

Product Facts

Investment manager:	Queensland Investment Corp. (QIC)	Peer Group:	Alternative Strategies	Fund type:	Retail
Responsible Entity:	DDH Graham Ltd.	Specialisation:	Global Fixed Interest	Min. Investment (A\$):	A\$5,000
APIR code:	DDH0007AU	Manager type:	Single Manager	Inception date:	Oct 31, 2006
Fund Status:	Open	Strategy type:	Single Strategy	Domicile:	Australia

Standard & Poor's View

Standard & Poor's Fund Services rates this fund four stars, reflecting our high conviction that the manager will consistently generate risk-adjusted returns in excess of relevant investment objectives and its peers.

The fund is offered by DDH Graham Ltd., as responsible entity for the product, and utilises the investment management capabilities of Queensland Investment Corp. (QIC).

The Global Fixed Interest Alpha Fund (GFIAF) is an actively-managed, global, fixed-interest fund whose investment strategies involve a high degree of leverage and the use of derivatives. This is not a run-of-the-mill, fixed-interest offering, and should not be thought of as a direct substitute for defensive holdings in a balanced portfolio. It can be more easily likened to a hedge fund and professional advice should be sought prior to investment.

The DDH Graham Ltd offering has two years of track record, and has met its investment target of outperforming the UBS Bank Bill Index by 5% after all fees – however, underlying investments have no resemblance to this benchmark. Investors should understand that the fund shows a much higher volatility than the benchmark and should be prepared to invest for the medium-to-long term of five-to-seven years.

The portfolio is managed by Robert Jewell, director and head of the Global Fixed Interest (GFI) team. Mr. Jewell has more than 16 years of investment experience with a macro focus, and reports to managing director of active management Susan Buckley. The investment team numbers more than 20 and all are based in Brisbane. Team members have been relatively stable; however Jeff Brunton, head of credit, departed in the fourth quarter of 2007. Mr. Brunton's replacement Peter Scobie, who joined the firm in April 2008, has more than 20 years of investment management experience. We look forward to seeing Mr. Scobie's influence on the portfolio and its credit-related strategies.

The investment process is systematic, repeatable, and transparent, and has multiple stages. Research, analysis, portfolio construction, and risk management are the key components with all team members providing input. Mr. Jewell oversees all strategies entering the portfolio and has full accountability for the performance of the fund. Team members have the flexibility to express their views and challenge the underlying assumptions of any strategy. The final portfolio will hold physical assets; however the portfolio is likely to be heavily weighted to derivative instruments.

Risk management is critical with a product of this type. The firm has a number of policies in place relating to the portfolio's investments. QIC utilises BlackRock Solutions for its front-, middle- and back-office system requirements.

Investment Style

The fund invests across global markets utilising specialist, fixed-interest investment techniques in the rates and credit space. Investment views rely on medium- to long-term fundamental analysis of the macro-

economic environment along with micro-credit research. The process seeks to exploit short-term deviations from "fair value" through the execution of diversified strategies. Research feeds into scorecards that reflect the team's view, allows the manager to take scaled positions within the fund, and promotes consistency of approach. Active investment positions are predominantly taken through a range of derivative instruments and some physical assets.

Product Features

The fund charges a 1.50% management fee. In addition, a 20% performance fee applies to the positive returns of the fund above a hurdle rate of the UBS Bank Bill Index. Although the hurdle is lower than the investment objective and does not relate to the underlying strategy, a high watermark caters for the potential higher levels of volatility in this product. Applications and redemptions can be made daily, and will be paid within seven business days, offering good liquidity for investors. However, investors should not think of this product as a substitute for a cash fund. The product has a higher level of volatility than traditional fixed-interest funds. QIC states that a negative return could occur in one year out of every four. Investors must have a medium-to-long-term (five-to-seven years') investment timeframe in mind before investing in this product. The underlying investments of this fund can be very broad. Derivatives are used extensively in order to implement a variety of strategies.

