S&P FUND RATING ★★★☆☆

DDH Australian Equities Fund

STANDARD & POOR'S

Analyst(s): Anthony Karaminas; James Gunn

Standard & Poor's View

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

The QIC large-cap Australian equities team has endured substantial turnover in the past year, with the redundancy of head of equities Simon Hudson and the removal of all Sydney-based large-cap Australian equities members. This lowering in staff numbers was in response to a substantial drop in FUM levels, and resulted in the removal of five members, including three analysts and a dealer.

S&P views the departures negatively, as the team has almost halved in size since our last review, with the added pressure of heightened sectoral duties. The reallocation of research also required analysts to come up to speed on holdings. Paul Barnes remains the portfolio manager on the fund, working closely with senior member/back-up portfolio manager Tony Edwards. Mr. Barnes is also head of equities; he assumed this role after Mr. Hudson's departure in mid-2009. While the current team is small, it averages 14 years' experience, and is guided by capable senior members which gives S&P a level of comfort.

The DDH Australian Equities Fund, invests into the QIC Active Australian Equities Facility No. 1, which gains an exposure to both the QIC Active Large Companies Fund No. 1, and the QIC Active Small Companies Fund No. 1. S&P views the investment process, which is consistently applied across both funds as sound and repeatable. In-depth screening refines the fund's investment universe, creating a manageable research list for analysts to focus on. Performance over the 12 months ending December 2009 was in line with the benchmark, although it was it below over three years.

The investment management fee of 1.2% is relatively high compared with peers and is viewed by us as a detracting feature.

Investor Suitability

- May suit investors looking to invest in a core offering, which is largely style neutral but may at times have a slight growth tilt.
- The fund is generally positioned 90% QIC Active Large Companies Fund No. 1 and 10% QIC Active Small Companies Fund No. 1.
- The fund would suit investors looking for an offering that seeks to deliver outperformance over the market cycle.
- The fund suits a minimum investment horizon of at least five years.

Key Strengths

- The team has good experience and is led by capable senior members.
- The investment process is sound.

Key Weaknesses

- Large drop in recent FUM, affecting scale of the team's research effort.
- High levels of team turnover due to redundancies, including head of equities and three analysts, making the team small relative to peers.
- Analysts have been forced to take on further sector responsibilities and come up to speed on holdings.
- The investment management fee of 1.2% is relatively high compared with peers.

Risks

- FUM levels continue to drop and the offering is viewed as unviable.
- Further members depart adding further pressure on the already stretched research team.

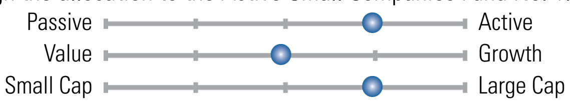
APIR code	DDH0003AU	**Performance Fees (%)**	N/A
Fund status	Open	**Investment Manager**	Queensland Investment Corporation
Inception date	July 3, 2006	**Redemption policy**	Daily
Responsible Entity	DDH Graham Limited	**Distribution frequency**	Semi-annual
Peer group	Australian Equities - Large Cap Style Neutral/ Core	**High water mark**	N/A
		Hurdle rate	N/A
Benchmark	S&P/ASX 200 Accumulation Index	**Return objective (%)**	Outperform its benchmark by 2.5% p.a. over rolling 3 years
Investment style	Style Neutral		
Multi manager	No	**Tracking error objective (%)**	Up to 3% (ex post)
Fund Size ($A)	3.21 .mil (at May 31, 2010)	**Average portfolio turnover (3yrs) (%)**	85
Minimum investment (A$)	2000	**Maximum cash holding (%)**	10
ICR / MER (%)	1.2	**Typical number of stocks**	30-50
		Release authorised by	Leanne Milton

Investment Objectives and Fees

The DDH Australian Equities Fund, which invests in the QIC Active Australian Equities Facility No. 1, targets consistent, moderate levels of outperformance (2.5% per year over the S&P/ASX 200 Accum Index 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-cap and small-cap stocks 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 is generally 90% large-cap and 10% small-cap. The investment management fee of 1.2% is relatively high compared with peers and is viewed by us as a detracting feature.

