

Analysts: James Gunn; Justine Gorman

Products Facts

Manager	DDH Graham Limited	Fund type	Wholesale Investment Trusts	Boutique	No
APIR code	DDH0003AU	Specialisation	Style Neutral	Multimanager	No
Fund status	Open	Peer group	Australian Equities - Large Cap	Inception date	July 3, 2006
Min. investment (A\$)	5000			MER (% pa)	1.2

Standard & Poor's View

Standard & Poor's rates this fund 3 stars, reflecting our conviction that risk-adjusted fund returns can meet relevant investment objectives and be in line with returns of peer funds. The NEW subscript indicates the investment team or process has changed significantly or the fund has a relatively short history.

The DDH Australian Equities Fund invests into the QIC Active Australian Equities Facility No. 1, which provides exposure to both large-caps and small-caps through two underlying QIC-managed capabilities. The allocation between the two capabilities will be closely reflective of their respective weightings in the S&P/ASX 200 Index.

Simon Hudson took over the head of equities position at QIC in November 2005, and immediately set about restructuring the team and refining the investment process. There were a number of resulting personnel departures, which were the primary catalyst to the sector rotation that occurred within the team during 2006, although a desire for a more meaningful peer review also contributed to the re-allocation of analyst responsibilities. Mr. Hudson also introduced analyst-ghost portfolios, which track each analyst's stock selection within their respective industries, which we believe fosters an appropriate level of accountability and transparency within the team. QIC's Australian-equity team as it stands today is well resourced.

Despite the new team structure being bedded-down and positive developments from a process perspective, stronger performance outcomes are required for S&P to gain further conviction.

Product Features

The DDH Australian Equities Fund, which invests into the QIC Active Australian Equities Facility No. 1, targets consistent, moderate levels of outperformance (2% per year over a three-year period), and has an ex-post target tracking error of up to 3% per year. This facility gains an exposure to large caps and small caps through two underlying QIC managed capabilities: the QIC Active Large Companies Fund No. 1, and the QIC Active Small Companies Fund No. 1. The allocation between the two capabilities can deviate up to 5% from their respective weightings in the S&P/ASX 200 Index. This decision is made by the head of equities, with input taken from the respective portfolio managers. The investment management fee of 1.20% is relatively high compared to its peers.

Fund Objectives

Benchmark	S&P/ASX 200 Accumulation Index
Target return (% p.a.)	Index + 2% (gross)
Target tracking error	Up to 3% (ex-post)

Investment Style

QIC believes that a stock will outperform where the market has underestimated the magnitude and quality of its EPS growth profile, and the potential of its asset base. The stated investment style is style neutral/core, although the fund may at times display a slight growth bias, owing to a more explicit focus on growth-type metrics within the investment process. The final portfolio will be broadly diversified, with around 40 large-cap names, plus the underlying small-cap holdings through the allocation to the Active Small Companies Fund No. 1.

Passive					Active
Value					Growth
Small Cap					Large Cap

Investment Team

Ex-Colonial First State portfolio manager Simon Hudson took over the head of equities position at QIC in November 2005, and immediately set about restructuring the broader team and refining the investment process. There was a number of resulting personnel departures, some at the behest of Mr. Hudson, while other individuals tendered their resignations. These changes were the primary catalyst to the sector rotation that occurred within the team during 2006, although the desire for more meaningful peer review also contributed to the re-allocation of analyst responsibilities. In addition, Mr. Hudson introduced analyst-ghost portfolios to provide greater accountability and visibility of analysts' stock selection within their respective industries.

QIC's Australian-equity team as it stands today is well resourced, comprising Mr. Hudson, nine portfolio managers and analysts, two dealers, and two quant analysts. Paul Barnes and Tony Edwards are the co-portfolio managers for QIC's large-cap strategy, with 11 and 7 years of industry experience respectively. The co-portfolio-manager structure brings together two complimentary skill sets; Barnes is the sector head for resources, while Edwards' focus is industrials. Three resources are dedicated to small caps, including Michael Dee, who has held the portfolio-manager position for QIC's small-cap product since 2001. QIC recently recruited Vinay Narsi from Perennial Real Estate to provided dedicate coverage of property trusts.

