Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

DDH Fixed Interest Fund

Report data as at 31 May 2015
Rating issued on 09 Jul 2015

APIR Code
DDH0006AU

Asset Class
Australian Fixed Interest

Sub-Asset Class
Bonds

Investment Style
Core Plus

Investment Objective
To outperform the Bloomberg AusBond Composite Bond (All Maturities) Index by a gross margin of 0.8% p.a. over rolling 3 year periods.

Zenith Assigned Benchmark
Bloomberg AusBond Composite Index

Key People
Susan Buckley
Managing Director, Global Liquid Strategies

Kent Wilkes
Director - Global Fixed Interest

Katrina King
Director - Research & Strategy

Phil Miall
Director - Head of Credit Research & Strategy

Investment Team Size
27

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	7.00	5.55	7.01
Benchmark	6.93	5.08	7.46
Median	6.79	5.03	6.91

Income (% p.a.)

	Income	Total
FY to 30 Jun 2013	5.34	4.38
FY to 30 Jun 2012	9.65	10.84
FY to 30 Jun 2011	7.92	6.45

Fees (% p.a.)
Management Cost: 0.68%
Performance Fee: N/A

Analyst
Jonathan Baird
Senior Investment Analyst
(03) 9642 3320
Jonathan.Baird@zenithpartners.com.au

VIEWPOINT & RATING

The DDH Fixed Interest Fund (the Fund) is distributed to market through DDH Graham Limited who also acts as the responsible entity. The Fund provides investors with exposure to a diversified portfolio largely comprising domestic fixed interest securities. The Fund is managed by QIC Limited (QIC), an institutional grade asset manager that adheres to an active and less constrained approach to fixed-interest management. Notwithstanding the changes observed across QIC's team structure and configuration, Zenith's continues to have high regard for its most senior members, evolved investment process and multi-faceted risk framework. **Zenith rates the Fund RECOMMENDED.**

QIC's fixed interest team sits within the newly formed Global Liquid Strategies (GLS) business unit. It comprises 27 members, and is split across a range of key investment functions, each of which has a dedicated lead. Overall responsibility continues to rest with Susan Buckley, a highly regarded professional and QIC's most senior fixed-interest representative. As divisional lead, Buckley is strongly supported by an investment team whose collective skill, market tenure and diversity of insight is highly regarded by Zenith. That said, we note that an elevated level of change has been observed across its membership, configuration and responsibilities, and in the absence of a period of stability, this may begin to weigh on our level of conviction.

Zenith believes that QIC's investment process remains one of the most comprehensive amongst competitor offerings. Strongly focused on risk management, it incorporates a mix of top-down and bottom-up analysis, and through a collective team effort, is geared toward the identification of pricing anomalies owing to markets deviating from fair values. In an attempt to explain these mispricings, QIC extends its research effort to include the assessment of shorter-term factors including transitory and technical measures. Furthermore, QIC also takes into consideration global factors that can influence market direction. Research findings are then expressed through QIC's proprietary scorecards which act as a mechanism through which the team can quantify the strength of their internally derived views and subsequently translate these into a range of conviction-based trade ideas. The final portfolio is structured so that it comprises a range of alpha sources, rather than being too heavily dependent on any particular source to drive investment outcomes.

Consistent with its focus on capital preservation, QIC incorporates a number of strategies that place greater emphasis on trade sizing and contribution to risk, including the incorporation of a series of pre-defined Cumulated Loss Limits (CLL) which require QIC to progressively dial back active risk where certain performance thresholds are breached. Zenith believes the incorporation of formal CLLs provides the investment team with greater discipline with regard to the review of active trades, particularly those that have a negative or unintended impact on broader portfolio performance. In our opinion they further complement an already established risk framework, one that permits continuous and granular assessment of portfolio positions, factor exposures and adherence with mandate constraints.

FUND FACTS

- An active strategy providing exposure to a diversified portfolio largely comprising domestic fixed interest securities
- A highly regarded investment team operating within a comprehensive process and multi-faceted risk framework
- A moderate to high-risk investment strategy with broad investment mandate

ABSOLUTE RISK (SECTOR)

VERY HIGH
HIGH
MODERATE
LOW
VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

Geared
Active - High Conviction
Active - Benchmark Aware
Index - Enhanced/Fundamental
Index

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS | 5-6 YRS | 7+ YRS

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith "Australian Fixed Interest - Bonds" sector consists of all long only funds investing in the Australian fixed interest market. The sector incorporates both benchmark aware and benchmark unaware strategies. Despite being a fairly competitive sector, the median Australian active fixed interest manager has historically struggled to outperform a passive index over the longer term. This can be attributed to the lack of opportunity to add value from active management in the fixed interest market, particularly the very efficient Australian market. Managers typically add value through duration, sector positioning and security selection.

Zenith benchmarks all funds in this space against the Bloomberg AusBond Composite Index, which is reflective of the underlying benchmark used by the majority of managers in this category. The index is market-capitalisation weighted, resulting in those entities with the most issuance receiving the heaviest weightings. Owing to the lack of longer dated securities the index has a relatively short duration of approximately 4 years.

The Australian fixed interest market, as represented by the Bloomberg AusBond Composite Index, consists of over 470 investment grade securities (BBB or higher rated) issued by the Commonwealth Government of Australia, State Government authorities and treasury corporations (Semi-government), Corporations and Asset-Backed Securities. Owing to the increased issuance by government in recent years the market is dominated by government and semi-government securities, which account for approximately 60% of the market. Given the high credit rating afforded to the Commonwealth government the market is also dominated by AAA rated securities (roughly 75%).

PORTFOLIO APPLICATIONS

Bonds are longer-dated fixed income securities that seek to provide investors with a regular income stream and the return of capital at a predefined future date. Bonds can form a key component of an investor's portfolio and more specifically their exposure to the fixed interest asset class, owing to the defensive characteristics that they often exhibit. An inverse relationship exists between the price of bonds and interest rates, the extent of which is not linear and varies according to existing market conditions and the perception of risk. Bonds generally exhibit a negative correlation with equities and will rise in price when growth assets are falling (and vice versa). Bonds are more likely to be favoured during times of heightened risk aversion and typically dampen investment portfolios against capital drawdowns.

