



DDH PREFERRED INCOME FUND – MONTHLY REPORT

MARCH 2018 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 March 2018, the Net Asset Value of the Fund is \$80,664,500.97 (-0.91% on the 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 March 2018

	3 mth	6 mth	1 year	2 year	3 year	5 year	Since Incept.
	%	%	%	%	%	%	%
Cash Distribution	1.05	2.05	4.12	4.82	4.31	5.19	5.98
+ Franking	0.00	0.00	0.04	0.13	0.24	0.25	0.50
+/- Growth	(0.59)	0.12	0.61	3.30	0.04	(0.00)	(1.15)
Total return	0.45	2.17	4.77	8.26	4.59	5.43	5.33
Index	0.43	0.85	1.73	1.83	1.97	2.28	4.18

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: 5.03% (incl. franking)
YTM: 6.96% (incl. franking)
Margin over bills: 3.59% (incl. franking)

Portfolio Characteristics

Running Yield	5.03%
Yield to Maturity	6.96%
Average Margin	3.59%
Average Years to Maturity	3.19
Number of Securities Held	53
Fixed	3.58%
FRN	95.23%
Cash	1.19%
Duration	0.15
Credit Duration	3.69

Top 5 Holdings as at 29 March 2018

Code	Name	% Holding
+AU3FN0040291	Macquarie Bank Limited 15/12/2022	8.686%
+AU3FN0040754	Westpac Banking Corporation - Subordinated Debt 16/02/2023	7.461%
MBLHB	MACQUARIE BANK LIMITED HYBRID 3-BBSW+1.70% PERP SUB NON-CUM STAP	6.728%
QUBHA	QUBE HOLDINGS LIMITED HYBRID 3-BBSW+3.90% 05-10- 23 SUB CUM	5.627%
+AU3FN0041646	Heritage Bank Limited 29/03/2021 3M BBSW+123bp	4.959%
TOTAL		33.46%

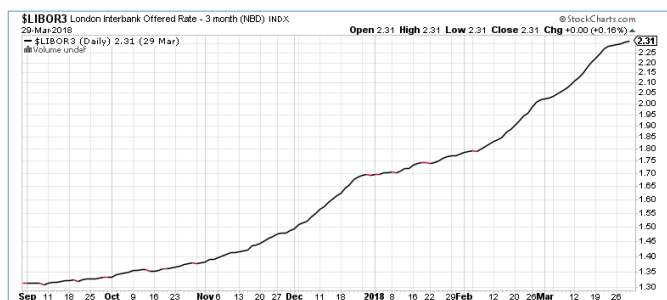
Australian Index returns to 29 March 2018

Index	1 month return	3 month return	12 month return
Bloomberg Australia Bank Bill Index	0.14%	0.43%	1.73%
Bloomberg Australia Gov't 3-5 year Index	0.32%	0.76%	1.93%
Bloomberg Australia Composite Index 0-3 year	0.11%	0.54%	2.01%
ASX Bonds and Hybrids; All Issues	-0.82%	-0.84%	5.21%

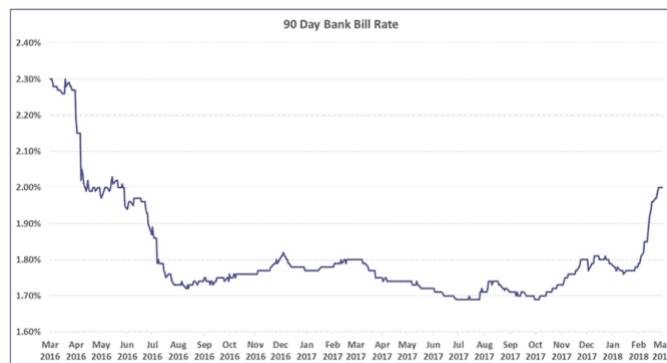
Commentary

The DDH Preferred Income portfolio remains positioned for our expectation that global market volatility will continue to pressure margins to expand. During March the increased ASX listed security volatility provided many opportunities to reposition the portfolio and improve the running yield to 5.03% and the YTM to 6.96%.

The rising 90-day US Treasury yield that we have been closely monitoring is now getting broad market attention. It is driving LIBOR (London Interbank Offered Rate) to a level not seen since the Euro crisis in 2012 triggered by the Greek insolvency issue and pushing all global banks funding costs higher.



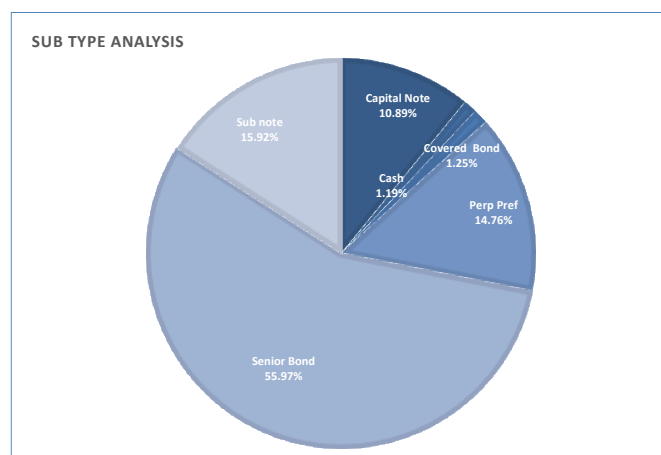
The portfolio contains almost entirely floating rate securities that will benefit from the 90-day BBSW rate increasing during March from 1.75% to 2%. The coupons on the floating rate debt will be adjusted once each security passes a distribution date.



During March floating rate credit margins as measured also expanded by @20 basis points. This was reflected in lower prices on floating rate debt, but we expect that this will be more than offset by the rise in the 90-day BBSW over the next 3 months.

The Portfolio currently has a 10.85% exposure to the Basel 3 Tier 1 capital notes that were impacted during the past month by a return of global volatility and also significantly by the ALP – Shorten plan to take away the ability for low tax paying entities to receive a cash refund on unused franking credits.

All of the Basel 3 Tier securities were initially priced on a grossed-up margin basis to include the value of these franking credits so they will no longer have the same yield for many investors when (if the News Poll is correct) the ALP wins the next Federal election.



The portfolio will remain under invested in ASX listed Basel 3 Tier 1 securities on a strategic basis and maintain a 14.76% exposure to the Perpetual Income Securities (NABHA, MBLHB and SBKHB). These securities were issued under the Basel 1 rules and don't pay out franked distributions so they were not impacted by the ALP-Shorten plan for imputation credits.

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