DDH PREFERRED INCOME FUND – MONTHLY REPORT
DECEMBER 2017 ISSUED BY DDH GRAHAM LIMITED
ABN 010 639 219 AFSL 226319

Fund Details

DDH Graham Limited (DDH) is the responsible entity of the Fund. As responsible entity, DDH is responsible for the management and administration of the Fund; including the issue of the Fund's Product Disclosure Statement and all other public announcements concerning the Fund.

DDH has appointed GCI Australia Pty Ltd ABN 68 140 364 576 (GCI) as the Fund's outsourced investment manager. GCI is an independent boutique asset manager and corporate advisory firm that has significant experience across the many facets of financial markets.

APIR Code DDH0001AU
ASRN 108 161 575

Suggested Investment Timeframe

The Fund is best suited to investors who seek a medium risk investment over a 3 to 5 year period.

Information on the Fund

At 29 December 2017, the Net Asset Value of the Fund was $81,365,491.86 (+1.09% on previous month).

Benchmark

Bloomberg Australia Bank Bill Index

Description/Strategy

The Fund's investment strategy is to identify appropriate investments that are expected to generate a sufficiently high yield, commensurate with the assumed risk, with minimum volatility of returns. The fund consists of a core portfolio constructed with reference to macroeconomic factors and industry exposure. The balance of the fund is a tactical component that seeks to enhance returns via investing in short-term yield opportunities in the same fixed interest asset classes but especially those traded on the ASX.

Investment Objectives

The DDH Preferred Income Fund aims to provide to unit-holders returns in excess of cash and traditional debt securities over the medium to long term by investing in Senior Bank Bonds, Senior Corporate Bonds, Bank Subordinate debt and ASX listed Hybrid securities. The return is a combination of income distribution and capital growth.

Performance to 29 December 2017

	3 mth p.a. %	6 mth p.a. %	1 year p.a. %	2 year p.a. %	3 year p.a. %	5 year p.a. %	Since Incept. p.a. %
Cash Distribution	1.00	2.02	4.12	4.56	4.36	5.39	6.01
+ Franking	0.00	0.00	0.07	0.17	0.27	0.26	0.51
+/- Growth	0.72	0.95	1.95	2.54	0.16	0.05	(1.12)
Total return	**1.71**	**2.97**	**6.15**	**7.28**	**4.79**	**5.70**	**5.39**
Index	**0.42**	**0.86**	**1.75**	**1.91**	**2.05**	**2.34**	**4.22**

Returns are calculated using exit prices, and are calculated after all fees have been deducted with distributions included and no allowance made for tax. The 'distribution' component represents the amount paid by way of distribution, including net realised capital gains. **Numbers may not sum due to rounding.** Benchmark is the Bloomberg Australian Bank Bill Index.

The inception date of the Fund was 25 Oct 2004. E&P commenced as Investment Manager on 31 Dec 2010. GCI commenced as Investment Manager on 01 July 2015. Total includes cash distribution, franking credits and growth. Past performance is not an indicator of future performance.

Fund Rating

Rated Favourable by SQM Research Dec 2016.

Current Return Profile

Running Yield: *5.28% (incl. franking)*
YTM: *7.24% (incl. franking)*
Margin over bills: *3.85% (incl. franking)*

Portfolio Characteristics

Running Yield	*5.28%*
Yield to Maturity	*7.24%*
Average Margin	*3.85%*
Average Years to Maturity	*3.02*
Number of Securities Held	*60*
Fixed	*4.86%*
Floating	*90.82%*
Cash	*4.32%*
Duration	*0.14*
Credit Duration	*2.55*

Top 5 Holdings as at 29 December 2017

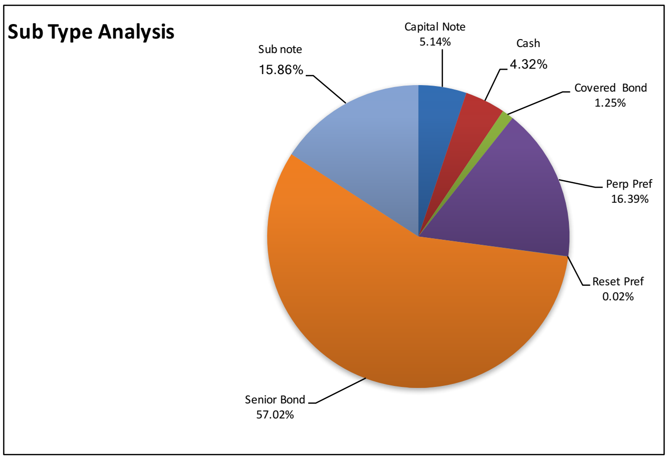
Code	Name	% Holding
NABHA	NATIONAL AUSTRALIA BANK LIMITED HYBRID 3-BBSW+1.25% PERP SUB EXCH NON-CUM STAP	8.276%
+AU3FN0036265	WBC 3M AUD-BBR-BBSW +76 bps 31/08/22	8.073%
MBLHB	MACQUARIE BANK LIMITED HYBRID 3-BBSW+1.70% PERP SUB NON-CUM STAP	6.137%
+AU3FN0039434	Moneyme Financial Group Limited 11/16/2020	5.076%
+AU3FN0038873	Evolution Group Holdings 3mBBSW + 11/03/2019	4.990%
TOTAL		**32.55%**

