S&P FUND RATING ★★★★☆

DDH Fixed Interest Fund

STANDARD & POOR'S

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Standard & Poor's View

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

QIC's global fixed-interest team (GFI) has endured a number of high profile departures over the past few years, lowering S&P's conviction in a team that was once viewed as a market leader. The team's most recent spate of departures includes senior macro team members Rob Jewell and Steven Smith. Also, Max Bulloch briefly joined the firm as a senior portfolio manager in the credit team. Mr. Jewell's departure has resulted in both the credit and rates decisions falling to head of global fixed interest Susan Buckley.

QIC is taking steps to address turnover with the creation of a "village of boutiques" structure. This allows Ms. Buckley to be supported by a funds-management head and a GFI business-management team. S&P is pleased to see the new structure implemented; however, we note the team is in sore need of a prolonged period of stability, and this is an area S&P is watching closely. This said, the current team still has a number of experienced and capable investment team members, providing S&P comfort that the fund will be adequately managed while the team settles.

QIC operates a well established and clearly driven investment process, which S&P views as transparent and repeatable. Risk management has always been a key focus for the team, and it is an area where the team excels over the majority of its peers.

Recent performance has been strong against the benchmark, with the fund sourcing good returns from issue and duration selection. Despite a number of investment team changes, S&P still views this fund as an attractive offering.

The fund was established in 2006 by DDH Graham Ltd. (responsible entity), using the investment capabilities of QIC. The underlying QIC Australian Fixed Interest Fund, in which this fund invests, has been operating for over a decade.

Product Features

The DDH Fixed Interest Fund targets returns of 80 basis points (bps) above the UBS Composite Bond Index. Typically, the fund will hold 200 securities, with average turnover of 150% per year. The fund's investment spectrum includes: bonds issued or guaranteed by any government, municipal, or statutory authority, corporate bonds, and inflation-linked securities. Options, futures, derivatives, and foreign currency positions can also be taken. Limits on credit quality, sector exposures, and duration apply.

Despite the fact that the fund's product disclosure statement states that the manager can hold up to 50% of the fund in international securities, an internal operating policy will ensure these holdings will not exceed 20%. At time of the review, the fund had a 17% exposure to international securities.

The fund's tracking error is limited to 150 bps ex post over rolling three-year periods, and ex ante is generally not expected to exceed 250 bps. The fund's MER is 0.68%, at the higher end of the peer group.

Investment Style

The fund takes a top-down approach to investing, and applies anticipated changes in the market and economic conditions to drive portfolio positioning and risk management. The fund is actively managed and invests in a diversified range of securities.

Investment views rely on medium- to long-term fundamental analysis of the macroeconomic environment, along with micro-credit research. Research feeds into scorecards reflecting the team's view, which allows the manager to take scaled positions within the fund, and promotes a consistent approach.

Sources of Return

Duration selection	High
Issue selection	High
Sector selection	High
Yield curve	High

Investment Team

Ms. Buckley, managing director, QIC global fixed interest, leads the centralised Brisbane-based investment team of 20. The team is split into four groups, credit, macro, beta and cash, and business management. Ms. Buckley has overseen the fixed-interest business since joining QIC in 2001, and before this held senior positions in the Australian funds-management industry for over 15 years.

Ms. Buckley now also directly manages the global macro and credit team following the departure of Mr. Jewell and Mr. Smith in July 2009. Mr. Jewell previously had day-to-day responsibility for this product, and for the team behind research and implementation.

APIR code	DDH0006AU	**Investment Manager**	Queensland Investment Corporation (QIC)
Fund status	Open	**Target return (% p.a.)**	80 basis points above the benchmark
Inception date	July 3, 2006		
Responsible Entity	DDH Graham Limited		
Peer group	Australian Fixed Interest - Fixed Interest		
Benchmark	UBS Composite 0 + Years		
Investment style	-		
Multi manager	No		
Fund Size ($A)	2.5 .mil (at Feb. 26, 2010)		
Minimum investment (A$)	2000		
ICR / MER (%)	0.68	**Release authorised by**	Leanne Milton

Although the macro team recently appointed Andrew Ticehurst as a senior portfolio manager, S&P viewed Mr. Jewell's knowledge as a vital component of the fund's success. However, Mr. Ticehurst joins the team with solid experience, and S&P is keen to observe his ability to add value.