The Fund's mandate is wide when compared to peers, permitting QIC to enact strategies and retain positions that are not as commonly permitted among other rated managers. Included among these are exposures to syndicated loans, high-yield and sub investment-grade credit. QIC is an active user of derivatives and is also permitted to incorporate global strategies including country spread and currency. Offshore exposures are not expected to exceed 25% of the Fund's net asset value (NAV), with portfolio outcomes expected to be more commonly influenced by local market factors. As a consequence, Zenith has sought to classify the Fund within our Australian fixed interest category. Should QIC meaningfully increase offshore exposures above this level or place a greater emphasis on global factors to drive investment outcomes, Zenith may reassess the Fund's classification.

Zenith considers the Fund a "Core Plus" style bond fund owing to its more relaxed mandate, which permits sizeable off-benchmark positions to be assumed, potentially including global rates and corporates.

The Fund is considered appropriate as a core exposure to domestic fixed interest for investors with a higher risk tolerance. It may be blended with international fixed interest strategies to produce a more balanced set of investment outcomes.

Due to the anticipated moderate to high levels of volatility, with the potential for capital loss, Zenith recommends taking a medium to longer-term investment time frame. We caution against the Fund being used by investors with shorter-term liquidity needs.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the "Australian Fixed Interest – Bonds" sector are exposed to the following broad risks:

MARKET RISK: Changes in economic, technological, environmental or political conditions and market sentiment may lead to a decline in general security prices and overall market volatility. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

INTEREST RATE RISK: Fixed interest securities are generally sensitive to changes in interest rates. An increase in interest rates may result in a fall in the value of these securities, while a decrease in interest rates can result in an increase in value.

CREDIT SPREAD RISK: In addition to being sensitive to general interest rate changes non-government securities are also sensitive to changes in credit spreads (commonly the difference in yield between a government bond and a corporate security). A widening of spreads results in a fall in the value of these securities.

DEFAULT RISK: Given fixed interest securities represent loans to borrowers (including governments, banks and companies) there is a risk that these borrowers may default on interest or principal repayments. Default risk is often reflected in credit ratings assigned by various credit agencies, which are subject to change.

LIQUIDITY RISK: Fixed interest markets can experience periods of illiquidity, which can result in difficulties in buying or selling securities without adversely impacting the price.

DERIVATIVE RISK: Derivatives are commonly employed by fixed interest managers to hedge currency and other risks and/or as an alternative to direct purchases or sales of underlying assets. There are multiple risks associated with the use of derivatives; for example, the value of the derivative may not move in line with the underlying asset, counterparties to the derivative may not be able to meet payment obligations or a particular derivative may be difficult or costly to trade.

FUND RISKS

Zenith has identified the following key risks associated with the Fund. Other risks may also exist and accordingly the following list is not intended to be all inclusive.

VARIABILITY OF INVESTMENT OUTCOMES: The Fund's investment universe is wide, permitting exposure to market segments and securities that are deemed to be of higher risk. While the Fund is positioned to produce longer-term investment outcomes that have characteristics more commonly aligned with that of its benchmark, it is feasible that its risk/return profile may vary materially to that of benchmark-sensitive peers when assessed over shorter investment terms.

OVERSTATED AVERAGE CREDIT QUALITY: The Fund's credit limits are based on the highest equivalent rating from Standard & Poor's, Moody's and Fitch. Zenith believes this approach is less common amongst peers who take a more conservative approach (being either the lowest of or average). As a consequence, the Fund's average credit quality may be inferior to that of equivalent rated funds.

DERIVATIVE RISK: QIC is an active user of derivatives, which largely serve as an implementation vehicle through which the manager gains discrete asset-class or strategy exposure. Derivatives bring with them additional risks which investors should be aware and comfortable with.

CONCENTRATION RISK: Should strategy FUM fall below A$200 million, the Fund's mandate permits its maximum exposure limits to be doubled (ie. sub investment-grade credit can rise from 10% to 20%). While this increased flexibility may prevent QIC from being a forced seller in the event of a significant redemption request, we believe this may increase the Fund's risk profile and as a consequence its loss potential.

STAFF TURNOVER: Turnover from within QIC's investment team has remained at an elevated level. While we acknowledge that certain positions have been vacated owing to QIC's reassessment of existing product capabilities and the reallocation of analytical responsibilities, we believe the loss of further senior investment personnel may adversely impact forward performance.

RMBS EXPOSURE RISK: As at the time of our review, QIC retained a relatively large exposure to RMBS (and to a lesser extent ABS). These securities can become highly illiquid and with limited avenue through which exposures may be hedged through the use of derivative instruments, there is a risk they adversely impact Fund performance.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Previously known as Queensland Investment Corporation, QIC Limited (QIC) is a government owned enterprise with investment personnel spread across Brisbane, London, and intermittently in Los Angeles. QIC commenced operations in 1989, and has grown to be one of the largest institutional investment managers in Australia, with approximately $74 billion in funds under management (FUM) as of 30 April 2015. QIC continues to offer to market investment strategies that span multiple asset classes, ranging from low volatility to actively managed and bespoke capabilities. FUM continues to be concentrated in fixed interest (managed beta) and cash orientated strategies.

As at the same time, QIC was managing approximately A$962 million in Australian fixed interest strategies. The QIC offered wholesale unit trust has approximately A$680 million in FUM and includes funds raised by DDH Graham through its retail distribution strategy, the DDH Fixed Interest Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Susan Buckley	Managing Director, Global Liquid Strategies	13 Yr(s)
Kent Wilkes	Director - Global Fixed Interest	16 Yr(s)
Katrina King	Director - Research & Strategy	9 Yr(s)
Phil Miall	Director - Head of Credit Research & Strategy	5 Yr(s)
Scott Rissman	Director - Liability-Driven & Overlay Solutions	11 Yr(s)
Debbie Barnes	Director - Global Liquid Markets Trading	9 Yr(s)

In March 2014, QIC announced a number of refinements to its fixed interest division. Key amongst these was the decision to combine and integrate the dealing and portfolio management functions across its global fixed interest and multi-asset teams. To accommodate this change, the global fixed interest team was joined by a number of multi-asset personnel, who were dispersed across QIC's 'Global Execution' and 'Liability-Driven & Overlay Solutions' (LD&OS) teams, the latter being a newly created specialist unit. The collective division (comprising the pre-existing global fixed interest team and new multi-asset additions), has since been renamed 'Global Liquid Strategies' (GLS) to reflect the team's expanded opportunity set.