The fund can, and will, be leveraged with a maximum of 15x gross exposure and 3x net exposure (*see below*). Leverage is a means by which the manager creates an exposure that is greater than the funds received from unit holders. This happens through derivatives usage, and not by direct borrowing.

Gross exposure formulae:

$$\frac{\text{Long positions} + \text{Short positions}}{\text{Unit holder funds}} \times 100\%$$

Example using gross exposure formulae:

$$\frac{\text{A\$9 million} + \text{A\$6 million}}{\text{A\$1 million}} \times 100\%$$

Gross leverage = 15x or 1500%

Net exposure formulae:

$$\frac{\text{Long positions} - \text{Short positions}}{\text{Unit holder funds}} \times 100\%$$

Example using net exposure formulae:

$$\frac{\text{A\$9 million} - \text{A\$6 million}}{\text{A\$1 million}} \times 100\%$$

Net leverage = 3x or 300%

The fund targets a return of 5% above the UBS Bank Bill Index after fees. Investments made by the fund in no way represent the make-up of the benchmark. The benchmark is used for relativity of performance and risk only.

Fund Objectives

Target return (% p.a.)	UBS Bank Bill Index + 5% after fees
Target volatility (% p.a.)	Std Dev 20% p.a. / Daily VaR 3%

Fund Fees

Indirect cost ratio (ICR), assuming out-performance of 5% p.a., including performance fees	2.50
Management fee (% p.a., including GST)	1.50
Performance fee (% p.a.)	20
High watermark (Y/N)	Yes
Hurdle rate	UBS Bank Bill Index
Buy/Sell spread (%)	None

Fund Characteristics

Gross/Net leverage at fund level (x)	15x Gross 3x Net
Redemption period	Daily
Notice period for redemptions	Daily if received before 12.00 p.m.
Redemptions proceeds received	7 business days
Limit on redemptions (gate)	None
Distribution frequency	Quarterly
FIF status	None
Currency hedged (Y/N)	Yes

Adviser Fees

Upfront establishment fee	None
Contribution fee	0%-3.30%
On-going advisor fee (outside of MER at advisor discretion)	Up to 2.20% p.a.

Investment Team

Ms. Buckley, managing director of active management, leads the centralised Brisbane-based investment team of 21 who are split into three groups covering global fixed interest (GFI), beta and cash management, and the business relationship team. Ms. Buckley has overseen the fixed-interest business since joining QIC in 2001, and prior to this had held senior positions in the Australian funds-management industry.

Reporting directly to Ms. Buckley, Mr. Jewell, director of the global macro and credit team, has day-to-day responsibility for this product, and the team behind research and implementation. Mr. Jewell joined QIC in 2002 and has 16 years' experience in the markets. Reporting to Mr. Jewell are the four-person macro team and the eight-person, global credit and alternative fixed-interest team.

The team is split between reasonably new joiners (within two years) and a number of individuals who have been with the team for many years. All individuals are highly qualified with a broad level of industry experience in both local and global markets.

Mr. Scobie, head of credit, has been a recent addition to the team, following the departure of Mr. Brunton in the fourth quarter of 2007. Mr. Brunton had been head of credit and worked alongside Mr. Jewell in his role (at that time) as head of global rates. Mr. Brunton's departure means both the credit and rates decisions now fall within Mr. Jewell's responsibility – in essence creating a single responsibility for all decisions entering the portfolio. Changes at this level of seniority in the Australian fixed-interest market are a rare event; however, any concern held by S&P is somewhat mitigated by the new reporting lines, and the overall strength of the individuals within the QIC team.

The team has a collegiate approach to investing. Team members are encouraged to speak their minds and challenge the views and strategies put forward for inclusion into the portfolio. While the team is wholly Brisbane-based, the business has a London-based real estate group which allows members of the GFI team to spend extended periods of time on the ground in Europe and the U.K. Credit analysts will frequently utilise this desk when covering U.K./European-based investments. The centralised team approach promotes a strong sense of communication and team dynamics. QIC has no plans at this stage to open additional offices in the world.