Investment Philosophy and Style

QIC believes that a stock will outperform where the market has underestimated the magnitude and quality of its earnings-per-share (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.



Investment Team

Structure

The QIC large-cap investment team has endured substantial change over the past year, with the departure of three analysts and head of equities Mr. Hudson. The team departures have resulted in heightened sectoral responsibilities for the team, with members generally researching at least four sectors. S&P views the departures negatively, as the team has almost halved in size since our last review, with the added pressure of coming up to speed on new securities.

The current investment team incorporates six members; head of large equities/ portfolio manager Mr. Barnes, senior research analyst/back-up portfolio manager Mr. Edwards, analysts Chris Claridge and Chris Webb, and two small-cap analysts Stuart Jordan and Peter Moller.

Key Investment Personnel

Name, Position	Years*	Experience†
Paul Barnes, portfolio manager/analyst	5	13
Tony Edwards, portfolio manager/analyst	5	10
Chris Claridge, analyst/ equities dealer	2	22
Chris Webb, analyst	4	12
Stuart Jordan, portfolio manager/small-cap analyst	2	20
Peter Moller, small-cap analyst	2	7
Average tenure with current firm	3	N/A
Average industry experience	N/A	14

**Years with current firm. †Years of relevant industry experience.*

Portfolio Managers

Mr. Barnes is the portfolio manager on the fund and is also head of equities, assuming this role in mid-2009. Previously, the QIC large-cap strategy had a co-portfolio manager structure, with Mr. Barnes focusing on resources, and Mr. Edwards on industrials. While this interaction remains, Mr. Barnes now has full stewardship of the fund. Along with portfolio manager duties, Mr. Barnes also has expansive research responsibilities, covering energy, resources, infrastructure, utilities, health care and insurance sectors.

Mr. Barnes joined QIC in 2005 and has been managing the large companies fund since 2006. Previously Mr. Barnes held a role with Macquarie Bank as head of resources research, and before this spent nine years in the mining industry with Rio Tinto and Newmont.

Research Team

Senior research analyst Mr. Edwards joined the firm in 2005 and has been in the industry for just over a decade. Mr. Edwards has portfolio management duties on the QIC Australian Combined Equities Fund, plus research responsibilities for banks, retail, transport, steel, chemicals, building materials, and contractors sectors. Before joining the firm, Mr. Edwards held roles at Colonial First State, Merrill Lynch, and BT.

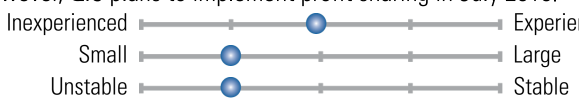
Large-cap analysts Mr. Webb and Mr. Claridge have been with the firm for four and two years, respectively. Mr. Webb has 12 years' industry experience, joining the firm from UBS. He has research coverage for telecommunications, food and beverages, media, paper and packaging, gaming, real estate investment trusts (REITs) and the diversified financials sector. Mr. Claridge is head of dealing, plus a research analyst in the team. Mr. Claridge's primary research responsibilities incorporate smaller resource, energy, and REIT companies that are part of the S&P/ASX 100.

Mr. Jordan and Mr. Moller make up QIC's small-cap team. Mr. Jordan has 20 years of industry experience, joining the team from Deutsche Asset Management where was head of equities and before that was head of small companies research. Mr Moller also joined the firm in 2008, most recently holding an analyst role with Investors Mutual and before that CommSec.

Further to Mr. Hudson's departure, all of the large-cap Sydney-based team were made redundant. This includes one analyst, two senior analysts, and one senior dealer. The result is a depleted team and one that is below the size of comparable peers. The changes were made in reaction to a drop in FUM due to the loss of a key mandate, and the manager has flagged the potential for a future hire as FUM grows. While the current team is small, it averages 14 years' experience, and is guided by capable senior members, which gives S&P a level of comfort.