Zenith notes that QIC's fixed interest team has undergone two meaningful reorganisations in recent years. While QIC states that the most recent changes have occurred in an effort to evolve and improve operational efficiency and execution capabilities across the broader business, we are more sceptical as to the catalysts for the change.

QIC has experienced a number of senior departures in more recent times and by consequence, management has been required to redistribute investment responsibilities amongst its remaining members. While we believe QIC has been successful in managing a relatively smooth transition whilst also providing opportunities for long-standing team members to progress through the corporate hierarchy, we believe it is now important for the team to settle and consolidate under its revised structure.

Following its most recent reorganisation, QIC's GLS team comprises 27 members who are located in Brisbane and London, and split between four investment functions including Research & Strategy (R&S), Global Fixed Interest (formerly 'Portfolio Risk & Construction Management'), LD&OS and Global Execution. Team members are broadly categorised across two key functions - portfolio manager or analyst, with a members designation commonly liked to their experience and key areas of expertise. Each functional unit has a divisional lead with ultimate responsibility continuing to rest with the highly regarded Susan Buckley, Managing Director and Head of GLS. Notwithstanding the team's recent turnover, we continue to view it as one of the strongest across Zenith's rated Australian Fixed Interest universe when based on collective skill, market tenure and diversity of insight. We are particularly impressed by its most senior members who display high levels of technical proficiency and include Kent Wilkes, Katrina King and Phil Miall. Each of these individuals has a specific leadership responsibility and their continued tenure remains a factor underpinning our overall conviction in QIC's fixed-interest capabilities.

Portfolio Managers

Providing continuity within QIC fixed interest team is Susan Buckley, QIC's most senior local fixed-interest representative. In this position, Buckley has a number of operational, business management and leadership responsibilities. Key amongst these includes oversight for the GLS team, process improvement, risk budgeting and the performance for QIC's suite of fixed interest and multi-asset capabilities. Buckley also assumes the lead portfolio manager role for QIC's absolute return strategies while having also joint responsibility for a number of the team's nominal scorecards.

Zenith considers Buckley to be a highly capable fixed-interest investment professional. Having worked in a number of leadership positions during her career, we believe she brings experience and market tenure that is supportive of her position. That said, we consider her responsibilities to be wide-ranging and these may at times compete - this is particularly the case following her promotion to the position Head of GLS. It is for this reason that we welcome the existence of the Global Fixed Interest Leadership Team (GFILT). Together with Buckley it comprises a number of QIC's most senior representatives including Katrina King (Director, Research & Strategy), Kent Wilkes (Director, Global Fixed Interest & Inflation), Debbie Barnes (Director, Global Execution) and Scott Rissman (Head of Beta Implementation). A collective think tank, the GFILT has a strategic non-investment related agenda.

Investment Team

Responsibility for the Research & Strategy (R&S) team rests with King who is also charged with the development of Asian interest rate strategies. In this position, King is strongly supported by Miall who leads QIC's credit research and strategies function, with focus on credit opportunities across financials, non-cyclical corporates and RMBS sectors. Zenith holds both King and Miall in high regard and believes the R&S team structure is supportive of its key areas of responsibility which are broadly split between macro and bottom-up credit strategies. Zenith notes that this business unit appears to have consolidated since our most recent review, benefiting from increased analyst resourcing and strong leadership.

The GFI business unit, comprises six members and is headed by Wilkes. The lead portfolio manager for QIC's Global Inflation Plus, Bond Plus and Australian Fixed Interest portfolios, Wilkes remains integral in helping shape the team's strategies with regard to rates and inflation. This division was previously named 'Portfolio Risk & Construction Management' (PR&CM); however, following QIC's most recent reorganisation, the team has divested its beta & cash management responsibilities which now rest with the LD&OS division. The GFI team remains particularly important in the identification of transitory and technical factors, key inputs into QIC's scorecards which ultimately drive trade ideas and portfolio positions.

The LD&OS division is headed by Scott Rissman who is supported by a further three resources, each of which represent internal transfers from QIC's multi-asset division which now sits within the GLS business unit. Rissman, previously a member of the PR&CM team, was recently promoted to the level Director following the departure of Andrew Morgan (previously head of Beta and Implementation), while also becoming a member of QIC's leadership team. Owing to this departure, cash management responsibilities also transitioned to Petar Bogdanovic who subsequently divested these and moved to the newly named GFI team having spent a short stint in the R&S team under the tutelage of King.

QIC's final business unit is Global Execution (previously Execution & Strategy Implementation), which remains under the leadership of Barnes who is supported by Alison Towers, Head of Australian Execution. Following the decision to combine and integrate the dealing and portfolio management functions across QIC's global fixed interest and multi-asset teams, this team has grown in membership to 8 and is charged with execution of trades, providing 24-hour coverage across a range of portfolios and investment instruments spanning cash, fixed interest, credit, inflation, foreign currency and equities. Zenith notes that Andrew Whittaker was formerly a member of this division and has since moved to the R&S team where he works as a credit analyst (responsibility for RMBS and REITS) under the guidance of Miall.

INVESTMENT PROCESS

The Fund's stated objective is to exceed the performance of the UBS Composite Bond (All Maturities) Index over the medium term by actively investing in a diversified, medium risk, portfolio of Australian and international higher-yielding fixed interest securities. To provide investors with greater transparency on targeted outcomes, QIC suggests that the Fund is managed to produce a gross return that exceeds this benchmark by a margin of 0.8% p.a.

QIC adheres to an active and fundamental approach to fixed interest management, one that incorporates top-down and bottom-up analysis in the decision-making process. Through a team-based research effort, one that operates within a risk-controlled framework, QIC believes it is best positioned to exploit mispricings that arise where markets deviate from fair value owing to shorter-term transitory and technical factors. With an emphasis on long-term fundamentals and the consideration of global factors that can influence market direction, QIC also seeks to construct a portfolio comprising a diverse range of alpha sources, rather than being too heavily dependent on any particular source to drive investment outcomes.

