



DDH Fixed Interest Fund

Performance Report for the Quarter Ended 30 June 2009

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

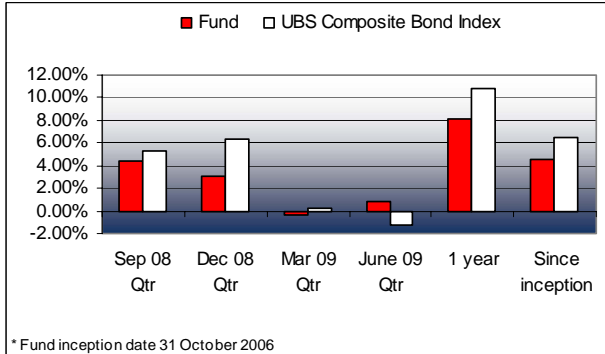
The performance of the DDH Fixed Interest Fund is set out below. Refer to the attached performance report from QIC. Please note that the performance figures quoted in QIC reports relate to the underlying QIC wholesale funds.

Performance

	3 months (%)	6 months (%)	1 year (%)	2 year (%) pa	Since Inception (%) pa	QIC Fund 10 Year (%) pa
Total return	0.82%	0.52%	8.11%	4.93%	4.59%	7.58
Growth return	-1.90%	-5.63%	0.46%	-1.35%	-1.84%	
Distribution return	2.72%	6.15%	7.65%	6.28%	6.43%	
Benchmark	-1.33%	-1.05%	10.82%	7.57%	6.48%	7.62

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 30 June 2009

Entry price (ex distribution) \$0.9525
Exit price (ex distribution) \$0.9517

Income distribution

The distribution for the quarter ended 30 June 2009 is 2.64 cents per unit. Details of the final tax components of the distribution will be advised to unitholders after 30 June 2009.

Asset allocation

	As at 30-06-09 (%)
Australian fixed interest	100

QIC Australian Fixed Interest Fund

Fund details at 30 June 2009



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 \$289.0 million

Performance

Gross period returns (%)

Period	Fund	Benchmark
1 month	-0.16	-0.61
3 months	0.94	-1.33
Financial year to date	9.12	10.82
1 year	9.12	10.82
3 years	5.62	6.35
5 years	5.91	6.04
7 years	6.01	6.03
Since inception	7.58	7.62

Market Overview

Optimism emerged in the June quarter as key economic indicators, while still at depressed levels, deteriorated at a less rapid rate than experienced in previous quarters. In addition, intensified policy actions to counter the crisis, and better than expected earnings announcements helped bolster confidence. These glimmers of hope that the worst of the global financial crisis had passed sparked a sharp rebound in risk appetite. As a result, risky assets performed strongly over the quarter, with the S&P500 in the US gaining 15%, most of which occurred in April.

In global credit markets, the increased risk appetite and reduction in the liquidity premium on physical credit securities narrowed spreads which led to strong outperformance from credit markets. Credit spreads also narrowed significantly in derivative markets with the US and European investment grade 5 year credit derivative spreads narrowing by 0.66% and 0.26% respectively.

A number of policy measures contributed to the improvement in investor sentiment, with the financial sector being a key beneficiary. Improved clarity on US and

UK bank rescue plans reduced uncertainty. The stress test results on US key banks, administered by the US Federal Reserve (Fed), were more positive than the market first anticipated. Around half the banks tested have been able to subsequently return Troubled Asset Relief Program (TARP) monies to the government. Many of these entities have raised fresh equity capital which has supported a narrowing of US bank credit spreads.

While US house prices and job losses have begun to fall at a slower pace, policy makers still recognise the vulnerability of the US economy and remain committed to extreme policy stimulus to ensure that the recovery takes hold. This is because wage growth continues to slow and overall unemployment rate continues to rise, from 8.1% last quarter to 9.5%.

