

Products Facts

| | | | | | |
|------------------------------|--------------------|-----------------------|---------------------------------|-----------------------|--------------|
| Manager | DDH Graham Limited | Fund type | Wholesale Investment Trusts | Boutique | No |
| APIR code | DDH0004AU | Specialisation | Style Neutral | Multimanager | No |
| Fund status | Open | Peer group | Australian Equities - Small Cap | Inception date | July 3, 2006 |
| Min. investment (A\$) | 5000 | | | MER (% pa) | 1.35 |

Standard & Poor's View

Standard & Poor's has placed this fund on Hold pending clarification of issues that have emerged potentially affecting the management of this fund.

DDH has outsourced the investment management of this fund to QIC. QIC's broad Australian-equity team as it stands today is well resourced. Three analysts are dedicated to small caps, including Michael Dee, who has been the portfolio manager of QIC's small-cap strategy since 2001.

Despite the level of resourcing and some positive process developments that have been introduced by the head of equities Simon Hudson, stronger performance outcomes are required for S&P to gain more conviction in the strength of QIC's small-cap capability relative to its peers. A particularly poor February 2008 has driven the cumulative underperformance for the fund to 12.4% (after fees). The disappointing relative performance recorded by the fund so far can be in part attributed to some ill-timed exposures within the diversified-financials sector. The fallout from the global credit crunch significantly affected some of the fund's holdings over the 2008 financial year to date, although the large underweight to energy and materials was also a detractor in February. We take comfort from the longer-term performance of QIC's small-cap strategy under Mr. Dee; however, the team now faces a considerable challenge over the next few years in recovering this underperformance, and meeting its objective of outperforming the index by 5% over rolling three-year periods.

Product Features

The DDH Australian Small Companies Fund, which invests into the QIC Active Small Companies Fund, targets out performance of 5% per year over a three-year period, and has an ex-post target tracking error of up to 7% per year. The investment management fee of 1.35% is relatively high compared to its peers.

Fund Objectives

| | |
|-------------------------------|--------------------------------------|
| Benchmark | S&P/ASX Small Ordinaries Accum Index |
| Target return (% p.a.) | Index + 5% (gross) |
| Target tracking error | Up to 7% (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, 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 contain around 80 holdings.

| | | | | | | |
|------------------|--|--|--|--|--|------------------|
| 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 were 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/analysts, two dealers, and two quant analysts. 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. As a result of the personnel changes that occurred in 2005 and 2006, which included the loss of experienced small-cap analyst Bill Pridham, Andrew Hodge was transferred across from the large-cap team. Paul Xavier is the other member of the small-cap team.

| | | | | | | |
|-----------------|--|--|--|--|--|--------------------|
| New | | | | | | Experienced |
| Small | | | | | | Large |
| Unstable | | | | | | Stable |

Investment Process

QIC applies the same investment process for small caps as it does for large caps, albeit to a different universe, with the manager's dedicated small-cap team maintaining coverage of ex-100 stocks. 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.

Michael Dee is responsible for portfolio construction and is accountable for the overall performance of the QIC's small-cap strategy. 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 Small Companies Fund was launched in October 2006. A particularly poor February 2008, in which the fund underperformed its benchmark by 8.1% (after fees), has driven the cumulative underperformance of the fund to 12.4% (at Feb. 29 2008), with annualised ex-post tracking error increasing to 9.5%.

The disappointing relative performance recorded by the fund so far can be in part attributed to some ill-timed exposures within the diversified-financials sector. Fallout from the global credit crunch significantly affected some of the fund's holdings over the 2008 financial year to date, including an IPO position in RAMS Home Loans, and more recently Allco Max and Credit Corp (each of these positions had been exited at the time of writing). We take comfort from the longer-term performance of QIC's small-cap strategy under portfolio manager Mr. Dee, although the team now faces a considerable challenge over the next few years in recovering this underperformance and meeting its objectives of outperforming the index by 5% over rolling three-year periods.

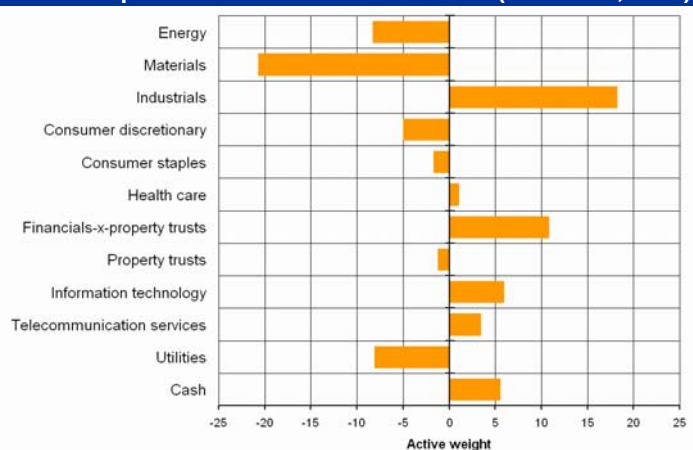
As at Dec. 31, 2007, the fund was significantly underweight to energy and materials, and overweight to non-bank financials and industrials. This general sectoral positioning was also a detractor in February, with small resources significantly outpacing small industrials. Until December 2005, QIC's small-cap strategy was managed to the S&P/ASX 300 Industrials index, with an expectation that the fund will be typically underweight to resources.