Australian Index returns to 29 December 2017

Index	1 month return	3 month return	12 month return
Bloomberg Australia Bank Bill Index	0.14%	0.42%	1.75%
Bloomberg Australia Gov't 3-5 year Index	(0.61)%	0.63%	2.01%
Bloomberg Australia Composite Index 0-3 year	(0.09)%	0.53%	2.25%
ASX Bonds and Hybrids; All Issues	1.03%	2.17%	7.72%

Market Commentary

The Fund maintains a balance between highly liquid floating rate Senior Australian Bank debt and less liquid higher return Corporate Senior debt. Overall the current running yield of 5.33% and a yield to maturity above 7%. This is consistent with our expectation that the fund will achieve a 6% total return this financial year.



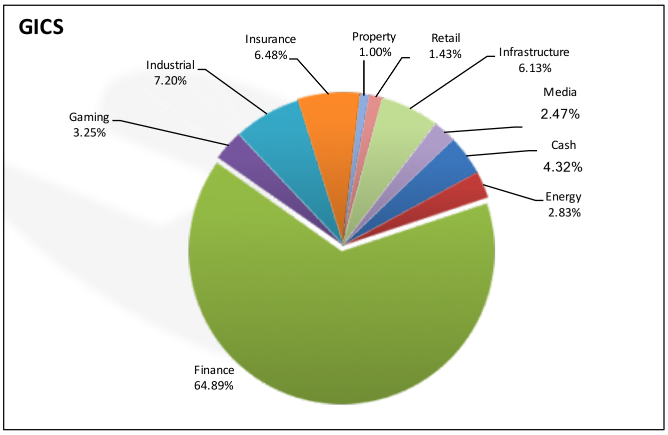
The Key themes of 2017 included:

- Federal Reserve normalisation of Monetary Policy
- US tax cuts passing into law
- Global growth synchronisation with a recovery in Japan, Europe and the US
- Low inflation
- Extremely low asset volatility

In 2018, we are watching the following:

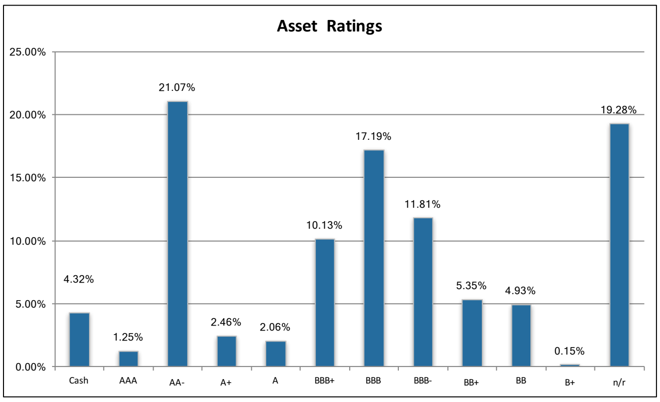
- US Long Bond Yield
- Spread between US and Australian 10 year yields
- Bulk Commodity Prices
- Australian Dollar
- Household Consumption
- Business Investment and Wages Growth

We expect the RBA to leave rates on hold this year.



The outlook for Australian Banks is strong despite our ongoing concerns of a housing bubble. APRA's actions to limit the rate of investment loan growth appears to have capped the overall rate of loan growth. In the year ahead the banks are expected to focus on cost reductions in order to maintain earnings growth. Our banks are also well capitalised with CET1 ratios improving over the past 12 months, well ahead of the APRA imposed minimums. Already we have seen ANZ act to buyback excess equity.

We are unlikely to see new Tier 1 capital raisings this year. The margin on Basel III Tier 1 capital new offers is currently near 340bp. Since the downgrade of the Major Banks credit rating by S&P Basel III Tier 1 securities are no longer rated investment grade. At the current margins, it is difficult to justify a significant exposure to these type of securities.



DISCLAIMER

This document is not a recommendation to acquire a particular financial product. The information in this document is of a general nature only. DDH Graham Limited (DDH) has not taken into account the investment objectives, financial situation or particular needs of any particular person or entity, when preparing this document. Persons should refer to the Product Disclosure Statement of this product (available from www.ddhgraham.com.au) and seek professional advice before relying on the information. Information used in this publication has been prepared in good faith by DDH Graham Limited. However, neither DDH Graham Limited or GCI Australia Pty Ltd warrant the accuracy of the information, and to the extent permitted by law, disclaim responsibility for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying upon it, whether that loss or damage is caused by any fault or negligence of either DDH Graham Limited or GCI Australia Pty Ltd or otherwise. Past performance is not indicative of future performance.