Peter Scobie, head of credit, was added to the team following the departure of Jeff Brunton in the fourth quarter of 2007. Mr. Brunton had been head of credit and worked alongside Mr. Jewell in his (then) role as head of global rates. Mr. Brunton's departure meant that both the credit and rates decisions fell to Mr. Jewell, in essence creating a single responsibility for all decisions entering the portfolio. This role has now transferred to Ms. Buckley. While we view Ms. Buckley's market experience strongly and rate her management abilities, we do have concerns about her stepping back into day-to-day control.

Further to Mr. Ticehurst's appointment, Andy Lin has moved internally to join the macro team, and Thanula Wijeratne briefly joined the cash and beta team, before becoming a junior credit analyst.

Mr. Bulloch joined the firm as a senior portfolio manager in the credit team; however, his tenure with the firm was short lived, departing after only a few months in the role, adding to the team's growing turnover.

The overall team is split between reasonably recent appointments (within the past three 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.

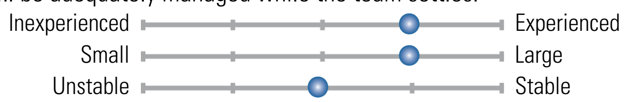
The team has a collegial approach to investing. Team members are encouraged to speak their minds and challenge the views and strategies put forward for inclusion into the portfolio. The business has a team of four (sitting outside the GFI team) who are responsible for the execution of portfolio positions.

There is a four-person business-relationship team that directly assists the investment team, allowing them to focus on the task of managing money.

The level of turnover QIC has endured over the past few years is a major concern for S&P, particularly as a number of the departures held senior positions. QIC is taking steps to address this by re-creating its structure as a village of boutiques. This allows Ms. Buckley to be supported by a funds-management head and a GFI business-management team.

While S&P is pleased to see the restructure implemented, the team is in need of a prolonged period of stability, and this is an area S&P is watching closely.

However, the current team still has a number of experienced and capable investment team members, providing S&P comfort that the fund will be adequately managed while the team settles.



Investment Process

The multiple-stage investment process incorporates the input of the macro-strategies and credit-strategies teams.

The process can be divided into five distinct stages beginning with a focus on independent 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 necessary to achieve the fund's suggested objective.

The third stage translates the investment ideas from the first two stages into investment opportunities. Stage four is portfolio construction, and stage five is risk management and performance attribution, which are discussed in the Risk Management and Performance sections.

Stage 1

The macro and credit teams conduct independent 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 to this process can come from a wide range of providers, not only the broad experience of the investment team.

A network of banks and brokers, and QIC's own in-house investment boutiques (operating across equities, infrastructure, and real estate), 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 the team's view.

Scorecards are completed by both the macro and credit teams. The Australian two-year and 10-year interest-rate scorecards are managed by Debbie Waters, with most members of the macro team responsible for one or a number of countries.

Head of credit, Mr. Scobie, oversees the scorecard approach for the credit team. The team produces scores for 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 across global markets. The final score is a combination of valuation and transitory factors that translate into recommended position sizes for the investment mandate. Strategies generated by the research and scorecard process can be quite short; however, the majority of outputs have a medium-term focus, with some current positions in place for more than two years.

Stage 3

Diversified sources of return are implemented at stage three, with the team relying on number of strategies to generate alpha. Macro strategies fall under the broad categories of duration, yield curve, inflation linked, and volatility. On the credit side, strategies are broadly broken up into macro credit, swap spreads, credit-yield curves, macro industry, and issuer selection.

Stage 4

Portfolio construction is structured in steps, with the examination of an analyst's views and scorecard ratings driving selection. After the scorecard has been considered, the team will assess expected return targets, volatility, and horizon analysis. Contribution to portfolio risk, correlation to other portfolio strategies, and contribution to performance targets will also be considered when setting security weightings.

Performance

For the one-year return ending Dec. 31, 2009, the DDH Fixed Interest Fund comfortably outperformed the benchmark, returning 6.25% (net), relative to the benchmark's 1.73%. Performance ending the same date, over the past three years has been disappointing at 5.85% (net), lagging the benchmark at 6.56%. Not surprisingly over the past 12 months, issue selection was clearly the portfolio's strongest attributer, with micro-credit and duration. Conversely, macro credit and yield curve positioning has detracted from the portfolio. The fund's duration has lowered since our previous review, and is now closer to the benchmark.