QIC's fixed interest investment process is strongly focused on dynamic risk management, preserving capital and the delivery of relatively consistent investment outcomes, regardless of market condition. The process continues to incorporate input from each of QIC's operating units and comprises five discrete steps. It commences with the R&S unit undertaking research to identify a broad set of themes and investment ideas, leveraging forecasts for GDP, inflation and forward cash rates across a number of geographies generated by QIC's Economics team. These are determined with input from QIC's in-house economists (who maintain a series of bond models) and members of the R&S macro team (who are responsible for ratifying any changes made by the economists to underlying assumptions). Once these forecasts have been agreed, these serve as inputs into QIC's proprietary "fair-value" models which form the foundations upon which the manager seeks to identify market mispricings.

QIC's R&S team liaise with the GFI team in an attempt to reconcile any differences observed between fundamentally derived internal forecasts and that of the market. This process is largely focused on transitory and technical analysis, shorter-term factors that are believed to influence a market's assessment of fair value and forward expectations. Transitory factors are deemed to be more qualitative in nature and necessitate the analysis of key economic data releases, changes in investment policy and broader market liquidity. Technical factors seek to incorporate an assessment of momentum together with other factors that may impact sentiment including Bollinger bands and relative-strength indicators (RSI).

Investment research is subsequently expressed through QIC's proprietary scorecards which seek to measure the relative strength of internally derived views. This is achieved through a scoring metric that aids in the sizing of active trades and ranges from +5 to -5, the extremes of which represent a two standard deviation move from spread/security. A higher score means a higher bond price for the security. Thus a “+5” in a rates card would mean a decrease in bond yields in the forward period ahead and a “+5” in a credit card would mean a rally in credit spreads. In inflation, a “+5” would mean inflation expectations are forecast to rise. Thus a “-5” in a rates card expects bond yields to rise, Inflation expectations to fall and credit spreads to widen.

Scores are assigned through the simple aggregation of outputs across fundamental, technical and transitory factors (ie. a equally weighted approach). These are then adjusted for a 'carry' factor (to take into consideration potential foregone yield) and a 'scaler' factor which seeks to adjust scorecard outputs based on a forward assessment of market volatility.

QIC currently produces over 24 scorecards that span global markets and aid in the development of active strategies including duration, inflation, yield-curve positioning, cross-currency and volatility. Scorecard responsibilities rest with the R&S team and are assigned based on key areas of expertise. Outputs are however heavily debated with members of the GFI PM group to ensure team 'buy-in'.

SECURITY SELECTION

Responsibility for QIC's credit research continues to rest with Miall who is integral in the establishment of the team's active strategies which extend to credit market beta (ie. how much credit risk to assume), sector rotation (investment grade or high yield), industry selection, and relative value (via its bottom up research effort). Consistent with QIC's macro strategies, the credit team derive micro trade ideas through the various scorecards that they retain accountability for. These are broadly split between market sectors including infrastructure, telecommunication, energy, consumer, financials, industrials, resources and structured.

Once the micro team has made an assessment on a particular industry and sector, issue and issuer selection are determined through fundamental bottom-up research. This research also aids to support investment recommendations which are ultimately determined having regard to factors including relative-value assessments and broader mandate constraints. In generating research to support trade recommendations, this is produced via a short or long-form template. Short-form templates are used for trades that map to scorecards and are implemented via regularly traded instruments. Long-form templates represent more detailed documentation to support material credit positions, option strategies, markets or instruments that are less commonly traded.

Zenith notes that QIC has added further analytical resources to its credit team since our most recent review, owing to internal transfers. With increased headcount, Zenith believes QIC is now more appropriately resourced to cover an extended opportunity set of credits while maintaining high levels of analytical research quality. We also note the recent development by the team of a CDS 'dashboard', which seeks to aid in the timing of CDX trades based on an assessment of correlations (CDS v Index) and volatilities (between physical names and synthetics).

PORTFOLIO CONSTRUCTION

Portfolio construction is a collective effort with input from each divisional unit. Portfolio positioning and trade sizing is however broadly driven by the GFI team who recommends active trade ideas based on conviction scores as determined through QIC's scorecards.

Before a recommended trade can be ratified, it must first be supported by a detailed research paper which takes into consideration factors such as expected return, volatility, entry levels, stop losses, horizon analysis (including cost of carry, roll down) and execution methodology. Portfolio impact is a further area of assessment and aids the team in determining position sizing based on factors such as contribution to risk and correlation with other active trade strategies.

Ultimate responsibility for portfolio positioning rests with Buckley, who will review active portfolio trades in light of the Fund's broader risk characteristics. Ongoing dialogue within the team and through a formal weekly portfolio risk and construction meeting also acts as a sanity check to ensure that key trade ideas are appropriately represented in the portfolio, without unintended factor exposures. Zenith believes the success of QIC's portfolio construction process is contingent upon the continuous exchange and flow of information among divisional units. It is for this reason that we welcome QIC's efforts to formalise team interaction through a series of weekly meetings and more focused work-groups.

Zenith notes that QIC commonly retains a meaningful level of 'cash' across the Fund's portfolio. Cash is invested through QIC's Cash and Cash Enhanced Funds, with notional amounts also retained with its Custodian for the purpose of cash backing (or margin calls) for derivative positions. Amounts retained in either of QIC's cash funds are categorised as 'cash' for attribution purposes, and are adjusted for rates and spread contribution via opposing derivative positions.

RISK MANAGEMENT

Portfolio Constraints	Description
Australian Fixed Interest (%)	75% to 100%
International Fixed Interest (%)	0% to 25%
Duration (Yrs)	Index Duration +/-1.5 Yrs
Sub Investment-Grade (%)	max: 10%
Tracking error (% p.a.)	max: 4% p.a.