The business has a team of four tasked with the execution of portfolio positions, which sits outside the global fixed-interest team. The three-person business relationship team, led by Scott Cornfoot, plays a broad role. It assists the investment team with client communication and presentations, which allows the investment team to focus on their task of managing money.

Investment Process

The global fixed-interest fund utilises the full breadth of investment opportunities that the GFI team produces. The multistage investment process incorporates the inputs of the macro-strategies and credit-strategies teams. The process can be broken into five distinct stages beginning with a focus on independent global research. The second stage feeds the research into scorecards which allows the transparent sharing of analysis across the group, and signals the size of the decision in order to achieve the fund's suggested objective. The third stage translates the investment ideas from the first two stages into global investment opportunities. Stages 4 and 5, portfolio construction and risk management, and performance attribution, are discussed below in Risk Management and Performance sections (*see below*).

Stage 1

The macro and credit teams conduct independent global research which highlights a broad set of opportunities for the team. They focus on fundamental research, analysing the broad global economy, industries and transitory influences. Inputs into this process can come from a wide range of providers, not only the broad experience of the investment team. A global network of banks and brokers, and QIC's own in-house investment boutiques that operate across the equities, infrastructure and real estate space, regularly provide external research. The team structure is relatively fluid in order to complete the targeted work in a timely, efficient and accurate manner.

Stage 2

The team's scorecard approach gives meaning to the research, and cultivates transparency. The output of the scorecard provides strength to their view.

Scorecards are completed by both the macro and credit teams with analytical responsibility for the macro team as follows:

- Mr. Jewell covers the Australian and U.S. two-year and 10-year interest-rate decision, along with global investment-grade bonds (IG), high yield (HY) and emerging markets (EM),
- Steve Smith covers the European and Japan two-year and 10-year interest-rate decision, as well as global IG, HY and EM,
- Debbie Waters covers the Canadian and New Zealand two-year and 10-year interest-rate decision,
- Ben Sanders covers the Australian and U.S. swap decision, as well as the inflation-linked market.



The scorecard approach for the credit team is overseen by head of credit Mr. Scobie. The team produces scores on the following sectors: infrastructure, telecommunication, energy, structured credit, consumer, financials and residential-mortgage-backed securities (RMBS), industrials, resources, property trusts and index strategies.

The scoresheet approach is a focused research tool, and allows for continual review and hindsight assessment. There are around 30 scorecards produced by the group in which the final score is a combination of valuation and transitory factors which translates into recommended position sizes for the investment mandate. Strategies generated from the research and scorecard process can be quite short; however the majority of outputs centre on a medium-term focus, with some current positions in place for more than two years. The scorecard process supports long/short positioning across markets.

Stage 3

Diversified sources of return are implemented at stage three with the team relying on numerous, global, uncorrelated strategies in gaining their exposure. This aspect of the process is where specialist investment strategies utilising derivatives take place. Macro strategies fall under the broad categories of duration, country spreads, yield curve, inflation linked, and volatility. On the credit side, strategies are broken into macro credit, country-credit spreads, swap spreads, credit-yield curves, macro industry and issuer selection.

Falling within the credit strategies, the team has targeted an opportunity in physical securities with a 10% allocation (at July 31, 2008) to the QIC Global Credit Opportunities Trust. The underlying securities within this portfolio are typically senior-secured positions at the defensive end of high yield i.e. infrastructure. As this is a relatively specialised sector, the team may use external legal services and QIC's tax group, if required.

Risk Management

The portfolio largely holds cash with an allocation to the QIC Cash Enhanced Fund. This will be in Australian dollars although the underlying investments are in a multitude of currencies. As most of the positions are in derivative instruments, this pool of cash supports the collateral requirements of these positions. Constructing the portfolio, with the investment opportunities arising out of stage three, centres on the fund's volatility guidelines and the way in which the manager can achieve the required rate of return within the risk parameter. The BlackRock Solutions system is used extensively for risk management and constructing the portfolio. The firm runs the Aladdin package which allows real-time assessment of positions, and is attuned to the portfolio risk-return limits.

