DDH GRAHAM LIMITED

Responsible Entity

DDH Investment Access Funds

QIC

Investment Manager

DDH Australian Small Companies Fund

Performance Report for the Quarter Ended 31 December 2009

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

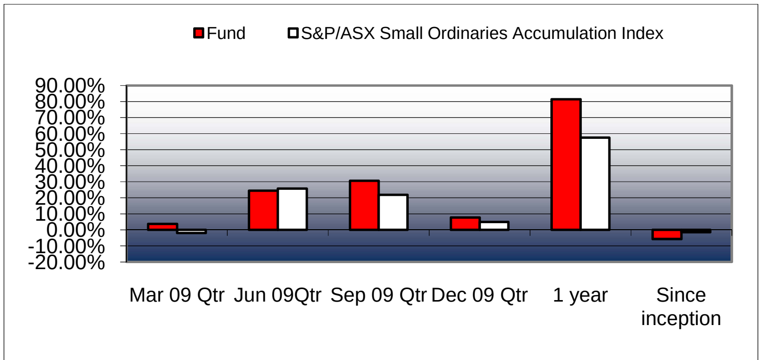
The performance of the DDH Australian Small Companies Fund is set out below. Refer to the attached performance report from QIC. Please note that the performance figures quoted in QIC reports relate to the underlying QIC wholesale funds.

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	**7.66**	**40.60**	**81.41**	**-19.01**	**-8.62**	**-5.71**	**3.11**
Growth return	7.21	39.27	75.67	-22.23	-16.52	-14.60	
Distribution return	0.45	1.33	5.74	3.24	7.90	8.89	
Benchmark	4.88	27.76	57.43	-14.14	-4.80	-1.44	**4.48**

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.



* Fund inception date 18 October 2006

Unit Price as at 31 December 2009

Entry price (ex distribution)	$0.6025
Exit price (ex distribution)	$0.6001

Income distribution

The distribution for the quarter ended 31 December 2009 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 31-12-09 (%)
Australian shares – small companies	100

QIC Active Small Companies Fund

Fund details at 31 December 2009

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 $66.9 million

Performance

Gross period returns (%)

Period	Fund	Benchmark
1 month	3.84	4.29
3 months	8.20	4.88
Financial year to date	42.40	27.76
1 year	85.94	57.43
3 years	-7.71	-4.79
Since inception	3.11	4.48

Market Overview

The S&P/ASX Small Ordinaries Accumulation index returned 4.88% for the quarter.

After a very strong September quarter in which the market barometer, ASX 200, posted a stellar 21.50% return, the December quarter was seen to be one of consolidation. However, despite returning a more subdued 3.40% for the quarter, the overall return masked a vast divergence within the sectors that contributed to the index move. On the back of positive economic data from China, the US and Australia – manufacturing, industrial production and employment data being the focus, investors tilted their portfolios towards those sectors with the highest leverage, i.e. growth stocks, for a continued economic recovery. Material stocks, especially those exposed to bulk commodities, were the stand out performers rising 13.70%. Other sectors to attract buying interest were consumer staples (+4.60%) and industrials (+3.60%). Sectors that lagged the broader market were Real Estate Investment Trust (REIT) (-6.40%) as the market continued to digest new equity issuances, energy (-2.50%) as the price of crude came under pressure, and financials (-1.90%) which were dogged by concerns about funding costs and liquidity requirements. The December quarter also signalled the much anticipated beginning of the interest rate tightening cycle as the Reserve Bank of Australia (RBA) initiated the move from expansionary monetary conditions to adopt a more normal stance. Within the quarter the RBA tightened the cash rate by 0.25% at each of the three monthly meetings. By the year end, the cash rate stood at 3.75% with the prospect of further rate increases early in the new year, not a matter of if but when. The other feature of the quarter was the performance of the Australian dollar (AUD) which rallied strongly as economic data confirmed that Australia was the best performing economy of the developed nations. However gains were capped late in the quarter as evidence that the US economy had begun to show signs of life, through positive employment data in November and December, resulted in the carry trade being unwound. Interest rate differentials in the coming quarter will drive the short term direction of the AUD.

Performance Drivers

The Fund returned 8.20% over the quarter with its benchmark of 4.88%.

The top performers to our performance included:

Norfolk Group (NFK) – NFK provides electrical contracting services and mechanical services including air-conditioning maintenance and installation. NFK outperformed during the quarter after reporting a stronger than expected first half result with net profit up 29%. NFK is well positioned for a good second half with major contracts for BHP's RGP5 project and Rail Corp ramping up in the second half. The Fund had an overweight position which added 0.34% to performance.

Macquarie Media Group (MMG) – MMG is a media company with Australian regional radio and TV assets. MMG outperformed during the quarter after completing a capital raising which significantly improved its balance sheet. MMG also internalised the management of the company by buying the management rights back from Macquarie Bank. There are encouraging signs that the Australian advertising market is beginning to rebound after the recent severe decline. MMG is well placed to benefit from this recovery. The Fund was overweight MMG which added 0.24% to performance.

ING Industrial Fund (IIF) – IIF is a listed property trust which invests in industrial property and business parks. IIF is highly geared and is in the process of divesting assets to improve its balance sheet. IIF underperformed during the month after strong performance in previous months. The Fund had an underweight position in IIF which added 0.24% to performance.

The main detractors from performance were:

Aquila Resources (AQA) – AQA is predominately a minerals exploration company with some prospective projects. They are producing coal at their Isacc Plains project. Most of the other projects require large amount of capital expenditure to become operational. During the quarter, Baosteel (China's largest steel producer) received Foreign Investment Review Board (FIRB) approval for a $285 million placement. This will go a small way to contributing the large capital expenditure program. The shares were rerated and cost the Fund 0.43%.