Alignment and Accountability

The team has both a short- and long-term incentive program, which is largely in line with peers. The firm has recently implemented a "house of boutiques" structure to heighten the investment team's sense of ownership, and to assist with lowering team turnover throughout the firm. At this stage, equity and profit sharing is not a feature of the structure, however, QIC plans to implement profit sharing in July 2010.



Investment Process

Overview

QIC applies a similar investment process across both large-cap and small-cap stocks. The large-cap analysts model 80 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.

The next stage of the process is the modelling of company financials, the output of which is a target price and expectation for under- and outperformance. 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 with 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.

Previously manager visits were an area in which the team had a particular strength. However, following the reduction in analysts, this advantage is no longer evident. Stock weightings are ultimately driven by the pecking order of analyst recommendations and portfolio-construction guidelines.

Research Process

The initial step of the investment process is a three-stage screen which incorporates scoring and ranking companies based on industry and financials. A company's industry is scored between -2/+2, with industry structure and a company's position both assessed between -1/+1. Financials scoring focuses on free cash flow, return on equity, and earnings before interest and taxes (EBIT) interest cover. It is scored and ranked between the ranges of +3/-3. The scoring of both facets helps highlight the team's opportunity set and the screen aims to identify outperformance candidates, prioritise work flow, and provide an efficient quality check.

Once a prioritised research list is constructed from companies which have ranked highly in the initial screen, the team conducts further fundamental analysis. The team currently generates valuations on around 80 large-cap stocks and applies various valuation methodologies depending on the sector. Banks are valued using return on equity (ROE) and price to book value, while most other sectors, including industrials, resources, and listed property are valued using discounted cash flows (DCFs), plus a number of other metrics.

Valuations flow into a proprietary database named OSCAR, which captures all analysts' research and compares analysts' work with relative market expectations. This database also houses analysts' "ghost portfolios", which outline the analysts' best ideas and conviction levels within each industry.

Portfolio Construction

Portfolio positioning and stock weighting are primarily driven by analyst's recommendations, conviction levels (reflected in ghost portfolios), and target valuation price. In addition, Mr. Barnes considers a company's earnings risk and cost of capital, industry diversification, mandate requirements, volatility, and liquidity. While setting the portfolio Mr. Barnes is guided by IMPACT, which supplies a dashboard real-time look at the portfolio and allows ex ante what-if scenario analysis.

Risk Management

The primary risk constraint in place for the fund 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 MSCI 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.

Risk Constraints

Typical number of stocks	30-50
Active stock limits (%)	5
Active sector limits (%)	N/A
Maximum cash holding (%)	10
Targeted tracking error (%)	Up to 3% (ex post)
Active country limits (%)	N/A

Performance

Over the 12 months ending December 2009, the fund's returns have been in line with the benchmark, returning (net) 37.37% versus the index's 37.03%. Over three years to the same date, the fund's performance has been disappointing, underperforming the benchmark and objectives, returning -2.26%. Since inception in December 2005, the fund has returned 6.78%, above the index's 6.26%.

Portfolio Review

The manager believes the market recovery will continue, but is cautious over the short term. As of January 2010, the fund's sectoral positioning was broadly in line with the index, with industrials (4.99%) overweight, and underweights to consumer staples (-2.67%) and REITs (-2.19%), the only major difference. Over the 12 months to the same date, no particular sector has contributed strongly in a relative sense, with underweight telecommunications (0.83%) and REITs (0.64%) the highest outperformers. The fund's largest stock overweights were News Corp. at 2.3%, and 2.13% to Macquarie Group and Asciano Group. The fund's largest underweight positions were to CSL, Woolworths, and AMP.

