



**DDH Australian Small Companies Fund**

**Performance Report for the Quarter Ended 30 June 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*

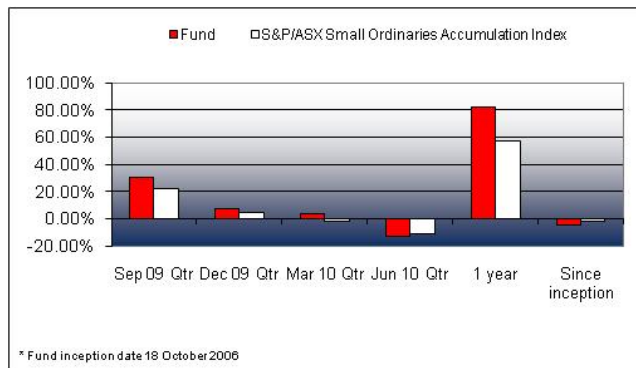
The performance of the DDH Australian Small Companies Fund is set out below. Refer to the attached performance report from QIC. Please note that the performance figures quoted in QIC reports relate to the underlying QIC wholesale funds.

*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.
<b>Total return</b>	<b>-12.50</b>	<b>-8.84</b>	<b>28.16</b>	<b>-6.32</b>	<b>-16.39</b>	<b>-7.31</b>	<b>0.78</b>
Growth return	-15.67	-12.50	21.86	-10.49	-20.57	-15.86	
Distribution return	3.17	3.66	6.30	4.17	4.18	8.55	
Benchmark	-11.26	-12.98	11.18	-10.89	-14.20	-4.88	0.85

*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 30 June 2010*

Entry price (ex distribution)	\$0.5471
Exit price (ex distribution)	\$0.5449

*Income distribution*

The distribution for the quarter ended 30 June 2010 is 1.98 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 30-06-10 (%)
Australian shares - small companies	100

## QIC Active Small Companies Fund

### Fund details at 30 June 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 \$88.8 million

#### Performance

Gross period returns (%)

Period	Fund	Benchmark
1 month	-3.24	-3.73
3 months	-12.55	-11.59
Financial year to date	30.27	11.18
1 year	30.27	11.18
3 years	-16.01	-14.18
Since inception	0.78	0.85

#### Market Overview

The S&P ASX Small Ordinaries Accumulation Index lost 11.59% for the quarter.

June was another negative month for the sharemarket with the ASX Small Ordinaries Index down 3.73% for June and -11.59% for the quarter. The financial year ended up being split between the strong first six months and then a difficult second half to the year. The ASX Small Ordinaries was up 11.18% for the 12 months to 30 June 2010, even after the latest correction in the market.

June saw the market struggle for a consistent thematic lead as concerns around global growth continue to weigh heavily on sentiment. Positives such as the deal struck between Telstra and the government on the national broadband network, the change in leadership of the Australian Labour Party and hence Prime Minister and the announcement of the possible softening of the Resources Super Profits Tax (RSPT) wasn't enough to turn market sentiment.

After six interest rate increases by the Reserve Bank of Australia (RBA) in seven meetings, the cash target was

left unchanged in June. The Board highlighted market volatility in Europe and its potential implications for growth in Australia as the main reason for not changing interest rates. Domestic economic data was mixed, with employment recording another gain in May while business and consumer confidence surveys recorded falls.

After trading in a wide range the Australian dollar (AUD) ended up basically unchanged for June. It regained about a third of May's losses during June before giving back any gains.

#### Performance Drivers

The Fund posted a return of -12.55% for the quarter, against the S&P / ASX Small Ordinaries Accumulation Index return of -11.59%, underperforming by 0.96%.

The top performers to our performance included:

Matrix Composites & Engineering (MCE) – MCE is an Australian engineering company that supplies the oil and gas and mining markets. Its main products include buoyancy systems for the offshore oil and gas industry. The company completed a capital raising to fund the construction of its Henderson manufacturing facility. This facility will give MCE increased capacity to meet the strong demand for the company's products. The Fund had an overweight position which added 0.56% to performance.

Reckon Limited (RKN) – RKN develops and sells accounting software for the retail and small business market though its Quicken range of products and to the accounting profession though their APS products. Both products have been very successful. In recent years, the company has made many small acquisitions to enhance its core products. RKN is quite a defensive style of business that is one of the least impacted by the recent macro events. This has contributed to the shares outperforming the market by 14.1% during the quarter. The Fund's overweight position added 0.39% performance for the quarter.

STW Communications Group (SGN) – SGN own the largest advertising agencies in the country. This includes Singleton Ogilvy & Mather and J Walter Thompson. They also own over 60 media consulting business which operate in all areas of the media. The company had their annual general meeting (AGM) during the quarter and indicated that the first quarter was the strongest for

many years as the company benefits from a turnaround in advertising expenditure and activity. The company's shares have been very cheap and these comments resulted in the shares outperforming by 21.6% for the quarter. This outperformance added 0.38% to the Fund for the month.

