

Analysts: James Gunn; —

**Products Facts**

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

**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.

DDH has outsourced the investment management of this fund to QIC. S&P placed the fund On Hold in April 2008 following the resignation of all three members of QIC's small-cap team. In June 2008, QIC appointed Stuart Jordan to the role of Portfolio Manager and subsequently recruited analyst Peter Moller from Investors Mutual.

The since inception performance of the fund has been disappointing, which can partly be attributed to a significant underweight position to resource stocks over the 2007/08 financial year. QIC's small-cap strategy was benchmarked to the S&P/ASX 300 Industrials Index until December 2005; although the fund continued to be managed with a strong industrials bias. While some of the underperformance has been recovered with the recent decline in commodity prices, the portfolio is expected to be more diversified across both sectors and best ideas under the new portfolio manager.

The bulk of QIC's Australian equities team is located in Brisbane; although Mr. Jordan, Mr. Moller and two large-cap analysts are Sydney-based. Being apart from the broader team, it's important that Mr. Jordan and Mr. Moller can quickly build a rapport and establish themselves as an effective stock picking combination.

S&P gains comfort from the significant small companies experience that Mr. Jordan, in particular, brings to the management of the fund and we have reinstated the fund's three star rating.

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 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. QIC's Australian-equity team as it stands today is well resourced, comprising Mr. Hudson, eight portfolio managers/analysts, two dealers, and two quant analysts. The two members of the team dedicated to small caps are Stuart Jordan and Peter Moller.

S&P placed the DDH Australian Small Companies Fund On Hold in April 2008 following the resignation of all three members of QIC's small-cap team, including Michael Dee, who had been portfolio manager of the strategy since 2001. In June 2008, QIC appointed Stuart Jordan to the role of Portfolio Manager (Small Companies) and subsequently recruited analyst Peter Moller in August 2008. Mr. Jordan has more than 20 years of industry experience including most recently as Head of Equities at Deutsche Asset Management (Australia) and before that Head of Small Companies. Mr. Moller brings seven years of industry experience to QIC, most recently with Investors Mutual.

The bulk of QIC's Australian equities team is located in Brisbane; although Mr. Jordan, Mr. Moller and two large-cap analysts are Sydney-based. Being apart from the broader team, it's important that Mr. Jordan and Mr. Moller can quickly build a rapport and establish themselves as an effective stock picking combination.

New					Experienced
Small					Large
Unstable					Stable

**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)

**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.

**Investment Process**

QIC applies a similar 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. The new small-cap team is completing the process of building their own company models, consistent with the longer-duration approach utilised by Mr. Jordan while he was at Deutsche Asset Management. 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.

Stuart Jordan is responsible for portfolio construction and is accountable for the overall performance of 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. On a cumulative basis, the fund has underperformed its benchmark by 9.8% (after fees) since inception. Annualised tracking error over this period was 9.6% pa.

The disappointing performance of the fund can largely be attributed to its returns over the 2007/08 financial year. The fund suffered from a significant underweight position to resource stocks, along with some ill-timed exposures within the diversified financials sector.

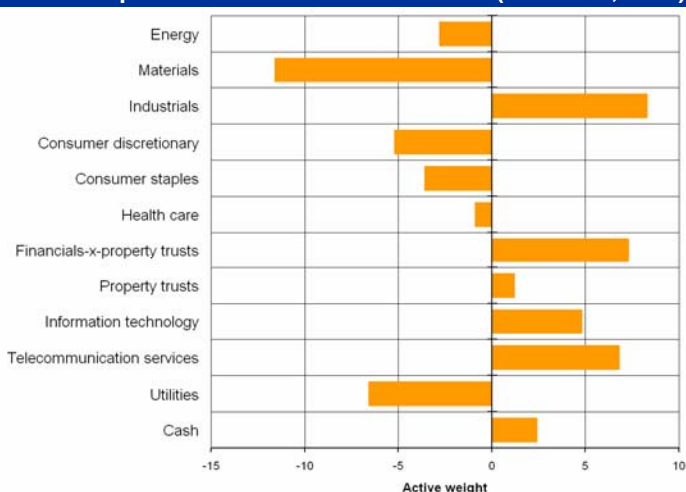
QIC's small-cap strategy was benchmarked to the S&P/ASX 300 Industrials Index until December 2005; however the fund continued to be managed with a strong industrial bias under former portfolio manager Michael Dee. While some of the underperformance attributable to this portfolio positioning has been recovered with the recent decline in commodity prices; the portfolio is expected to be much more diversified across both sectors and best ideas under new portfolio manager Stuart Jordan.

### Performance Measures (at —)

Average portfolio turnover (%)	80
Typical number of stocks in portfolio	40-70

Source: DDH Graham Limited.

### Sector Exposure Versus Fund Benchmark (at Oct. 24, 2008)



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 \$80 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.

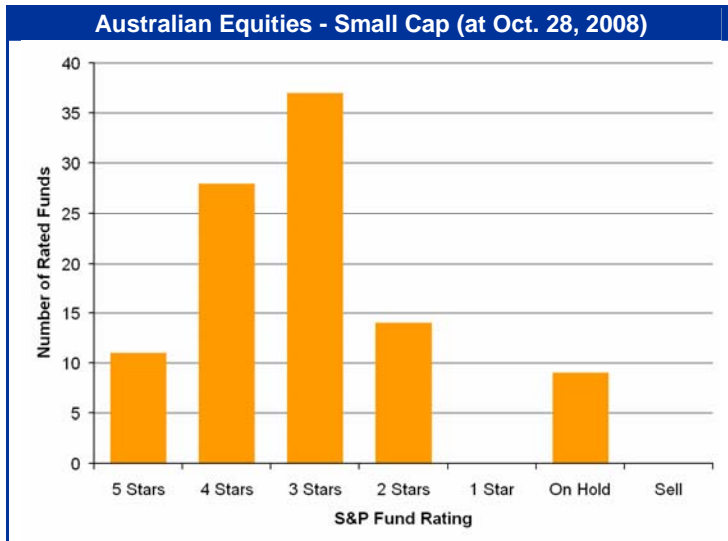
## Market Share

DDH has ambitious objectives for its funds-management division, although the firm's distribution and administration of a money-market deposit account for the Bank of Queensland (currently \$1.75 billion) substantially underpins current revenues.

Analyst(s): James Gunn; —.

Release authorised by: Mark Hoven.

## S&P Fund Rating Reference Information



**Reference Material**

<b>Sector Reports</b>	<a href="http://www.standardandpoors.com.au/funds">www.standardandpoors.com.au/funds</a>
<b>Reader's Roadmap</b>	<a href="http://www.standardandpoors.com.au/funds">www.standardandpoors.com.au/funds</a>
<b>Glossary</b>	<a href="http://www.standardandpoors.com.au/funds">www.standardandpoors.com.au/funds</a>
<b>Guide to S&amp;P Qualitative Fund Ratings</b>	<a href="http://www.standardandpoors.com.au/funds">www.standardandpoors.com.au/funds</a>
<b>Fund Rating Team Biographies</b>	<a href="http://www.standardandpoors.com.au/funds">www.standardandpoors.com.au/funds</a>

### 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.
	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.
	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.

*Disclaimer: 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. 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, 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](http://www.assirt.com.au). "S&P" and "Standard & Poor's" are trademarks of The McGraw-Hill Companies, Inc. Copyright 2008 Standard & Poor's Information Services (Australia) Pty Limited. Certain funds data contained herein may be proprietary to Morningstar, Inc.*