Top Five Contributors and Detractors (at Jan. 31, 2010)

Contributors	Sector	1 Year*
Commonwealth Bank	Financials	0.25
Telstra	Telecommunications	0.25
Macquarie Group	Financials	0.20
Toll Holdings	Industrials	0.18
Wesfarmers	Consumer Staples	0.16

DDH Australian Equities Fund

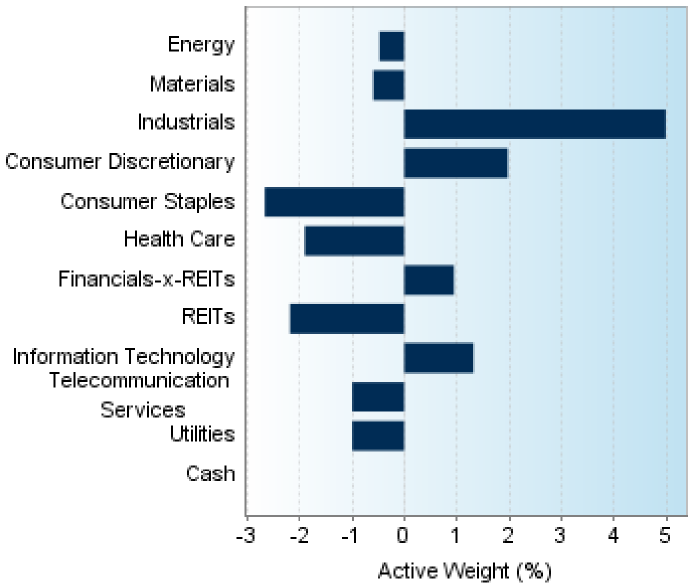
Contributors	Sector	3 Years*
Newcrest Mining	Materials	1.18
Woolworths	Consumer Staples	0.97
CSL	Health Care	0.88
AGL Energy	Utilities	0.73
Centro Properties Group	REITs	0.62

Detractors	Sector	1 Year*
AMP	Financials	-0.27
AXA	Financials	-0.26
Dexus Property Group	REITs	-0.24
WorleyParsons	Energy	-0.20
BlueScope Steel	Materials	-.17

Detractors	Sector	3 Years*
Incitec Pivot	Materials	-0.97
Leighton Holdings	Industrials	-0.90
Babcock & Brown Infrastructure	Utilities	-0.84
Mount Gibson	Materials	-0.83
Santos	Energy	-0.75

**Value Add (% p.a.). Source: DDH Graham Limited.*

Sector Exposure Versus Fund Benchmark (at Jan. 31, 2010)



Source: DDH Graham Limited.

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 A$52.9 billion in FUM as at April 2010. QIC has recently endured a lowering in FUM, as QSuper the firm's largest client, has decided to manage FUM in-house. This outflow has affected profitability of QIC's Australian-equities team, which has seen FUM levels drop from above A$10 billion at March 2008, to around A$666 million in March 2010. This lowering in FUM has forced the team to scale back and make sizeable redundancies. The team is almost half the size it was at our last review, which has resulted in a lowering of our conviction. The tie-up with DDH is an opportunity for QIC to broaden its retail-client base.

Funds Under Management

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 substantially underpins current revenues.

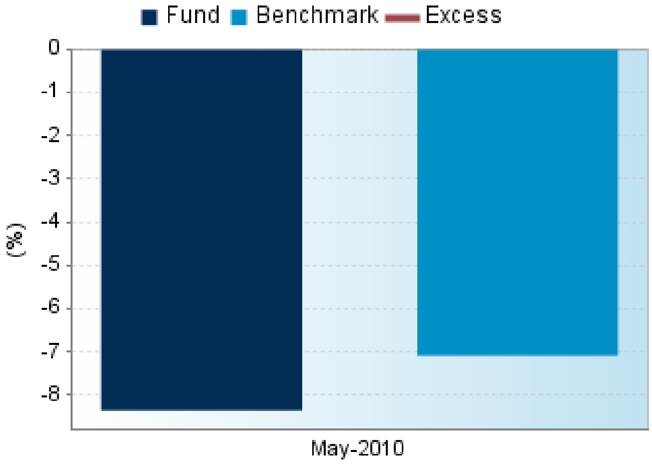
Funds Under Management Table (at Jan. 31, 2010)

Current pool size ($)	3.3 million
Total FUM in strategy ($)	126 million
Estimated capacity for strategy ($)	5 billion
Total FUM across all asset classes ($)	65 billion
Net strategy flows over past 12 months ($)	(-3 million)

Source: DDH Graham Limited.