In Q4 2011, QIC undertook a comprehensive review of its governance, monitoring and broader risk framework. The review coincided with a period of more variable performance and a desire to place greater emphasis on downside protection and the generation of more consistent investment outcomes. As a consequence of this review QIC formally enacted a number of strategies to place greater emphasis on value-at-risk (VaR) and contribution to risk, including the incorporation of a pre-defined stop-loss which requires QIC to progressively dial back the Fund's active risk where certain performance thresholds are breached.

Zenith believes the incorporation of formal cumulated loss limit (CLL) provides the investment team with greater discipline with regard to the review of active trades, particularly those that have a negative or unintended impact on broader portfolio performance. The CLL reflects a pre-defined VaR limit as determined by Buckley in consultation with the GFI team and governs active risk. Where the team is required to dial back portfolio risk via a particular trade idea, QIC must first determine whether it wishes to retain exposure to the trade. If this is the case, the team will enact an offsetting position to limit broader portfolio impact. If however the team determines that the trade idea has been nullified, the position will be exited.

Portfolio positions are subject to a number of investment constraints which are defined below:

AAA rated: greater of 5x benchmark weight or 5% absolute.

AA+ to AA- rated: greater of 4x benchmark weight or 4% absolute.

A+ to A- rated: greater of 3x benchmark weight or 3% absolute.

BBB+ to BBB- rated: greater of 2x benchmark weight or 2% absolute.

Where a security is rated below BBB- (sub-investment grade), is not a benchmark constituent or is unrated, it is subject to an absolute 1% limit.

Zenith notes that credit limits are based on the highest equivalent rating from Standard & Poor's, Moody's and Fitch. Where no rating has been granted by either one of these external agencies, a security or issuer will be treated as unrated. Zenith notes that this approach is less common amongst peers that take a more conservative approach (being either the lowest of or average). As a consequence, the Fund's average credit rating may be inferior to that of equivalent rated funds.

As at the time of our review, QIC retained a relatively large exposure to RMBS (and to a lesser extent ABS). These securities can become highly illiquid and with no apparent avenue through which exposures may be hedged through the use of derivative instruments, there is a risk they adversely impact Fund performance. Investors should also be aware that the Fund's mandate permits QIC to double these exposure limits where strategy FUM falls below A$200 million. While this increased flexibility may prevent QIC from being a forced seller in the event of a significant redemption request, we believe this may significantly increase the Fund's risk profile and as a consequence its loss potential.

Zenith believes QIC's risk-management, monitoring and attribution systems are highly evolved and represent significant investment in industry leading software. QIC uses BlackRock Solutions and the associated Aladdin software package, to aid with the real-time monitoring of portfolio positions and a more granular assessment of risk, whether this be at the portfolio, strategy or individual security levels. Independent compliance and risk-management divisions also exist to monitor and report on key factor exposures and adherence with mandate constraints. In a move to further strengthen risk management capabilities, Zenith has been advised that QIC is seeking to move to BRS Prism in the near term.

INVESTMENT FEES

The sector average fee (in the table below) is based on the average management fee of all flagship 'Australian Fixed Interest - Bond' funds surveyed by Zenith.

A management cost of 0.68% p.a. applies to this Fund with no performance fee. Whilst this fee represents a reduction from the Fund's previous rate of 0.85% p.a., it remains at a slight premium to the sector average. We attribute part of this premium to the Fund's minimum entry level which at $2,000 is low relative to peers and more reflective of a retail entry level.

QIC also charges a buy/sell spread of +/-0.04% which represents the costs incurred by the Fund when transacting its portfolio. This spread represents the costs payable by investors when both entering and exiting the Fund and is reflected in its daily unit price.

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	0.68% p.a.	0.49% p.a.
	Description	
Performance Fee	N/A	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.04%	0.04%

PERFORMANCE ANALYSIS

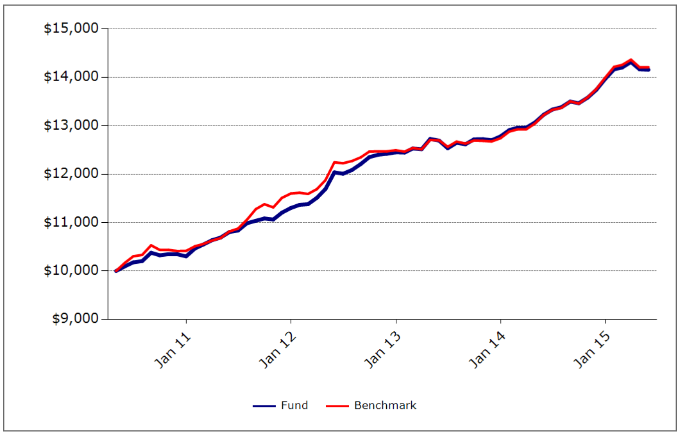
Report data: 31 May 2015, product inception: Nov 2006

Monthly Performance History (%, net of fees)

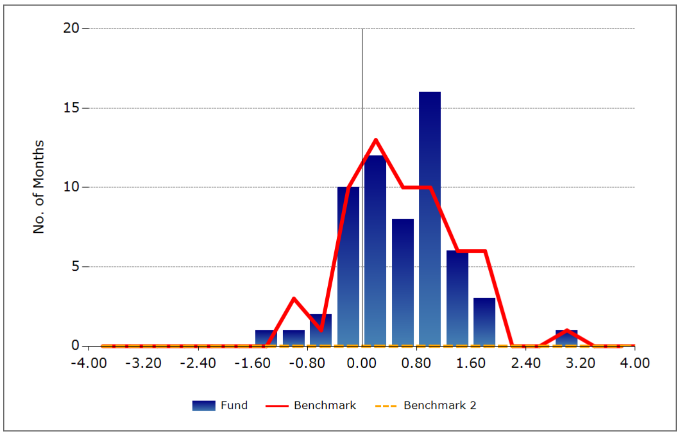
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2015	1.43	0.26	0.80	-1.06	-0.06								1.36	1.55
2014	1.03	0.36	0.02	0.82	1.24	0.80	0.35	0.87	-0.25	0.86	1.18	1.64	9.29	9.81
2013	-0.03	0.67	-0.12	1.70	-0.26	-1.25	0.89	-0.23	0.82	0.02	-0.17	0.62	2.64	1.99
2012	0.58	0.12	1.15	1.58	2.95	-0.24	0.63	1.03	1.18	0.40	0.16	0.24	10.18	7.71
2011	1.58	0.76	0.86	0.51	1.08	0.28	1.39	0.47	0.43	-0.19	1.27	0.86	9.70	11.37

