



**DDH Fixed Interest Fund**

**Performance Report for the Quarter Ended 31 March 2010**

*Investment objective*

The DDH Fixed Interest Fund invests in the QIC Australian Fixed Interest Fund which aims to exceed the performance of a portfolio of highly rated Australian fixed interest securities by investing in a diversified, medium risk portfolio of Australian and international higher yielding fixed interest securities and derivatives.

*Commentary and outlook*

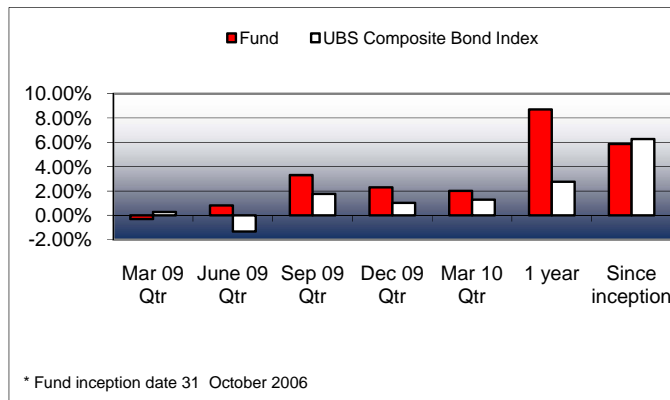
The performance of the DDH Fixed Interest Fund is set out below. Refer to the attached performance report from QIC. Please note that the performance figures quoted in QIC reports relate to the underlying QIC wholesale funds.

*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	2.01	4.36	8.70	8.20	6.33	5.87	7.77
Growth return	0.25	1.31	1.37	1.39	-0.02	-0.49	
Distribution return	1.77	3.05	7.33	6.81	6.34	6.36	
Benchmark	1.29	2.34	2.76	7.65	6.52	6.27	7.52

*Performance notes:*

1. DDH Fixed Interest Fund inception date - 31 October 2006.
2. QIC Australian Fixed Interest Fund inception date - June 1994.
3. DDH fund returns are calculated 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 - UBS Composite Bond Index



*Unit Price as at 31 March 2010*

Entry price (ex distribution)	\$1.0016
Exit price (ex distribution)	\$1.0008

*Income distribution*

The distribution for the quarter ended 31 March 2010 is 1.74 cents per unit. Details of the final tax components of the distribution will be advised to unitholders after 30 June 2010.

*Asset allocation*

	As at 31-03-10 (%)
Australian fixed interest	100

## QIC Australian Fixed Interest Fund

### Fund details at 31 March 2010

#### Profile

Description	The Fund is a domestic fixed interest portfolio that is actively managed by the QIC Global Fixed Interest team to lift returns and minimise risk.
Objective	To outperform the UBS Composite Bond Index by 0.80% per annum.
Inception	June 1994
Size	AUD \$264.4 million

#### Performance

Gross period returns (%)

Period	Fund	Benchmark
1 month	-0.01	-0.58
3 months	2.17	1.26
Financial year to date	8.70	4.11
1 year	9.72	2.73
3 years	7.35	6.50
5 years	6.64	5.98
7 years	6.26	5.55
Since inception	7.77	7.52

#### Market Overview

##### Economic Overview

The trajectory of economic data released during the March quarter has boosted our confidence of a modest, but above consensus global recovery, particularly in the US. However, as evidenced in February where a downgrade for Portugal and continued speculation around a resolution for Greece's fiscal issues caused a pull back in risk, headwinds to this recovery still remain.

Accelerated US gross domestic product (GDP) growth of 5.6% in the December 2009 quarter, and other economic data pointing to convincing signs of improvements in final demand, continue to reinforce our view. In other major markets, economic growth for the December quarter was somewhat lacklustre while growth forecasts for 2010 also remain subdued. Particularly disappointing has been official GDP data in the UK which grew by just 0.4% quarter-on-quarter.

Elsewhere, there has been continuing evidence of strong growth in Asia, with China in particular reporting accelerating bank lending, solid asset market appreciation

and property prices rising strongly. Industrial production and exports have also picked up strongly. The Australian economy continues to expand at a solid pace, although recent data was somewhat mixed. As the market expected, the Reserve Bank of Australia (RBA) raised the cash rate for a fourth time in March by a further 0.25%. Announcing its decision, the RBA noted that "with growth likely to be close to trend and inflation close to target over the coming year, it is appropriate for interest rates to be closer to average", the RBA is continuing to "lessen the degree of monetary stimulus that had been put in place when the outlook appeared to be much weaker".

##### Global Interest Rates Overview

QIC Global Fixed Interest (GFI) team's extensive research indicates that short end yields in the UK and US remain expensive relative to our growth scenarios. This strong conviction is reflected through a number of short duration and yield curve flattening strategies across the US and UK as monetary policy begins to tighten.

