DDH GRAHAM LIMITED
Responsible Entity

DDH Investment Access Funds

QIC
Investment Manager

DDH Conservative Growth Fund *(formerly Q Invest Conservative Growth Fund)*

Performance Report as at 31 December 2009

Investment objective

The Investment Access Conservative Growth Fund will seek to achieve an investment return of at least CPI plus 2% (before fees) over rolling 3 year periods.

Risk/Return Profile

Low to medium.

Minimum Investment Time Frame

At least 3 years.

Commentary and outlook

The performance of the Investment Access Conservative Growth Fund is set out below. Refer to the attached performance reports from QIC.

Performance

	3 months %	1 year %	3 years % p.a.	5 years % p.a.	Inception % p.a.
Total Return	**1.91**	**11.46**	**2.24**	**5.17**	**5.05**
Growth return	0.73	8.67	-5.39	-3.43	-1.86
Distribution return	1.18	2.79	7.63	8.60	6.91

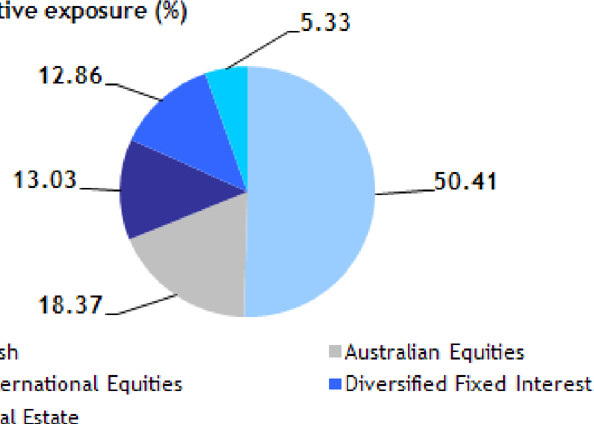
Performance notes:
1. Performance is calculated using IFSA Standard No. 6.00.
2. Performance figures have been calculated using exit to exit prices.
3 Total Return represents unit price movements and assumes all distributions are reinvested.
4. Growth Return represents unit price movement only.
5. Distribution Return represents the difference between Total Return and Growth Return.
6. All performance figures are net of ongoing fees and expenses.
7. Past performance is not a reliable indicator of future performance.
8. Inception date was 9 March 2002.

Unit Price

	As at 31-12-09
Entry price (ex distribution)	$0.8646
Exit price (ex distribution)	$0.8636

Asset allocation

	As at 31-12-09 (%)
Cash	50.41
International Shares	13.03
Australian Shares	18.37
Property	5.33
Diversified Fixed Interest	12.86



Income distribution

Distributions are half yearly at the end of June and December. The distribution for the half year ended 31 December 2009 is 2.08 cents per unit. Distributions may include realised capital gains from the disposal of underlying assets. Details of the final tax components of the distribution, including franking credits, will be advised to unitholders after 30 June 2010.

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QIC Stable Fund

Fund details at 31 December 2009

Profile

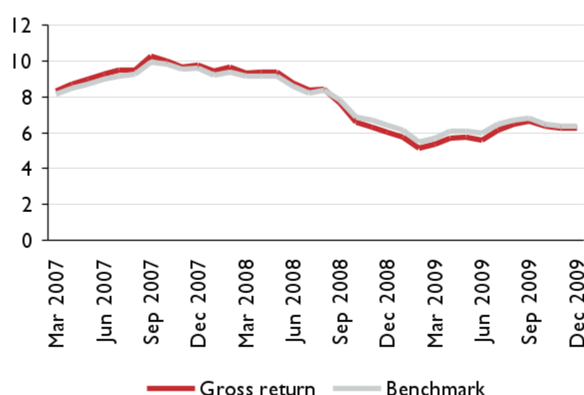
Description	The Fund captures the performance of a diversified group of assets, weighted to the defensive asset classes.
Objective	The Fund seeks to outperform its benchmark over the medium term through active management of the underlying exposures.
Inception	March 2002
Size	AUD $42.0 million

Performance

Gross period returns (%)

Period	Fund	Benchmark
1 month	1.40	1.29
3 months	2.23	1.89
Financial year to date	9.45	7.90
1 year	12.66	10.77
3 years	3.24	3.65
5 years	6.24	6.37
7 years	7.25	7.17
Since inception	6.15	6.20

Rolling 5 year return against Benchmark (%)



Market Overview

The Fund returned 2.23% over the quarter against a benchmark return of 1.89%. For the financial year to date (FYTD), the Fund returned 9.45% against a benchmark of 7.90%. Performance was driven mainly by international and Australian equities.

Australian Equities

The ASX 200 total return index rose 3.74% over the month and 3.40% over the December quarter. Good returns in November and December compensated for the -2% fall seen in October. This took the Australian equity market to a new 14-month high in December, up 57% from the March low.

