

Analysts: Anthony Karaminas; David Erdonmez

**Products Facts**

<b>Manager</b>	DDH Graham Limited	<b>Fund type</b>	Retail	<b>Boutique</b>	No
<b>APIR code</b>	DDH0006AU	<b>Specialisation</b>	—	<b>Multimanager</b>	No
<b>Fund status</b>	Open	<b>Peer group</b>	Australian Fixed Interest - Fixed Interest	<b>Inception date</b>	July 3, 2006
<b>Min. investment (A\$)</b>	5000			<b>ICR (% pa)</b>	0.68

**Standard & Poor's View**

S&P rates this fund four stars, reflecting our high conviction that the manager will consistently generate risk-adjusted returns in excess of both its relevant investment objectives and its peers.

The fund was established in 2006 by DDH Graham Ltd. (responsible entity), utilising the investment management capabilities of Queensland Investment Corporation (QIC). The underlying QIC Australian Fixed Interest Fund, in which this fund invests, has been operating for over a decade. The fund's initial rating represents S&P's strong conviction in the QIC investment team and process. Senior members of the team have a high level of experience and sufficient skill in managing the fund. The team of 20 members is of good size, and led by Susan Buckley, managing director of QIC's active management division. The team operates in a collegiate manner, with input from all members encouraged.

QIC operates an established investment process, which takes a top-down approach to investing, applying anticipated changes in the market and economic conditions to drive portfolio positioning. The fund is actively managed and invests in a full range of derivatives and fixed-interest securities.

Recent performance returns have been below benchmark, largely attributable to the fund's credit exposures, which have detracted due to credit spreads widening. Peter Scobie, head of credit, has been a recent addition to the team, and in spite of a challenging start S&P is comfortable with Mr. Scobie's experience and ability.

**Product Features**

The DDH Fixed Interest Fund targets returns of 80 basis points above the UBS Composite Bond Index. Typically, the fund will hold 200 securities, with average turnover of 150% per year. The fund's investment spectrum includes: bonds issued or guaranteed by any government, municipal or statutory authority, corporate bonds and inflation-linked securities. Options, futures, derivatives, and foreign currency positions can also be taken. Limits around credit quality, sector exposures, and duration apply.

Despite the fund's product disclosure statement outlining the manager's ability to hold up to 50% of the fund in international securities, an internal operating policy will ensure this will not reach above 20%.

The fund's tracking error is limited to 150 basis points ex post over rolling three-year periods, and ex ante is generally not expected to exceed 250 basis points; however, at Nov. 30, 2008, ex ante tracking was 327 basis points. The fund's MER is 0.68%, at the higher end of the peer group.

**Fund Objectives**

<b>Benchmark</b>	UBS Composite 0 + Years
<b>Target return (% p.a.)</b>	80 basis points above the benchmark

**Investment Style**

The fund operates a top-down approach to investing, and applies anticipated changes in the market and economic conditions to drive portfolio positioning and risk management. The fund is actively managed and invests in a diversified range of securities.

**Sources of Return**

Duration selection	High
Issue selection	High
Sector selection	High
Yield curve	High
Other	
Arbitrage and spread	

**Investment Team**

Ms. Buckley, managing director of active management at QIC, leads the centralised Brisbane-based investment team of 20 who are split into three groups covering fixed interest, beta and cash management, and the business relationship team. Ms. Buckley has overseen the fixed-interest business since joining QIC in 2001, and previously held senior positions in the Australian funds-management industry.

Reporting directly to Ms. Buckley, Robert Jewell, director of the global macro and credit team, oversees the fund's research process. Mr. Jewell joined QIC in 2002 and has 16 years' experience in the markets. Reporting to Mr. Jewell is the four-person macro team and the eight-person, global credit, and alternative fixed-interest team.