Talent 2 International (TWO) – TWO consists of two divisions of similar size, a managed services business and a recruitment business. The managed services business has longer term contracts and annuity style earnings. This division has grown strongly over the last few years. The other division, the recruitment division, is cyclical and has suffered in the recent downturn. Earlier this year, the market valued the company as a cyclical recruitment company and ignored the strengths of the managed services company. In August, the company reported their full year's results which highlighted the quality of the managed services division and the turnaround in the recruitment division was underway due the improving economic conditions. TWO has been strongly rerated by the market since May due to the improving employment market which will lead to upgrades in the recruitment division. However, the market focus in November moved to the resource sector and away from stock such as TWO which had no new news and underperformed after a strong period of outperformance. This cost the Fund 0.29%.

Graincorp (GNC) – GNC provides handling, storage, marketing and logistic services to the grain growing producers on the east coast of Australia. Over the last few years, the company has consolidated the storage and handling assets on the east coast of Australia. This has placed the company in a strategically strong position to increase its marketing operations due to increasing its market share in storage and handling. The dismantling of the single desk for wheat exporting along with this increasing market share in storage and handling has allowed GNC to dramatically increase its marketing capabilities. During the month of December, the company announced its yearly profit result which was better than expected, however, due to the weather they forecast a subdued outlook. With the marketing focusing on resources stocks and a deteriorating short term outlook the stock underperformed and cost the Fund 0.27%.

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

Name	FYTD Contribution	Active Weight
Virgin Blue Holdings Ltd.	1.15	2.00
The Mac Services Group Ltd.	0.91	2.35
Transfield Services Ltd.	0.88	1.15
Austin Engineering Ltd.	0.72	1.03
Whitehaven Coal Ltd.	0.66	0.59
Talent2 International Ltd.	0.62	2.42
Domino's Pizza Enterprises Ltd.	0.56	1.33
Sigma Pharmaceuticals Ltd.	0.55	-1.19
APN News & Media Ltd.	0.54	1.86
SMS Management & Technology Ltd.	0.53	2.91

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

Name	FYTD Contribution	Active Weight
Challenger Financial Services Group Ltd.	-0.79	0.00
Aquila Resources Ltd.	-0.61	-1.60
Flight Centre Ltd.	-0.44	-1.04
Graincorp Ltd.	-0.44	1.89
Mirabela Nickel Ltd.	-0.27	2.15
Northern Iron Ltd.	-0.27	0.85
Tower Australia Group Ltd.	-0.26	0.95
Perseus Mining Ltd.	-0.24	-0.51
Emeco Holdings Ltd.	-0.23	-0.53
Kathmandu Holdings Ltd.	-0.23	2.81

Outlook

The QIC Australian small companies team remain optimistic on the outlook for the Australian share market returns over the medium to long term, particularly post the recent heavy sell off in 2008 and despite the rally to date in 2009. In the near term we expect volatility will remain above average, as the real economy slowdown impacts the earnings of corporates and the markets assesses the depth and duration of the earnings cycle. However we are encouraged by signs that company management teams have enacted strong cost initiatives that should drive operating leverage as top line sales return.

During late 2009 and into 2010 we expect two broad thematics to continue to be the primary drivers of share price performance, being the strength of the balance sheet and the repeatability of earnings during a global economic slowdown. As a result we expect balance sheet de-leveraging and a focus on cost reduction will be core strategies to grow or sustain earnings growth as top line revenue growth and cash flow growth will be harder to come for a lot of companies into 2010.

This will likely result in a higher prevalence of equity issuance and free cash flow preservation strategies. In late 2008 and throughout 2009 we have already seen the initial execution of these strategies employed by a number of companies with capital raisings, Dividend Reinvestment Plan (DRP) underwritings, capital expenditure (capex) and dividend cuts resulting where balance sheets are under pressure, and/or debt re-financings are too expensive or where credit is unavailable. This theme is set to continue for the near-term. For shareholders the risk/return trade-off of potentially dilutive capital raisings, lower capital investment (and hence earnings), and the appetite for debt needs to be addressed on a case by case basis, meaning skilful stock selection will be a key requirement for outperformance during what is a challenging earnings and credit environment.

However we also expect the significant amount of infrastructure and social stimulus enacted by the government will positively impact company investment decisions. This should work to offset a degree of consumer weakness that eventuates, as we look to cycle prior period government stimulus, housing bonuses and cash handouts. In addition major mining and energy capex projects in Western Australia (Gorgon) and Queensland (Gladstone LNG) will have a positive impact on gross domestic product (GDP) growth over the next few years and ultimately filter through to the consumer.

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. Indeed, as a result of our bottom-up stock picking style, our major positions currently are tending to be oriented to companies with earnings certainty and/or defensive growth opportunities as we believe that it will be a tougher earnings environment over the next year.

Portfolio Positioning

Market movements during the quarter confirmed our view that performance will be delivered by positioning the portfolio towards more of a growth bias, with an outlook 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.	4.22	3.09
SMS Management & Technology Ltd.	3.31	2.91
Graincorp Ltd.	3.00	1.89
Virgin Blue Holdings Ltd.	2.98	2.00
Mirabela Nickel Ltd.	2.98	2.15
Pacific Brands Ltd.	2.94	1.84
APN News & Media Ltd.	2.86	1.86
Kathmandu Holdings Ltd.	2.81	2.81
Reckon Ltd.	2.78	2.78
Southern Cross Media Group	2.69	2.06

Physical and derivative composition (%)

	Fund Weight
Physical equities	98.51
Cash	1.49
Exchange traded options	0.00

Notes:

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