Global markets regained the losses seen in late November after concerns about Dubai's debt subsided. Macro economic data was mixed but with a positive bias, the highlights for both Australia and the US being strong jobs news. The US dollar (USD) staged a sharp rally in response to evidence of a stabilising US economy, this initially took the wind out of the sails of commodity prices, notably oil and gold, though the former bounced back late in the month.

Merger and Acquisition (M&A) activity continued with a competitive bidding situation in AXA Asia Pacific Holdings (AXA) crystallising, National Australia Bank (NAB) trumping AMP's revised bid, while in the coal sector Macarthur Coal (MCC) and Gloucester Coal (GCL) announced a surprise friendly merger.

Over the quarter, within the Australian market materials (+13.8%), utilities (+5.1%), industrials (+4.3%), consumer staples (4.7%) and telecommunication services (+3.6%) outperformed the broader index while noticeable underperformers were energy (-2.3%), financials (-1.3%), healthcare (+0.18%) and consumer discretionary (+0.71%).

Australian equities added around 0.6% to performance at Fund level over the quarter, and 4.8% for FYTD.

International Equities

Global equity markets had another positive month in December, with a 3.77% gain (total return) in the Morgan Stanley Capital International (MSCI) All Country World Index (ex Australia) in local currencies, or 3.9% in Australian dollar (AUD) terms. Global markets have added 4.90% over the December quarter, which translates to 2.7% in AUD.

The tone of economic data began to shift more towards the positive as the December quarter progressed. While there is growing evidence of a recovery from the global recession in many countries, there are ongoing reminders

of the still-fragile state of some of the world's largest developed nations. The United States emerged from recession in October, however housing data there continue to disappoint and job losses, while on a downward trend, have pushed the unemployment rate to a 25-year high. There continues to be mixed data from European countries. However, the outlook has been steadily improving. The recovery in some emerging market countries, in particular China has been robust, but markets were rattled through the quarter by fear of default by Dubai World and the deteriorating fiscal position of Greece.

Results from the US third-quarter earnings season were impressive, with over half of companies that reported beating analysts' estimates of earnings by more than 5%. These results, however, were driven mainly by cost-cutting measures rather than any meaningful improvement in the revenue line. Still, analysts raised their forecasts of 2009, 2010 and 2011 earnings on the back of this growth. Going forward, it is expected that fundamentals will return as a more important driver of performance than the economic recovery story, which had dominated this quarter.

There were gains across all developed market sectors in December, however, the information technology and consumer discretionary sectors were particularly strong, adding 6.9% and 6.7% respectively in local currency terms. Financials were again relatively weak, gaining just 0.7%. In local currencies, the financials sector was alone in finishing the December quarter in negative territory (-3.6%), materials (+10.8%) and information technology (+8.7%) were, in contrast, the best performers.

There were gains across most developed countries in December in local currency terms, with the exception of Greece (-5%) and Austria (-1.2%). Ireland (+10%) and Japan (+8.9%) were the strongest performers over the month. The Greek market gave back 21.0% over the December quarter as concerns grew over the deterioration of Greece's public finances. The strongest market was Norway, up 14.4% for the quarter, due to its high weights to the materials and energy sectors. In a continuing trend, emerging market countries again outperformed developed countries over the December quarter. Israel and Poland were the top performers, while Morocco and Egypt lagged.

The AUD gained against the major developed currencies over the quarter, with the trade weighted index gaining 2.2%. This had the effect of reducing unhedged returns across a majority of the portfolio when translated to AUD terms.

International equities added 0.6% to performance at Fund level over the quarter, and 2.7% for FYTD.

Global Fixed Interest

Global bond yields were very volatile during the December quarter. After rallying aggressively through much of November, global bonds sold off sharply during the final two weeks of the year.

Long end rates have lifted alongside expectations of heavy supply in 2010, while expectations that policy makers will keep policy very easy has also led to some movement higher in longer dated bonds on the basis of rising inflation expectations. US 10-year bond yields moved from 3.31% to 3.84%, their highest since June 2009, while 10-year German Bund yields rose 0.17% to 3.39%. The long end of the Australian two year bond yields rose 0.15% over the December quarter, but recorded significant volatility. Yields rose sharply during October, reaching a 2009 high of 4.95% late in the month, only to reverse most of those moves during the remainder of the quarter, falling to 4.41% by end December. In inflation markets, breakeven inflation continued to move higher across Australia, the US and Europe.

Investment grade credit spreads tightened substantially in December amid thin liquidity and positive economic data. Equity markets consolidated at slightly higher levels and concerns around the ability of businesses to refinance existing debt have declined as investment grade, and perhaps more importantly, high yield names have been able to issue debt. With debt capital markets now open and businesses able to refinance the default outlook has improved considerably further, supporting the strong rally in credit markets.