Benchmark: Bloomberg AusBond Composite Index

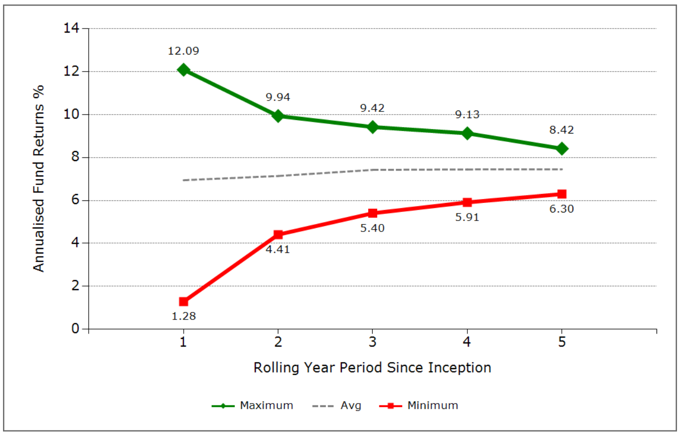
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	6.64	7.00	5.55	7.01
Benchmark 1 (% p.a.)	6.80	6.93	5.08	7.46
Median (% p.a.)	6.70	6.79	5.03	6.91
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	17 / 27	10 / 32	8 / 38	17 / 39
Quartile	3rd	2nd	1st	2nd
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	2.59	2.51	2.33	2.53
Benchmark 1 (% p.a.)	2.89	2.76	2.33	2.71
Median (% p.a.)	2.79	2.53	2.25	2.45
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	0.91	0.78	0.93	1.02
Benchmark 1 (% p.a.)	0.86	0.82	0.88	1.08
Median (% p.a.)	0.91	0.80	0.89	1.02
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	0.81	1.32	1.14	1.73
Sortino Ratio - Fund	2.31	4.22	2.86	4.29

Zenith benchmarks funds within the "Australian Fixed Interest - Bonds" peer-group against the Bloomberg AusBond Composite Bond (All Maturities) Index. While this benchmark may not be consistent with the one adhered to by all sector participants, it has been adopted to provide investors with a common reference point against which the performance of similarly structured strategies may be assessed.

The following commentary is current as at 31 May 2015 and compares the Fund's net performance to Zenith's assigned benchmark.

The Fund seeks to outperform the benchmark by 0.8% p.a. (gross) over a rolling three year period. The Fund has achieved its objective over the most recent three year period, ranking in the first quartile over the medium-term.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	-0.15	0.07	0.47	-0.45
% Monthly Excess (All Mkts)	55.34	55.00	58.33	33.33
% Monthly Excess (Up Mkts)	48.68	50.00	57.69	20.00
% Monthly Excess (Down Mkts)	74.07	71.43	60.00	100.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.75	0.84	0.98	0.93
R-Squared	0.71	0.85	0.95	0.99
Tracking Error (% p.a.)	1.57	1.07	0.52	0.28
Correlation	0.84	0.92	0.98	1.00
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	-0.10	0.07	0.91	-1.63

The following commentary is current as at 31 May 2015.

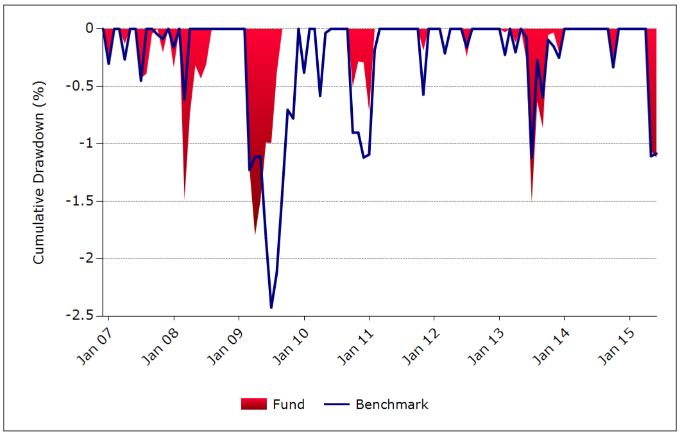
Over the medium-term, QIC has demonstrated sucess in producing net excess returns in "all market" conditions. We deem a consistency ratio above 50% to be a level representative of persistent fund manager skill.

DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	Fund	Benchmark
Max Drawdown (%)	-1.80	-2.43
Months in Max Drawdown	2	5
Months to Recover	5	5

Worst Drawdowns	Fund	Benchmark
1	-1.80	-2.43
2	-1.51	-1.12
3	-1.49	-1.12
4	-1.12	-1.11
5	-0.72	-0.62



The following commentary is current as at 31 May 2015.

The Fund's most significant drawdown has been 1.8%, which occurred in 2009. Zenith believes that the Fund has shown strong defensive characteristics, with all drawdowns being quickly recovered.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2013	5.34%	-0.96%	4.38%
FY to 30 Jun 2012	9.65%	1.19%	10.84%
FY to 30 Jun 2011	7.92%	-1.47%	6.45%

QIC seeks to distribute Fund income on a quarterly basis following March, June, September and December of each year. Since December 2007 the Fund has not missed any distribution payments, nor has it paid out any capital amounts.

REPORT CERTIFICATION

Date of issue: 9 Jul 2015

Role	Analyst	Title
Author	Jonathan Baird	Senior Investment Analyst
Sector Lead	Steven Tang	Senior Investment Analyst
Authoriser	Andrew Yap	Senior Investment Analyst

RATING HISTORY

As At	Rating
9 Jul 2015	Recommended
9 Jul 2014	Recommended
16 May 2013	Recommended

Last 5 years only displayed. Longer histories available on request.

ZENITH RESEARCH METHODOLOGY & REGULATORY COMPLIANCE

Zenith Investment Partners ("Zenith") ABN 60 322 047 314 provides the following guidelines on Zenith's processes and procedures relating to research services, research methodologies and conflict of interest management. Detailed information on Zenith's Research Methodology & Regulatory Compliance can be accessed via the Zenith website.