The main detractors from performance were:

Virgin Blue Holdings (VBA) – VBA underperformed during the quarter after downgrading its profit before tax forecast for financial year 2010 to \$20 from \$40 million. The company indicated that the demand for both domestic and international leisure travel has declined over recent months. This decline in demand and an increase in industry capacity have resulted in lower than expected average ticket prices. The Fund had an overweight position which detracted 0.96% from performance.

NRW Holdings (NRH) – NRH provides services to the mining industry including civil construction and contract mining. NRH declined during the quarter after the Federal Government announced it would introduce a resource super profits tax. The tax was expected to reduce demand for NRH's services as it could result in lower capital expenditure on new mining projects. The tax has recently been modified and is now expected to have less of an impact on mining investment. The Fund had an overweight position which detracted 0.58% from performance.

Ausenco Limited (AAX) – AAX provides engineering services to miners building new projects or expanding existing projects. AAX declined during the quarter after downgrading its expectations of full year net profit to between \$13 and \$18 million. AAX has a significant pipeline of over \$14 billion dollars of projects but has not yet been successful in converting these into signed contracts. This has resulted in lower utilisation of its engineering staff and lower profit margins. We expect a better profit outcome in 2011 as more of AAX's tenders convert to Engineering, Procurement and Construction Management (EPCM) projects. The Fund had an overweight position which detracted 0.54% from performance.

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

Name	FYTD Contribution	Active Weight
The Mac Services Group Ltd.	1.45	1.63
SMS Management & Technology Ltd.	1.33	2.70

Name	FYTD Contribution	Active Weight
Sigma Pharmaceuticals Ltd.	1.14	-0.54
REA Group Ltd.	0.95	1.41
IOOF Holdings Ltd.	0.93	2.69
Austin Engineering Ltd.	0.92	1.00
Reckon Ltd.	0.87	2.95
Talent2 International Ltd.	0.87	2.09
Transfield Services Ltd.	0.77	0.63
Domino's Pizza Enterprises Ltd.	0.77	2.11

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

Name	FYTD Contribution	Active Weight
Alesco Corporation Ltd.	-1.00	1.63
Challenger Financial Services Group Ltd.	-0.79	0.00
WDS Ltd.	-0.78	-0.06
Ausenco Ltd.	-0.72	0.51
Riversdale Mining Ltd.	-0.62	-1.53
Perseus Mining Ltd.	-0.52	-0.88
Flight Centre Ltd.	-0.50	-1.03
Probiotec Ltd.	-0.47	0.83
NRW Holdings Ltd.	-0.43	1.31
Healthscope Ltd.	-0.41	-1.84

## Outlook

Investor sentiment continued its uncertain vein through June. Investors will remain risk averse until there is clarity around the sovereign debt issues in Europe, the impact of the moderating growth expectations in China and also now the near term outlook for the US economy. The US Federal Open Market Committee (FOMC) reflected these concerns by leaving interest rates unchanged in the US at 0.25%. The FOMC highlighted concerns regarding economic growth including low rates of resource utilization, subdued inflation trends and stable inflation expectations.

The appointment of a new Prime Minister and Labour Party leader enabled the scrapping of the highly controversial super profit tax for resource companies and the introduction of a more commercially acceptable outcome.

Australian banks will be watching closely the fallout from the European sovereign debt situation. While our banks do not have any material exposures to the troubled nations in Europe, the crisis has brought a return to

heightened volatility and has seen ballooning interbank borrowing rates. This has increased investor concerns over the implications for the Australian banking sector given their significant wholesale funding tasks and is reflected in the Fund's underweight position.

Whilst the Australian economy is less dependent on the performance of the European economy, general market weakness from that zone will continue to impact market sentiment in Australia and add to market volatility in the near term.

## Portfolio Positioning

The Fund has moved to selectively broaden its risk exposures during a time of increased volatility as the markets have softened in the recent month. This is in line with our view that markets will trend up over the coming twelve months notwithstanding an increase in regulatory and macroeconomic risks that are likely to impact the resource and banking sectors. 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.	3.90	2.69
SMS Management & Technology Ltd.	3.15	2.70
APN News & Media Ltd.	3.11	2.19
Reckon Ltd.	2.95	2.95
Henderson Group PLC	2.87	1.88
Southern Cross Media Group	2.85	2.29
Adelaide Brighton Ltd.	2.79	1.33
SAI Global Ltd.	2.77	2.10
Mt Gibson Iron Ltd.	2.68	1.53
PanAust Ltd.	2.57	1.25

### Physical and derivative composition (%)

	Fund Weight
Physical equities	98.24
Cash	1.76
Exchange traded options	0.00

### Notes:

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

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