Retail investor inflows to high yield bond funds were robust, driving demand and tightening credit spreads despite strong high yield issuance of US$188 billion in 2009. The second week of December was the seventh most active week on record for high yield primary deals and surprisingly deals continued to be priced throughout the month, generally the high yield new issuance market closes down between Thanksgiving and New Year. Refinancing transactions dominated 2009, accounting for 76% of supply. US high yield credit spreads came in from 7.46% to 6.17% and are now at their lowest level since January 2008. Investment grade credit spreads similarly contracted, ending the calendar year at 1.72%, a two year low. Emerging market credit spreads are now at their lowest level since July 2008.

Fixed interest has contributed around 0.4% at Fund level over the quarter and 1.1% for FYTD.

Cash

At its October meeting, the Reserve Bank of Australia (RBA) became the first G20 central bank to begin to tighten monetary policy with an increase in the official cash rate from 3% to 3.25%. The bank also raised rates at the November and December meetings, the first time in the RBA's history that it has done so at three consecutive meetings, citing a return to global growth and a swifter than anticipated recovery in domestic economic conditions. The official cash rate is now 3.75%. Cash returned 0.32% for the month of December and 0.88% for the quarter.

While the three Australian cash rate increases during the quarter were largely expected, RBA commentary became gradually less hawkish and more non-committal. In particular, commentary by the RBA that the rate increases to date had been "material" caused the market to reduce the amount of tightenings priced for the first half of 2010. Moreover, the decision by some major banks to pass on more than the 0.25% of the December rate increase to variable mortgage rates caused the market to rally slightly further.

A further catalyst for the rally in the front-end and steepening of Australia's yield curve came from a speech given by RBA Deputy Governor Rick Battellino in mid-December, who explicitly stated that the cash rate moves to date had moved from an emergency setting to somewhere within a "normal" range. In addition, given the widening of mortgage spreads, he explicitly stated that the current 3.75% cash rate was consistent with a pre-crisis rate of 4.75%.

Australian two year bond yields rose 0.15% over the December quarter, but recorded significant volatility. Yields rose sharply during October, reaching a 2009 high of 4.95% late in the month, only to reverse most of those moves during the remainder of the quarter, falling to 4.41% by the end of December.

Cash has contributed around 0.4% at Fund level over the quarter and 1% for FYTD.

Direct Property

The impact of the global financial crisis (GFC) was evident in transaction activity across retail and office sectors which remained generally subdued, particularly for larger transactions. Private investors continue to dominate the market up to $100.0 million. We have observed selected Real Estate Investment Trusts (REITs), wholesale or super funds and international groups re-entering the market with renewed appetite for major investments once again, however tolerance to risk is low and all buyers are proceeding with caution. On 16 December 2009 Lend Lease announced that a consortium including Lend Lease managed funds and the Federal government owned Future Fund had been appointed as the preferred party to purchase the 14 assets of the $1.4 billion ING Retail Property Fund, including the Lakeside Joondalup Shopping Centre. This transaction is subject to due diligence and final contract negotiations. Examples of two other significant institutional grade assets currently in due diligence include Aurora Place, a premium office building the Sydney central business district for in excess of $600 million and a 50% interest in Whitford City Shopping Centre, a large regional shopping centre in Perth for in excess of $200 million.

Unlisted real estate fund performance continues to diverge from peers, due to the quality and type of real estate assets held and the levels of leverage. The QIC Property Fund (QPF) has performed strongly relative to peers throughout this period, thanks to a low leverage, high quality assets and a retail bias. The Australian economy has remained resilient, with both retail spending and employment weathering the GFC better than anticipated to date. As a result, the QPF has continued to deliver strong performance, returning 1.6% in the December quarter, bringing the FYTD return to 3.47%. Forecast earnings for the Fund remain resilient relative to other portfolios providing continued relative outperformance against peers.

Direct property added 0.08% to performance at Fund level over the quarter and 0.17% for FYTD.

Performance Drivers

Gross QIC fund returns for the financial year to date (%)

	Fund	Benchmark
QIC Australian Equities Fund	26.56	25.63
QIC Active Large Companies Fund	25.92	25.58
QIC Active Small Companies Fund	42.40	27.76
QIC Implemented Australian Equities Fund	28.13	25.63
QIC Hedged International Equities Fund	21.38	21.66
QIC International Equities Fund	11.12	10.39
QIC Property Fund	3.47	1.46
QIC Diversified Fixed Interest Fund	9.25	4.17
QIC Cash Fund	1.88	1.69

There has been a continued improvement to the unrealised loss in the Securities Lending Program, which some underlying trusts participated in.