SCOPE OF RATING

The Zenith rating referred to in this document is limited to "General Advice" (as defined by section 766B of Corporations Act 2001) for Wholesale clients and based solely on the assessment of the investment merits of the financial product on this basis. This advice has been prepared without taking into account the objectives, financial situation or needs of any specific person who may read it. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Zenith advises that investors should seek their own independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation or needs. Investors should obtain a copy of, and consider, the product PDS before making any decision. This report is prepared exclusively for clients of Zenith. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in this report.

SERVICES & EXPERTISE

Zenith is the holder of Australian Financial Services License No. 226872 which was issued by the Australian Securities & Investments Commission (ASIC) on 10 April 2003 for the purposes of providing ***General Advice*** as defined under the Corporations Act 2001. Further information on the services we are licensed to provide and our expertise can be found on the Research Methodology & Regulatory Compliance page of the Zenith website.

CURRENCY OF RATING

This Research Report and Rating is current as at the date it is issued and is valid until it is updated, replaced or withdrawn. Research Reports will be subject to future updates on an ongoing basis unless the Rating is Withdrawn. The Rating may be subject to change without notice and clients are advised to check currency via the Zenith website. Further information on Currency of Ratings is available on the Zenith website.

COVERAGE POLICY

Zenith's coverage policy defines the investment universe of products which are potentially eligible to receive an investment rating. This universe primarily focuses on those products available to financial advisers via the major wrap platforms and master trusts. Products predominantly encompass Unlisted Managed Funds and Listed Managed Investments available via the ASX.

Zenith also includes in its coverage policy products in several asset classes which are traditionally only available directly 'off-platform'. These asset classes include sectors such as Unlisted Direct Property Funds and products in the Alternatives asset class including Hedge Funds and Private Equity Funds. Detailed information on Zenith's coverage policy, processes, sector classifications and current coverage list can be found on the Research Methodology & Regulatory Compliance page of the Zenith website.

CONFLICT POLICY

Zenith maintains a Conflict Management Policy regarding the provision of non-research services to Product Issuer's, Fund Managers or other related parties relevant to the investment being rated. This policy relates to the provision of;

- Underwriting, managerial, consultancy or market making services to such parties;
- Whether such parties are a corporate client of Zenith;
- Whether such parties are related or otherwise associated with Zenith.

Any conflicts relating to these issues will be prominently disclosed on the relevant Zenith Product Assessment Report. Further details on Zenith's Conflict Policy can be found on the Research Methodology & Regulatory Compliance page of the Zenith website.

FEE FOR SERVICE

Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related parties to produce research on funds that conform to our Research Methodology (Direct business model). This fee is to compensate Zenith for the work required to undertake the process and is not linked to the rating outcome. Fees are generally standardised within each sector however a small number of sectors (typically those dealing with real assets) are charged based on individual complexity. Further details on how the fee for service arrangement is managed can be found on the Research Methodology & Regulatory Compliance page of the Zenith website and also in Zenith's Financial Services Guide (FSG).

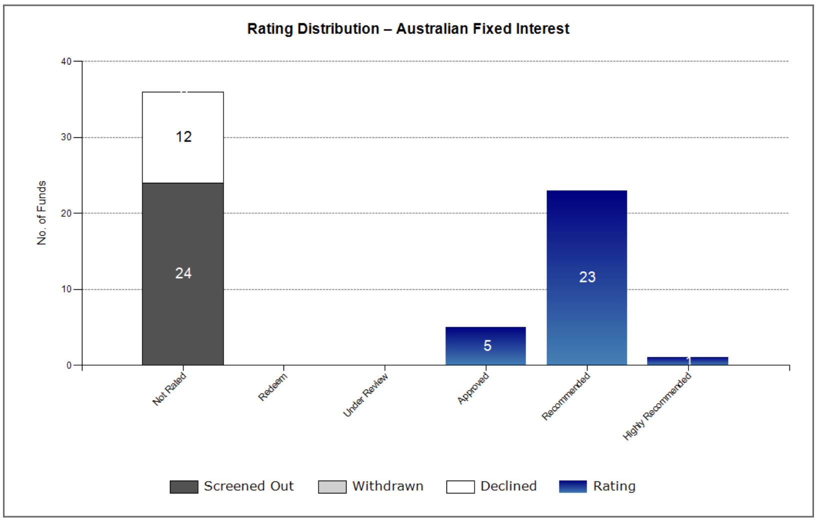
Zenith has charged QIC Limited a fee to produce this report.

ANALYST CERTIFICATION & DISCLOSURE

Analyst remuneration is not linked to the rating outcome. Analysts holdings in investment products must be non-material and done in accordance with Zenith's Trading Policy. The Analyst certifies that the views expressed in the Product Assessment accurately reflect their personal, professional opinion about the financial product to which this report refers.