New					Experienced
Small					Large
Unstable					Stable

Investment Process

QIC applies the same investment process across both large caps and small caps. The large cap analysts model all stocks within the top 100, while the dedicated small cap team provides ex-100 coverage. The

starting point of the investment process is a negative screen, which reduces the fund's potential universe to a primary-analysis list. This filter excludes companies that have a deteriorating industry structure, a deteriorating position within that industry, and uncertain financial strength.

There are two components to the fundamental analysis undertaken by the team. 'Mark I' revolves around company visits, through which the team is seeking to uncover informational insights. QIC's size, number of analysts, and research budget support a large program of company visits. The next stage of the process is the modelling of company financials ('Mark II'), the output of which is a target price and expectation for under- and out-performance. Analysts are afforded considerable flexibility in their choice of valuation methodology and assumptions, which does place greater importance on a robust peer-review process. The forecast period is typically three years. The manager's internal estimates are compared to broker numbers to ascertain whether the team is different from consensus. The team's proprietary in-house database (OSCAR) captures both aspects of the research effort, along with the analyst-ghost portfolios, which reveal the analysts' best ideas and conviction levels within each industry.

Paul Barnes and Tony Edwards are jointly responsible for portfolio construction, and are accountable for the overall performance of QIC's large-cap strategy. Should Mr. Barnes and Mr. Edwards be unable to reach an agreement on the composition and weightings within the final portfolio, Mr. Hudson will have the final say. Stock weightings are ultimately driven by the pecking order of analyst recommendations, company and industry risk factors, and portfolio-construction guidelines.

Performance

The DDH Australian Equities Fund was launched in October 2006. Since its inception, the fund has underperformed the benchmark by 4.7% (after fees) on a cumulative basis (to Feb. 29, 2008), with an ex-post annualised tracking error of 4.8%. Volatility, as measured by standard deviation, has been in line with the index. Relative performance has been affected by the poor performance of the underlying small-cap strategy over this period, to which the fund has a strategic allocation. The small-cap strategy has suffered from some ill-timed exposures within the diversified-financials sector, with the global credit-market fallout significantly affecting some of the fund's holdings.

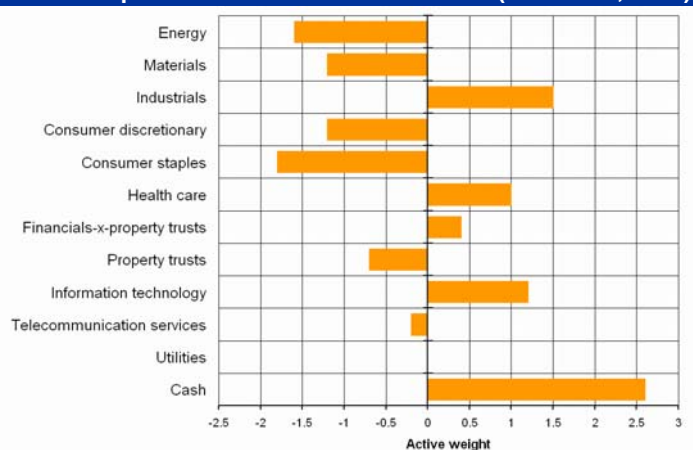
As at Dec. 31, 2007, the large-cap strategy was broadly neutral across the GICS Level 1 sectors, while the small-cap allocation had significant underweight positions to energy and materials, and overweight exposures to non-bank financials and industrials. Turnover for the fund has averaged 85% per year since the fund's inception.

Performance Measures

Average portfolio turnover (%)	85
Typical number of stocks in portfolio	40 plus small caps (60-80)

Source: DDH Graham Limited.

Sector Exposure Versus Fund Benchmark (at Dec. 31, 2007)



Source: DDH Graham Limited.

Risk Management

The primary risk constraint in place for the facility is tracking error, which is limited to 5% on an ex-ante basis, with a 3% ex-post target. Each stock's contribution to ex-ante tracking error is measured by Barra, with active positions taken limited to +/-5%. No position can constitute more than 10% of a stock's issued capital. Both the cash and non-index holdings are limited to 10% of the fund's assets. Derivatives cannot be used for speculative purposes, such as leveraging the portfolio. There are no hard sector constraints in place, although each sector's contribution to ex-ante tracking error is closely monitored.