Performance Measures

| | |
|---------------------------------------|-------|
| Average portfolio turnover (%) | 80 |
| Typical number of stocks in portfolio | 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 fund is tracking error, which is limited to 10% on an ex-ante basis, with a 7% 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. Cash is limited to 10% of fund assets. Non-index holdings are limited to 20% of fund assets, with no formal kick-out rule for stocks entering the top-100. 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.

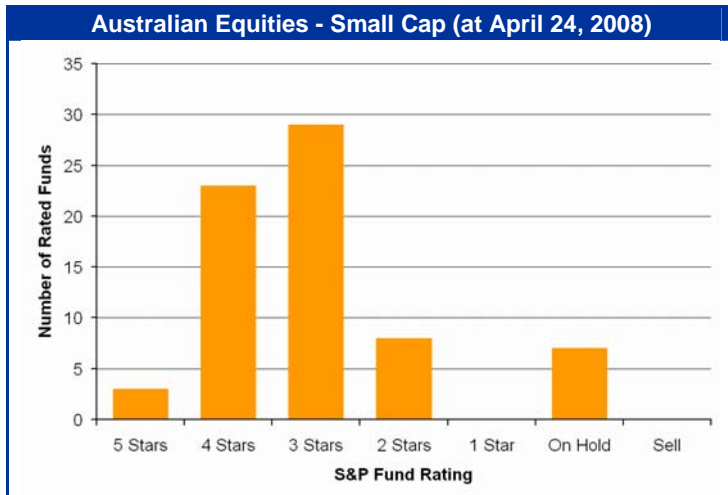
Market Share

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.

Disclaimer: A Standard & Poor's Information Services (Australia) Pty Ltd (ABN 17 096 167 556) (Standard & Poor's) rating and other opinions are and must be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell or hold any financial product(s). Conclusions, ratings and opinions are reasonably held at the time of completion but subject to change without notice. Standard & Poor's assumes no obligation to update any information following publication. No warranty, express or implied, is given or made by Standard & Poor's as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any Standard & Poor's rating, opinion or other information and Standard & Poor's will not be liable to any party in contract or tort (including for negligence) or otherwise for any loss or damage arising as a result of any party relying on any such rating, opinion or other information (except in so far as statutory liability cannot be excluded). Warning: Past performance is not a reliable indicator of future performance. Any express or implied Standard & Poor's rating or advice is limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s) alone. The information has not been prepared for use by retail investors and has been prepared without taking account of any particular person's financial or investment objectives, financial situation or needs. Before acting on any advice, any person using the advice should consider its appropriateness having regard to their own or their clients' objectives, financial situation and needs. You should obtain a Product Disclosure Statement relating to the product and consider the statement before making any decision or recommendation about whether to acquire the product. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any adviser and any such adviser must accordingly make their own assessment taking into account an individual's particular circumstances. Disclosure: Analyst Disclosure: Analyst(s) remuneration is not linked to the rating outcome. The Analyst(s) may hold the financial product(s) referred to in a Standard & Poor's rating or other research report but Standard & Poor's considers such holdings not to be sufficiently material to compromise the rating or opinion. Analyst(s) holdings may change at any time. The Analyst(s) certify that the views expressed in a Standard & Poor's rating or other research report reflect their personal, professional opinion about the financial product(s). Standard & Poor's Disclosure: In the event of any person subscribing to any rated financial product(s), such subscriptions may result in a Standard & Poor's client receiving a commission, fee or other benefit or advantage. Details of any such benefits can be obtained from your financial adviser. Standard & Poor's itself does not receive any commission. Prior to the assignment of any rating, the fund manager or another Standard & Poor's client agreed to pay Standard & Poor's a fee for the appraisal and rating service rendered. Standard & Poor's assigns ratings using comprehensive and objective criteria. Standard & Poor's fee is not linked to the rating outcome. Costs incurred during the rating process, including travel and accommodation expenses, may be paid for by the fund manager or another Standard & Poor's client to enable onsite reviews. Standard & Poor's does not hold or have a material interest in any rated financial product(s). Standard & Poor's associates may hold rated financial product(s) but detail of these holdings are not known to the Analyst(s). Standard & Poor's from time-to-time provides fund managers and other clients with investment data, research software, consulting and other financial planning services. Standard & Poor's is a wholly owned member of The McGraw-Hill Companies, Inc, a New York Corporation. The analytic services and products provided by Standard & Poor's and its associates are the result of separate activities in order to preserve the independence and objectivity of each analytic process. Each analytic product or service is based on information received by the analytic group responsible for such product or service. Standard & Poor's and its associates have established policies and procedures to maintain the confidentiality of non-public information received during each analytic process. Standard & Poor's holds an Australian Financial Services Licence Number 258896. Please refer to Standard & Poor's Financial Services Guide for more information at www.assirt.com.au. "S&P" and "Standard & Poor's" are trademarks of The McGraw-Hill Companies, Inc. Copyright 2007 Standard & Poor's Information Services (Australia) Pty Limited. Certain funds data contained herein may be proprietary to Morningstar, Inc.