Through March, short end US yields rose as the Federal Reserve (Fed) board members began to hint that the extended period language could be altered as the employment data improved. Longer yields also moved higher on poor US bond tender results and increased sovereign credit risk concerns due to large budget deficits. Unfortunately this meant that the yield curve flattening that occurred in early March was all but reversed by the end of the month. This also caused the US 10 year swap spreads to move into negative territory for the first time in history. Swap spreads are typically positive because governments can usually borrow at the cheapest rate.

As outright short duration positions in Australia reached target levels in March they were removed, and a 5 year US short duration position tactically added to produce positive return. The portfolio's US yield curve flattening strategies was increased by adding a 5 year versus 30 year trade.

Our analysis indicated that Australian bond yields, particularly at the front of the yield curve, were too low. Reflecting this view was a rise in Australian bond yields and a flatter yield curve in March. This allowed for the unwinding of short duration and yield curve positions at profitable levels.

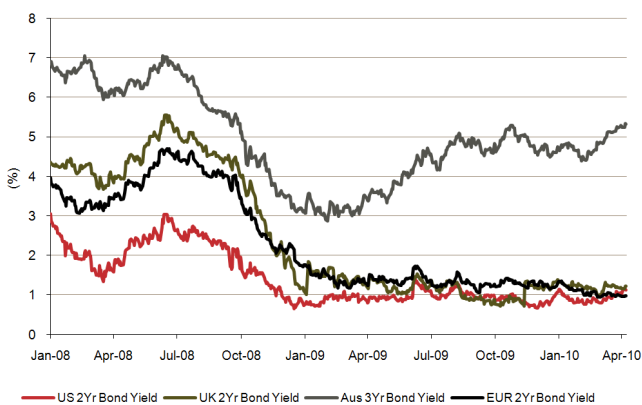
As shown in the Global Short and Long End Bond Yield charts below, the differential between Australian yields which continue to rise as the RBA continues to tighten and those in the UK, Europe and the US which remain anchored has widened over the month. This has negatively impacted the portfolio's country spread strategies however we remain convicted that these will deliver strong performance in the coming months as yields rise in the UK and US.

### Global Credit Overview

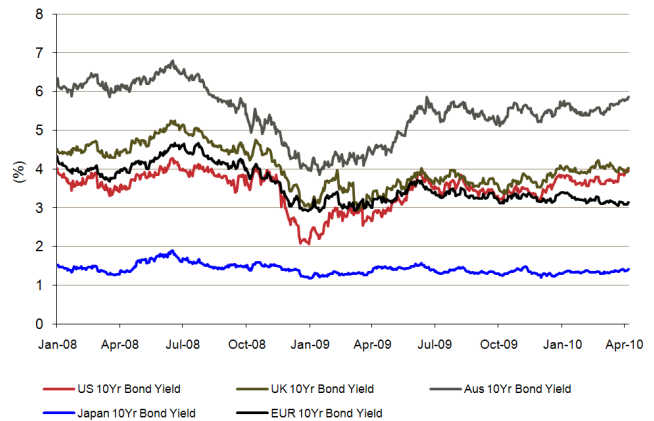
Despite the headwinds faced, global credit markets continue to deliver strong returns as investors chasing yield move their cash into investment grade and high yield credit. Following the marginal weakening in February as sovereign credit risk concerns increased, credit spreads narrowed in March. While issuance remains concentrated in financials, March was more balanced with a record US\$38 billion of US high yield bonds being issued. Investors continue to support the high yield market with continued inflows into bond and loan funds at the expense of money market funds.

Investment grade credit active overweight strategies to financials (Australian major banks and government supported global banks) and Australian 'Prime' residential mortgage backed securities have delivered strong returns to the portfolio throughout March. Also contributing very strongly to performance were overweight allocations to global defensive infrastructure loans.

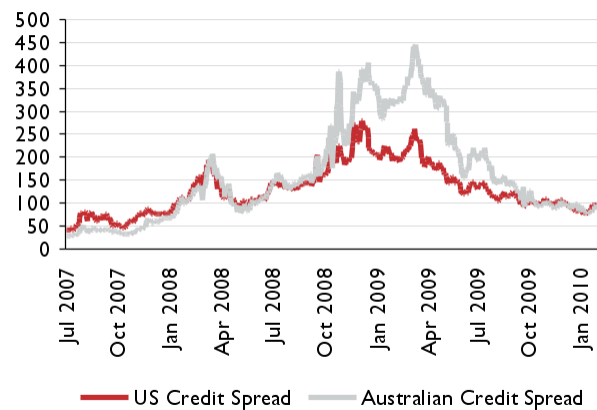
### Global Short End Year Bond Yields



### Global 10 Year Bond Yields



### Investment Grade Credit Spreads (Derivative Indices) (basis points)



## Performance Drivers

During March, the UBS Composite Bond Index benchmark returned -0.58% while the Fund returned -0.01%, outperforming by 0.57%. The Fund's overweight credit strategies, particularly major domestic banks, defensive infrastructure loans and active duration positions were the key drivers to outperformance.

