

Analysts: Anthony Karaminas; David Erdonmez

Products Facts

Manager	DDH Graham Limited	Fund type	Retail	Boutique	No
APIR code	DDH0006AU	Specialisation	—	Multimanager	No
Fund status	Open	Peer group	Australian Fixed Interest - Fixed Interest	Inception date	July 3, 2006
Min. investment (A\$)	5000			ICR (% pa)	0.68

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.

S&P has removed the DDH Fixed Interest Fund's On Hold status and reassigned its four star rating, following the departure of macro and credit-head, Rob Jewell, and analyst, Steven Smith, in July 2009.

The fund was established in 2006 by DDH Graham Ltd. (responsible entity), using the investment-management capabilities of the Queensland Investment Corporation (QIC). The underlying QIC Australian Fixed Interest Fund, in which this fund invests, has been operating for over a decade. The fund's initial rating in March 2009 represented S&P's strong conviction in the QIC process and in particular members of the investment team. The 20-strong Brisbane-based team has a mix of experience. S&P views the capability and the product mandate positively but the continued turnover of the team at QIC continues to dampen this enthusiasm. With two senior members departing within a 24-month period, QIC has staff retention issues to address. A new "village of boutiques" structure has been implemented, and S&P is keen to observe its impact on long term stability. QIC recently appointed two senior portfolio managers, Max Bulloch and Andrew Ticehurst, plus two internal analysts from divisions within QIC. The team operates in a collegiate manner, with input from all members encouraged.

QIC operates an established investment process, and takes a top-down approach to investing, applying anticipated changes in the market and economic conditions to drive portfolio positioning.

Product Features

The DDH Fixed Interest Fund targets returns of 80 basis points 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%.

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

Fund Objectives

Benchmark	UBS Composite 0 + Years
Target return (% p.a.)	80 basis points above the benchmark

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.

Sources of Return

Duration selection	High
Issue selection	High
Sector selection	High
Yield curve	High
Other	
Arbitrage and spread	

Investment Team

Ms. Buckley, managing director of 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 is now also directly managing 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, which included a four-person macro team and an eight-person, global credit team. Although the macro team recently appointed Mr. Ticehurst as a senior portfolio manager, S&P viewed Mr. Jewell's knowledge as vital for the success of this product and there still appears to be a void in the macro team that needs to be filled.

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 involvement in this style of product, particularly as it is in addition to her other responsibilities.

Further to Mr. Ticehurst appointment, Andy Lin has moved internally to join the macro team. Mr. Bulloch has joined the firm as a senior

portfolio manager in the credit team, plus Thanula Wijeratne recently joined the cash and beta team.

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 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. The business has a team of four (sitting outside the GFI team) who are responsible for the execution of portfolio positions. The four-person business relationship team assists the investment team with client communication and presentations, allowing the investment team to focus on their task of managing money.

New					Experienced
Small					Large
Unstable					Stable

Investment Process

The macro and credit teams conduct independent research which highlights a broad set of opportunities for the team. They focus on fundamental research, analysing both domestic and global economies, 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 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. 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 Australian macro decisions falling to Debbie Waters, who covers two-year and 10-year interest-rate decisions, and Mr. Scobie who covers interest-rate swap decisions.

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 scorecard method is a focused research tool, and allows for continual review and hindsight assessment. The team produces scorecard, covering both global and domestic markets, in which the final score is a combination of valuation and transitory factors.

Portfolio construction is structured in three 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, 2008, the DDH Fixed Interest Fund achieved 8.66% (net), relative to the benchmark's 14.95%. Performance ending the same date, since inception, has also been disappointing at 5.41% (net), lagging the benchmark at 8.54%. Recent underperformance is largely attributable to the fund's credit exposures, which have detracted from returns due to credit spreads widening.

Over the past five financial years ending 2008, the underlying QIC fund's gross returns were above the benchmark in four out of five years.

The fund has returned 6.10% since its inception in 1994, slightly below the benchmark of 6.15%. At Nov. 30, 2008, over 80% of the portfolio was positioned in corporate securities and the fund's duration was well above the benchmark amount, at 4.47 years. 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 Nov. 30, 2008)

AAA	30.48
AA	28.31
A	25.88
BBB	13.09
BB and below	2.00
Unrated	0.24
A-1+	0
A-1	0
A-2	0
A-3	0

Source: DDH Graham Limited.

Sector Breakdown (%) (at Nov. 30, 2008)

Government	0
Semi-government	11.97
Corporate	84.58
Asset-backed securities	0
Bank	0
Cash	3.45

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 apply 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 basis points ex post over rolling three years, and ex ante is generally not expected to exceed 250 basis points.

Compliance is overseen by the investment compliance and risk management team, which reports directly to the managing director of risk and legal.

Management Group Profile

The fund was established by DDH Graham Ltd. as responsible entity for the product and utilises the investment management capabilities of QIC.

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 funds under management (FUM) and administration. DDH Graham Ltd. is an unlisted public company.

QIC was established in 1991 as the investment manager for the Queensland Government. At Oct. 31, 2009, QIC had A\$63 billion in FUM, making it the fifth largest 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.

Market Share

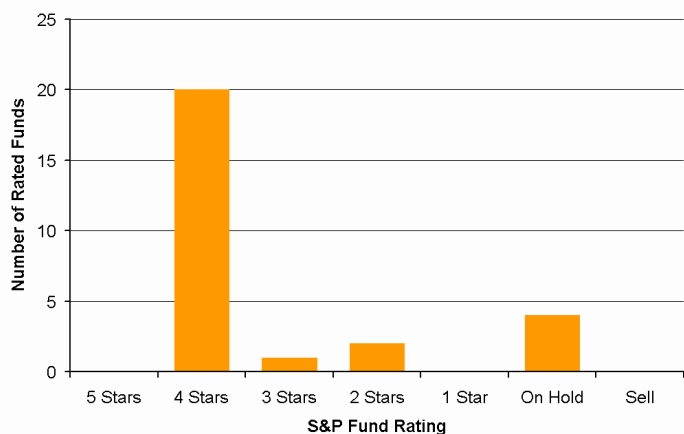
The QIC Australian Fixed Interest Fund had more than A\$299 million in FUM at September 2009.

Analyst(s): Anthony Karaminas; David Erdonmez.

Release authorised by: Leanne Milton.

S&P Fund Rating Reference Information

Australian Fixed Interest - Fixed Interest (at Nov. 10, 2009)



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 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.
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	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.

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