Risk is measured at multiple levels within the portfolio. Modified duration (the sensitivity of the portfolio to movements in interest rates) is kept to within plus-or-minus seven years of the benchmark's duration of 45 days. Weightings at the sector level keep to the following limits, and are measured as a percentage of the total net asset valuation (NAV):

- Emerging markets – +/- 125%
- High yield – +/- 250%
- Total for emerging markets and high yield – +/- 250%
- Inflation linked securities – +/- 50%

Each position in the portfolio is tagged to a strategy which forms part of the overall portfolio. The risk-management system allows the manager to cascade risk, in real time, from the overall portfolio level to the strategy level, and then individual level, providing granular, minutiae detail of each basis point of risk.

The team has set limits around the volatility of fund returns with a targeted standard deviation of under 20% on a rolling three-year basis. Additionally, a VaR (value at risk model) is used which stipulates that the fund is not to exceed 3% of the NAV on a daily basis and 20% of the NAV on a monthly basis. These measures are taken at the 95th percentile

using a parametric model (which calculates a series of alternative scenarios by altering the assumed values of a set of parameters).

Ms. Buckley, Mr. Jewell, and other nominated portfolio managers within the team, have responsibility and oversight for the trading activity of the portfolio – particularly the use of derivatives and monitoring of counterparties. Counterparties must hold a minimum Standard & Poor's 'A' credit rating.

Foreign exchange exposure resulting from offshore investment activities is hedged back into Australian dollars with no active management. Hedging occurs at the currency-exposure level rather than at a transactional level, with forward contracts rolling on a monthly basis. The fund's position in liquid-derivative strategies implies that there should be little issue in realising cash to meet any adverse currency-hedge settlements.

The firm uses National Custodian Services (NCS) for the custody of assets, with daily pricing of the fund conducted by NCS and its pricing provider Markit. Importantly, the firm has a large number (16) of global ISDA (International Swaps and Derivatives Association) agreements in place for the trading of over-the-counter derivatives, which allows diversification of counterparty risk.

As covered in product features, the fund can, and will, use leverage with a maximum of 15x gross exposure and 3x net exposure.

Performance

The GFIAF aims to outperform its benchmark by 5% a year after investment management fees, over a rolling three-year period through the active use of a diverse range of interest-rate and credit strategies.

The DDH Graham Ltd offering has a two-year track record, and has provided a net active return of 12.3% over this period which is above the expected return objective of benchmark plus 5% after fees. Standard deviation has been 8.01% over the same period against the benchmark of 0.21%.

Portfolio attribution is calculated across the strategies and provides a useful snapshot of where the manager is performing. Since inception, the most significant outperformance resulted from the country-spread and duration decisions. Both of these decisions are the responsibility of the macro team. Underperforming strategies have been pure stock selection, capital structure, and the allocation to emerging markets. Stock selection, in particular, suffers from the ongoing dislocation in global credit markets. Of interest will be the influence of new head of credit Mr. Scobie in arresting this underperformance.

Performance Metrics

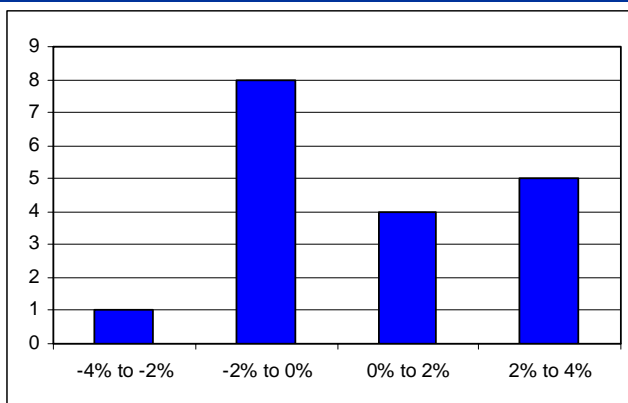
Net Fund Performance to Oct. 31, 2008 (% p.a.)		
Year	Fund	UBS Bank Bills
1 Month	2.68	0.71
1 Year	14.79	7.80
2 year (p.a.)	12.30	7.21
Since inception	12.30	7.21