The team is split between reasonably new joiners (within two years) and a number of individuals who have been with the team for many years. All individuals are highly qualified with a broad level of industry experience in both local and global markets. Mr. Scobie, head of credit, has been the most recent addition to the team, following the departure of Jeff Brunton in the fourth quarter of 2007. Despite the fund's credit positions recently detracting from the fund's performance, S&P is comfortable with Mr. Scobie's experience and ability. Mr. Brunton had been head of credit and worked beside Mr. Jewell in his role (at that time) as head of rates. Mr. Brunton's departure means both the credit and rates decisions fall within Mr. Jewell's responsibility – in essence creating a single responsibility for all decisions entering the portfolio.

The team has a collegiate approach to investing. Team members are encouraged to speak their minds and challenge the views and strategies put forward for inclusion into the portfolio. The business has a team of three tasked with the execution of portfolio positions, which sits outside the fixed-interest team. The four-person business relationship team, led by Scott Cornfoot, plays a broad role. It assists the investment team with client communication and presentations, which allows the investment team to focus on their task of managing money.

New					Experienced
Small					Large
Unstable					Stable

## Investment Process

The macro and credit teams conduct independent research which highlights a broad set of opportunities for the team. They focus on fundamental research, analysing both domestic and global economies, industries and transitory influences. Inputs into this process can come from a wide range of providers, not only the broad experience of the investment team. A network of banks and brokers, and QIC's own in-house investment boutiques that operate across the equities, infrastructure and real estate space, regularly provide external research. The team structure is relatively fluid in order to complete the targeted work in a timely, efficient, and accurate manner. The team's scorecard approach gives meaning to the research, and cultivates transparency. The output of the scorecard provides strength to their view. Scorecards are completed by both the macro and credit teams with analytical responsibility for the Australian macro decisions falling to Mr. Jewell, who covers two-year and 10-year interest-rate decisions, and Ben Sanders who covers interest-rate swap decisions.

The scorecard approach for the credit team is overseen by head of credit Mr. Scobie. The team produces scores on the following sectors: infrastructure, telecommunication, energy, structured credit, consumer, financials and residential-mortgage-backed securities (RMBS), industrials, resources, property trusts, and index strategies.

The scoresheet method is a focused research tool, and allows for continual review and hindsight assessment. The team produces scoresheets, covering both global and domestic markets, in which the final score is a combination of valuation and transitory factors.

Portfolio construction is structured in three steps, with the examination of an analyst's views and scorecard ratings driving selection. After the scorecard has been considered, the team will assess expected return targets, volatility, and horizon analysis. Contribution to portfolio risk, correlation to other portfolio strategies and contribution to performance targets will also be considered when setting security weightings.

## Performance

For the one-year return ending Dec. 31, 2008, the DDH Fixed Interest Fund achieved 8.66% (net), relative to the benchmark's 14.95%. Performance ending the same date, since inception, has also been disappointing at 5.41% (net), lagging the benchmark at 8.54%. Recent underperformance is largely attributable to the fund's credit exposures, which have detracted from returns due to credit spreads widening.

Over the past five financial years ending 2008, the underlying QIC fund's gross returns were above the benchmark in four out of five years. The fund has returned 6.10% since its inception in 1994, slightly below the benchmark of 6.15%. At Nov. 30, 2008, over 80% of the portfolio was positioned in corporate securities and the fund's duration was well above the benchmark amount, at 4.47 years. Reflective of the fund's active nature, the portfolio is largely underweight 'AAA' securities relative to the benchmark, with overweight holdings to 'AA' and 'A'. Investors should be aware that the fund's ability to diverge from the index may result in the portfolio holding vastly different securities and a different credit exposure to the benchmark.

## Credit Rating Breakdown (%) (at Nov. 30, 2008)

AAA	30.48
AA	28.31
A	25.88
BBB	13.09
BB and below	2.00
Unrated	0.24
A-1+	0
A-1	0
A-2	0
A-3	0

Source: DDH Graham Limited.

## Sector Breakdown (%) (at Nov. 30, 2008)

Government	0
Semi-government	11.97
Corporate	84.58
Asset-backed securities	0
Bank	0
Cash	3.45

Source: DDH Graham Limited.