Performance Analysis

3yr Rolling Returns, Over 5 Years



Source: DDH Graham Limited.
Benchmark: S&P/ASX 200 Accumulation Index.

Annualised Net Returns % (at May 31, 2010)

	1 Year	3 Years	5 Years	7 Years
Fund performance (% p.a.)	17.99	-8.36	-	-
Income (% p.a.)	3.17	7.68	-	-
Growth (% p.a.)	14.82	-16.04	-	-
Benchmark performance (% p.a.)	20.8	-7.09	-	-
Excess return (% p.a.)	-2.81	-1.27	-	-

Benchmark: S&P/ASX 200 Accumulation Index.

S&P FUND RATING ★★★☆☆

DDH Australian Equities Fund

STANDARD & POOR'S

Fund Rating Philosophy

A star rating is a forward looking assessment of a manager's ability to consistently generate risk-adjusted 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

S&P FUND RATING ★★★★★	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.
S&P FUND RATING ★★★★☆	Standard & Poor's has high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.
S&P FUND RATING ★★★☆☆	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.
S&P FUND RATING ★★☆☆☆	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.
S&P FUND RATING ★☆☆☆☆	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.
S&P FUND RATING ON HOLD	Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.
S&P FUND RATING SELL	Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.
NEW	**Fund Rating Subscript**—here 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.

Glossary of Terms

Benchmark	The standard (e.g. an index) by which an investment is measured against to evaluate performance.
Excess Return	Return of an investment relative to its benchmark.
FUM	Funds Under Management - The total value of the funds managed by an asset management firm.
High Water Mark	The highest net asset value (NAV) of a fund achieved to date. If the NAV of a fund falls below this level, no performance fee will be payable to the investment manager until this level is subsequently exceeded.
Hurdle Rate	A minimum rate of return that a fund must achieve before a performance fee can be charged. This can be the benchmark or the benchmark plus an additional fixed rate.
Performance Fees	A fee payable in excess of the ongoing management fee. There is often a hurdle rate and/or high watermark that must be reached before this fee is payable.
ICR-Indirect Cost Ratio	This is a ratio of indirect costs to the total investment in a particular fund expressed as a percentage. It includes the MER, expense recoveries, performance fees and other costs associated with running the fund.
Information Ratio	Is a measure of the relative reward for the relative risk taken (excess returns of an investment (above the benchmark) divided by the tracking error). A positive information ratio would indicate efficient use of risk by the manager.
MER-Management Expense Ratio	This ratio is a calculation of investment management, marketing, trusteeship, legal, accounting and auditing costs of a managed investment fund expressed as a percentage of a fund's net asset value. It is the ongoing charges for managing a fund.
Peer Group Return	The average return of the funds in the relevant S&P peer group.
Sharpe Ratio	Is a measure of risk-adjusted performance, measuring the absolute reward for the absolute risk taken (return of the investment less the risk-free rate (e.g. bank bills) divided by the standard deviation). The higher the Sharpe ratio the greater the efficiency produced by the manager.
Standard Deviation	Measure of the variability or volatility of the monthly returns of the fund.
Tracking Error	How closely a portfolio follows or "tracks" an index to which it is benchmarked. (the standard deviation of monthly excess returns against the benchmark).
Ex Ante Trading Error	Predicted or forecast of tracking error.
Ex Post Trading Error	Historical or actual tracking error.