During the quarter there has been a rise in longer term US inflation expectations that has warranted Fed commentary regarding their inflationary discipline. The market has begun to look for earlier rate increases to remove monetary policy stimulus. The Global Fixed Interest (GFI) team believes that current inflation expectations are largely consistent with Fed objectives and are not sufficient to tighten policy in the near term.

The improvement in global economic sentiment and rise in inflation expectations, alongside increasing government issuance of debt caused, bond yields to increase globally. Ten year yields in the US rose 0.83% to 3.52%, in Europe 0.40% to 3.39%, in the UK 0.52% to 3.69%, in Japan 0.01% to 1.36% and 1.10% to 5.52% in Australia.

The Reserve Bank of Australia (RBA) lowered the official cash rate once in the quarter by 0.25% to 3.0% in April. They recognise that the Australian economy, like the global economy, remains fragile but expect that the significant stimulus provided so far will be enough to stabilise the economy this year. The improvement in Chinese growth is comforting for the RBA. The housing market has been supported by an increasing number of first home buyers and so far job losses have been less than feared with the unemployment rate rising from 5.2% to 5.7% during the quarter. Although the global economy appears to be through the worst, the RBA still expects that there is enough spare capacity within the Australian economy to alleviate inflation pressures and suggest that they still have scope to lower rates further if the recovery struggles to take hold.

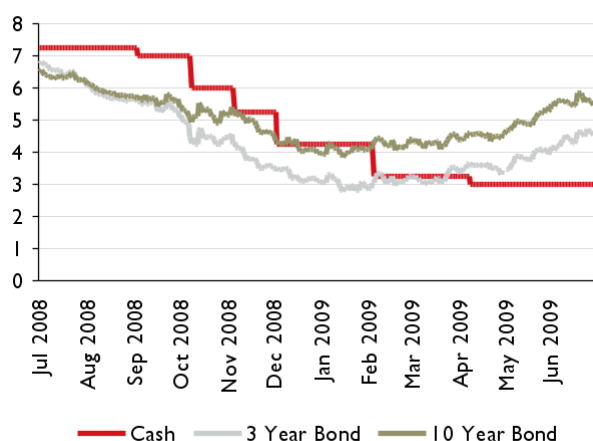
Australian cash rate expectations for the end of 2010 increased from about 3.75% last quarter to 4.5%. This reflects the view that the cash rate is too low and stimulatory for an economy stabilising in 2009 and recovering through 2010.

The Australian investment grade credit market outperformed the government and semi-government sectors in the June quarter. While the improvement in Australian credit was broad-based with most sub-sectors improving, the standout performer was the domestic banking sector and in particular subordinated bonds which tightened almost 2.50% to swap. Australian financials had followed the lead of their global counterparts which also rallied significantly in the quarter. Non-financial issuance in Australia remains limited with new supply being dominated by the banks in both government guaranteed and non-guaranteed issuance.

Semi-government securities also outperformed in the June quarter as their spreads narrowed in anticipation of the Commonwealth government guaranteeing existing and new issuance. To date only Queensland and NSW have announced they will use the guarantee, while WA, Victoria and Tasmania has announced that they won't.

Selling pressure from offshore investors exiting their Australian dollar (AUD) credit, forced spreads on Residential Mortgage Backed Securities (RMBS) to widen over the quarter. This impacted the portfolio's overweight positioning to 'AAA' RMBS securities.

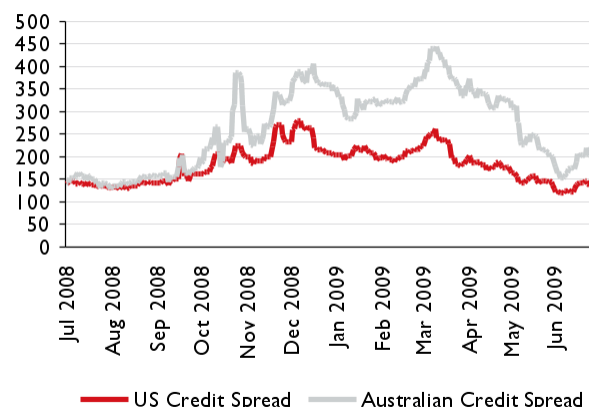
Australian Cash, 3 Year and 10 Year Bond Yields (%)