Outlook

It is clear that global growth recovered impressively during the second half of 2009, boosted in part by a large swing in the global inventory cycle and significant fiscal measures designed to boost household spending. By their nature, the contributions to growth from these components will prove fleeting, and growth is likely to step back from the second quarter 2010. But there are signs of improvement in underlying final demand, which should allow the major economies to continue on a modest recovery path. The amount of monetary and fiscal stimulus currently existing is unprecedented in modern times. The impact of such stimulus should not be underestimated.

The benign global recovery should ensure enough slack remains within economies to keep inflationary pressures away. This outlook means there will be little need for central banks to tighten aggressively during 2010.

The economic downturn in Australia has been much less severe than expected. The aggressive monetary and fiscal stimulus provided here and abroad has clearly had the desired effect of boosting spending and confidence among Australian businesses and consumers. The unemployment rate has remained below 6%. Moreover, strong demand from China has kept export volumes robust at a time when demand from the rest of the world collapsed. Commodity prices have declined compared to their pre-GFC highs, but remain strong by historical standards. Business investment plans, after having been put on hold following the GFC, are being re-instated. This will combine with strong public infrastructure spending in 2010 to compensate for softer consumer spending, as households continue to deleverage. Gross domestic product (GDP) growth should be significantly above trend over 2010.

The RBA should increase the cash rate gradually over 2010, to around 4.5% by the end of 2010.

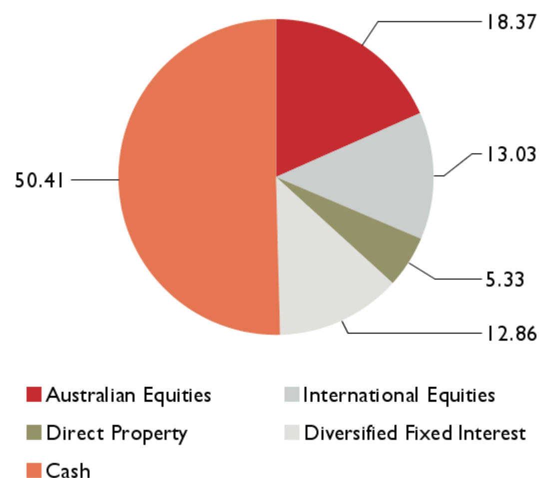
The outlook for investment grade credit remains positive with the fundamental outlook continuing to improve. Stronger cash flows supported by cost cutting and an improving global economy will help drive investment grade credit spreads tighter in the coming year. Demand for investment grade credit is likely to slow as interest rates are lifted by central banks, but this is likely to happen only in the second half of 2010. Moreover, net supply of investment grade is anticipated to be limited. In the short to medium term we believe investment grade credit is well supported by demand and technical factors.

Based upon current valuations, global equity markets appear to be close to, or marginally below, fair value and although markets have rallied strongly of late, we believe there is still upside potential moving forward. Over the medium to long run we expect that value investing (i.e. investing in securities with higher earnings relative to market price) will provide superior risk-adjusted returns given strong valuation signals relative to the broader market. Emerging markets are perceived to provide strong longer-term returns with improved demographics, corporate governance, financial regulation and intra-market trade relative to developed markets.

Australian equity managers are more cautious, as the Australian market appears very optimistic on earnings growth. Managers cite various reasons for their scepticism, ranging from the questionable sustainability of China's growth to the false extrapolation of global stimulus plan benefits, but a consistent theme is a perceived lack of consideration for a downside by markets (or acknowledgement that uncertainty needs a price). In aggregate managers expect volatility based on economic news to be far diminished from the first half of 2009. The capital raisings that occurred in the midst of the GFC, however, are bringing a new source of volatility to managers in the form of acquisitions. Companies counselled to raise cash as a means to survive a long bitter economic winter are now from the same counsel, being helped to rid themselves of this now 'unnecessary' safety net.

Portfolio Positioning

Effective exposure (%)



Benchmarks

Australian Equities
- S&P/ASX 200 Accumulation Index

International Equities
- MSCI World All Countries Index - Hedged

Property
- Domestic real estate: Financial Standard Wholesale Direct Property Index ex-QIC
- International real estate: Financial Standard Wholesale Direct Property Index ex-QIC
- Global REITs: UBS Global Investor Index Net Withholding Hedged in Australian dollars

Global Fixed Interest
- Composite of 40% UBS Composite Bond Index and 60% Lehman Global Aggregate Index, hedged in Australian dollars

Cash
- Domestic cash: UBSA Bank Bill Index
- Cash enhanced: UBSA Bank Bill Index

Notes:

- Returns greater than one year are annualised.
- Past performance is not a reliable indicator of future performance.
- The benchmarks shown above are in relation to the QIC products the QIC Stable Fund is invested in. Please refer to the QIC gross fund returns table for the list of products.
- Absolute return strategies maybe used to enhance the return of the QIC Stable Fund, primarily through the use of the derivatives.

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