that the market will become increasingly selective in which companies will benefit from a recovery.

Portfolio Positioning

The Fund has moved to capture more of a growth bias as the markets have softened in the recent month in line with our view that markets will continue to trend up over the coming twelve months. We have a preference for stocks with recurring underlying earnings growth, supportive cash flow valuations, prudent capital management, dividend sustainability and proven management franchise. We remain cautious of stocks with lower quality cash flow and earnings models, excessive gearing levels and near term financing risk as well as business models that rely excessively on funds management and development earnings.

Top ten holdings (%)

Name	Fund Weight	Active Weight
IOOF Holdings Ltd.	3.91	2.68
Southern Cross Media Group	3.25	2.59
Virgin Blue Holdings Ltd.	3.05	1.87
Pacific Brands Ltd.	2.95	1.71
Adelaide Brighton Ltd.	2.83	1.61
Mt Gibson Iron Ltd.	2.83	1.59
Henderson Group PLC	2.80	1.81
APN News & Media Ltd.	2.68	1.74
TPG Telecom Ltd.	2.52	1.89
SAI Global Ltd.	2.50	1.89

Physical and derivative composition (%)

	Fund Weight
Physical equities	96.83
Exchange traded options	2.76
Cash	0.41

Notes:

- Returns greater than one year are annualised.
- Past performance is not a reliable indicator of future performance.

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