## Risk Management

The QIC team operates robust risk management, adhering to investment limits and measuring risk at multiple levels within the portfolio. Investment restrictions ensure below investment-grade credit is restricted to 15% and the fund's international exposure is below 20% of the fund's weight. Modified duration (the sensitivity of the portfolio to movements in interest rates) is kept to within +/-1.5 years of the benchmark's duration. No direct limits apply for credit quality from a portfolio perspective; however, for individual corporate securities the following limits apply:

- Where the security is rated 'AAA' and a constituent of the benchmark, the greater of two limits applies to the maximum fund weighting, either 5x the benchmark weight or an absolute 5% limit, securities not listed in the benchmark rated 'AAA' are restricted to an absolute 5% limit;
- Where the security is rated 'AA+', 'AA' or 'AA-' and a constituent of the benchmark, the greater of two limits applies to the maximum fund weighting, either 4x the benchmark weight or an absolute 4% limit, securities not listed in the benchmark rated 'AA+', 'AA' or 'AA-' are restricted to an absolute 4% limit;
- Where the security is rated 'A+', 'A' or 'A-' and a constituent of the benchmark, the greater of two limits applies to the maximum fund weighting, either 3x the benchmark weight or an absolute 3% limit, securities not listed in the benchmark rated 'A+', 'A' or 'A-' are restricted to an absolute 3% limit;
- Where the security is rated 'BBB+', 'BBB' or 'BBB-' and a constituent of the benchmark, the greater of two limits apply to the maximum fund weighting, either 2x the benchmark weight or an absolute 2% limit, securities not listed in the benchmark rated 'BBB+', 'BBB' or 'BBB-' are restricted to an absolute 2% limit;
- Where a security is rated below 'BBB-' and not held in the benchmark, or it's not rated, there is an absolute 1% limit.

The BlackRock Solutions system is used extensively for risk management and construction of the portfolio. The firm runs the Aladdin software package which allows real-time assessment of positions, and is attuned to the portfolio risk/return limits. Each position in the portfolio is tagged to a strategy which forms part of the overall portfolio. The risk-management system allows the manager to cascade risk, from the overall portfolio level to the strategy level, and then individual level, providing granular, minute detail of each basis point of risk.

The fund's tracking error is limited to 150 basis points ex post over rolling three years, and ex ante is generally not expected to exceed 250 basis points. However, at Nov. 30, 2008, ex ante tracking was 327 basis points.

Compliance is overseen by Ms. Buckley, who presents to the board a signed compliance statement specifying that the fund has been managed according to the group's investment policies on a monthly basis.

## Management Group Profile

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The fund was established by DDH Graham Ltd. as responsible entity for the product and utilises the investment management capabilities of QIC.

DDH Graham Ltd. is a Queensland-based funds-management firm, founded in 1986. DDH Graham has considerable experience in trust management and administration with A\$1.9 billion in funds under management (FUM) and administration. DDH Graham Ltd. is an unlisted public company.

QIC was established in 1991 as the investment manager for the Queensland Government. At Oct. 31, 2008, QIC had A\$70 billion in FUM, making it one of the largest institutional managers in Australia. In November 2007 the business underwent a restructure, splitting the asset management division and private capital division into two branches of QIC. The team managing this product sits within the active management division, which sits within asset management, and reports to general manager Ms. Buckley.

## Market Share

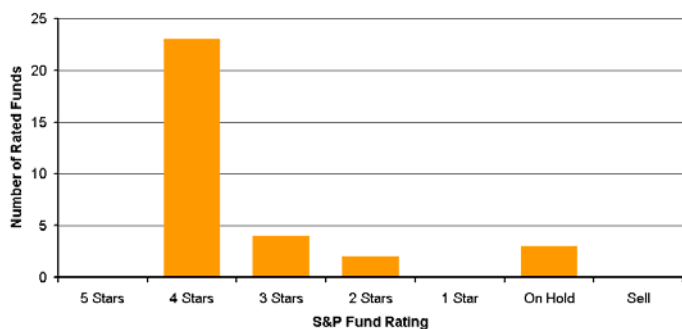
The fund had more than A\$1 billion in FUM at December 2008.