Daily peer review of positions takes place at the team's morning meeting, with a more comprehensive review taking place monthly. Stock positions are reduced or exited when price targets are reached, where there is a lowering of analyst conviction (which is reflected in the analyst-ghost portfolios), or where there is deterioration in qualitative indicators.

Management Group Profile

DDH is the Responsible Entity and distributor of this fund. The business was founded by David D. H. Graham in 1981, with Suncorp General Insurance acquiring a controlling interest in 1984. The business was split out of Suncorp following the merger of Suncorp Insurance and Metway Bank in 1997. The two principal areas for DDH today are money-market operations and funds management.

DDH has outsourced investment management for this fund to QIC. QIC is a substantial player in the wholesale investment-management industry, with over \$70 billion in funds under management. QIC manages all public-service superannuation assets for the Queensland government. QIC's internal Australian-equities team, which manages the underlying portfolios into which this fund invests, is responsible for more than \$10 billion of total firm assets. The tie-up with DDH is an opportunity for QIC to broaden its retail-client base.

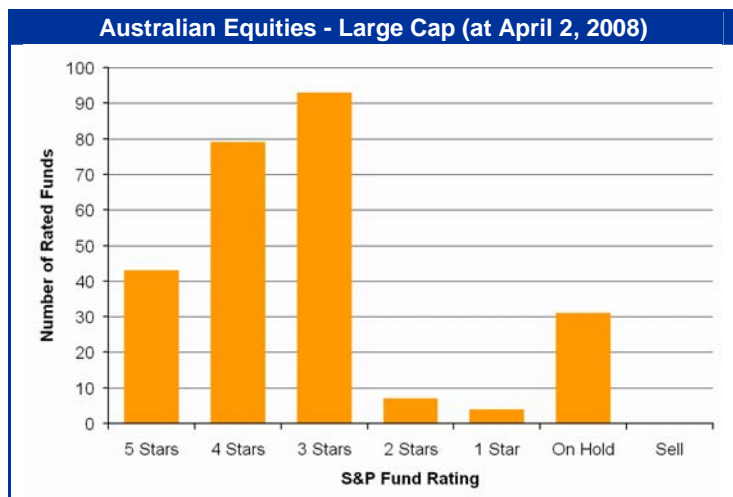
Market Share

DDH has ambitious objectives for its funds-management division, although the firm's administration of a money-market deposit account for the Bank of Queensland (currently \$1.6 billion) substantially underpins current revenues.

Analyst(s): James Gunn; Justine Gorman.

Release authorised by: Mark Hoven.

S&P Fund Rating Reference Information



Reference Material

Sector Reports www.standardandpoors.com.au/funds
Reader's Roadmap www.standardandpoors.com.au/funds
Glossary www.standardandpoors.com.au/funds
Guide to S&P Qualitative Fund Ratings www.standardandpoors.com.au/funds
Fund Rating Team Biographies 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	Alternative Strategies
Australian Fixed Interest	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	International Property	Multi-Strategy Funds Single Manager
Fixed Interest Income	Long Short Regional	Direct Commercial	Multi-sector
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
Australian Property	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 superior risk-adjusted fund returns, net of fees, relative to relevant investment objectives and peers.


Fund Rating Process

In assigning a star rating Standard & Poor's evaluates: the size, skill and stability of the manager's investment team; the clarity, implementation and risk management of its investment process; the fund's objectives, fee structure and portfolio characteristics; and 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 relevant investment objectives and relative to peers.
	Standard & Poor's has high conviction that the manager will consistently generate risk-adjusted fund returns in excess of relevant investment objectives and relative to peers.
	Standard & Poor's has conviction that the manager can generate risk-adjusted fund returns in line with relevant investment objectives and relative to peers.
	Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in line with relevant investment objectives and relative to peers.
	Standard & Poor's has high conviction that the manager will not generate risk-adjusted fund returns in line with relevant investment objectives and relative to peers.
	Issues potentially affecting the management of the fund have emerged, and the fund rating is temporarily suspended, pending clarification.
	A manager with significant issues that have the potential to adversely impact performance. Existing investors should consider obtaining advice regarding switching or redemption.

Fund Rating Subscript

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

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