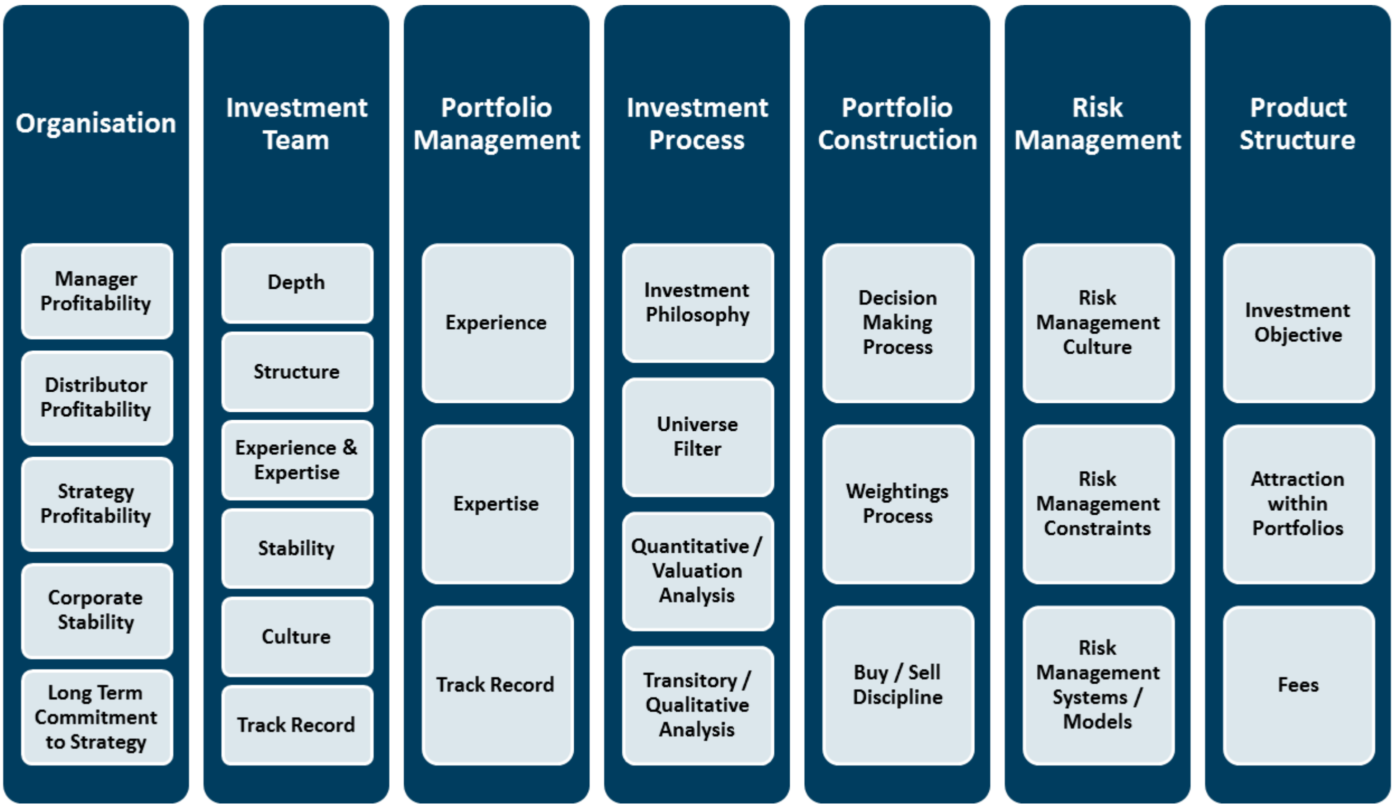
ZENITH RATING DISTRIBUTION

The following chart shows the current breakdown of Zenith's ratings as at the date of viewing. Ratings are based on the relevant fund peer group as determined by Zenith and include Parent funds only. Users can access more detailed information on ratings spreads on the Research Methodology & Regulatory Compliance page of the Zenith website.



Ratings Methodology

Zenith's ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors change for each sector. This information should be used as a guide only.



Ratings Bands

Based on the scores assigned by Zenith's analysts for the above mentioned proprietary scoring model, a rating of Highly Recommended, Recommended, Approved or Not Approved is applied to all funds that have undergone full due diligence by the Zenith research team. As shown in the following table the ratings are determined based on the overall score out of 100. Funds may also be screened prior to conducting full due diligence based on qualitative or quantitative concerns as Zenith's research model aims to focus on the best investments in each sector.

Rating	Scoring Output (%)	Confidence in Meeting Objectives	Zenith Approved List
Highly Recommended	>= 80	Very High	YES
Recommended	>= 70 - 79	High	YES
Approved	>= 55 - 69	Moderate	YES
Not Rated - Declined	N/A	No previous rating held. The fund has passed Zenith's preliminary screen however the issuer has declined to participate in a full due diligence review.	
Not Rated - Withdrawn	N/A	Previous Zenith rating withdrawn due to either: Zenith downgrading the rating to below investment grade; the issuer electing to cease ongoing coverage; the fund has been closed to investment; or the fund has been terminated and wound up.	
Not Rated - Screened Out	< 55	No previous rating held. The fund has either passed Zenith's preliminary screen but failed the full due diligence process; failed Zenith's preliminary screen making it ineligible for a full due diligence review; or is yet to be included in Zenith's preliminary screen or sector review process.	
Redeem	N/A	Previous rating removed where there has been a significant event that Zenith strongly believes will severely impacts the product to such an extent that investors are advised to redeem (withdraw) their investment.	

The performance of the investment in this report is not a representation as to future performance or likely return.

ABSOLUTE RISK RATING

The Absolute risk rankings should be viewed as a guide to potential capital volatility (in both gains and losses) of the relevant investment strategy (Zenith Asset Class / Sub Asset Class classification) of this product. A number of factors have been considered in setting this risk level. For liquid asset classes, we have typically used the underlying historical return volatility of the product's benchmark if the benchmark is a reasonable proxy for returns for this strategy. Where the risk of an investment cannot be reasonably estimated by historical benchmark return analysis, we have made a qualitative assessment of absolute risk and considered factors such as illiquidity risk, transparency, strategy risk, operational risk etc.

VERY HIGH	Funds classified as Very High risk are exposed to sectors with very high historical absolute volatility (typically a 16+% p.a. plus standard deviation over a rolling 20 year period). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very High absolute risk level.
HIGH	Funds classified as High risk are exposed to sectors with high historical absolute volatility (typically a 8-16% p.a. standard deviation over a rolling 20 year period). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a High absolute risk level.
MODERATE	Funds classified as Moderate risk are exposed to sectors with moderate historical absolute volatility (typically a 4-8% p.a. standard deviation over a rolling 20 year period). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Moderate absolute risk level.
LOW	Funds classified as Low risk are exposed to sectors with low historical absolute volatility (typically a 2-4% p.a. standard deviation over a rolling 20 year period). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Low absolute risk level.
VERY LOW	Funds classified as Very Low risk are exposed to sectors with very low historical absolute volatility (typically a <2% p.a. standard deviation over a rolling 20 year period). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very Low absolute risk level.

RELATIVE RISK RATING

The relative risk rankings should be viewed as a guide to the relative risk of a product within its sector. The relative risk levels are listed from high to low and are intended to provide some insight into the potential divergence of the investment's return profile relative to its assigned benchmark.