US Cash, 2 Year and 10 Year Bond Yields (%)



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



Performance Drivers

During the quarter the UBS Composite Bond Index benchmark returned -1.33% while the Fund returned 0.94%, outperforming by 2.27%. While the Fund's interest rate positioning in expectation that interest rates will be lower for longer detracted from performance toward the end of the quarter, overweight credit strategies were the key driver to outperformance. Specifically, the portfolio's domestic major bank subordinated securities, defensive high yield loans holdings and positioning to semi-government bonds, mainly via Queensland Treasury Corporation (QTC) and NSW Treasury Corporation (TCorp) securities were the major contributors.

Contribution to active performance (versus the benchmark) for the Fund is shown below:

Macro Interest Rates and Credit

Positive Contribution

- Long New Zealand 5 year duration
- Long US 10 year duration

- Long US 10 year duration versus short UK 10 year duration

Negative Contribution

- Short UK inflation
- Short European investment grade credit
- Long Australian 1 year duration
- Australian bank bill flattener and UK short sterling flattener
- Short New Zealand versus long Australian duration

Micro Credit

Positive Contribution

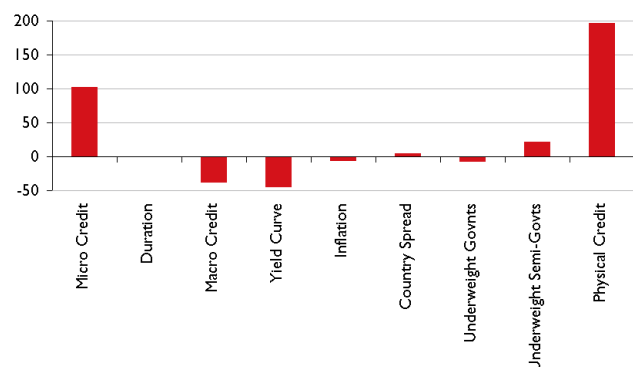
- Long single name derivative positions - Rio Tinto and Stockland
- Long Goldman Sachs (single name derivative) versus short Wells Fargo (single name derivative)
- Long selected financial names versus selected short industrial names
- Long selected US and Australian financials
- Underweight government and semi government
- Overweight defensive high yield loans

Negative Contribution

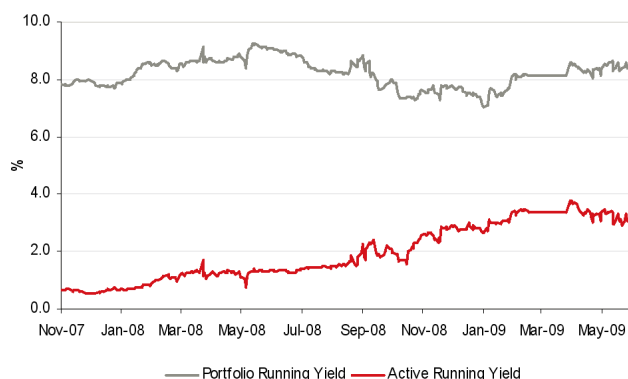
- Domestic 'AAA' Residential Mortgage Backed Securities

While credit spreads remain volatile, the below table demonstrates that the Fund has continued to maintain a strong active running yield over the UBS Composite Bond Benchmark. This highlights that the Fund is expected to significantly outperform the benchmark once credit spread stabilise or contract.

Active performance attribution by strategy for the quarter (basis points)



QIC Australian Fixed Interest Portfolio Running Yield



Outlook

While we expect that the worst of the global economic downturn has passed, the pace of recovery is likely to disappoint markets. A substantial quarter of strong growth from depressed levels of activity is possible for developed economies. However, over a number of quarters the contraction in credit and lower desire for increasing debt should lower market expectations on a return to the economic conditions experienced over the last two decades.