Contributors to active performance (versus the benchmark) for the Fund are described below:

#### Interest Rates

##### Positive Contribution

- Short Australian and US duration positions

##### Negative Contribution

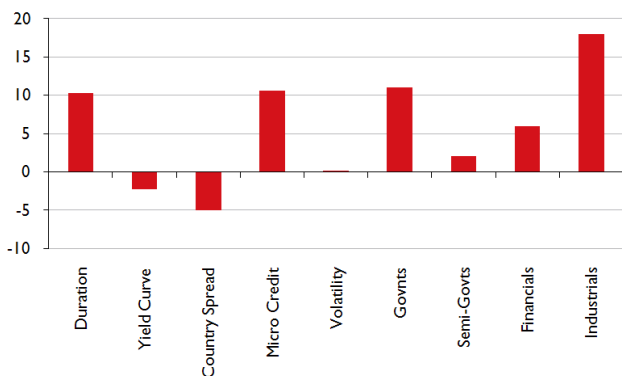
- US versus UK country spread in expectation that the differential between US and UK bond yields will decrease
- US yield curve flatteners

Macro and Micro Credit

Positive Contribution

- Long selected US and Australian financials and high yield infrastructure loans

**Active performance attribution by strategy for the month (basis points)**



Outlook

GFI is positioned for a more upbeat assessment by the Fed in coming months and a removal of the commitment to maintain “exceptionally low levels of the federal funds rate for an extended period.” While there may be little need for central banks to tighten aggressively during 2010, our view means that the market could be surprised by a change in central bank rhetoric in coming months.

Portfolios are also positioned for an earlier than expected rate increase in the UK. While the upcoming election provides some uncertainty and some questions about the pace of recovery remain, we believe that heightened inflationary concerns post election will prompt the Bank of England (BoE) to lift cash rates in the September quarter of 2010. This inflation risk is being driven by the flow on effects of currency depreciation and forecasted inflation that will fall less than predicted by the BoE.

We continue to anticipate a number of further official increases in the cash rate over coming quarters in Australia. Long maturity Australian bonds are starting to look attractive at a spread of almost 2% over US bonds.

An increasingly stronger technical picture continues to support the improvement in credit markets. The majority of investment grade companies have been reporting good results, positive cashflow and improved balance sheets. Credit spreads continue to be priced inexpensively relative to the underlying default and downgrade risks, and spreads are expected to tighten further over the medium term.

The willingness of investors and banks to refinance existing deals has been a strong catalyst for the sharp improvement in the default outlook for the high yield sector. We expect defaults to fall to approximately 5% from 12% in the coming year based on the ability of issuers to refinance as well as the improving fundamentals.

Although we see the default outlook improving, we do see the performance of individual issuers diverging in the coming twelve months, making individual name selection much more important than in 2009. We see a range of factors leading to the divergence including, industry, geography and capital structure. GFI is positioning portfolios to take advantage of these opportunities both through individual stock selection and relative value micro credit pairs strategies (long/short single names).

Portfolio Positioning

Interest rate strategies

Country Spread	Country spreads across Australian, European, US and Canadian interest rate markets
Duration	Active JPN, UK and US duration positions
Yield Curve	EUR and US flatteners, Japan and UK steepeners

Credit strategies

Credit Strategies	The Fund is overweight financials, particularly in the short end of the credit curve.
High Yield	Exposure via a unit holding in QIC Global Credit Opportunities Fund.
Macro Credit	Active AUS position
Micro Credit	The Fund has a number of long/short relative value derivative strategies across bespoke portfolios.
Structured Credit	The Fund holds a small number of investment grade positions with exposure predominately to loans in the US and Europe.

Asset composition (%)

Asset	Fund	Benchmark
Financials	63.31	38.02
Semi-Govt.	17.73	33.46
Industrials	13.44	1.32
Cash	4.24	0.00
Comm. Govt.	1.28	27.20

Maturity composition (%)

Maturity	Fund	Benchmark
0-1 Year	13.80	11.83
1-3 Years	12.14	27.45
3-5 Years	21.29	26.99
5-7 Years	11.30	16.04
7+ Years	41.47	17.69

Rating composition (%)

Rating	Fund	Benchmark
AAA	33.41	80.80
AA	23.75	12.57
A	23.53	4.75
BBB	14.56	1.52
Sub-Investment Grade	4.07	0.08
Not Rated	0.68	0.28

Modified duration

	Years
Fund	2.70
Benchmark	3.40

Notes:

- Returns greater than one year are annualised.
- Past performance is not a reliable indicator of future performance.
- The benchmark to June 1998 was the UBS Semi-Government Bond Index.
- Fund composition tables may not total 100% due to rounding.

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