Reflective of the fund's active nature, the portfolio is largely underweight 'AAA' securities relative to the benchmark, with overweight holdings to 'AA' and 'A'. Investors should be aware that the fund's ability to diverge from the index may result in the portfolio holding vastly different securities and a different credit exposure to the benchmark.

Credit Rating Breakdown (%) (at Dec. 31, 2009)

AAA	36.40
AA	21.82
A	22.48
BBB	13.86
BB and below	4.03
Unrated	1.41

Source: DDH Graham Limited.

Sector Breakdown (%) (at Dec. 31, 2009)

Semi-government	21.41
Corporate	13.92
Bank	58.55
Cash	6.12

Source: DDH Graham Limited.

Risk Management

The QIC team operates robust risk management, adhering to investment limits and measuring risk at multiple levels within the portfolio. Investment restrictions ensure below-investment-grade credit is restricted to 15% and the fund's international exposure is below 20% of the fund's weight. Modified duration (the sensitivity of the portfolio to movements in interest rates) is kept to within +/-1.5 years of the benchmark's duration. No direct limits apply for credit quality from a portfolio perspective; however, for individual corporate securities the following limits apply:

- Where the security is rated 'AAA' and a constituent of the benchmark, the greater of two limits applies to the maximum fund weighting, either 5x the benchmark weight or an absolute 5% limit, securities not listed in the benchmark rated 'AAA' are restricted to an absolute 5% limit.
- Where the security is rated 'AA+', 'AA', or 'AA-' and a constituent of the benchmark, the greater of two limits applies to the maximum fund weighting, either 4x the benchmark weight or an absolute 4% limit, securities not listed in the benchmark rated 'AA+', 'AA', or 'AA-' are restricted to an absolute 4% limit.
- Where the security is rated 'A+', 'A', or 'A-' and a constituent of the benchmark, the greater of two limits applies to the maximum fund weighting, either 3x the benchmark weight or an absolute 3% limit, securities not listed in the benchmark rated 'A+', 'A', or 'A-' are restricted to an absolute 3% limit.
- Where the security is rated 'BBB+', 'BBB', or 'BBB-' and a constituent of the benchmark, the greater of two limits applies to the maximum fund weighting; either 2x the benchmark weight or an absolute 2% limit, securities not listed in the benchmark rated 'BBB+', 'BBB', or 'BBB-' are restricted to an absolute 2% limit.
- Where a security is rated below 'BBB-' and not held in the benchmark, or it's not rated, there is an absolute 1% limit.

The BlackRock Solutions system is used extensively for risk management and construction of the portfolio. The firm runs the Aladdin software package which allows real-time assessment of positions, and is attuned to the portfolio risk/return limits. 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, from the overall portfolio level to the strategy level, and then individual level, providing granular, minute detail of each basis point of risk.

The fund's tracking error is limited to 150 bps ex post over rolling three years, and ex ante is generally not expected to exceed 250 bps.

Compliance is overseen by Ms. Buckley, who presents to the board a signed compliance statement specifying that the fund has been managed according to the group's investment policies on a monthly basis.

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$2 billion in 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. In December 2009, QIC had over A$62 billion in FUM, making it one of the largest institutional managers in Australia. In November 2007, the business was restructured, splitting the asset-management division and the private capital division into two branches of QIC. The team managing this product sits within the active management division, which in turn sits within asset management and reports to general manager, Ms. Buckley. The GFI team manages over A$40 billion in global fixed-income exposures.

Market Share

QIC manages $780 million in Australian fixed interest products, including A$2.5 million distributed through DDH Graham Ltd.

S&P FUND RATING ★★★★

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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.
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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 should achieve before a performance fee can be charged.
Performance Fees	A fee payable above the ICR that rewards the fund's investment manager for performance in excess of the hurdle rate.
ICR-Indirect Cost Ratio	This is the ratio of indirect costs to the total investment in a particular fund expressed as a percentage. It includes the MER, expense recoveries, 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.