The benign recovery should ensure sufficient capacity remains within economies to keep inflation subdued. This outcome can keep central bank policy rates lower for longer. There is the risk that a period of improving conditions and increasing inflation expectations may bring about earlier monetary policy tightening to levels still perceived to be stimulatory but less so than at present. This is particularly the case in the US and UK where rates were lowered aggressively towards 0%.

A slower economic growth and future profit profile, perhaps triggered by fears or action of higher cash and borrowing rates more broadly could trigger another wave of risk aversion. This will cause equities to sell off and credit spreads to widen. Nonetheless investment grade spreads provide enough excess spread to reward investors for the less than favourable outlook. Current investment grade spreads are still pricing in a significant premium for liquidity which is expected to slowly return over the remainder of the calendar year, helping credit spreads contract regardless of a deteriorating economic picture.

GFI expect that inflation will be falling and benign for sometime. Cash rates will stay and potentially be lowered further where possible. We are mindful of the risk that policy may be tightened earlier than we expect where the extreme stimulus can be reduced and what market reaction this might cause.

The economic downturn in Australia has been less severe so far than some might have feared. The aggressive monetary and fiscal stimulus provided here and abroad clearly has had the desired effect of stabilising growth and preventing a much more dire outcome. However, falling income, employment and inflation and the negative effects of the terms of trade will keep domestic demand benign. This will allow the RBA to lower rates further and/or keep them low for longer than the market currently expects.

In domestic credit markets, the banking sector is expected to continue to issue government guaranteed paper over the remainder of the year even though fears of banking system failure are behind investment markets. The government guarantee for the Australian banking sector is expected to remain in place for sometime to ensure the banking sector can fund in global markets. The Australian guarantee is more important for the regional banks to fund their balance sheets.

There is expected to be an increase in new issuance in the second half of the year with a number of deals to be refinanced and businesses wanting to diversify their funding sources. Moreover, the contraction in credit spreads and current low interest rate environment means the cost of funding is lower.

Portfolio Positioning

Interest rate strategies

Duration	Long US, Long AU 1yr1yr
Inflation	Long UK inflation position
Yield Curve	AU Bank Bill flattener, GBP Short Sterling flattener and NZ flattener

Credit strategies

Country Spread	Long AU v Short NZ 5yr, Long US v Short UK 10yr, Long EU 2yr v Short UK 2yr
Credit Strategies	The Fund is overweight financials, particularly in the short end of the credit curve.
High Yield	We have exposure via a unit holding in QIC Global Credit Opportunities Fund.
Issuer and Security Selection	In terms of the largest active individual issuer positions, the Fund is overweight Woolworths, Morgan Stanley, Merrill Lynch and Macquarie
Macro Credit	Long AU Investment grade credit, short EU investment grade credit, long US investment grade credit and short US high yield, AU 3yr v 10 yr Exchange for Physical Flattener

Micro Credit	Long RIO and Stockland, Long select financials and short select industrials, Long GS v Short WFC; Long BOA v Short WFC
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
Corporate	75.78	33.33
Semi-Govt.	18.26	33.07
Cash	4.25	0.00
Comm. Govt.	1.71	33.60

Maturity composition (%)

Maturity	Fund	Benchmark
0-1 Year	16.31	14.55
1-3 Years	22.79	35.76
3-5 Years	9.82	19.93
5-7 Years	14.92	10.67
7+ Years	36.16	19.09

Rating composition (%)

Rating	Fund	Benchmark
AAA	23.26	64.95
AA	30.15	26.51
A	28.17	6.42
BBB	14.62	1.92
Sub-Investment Grade	2.55	0.00
Not Rated	1.25	0.20

Modified duration

	Years
Fund	3.56
Benchmark	3.17

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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