*Analyst(s): Anthony Karaminas; David Erdonmez.*

*Release authorised by: Mark Hoven.*

## S&P Fund Rating Reference Information

Australian Fixed Interest - Fixed Interest (at March 25, 2009)



### Reference Material

**Sector Reports**

[www.standardandpoors.com.au/funds](http://www.standardandpoors.com.au/funds)

**Reader's Roadmap**

[www.standardandpoors.com.au/funds](http://www.standardandpoors.com.au/funds)

**Glossary**

[www.standardandpoors.com.au/funds](http://www.standardandpoors.com.au/funds)

**Guide to S&P Qualitative Fund Ratings**

[www.standardandpoors.com.au/funds](http://www.standardandpoors.com.au/funds)

**Fund Rating Team Biographies**

[www.standardandpoors.com.au/funds](http://www.standardandpoors.com.au/funds)

### Fund Rating Peer Groups by Sector

Australian Equities	International Equities	International Fixed Interest	Alternative Assets
Large Cap Diversified	Diversified Equities	Diversified Fixed Interest	Commodities
Large Cap Income	Emerging Markets	Diversified Fixed Interest Income	Multi-Sector
Large Cap Indexed	Emerging Markets Asia ex Japan	Fixed Interest	Private Equity Listed
Large Cap Industrials	Emerging Markets China	Fixed Interest High Yield	Private Equity Unlisted
Long Short	Emerging Markets India	Fixed Interest Income	Infrastructure Listed
Small Cap	Large Cap Diversified	Mortgages	Infrastructure Unlisted
Specialist	Large Cap Income	Mortgages High Yield	<b>Alternative Strategies</b>
<b>Australian Fixed Interest</b>	Large Cap Indexed	Mortgages High Yield Hybrid	Single Strategy Funds Multimanager
Cash	Large Cap Industrials	Mortgages Conventional	Single Strategy Funds Single Manager
Cash Enhanced	Long Short	Mortgages Hybrid	Multi-Strategy Funds Multimanager
Fixed Interest	Long Short Specialist	<b>International Property</b>	Multi-Strategy Funds Single Manager
Fixed Interest Income	Long Short Regional	Direct Commercial	<b>Multi-sector</b>
Mortgages	Regional Japan	Direct Development	Capital Guaranteed
Mortgages High Yield	Regional UK/Europe	Direct Diversified Direct	20
Mortgages Conventional	Regional US	Direct Industrial	40
Mortgages High Yield Hybrid	Regional Asia	Direct Residential	60
Mortgages Hybrid	Small Cap	Direct Retail	80
<b>Australian Property</b>	Specialist Healthcare	Direct Rural	100
Direct Commercial	Specialist Information Technology	Direct Specialised	Equity
Direct Development	Specialist Resources	Diversified Property	Other
Direct Diversified Direct		Listed	
Direct Industrial			
Direct Residential			
Direct Retail			
Direct Rural			
Direct Specialised			
Diversified Fixed Interest Listed			








### Fund Rating Philosophy

A star rating is a forward-looking qualitative assessment of a manager's ability to consistently generate risk-adjusted fund returns (net of fees) in excess of both its relevant investment objectives and its peers.


### Fund Rating Process

In assigning a star rating to a fund, Standard & Poor's evaluates: the size, skill, and stability of the manager's investment team; the clarity, implementation, and risk management of the investment process; the fund's objectives, fee structure, and portfolio characteristics; and the manager's business management.

### Fund Rating Definitions

	Standard & Poor's has very high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.
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	Standard & Poor's has conviction that the manager will generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.
	Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in in-line with its relevant investment objectives and relative to its peers.
	Standard & Poor's has high conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.
	Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.
	Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.

### Fund Rating Subscript

 The investment process, fund manager, or the fund has a relatively short history, or the analytical team has changed significantly, but a relevant and demonstrable track record is shown on similar funds.

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