Performance Measures (Net) at Oct. 31, 2008	
Average portfolio positions	56
Best monthly return (%)	4.95
Worst monthly return (%)	-3.43
Positive months (%)	58
Maximum drawdown (%)	-3.43
Maximum drawdown period	1
Months to recovery	1

Correlations Since Inception (at Oct. 31, 2008)

S&P/ASX 300	-0.1139
BarCap Gbl Agg AUD Hedged	0.0769
MSCI World	0.1651
UBS Bank Bills	0.1671
UBS Composite Bond	0.1677
Tremont Multi Strategy USD	-0.1414

Distribution of Net Monthly Returns Since Inception - Oct. 31, 2006



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

Management Group Profile

Responsible Entity

DDH Graham Ltd. is a Queensland-based funds management firm, founded in 1986. DDH Graham has considerable experience in trust management and administration with A\$1.9 billion in funds under management (FUM) and administration. DDH Graham Ltd. is an unlisted public company, and is the holder of an Australian Financial Services Licence – No. 226319.

Investment Manager

QIC was established in 1991 as the investment manager for the Queensland Government. At Oct. 31, 2008, QIC had A\$70 billion in FUM, making it one of the largest institutional managers in Australia. In November 2007 the business underwent a restructure, splitting the Asset Management division and Private Capital division into two branches of QIC. The team managing this product sits within the Active Management division, which sits within Asset Management, and reports to general manager Ms. Buckley.

AUM

The fund had more than A\$185 million in FUM at September 2008.

Analyst(s): David Erdonmez; Simon Scott.

Release authorised by: Mark Hoven

Fund Rating Peer Groups by Sector

Australian Equities	International Equities	International Fixed Interest	Alternative Assets
Large Cap Diversified Large Cap Income	Diversified Equities Emerging Markets	Diversified Fixed Interest Diversified Fixed Interest Income	Commodities Multi-Sector
Large Cap Indexed Large Cap Industrials Long Short Small Cap Specialist	Emerging Markets Asia ex Japan Emerging Markets China Emerging Markets India Large Cap Diversified Large Cap Income Large Cap Indexed Large Cap Industrials Long Short Long Short Specialist Long Short Regional Regional Japan Regional UK/Europe Regional US Regional Asia Small Cap	Fixed Interest Fixed Interest High Yield Fixed Interest Income Mortgages Mortgages High Yield Mortgages Conventional Mortgages Hybrid	Private Equity Listed Private Equity Unlisted Infrastructure Listed Infrastructure Unlisted
Australian Fixed Interest Cash Cash Enhanced Fixed Interest Fixed Interest Income Mortgages Mortgages High Yield Mortgages Conventional Mortgages Hybrid		International Property Direct Commercial Direct Development Direct Diversified Direct Direct Industrial Direct Residential Direct Retail Direct Rural Direct Specialised Diversified Property Listed	Alternative Strategies Single Strategy Funds Multimanager Single Strategy Funds Single Manager Multi-Strategy Funds Multimanager Multi-Strategy Funds Single Manager
Australian Property Direct Commercial Direct Development Direct Diversified Direct Direct Industrial Direct Residential Direct Retail Direct Rural Direct Specialised Diversified Listed	Specialist Healthcare Specialist Information Technology Specialist Resources		Multi-sector Capital Guaranteed 20 40 60 80 100 Equity Other

Fund Rating Philosophy

A star rating is a forward looking 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, the underlying property portfolio and financials.

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

— NEW — 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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