GCI AUSTRALIAN CAPITAL STABLE 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 DDH8305AU
ASRN 108 161 575

Suggested Investment Timeframe

The Fund is best suited to investors who seek a low to medium risk investment over a 1 to 3-year period.

Information on the Fund

At 29 March 2018, the Net Asset Value of the Fund is $60,441,401.19 (+0.86% 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.

Investment Objectives

To provide income and capital stability and a high degree of liquidity in all market conditions. The total return will mainly comprise income from security income payments. The target rate of return is the Bank Bill Swap Rate plus 1.5% before fees.

Performance to 29 March 2018

	1 mth %	3 mth %	1 year %	2 year %	3 year %	5 year %	Since Inception
Cash Distribution	0.63	0.63	n/a	n/a	n/a	n/a	2.01
+ Franking	0.00	n/a	n/a	n/a	n/a	n/a	0.00
+/- Growth	-0.72	-0.33	n/a	n/a	n/a	n/a	-0.25
Total return	**-0.09**	**0.30**	n/a	n/a	n/a	n/a	**1.76**
Index	**0.14**	**0.43**	n/a	n/a	n/a	n/a	**1.74**

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 December 2017. Total includes cash distribution, franking credits and growth. Past performance is not an indicator of future performance.

Fund Rating

Being new, the fund is currently unrated.

Current Return Profile

Running Yield:	*2.62% (incl. franking)*
YTM:	*2.27% (incl. franking)*
Margin over bills:	*0.30% (incl. franking)*

Portfolio Characteristics

Running Yield	*2.62%*
Yield to Maturity	*2.27%*
Average Margin	*0.30%*
Average Years to Maturity	*2.72*
Number of Securities Held	*13*
Fixed	*10.34%*
Floating	*83.74%*
Cash	*5.92%*
Duration	*0.18*
Credit Duration	*2.09*

Top 5 Holdings as at 29 March 2018

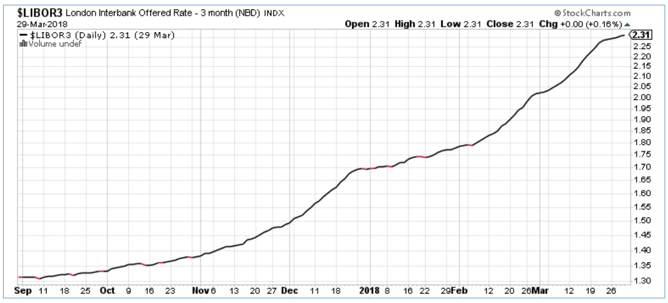
Code	Name	% Holding
+AU3FN0030490	Westpac Banking Corporation 05/10/2019	5.014%
+AU3FN0038915	Westpac 27/10/2022	1.658%
AU3FN0034039	WBC 2.88% 07/02/2022 FRN	3.364%
+AU3FN0037529	Suncorp Metway Ltd 16/08/2022	3.336%
+AU3FN0040606	NWPBS 3.17% 06/02/2023 FRN	5.805%
TOTAL		**19.18%**

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%

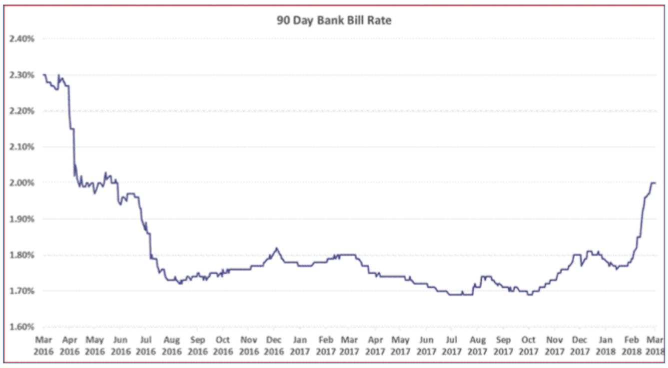
Commentary

The speed with which global interest rates moved higher in March has caught many by surprise. The primary driver of the move up in LIBOR (London Interbank Overnight Rate) has been the rise in the 90-day US Treasury Bill.



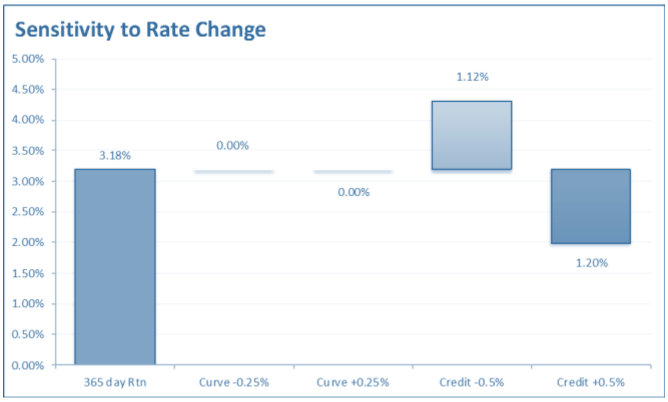
Some market participants have dismissed this rise in short term interest rates as a consequence of increased selling by the US Government of short term debt securities to fund the budget gap last quarter and point out that a reduced schedule of bond sales in April should see rates retrace. We are less certain as there are signs in forward looking economic indicators such as the US ISM that the economy, buoyed by both the company tax cuts and multi-nationals repatriating capital under a reduced tax rate offer, may reach a self-sustaining accelerated level of growth. At the moment the US Federal Reserve is still forecasting a total of 3 rate rises in 2018 and 3 in 2019, but should economic indicators begin to display that bottlenecks from supply shortages are increasing prices, we would expect the Federal Reserve to consider a more rapid pattern of rate rises. This may mean that the Federal Reserve rate reaches 3% well before the end of 2019.

In an Australian context the rise in LIBOR has increased 90-day BBSW rates from 1.75% at the end of February to 2.03%. As the quarter progresses this increase will flow into the coupon rates on floating rate debt.



The timing of this increase in interest rates for Australian Banks – in the middle of the Royal Commission- may have resulted in the Banks holding off raising mortgage rates, however, as 40% of bank funding comes from offshore we would expect that rates will rise over the next 90 days. This would have implications for the Australian property market and the economy generally. We have noted that the RBA is now more focused on the level of household debt in Australia and its connection to property prices as it now monitors both collectively.

In March the portfolio was positioned in expectation of credit margins expanding further than the 25-basis point initially forecast in January. This has meant accepting a lower running yield and YTM in the short term. We are currently expecting Senior Bank margins to expand by 50 basis points this year.



Once the margin expansion process is mature the portfolio will be re-positioned to include a higher weighting towards BBB debt and longer credit duration. This will bring the portfolio yield up to an acceptable long-term level.

The effective running yield of the portfolio increased over the past month from 3.37% to 3.41%. As the securities are short dated and floating rate there is no sensitivity to a change in the shape of the yield curve. Last month we expected Senior Margins to expand. This has already commenced with 3-year Itraxx index increasing from 55bp to 64bp. We still expect credit margins to move 25 basis points over the year and the 90-day BBSW rate to move up 15 basis points. This will need to be managed carefully as funds sensitivity to this move is 0.8%.