



DDH PREFERRED INCOME FUND – MONTHLY REPORT

SEPTEMBER 2018 ISSUED BY DDH GRAHAM LIMITED

ABN 28 010 639 219 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
ARSN 108 161 575

Fund Flexibility

This Fund can be accessed by investing directly, or indirectly, using the HUB24, Netwealth, OneVue and Praemium investment platforms.

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 28 September 2018, the Net Asset Value of the Fund is \$100,242,629.36 (+2.32% 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 28 September 2018 (Annualised)

	3 mth	6 mth	1 year	2 year	3 year	5 year	Since Incept.
	%	%	%	%	%	%	%
Cash Distribution	1.29	2.42	4.53	4.50	4.51	4.95	5.94
+ Franking	(0.00)	0.00	0.00	0.06	0.16	0.23	0.48
+/- Growth	0.34	0.13	0.25	1.80	1.32	0.00	(1.10)
Total return	1.63	2.55	4.78	6.36	5.98	5.17	5.32
Index	0.52	1.01	1.87	1.82	1.94	2.19	4.10

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 & retained January 2018.



Current Return Profile

Running Yield: 4.86% (incl. franking)
YTM: 5.96% (incl. franking)
Margin over bills: 3.13% (incl. franking)

Portfolio Characteristics

Running Yield	4.86%
Yield to Maturity	5.96%
Average Margin	3.13%
Average Years to Maturity	2.99
Number of Securities Held	51
Fixed	0.99%
FRN	95.30%
Cash	3.71%
Duration	0.14
Credit Duration	2.37

Top 5 Holdings as at 28 September 2018

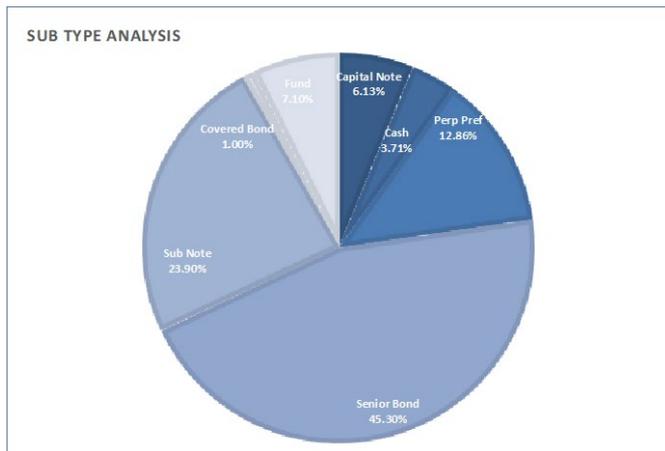
Code	Name	% Holding
+AU3FN0037917	AMP Limited FRN 01/12/2027	8.966%
NFNG	NUFARM FINANCE (NZ) LIMITED CONVERT BOND 6-BBSW+1.90% PERP SUB NON-CUM EXH STP	7.292%
NBI	NB GLOBAL CORPORATE INCOME TRUST ORDINARY UNITS FULLY PAID	7.098%
+AU3FN0040291	Macquarie Bank Limited 15/12/2022	6.974%
SUNPD	SUNCORP GROUP LIMITED CAP NOTE 3-BBSW+2.85% 22-11-23 CUM RED	6.021%
TOTAL		36.35%

Australian Index returns to 28 September 2018

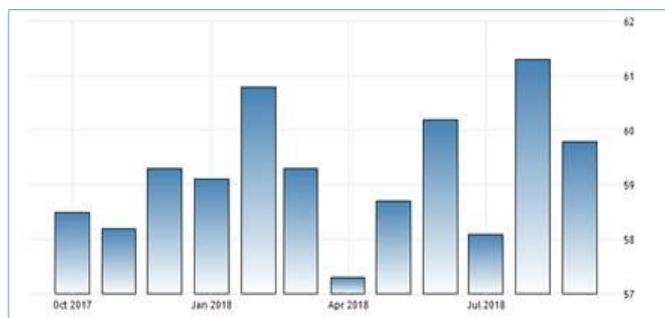
Index	1 month return	3 month return	12 month return
Bloomberg Australia Bank Bill Index	0.16%	0.52%	1.87%
Bloomberg Australia Gov't 3-5 year Index	-0.22%	0.53%	2.76%
Bloomberg Australia Composite Index	-0.65%	0.25%	3.23%

Commentary

The DDH Preferred Income Fund (PIF) had an outstanding quarter with a performance of 1.63% (6.51% annualised). The strong return was driven mostly by unfranked income, as exposure to Capital Notes which pay fully franked distributions, was gradually reduced and replaced with subordinated bank debt and perpetual income securities. Both these types of securities generally outperformed by the end of the quarter.

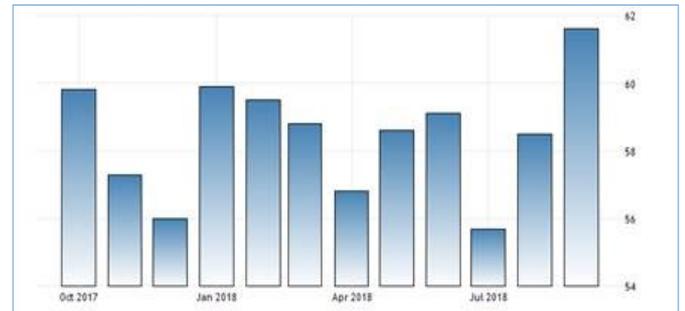


In the December quarter we expect the US bond market will continue to move higher because of the underlying strength of one of the key forward indicators. Although the Institute of Supply Management (ISM) manufacturing Purchasing Manager's Index (PMI) eased to 59.8 in September, this was after the index reached 61.3 in August; the highest reading since 2004. According to the ISM "This indicates strong growth in manufacturing for the 25th consecutive month, led by strong production output, continued strength in new orders, improvements in supply chain delivery performance, and better utilization of existing inventory accounts."



Source Trading Economics

There are signs emerging of bottlenecks in the supply chain that are causing delays in production in the manufacturing sector but the non-manufacturing sector is building a strong level of momentum. The ISM non-manufacturing PMI index rose to 61.6 in September from 58.5 in August. This is the highest reading on record.



Source Trading Economics

These strong forward indicators have already driven the US 10-year bond sharply higher at the start of the December quarter. We expect that higher US yields will reluctantly drag Australian yields higher.



The PIF portfolio is well positioned to avoid the impact of higher fixed yields. The modified duration of 0.14 is very low. The portfolio also currently has a better spread across industries, with exposure to finance having been reduced in favour of industrials and the ASX listed Neuberger Berman Global Income Fund. The quality of the Neuberger team, paired with their consistent track record over the past 25 years, makes this fund a good fit for the PIF and it has added a level of diversification.

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.