News Alert

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DDH GRAHAM LIMITED

QIC commentary…

Global share market downturn – what does it mean for investors?

A very nervous start to 2008 in financial markets has seen significant falls in all major global share markets. While market volatility has risen over the last six months, it has reached new highs over recent days. Yesterday the Australian share market (S&P/ASX 200) fell by more than 7% and has fallen by 23% from its highs in November last year. While overnight a 0.75% rate cut by the US Federal Reserve stemmed the fall in the US, with the US S&P500 Index falling just over 1%, this market has fallen over 16% from it highs in October 2007. European and Asian markets have fallen in a similar fashion.

On a positive note, returns from government bonds have benefited from this 'risk aversion', with money being directed into the 'safer haven' of bonds.

Why have markets reacted this way?

Markets have been reacting to the growing prospect of a US recession. The prospective recession finds it roots in the excessive lending practices in the US housing market, culminating in the sub-prime crisis and resultant credit crunch that affected markets during the second half of 2007. The world has moved from an environment of easy credit to extreme caution in lending practices.

Central banks around the world have been acting for a number of months to ease the symptoms of the crisis, through interest rate cuts and the provision of additional liquidity to banks and financial institutions.

Despite the actions of the central banks, there is evidence that the US economy is slowing down, with a growing number of commentators believing it is already in recession. Broader signs of weakness are beginning to emerge outside the housing sector, with the labour market, retail sales and manufacturing activity deteriorating in recent weeks. Falling house prices and equity markets are likely to make US consumers pessimistic and this is bad news for the US economy.

What is QIC's view?

Based on our view that equity markets have been overvalued we have been managing our portfolios more defensively in recent times.

From an economic perspective, we expect growth in the global economy to slow slightly below its long-term average in 2008, driven predominately by weaker activity in the developed world. A continued robust expansion in emerging economies, such as China, is expected to provide some offset to weaker growth in the developed world. While the Australian economy has not been immune from the recent turmoil, the impact of the financial shock has been much more muted than the US or UK. We expect growth in the Australian economy to ease to around its long-term average in 2008, but remain supported by a strong labour market.

How is QIC reacting to these developments?
While QIC focuses on a long-term investment horizon, market volatility often presents opportunities for our portfolio managers to improve long-term returns through prudent investments in undervalued assets and securities. For example:

- Our Global Fixed Interest team has been positioned for a slowdown in the US economy and are also looking to buy Australian investment-grade credit which they feel is undervalued in the current conditions.

- Our Australian equities team has also been defensively positioned with particular focus on companies with strong asset bases and balance sheets, and generating high quality cash flows. They are also exploiting bottom-up investment opportunities where there has been clear 'panic selling' and complete disregard for fundamentals.

Investing for the long term
While the recent fall in share markets will no doubt concern many investors, it's worthwhile highlighting the returns over the longer term. After the recent correction, the Australian share market has fallen over 6% in the last twelve months, however on average for the past five years it has still returned over 16% per annum. Similarly international share markets (hedged) have fallen by over 8% in the previous twelve months, but they are still returning on average over 14% per annum over the past five years. So while there has been and will continue to be short-term volatility in investment markets, they continue to provide healthy longer term returns.

About QIC
QIC is one of Australia's largest institutional fund managers with more than $70 billion currently under management for its Australian and overseas clients. QIC is the Investment Manager for the DDH Investment Funds (excluding the DDH Cash Fund).

About DDH Graham Limited
DDH Graham Limited is a Queensland based funds management firm founded in 1986. DDH Graham Limited has considerable experience in trust management and administration. It has in excess of $1.7 billion in funds under management/administration. DDH Graham Limited is the holder of an Australian Financial Services Licence (Licence No. 226319).

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