GCI AUSTRALIAN CAPITAL STABLE 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 DDH8305AU
ARSN 622 419 578

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 28 Sep 2018, the Net Asset Value of the Fund is $60,220,945.04 (+1.63% 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 28 September 2018 (Annualised)

	1 mth %	3 mth %	6mth %	1 year %	2 year %	3 year %	Since Inception
Cash Distribution	0.68%	0.68%	1.36%	0.00%	0.00%	0.00%	2.45%
+ Franking	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
+/- Growth	-0.56%	0.15%	-0.11%	0.00%	0.00%	0.00%	-0.23%
Total return	**0.12%**	**0.83%**	**1.25%**	**0.00%**	**0.00%**	**0.00%**	**2.22%**
Index	0.16%	0.52%	1.01%	0.00%	0.00%	0.00%	1.91%

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:	*3.47% (incl. franking)*
YTM:	*3.15% (incl. franking)*
Margin over bills:	*1.48% (incl. franking)*

Portfolio Characteristics

Running Yield	*3.47%*
Yield to Maturity	*3.15%*
Average Margin	*1.48%*
Average Years to Maturity	*2.80*
Number of Securities Held	*31*
Fixed	*97.68%*
Floating	*0.00%*
Cash	*2.32%*
Duration	*0.12*
Credit Duration	*3.02*

Top 5 Holdings as at 28 September 2018

Code	Name	% Holding
+AU3FN0035283	AMP Bank Limited 30/03/2022	8.290%
AU3CB0244671	LIBFI 5.1% 01/06/2020	6.794%
+AU3FN0044830	Suncorp 3mBBSW+77 Sep-23	6.655%
+AU3FN0040606	NWPBS 3.17% 06/02/2023 FRN	5.829%
+AU3FN0044996	NAB 3mBBSW+93 Sep-23	5.824%
TOTAL		**33.39%**

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

Over the month of September there was a consistent and sizeable sell-off in bonds, mostly driven by a sharp sell-off in US bonds. The entire US yield curve moved higher in response to a stronger US economic outlook. The Australian Composite Bond Index fell 0.48% with the weakest returns from Commonwealth bonds at -0.63%, while credit recorded a more marginal loss of 0.11% because margins on 2 and 3-year debt contracted. The GCI Australian Capital Stable portfolio benefited from this switch by investors into shorter dated debt and recorded a positive performance of 0.12%.

The portfolio is being gradually repositioned with a higher running yield of 3.48% and a yield to maturity of 3.16%. The current margin of 148 basis points (bps) is now near the target of 150 bps.

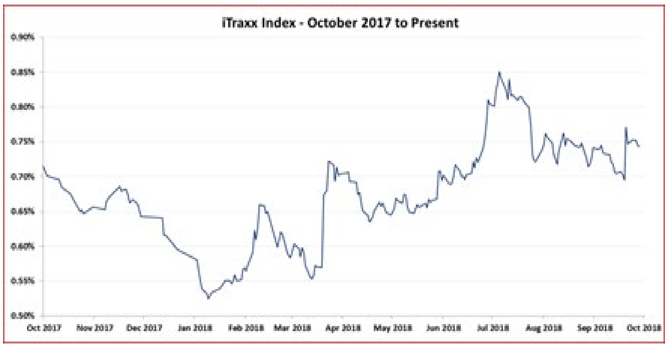
Predicting Australian fixed rates and movements in the fixed yield curve is proving more difficult at the moment. There are several factors such as:

1. US 10-year bond yields, as the global indicator of debt costs, largely determine the direction of Australian 10-year bond yields. The US yield has risen sharply in the last week of September from near 2.9%, to 3.23% in the first week of October. It should also be noted that US 2-year bonds are now yielding 2.89% and the 5-year bond is at 3.07%.

2. Historically, and currently, the Australian 10-year bond yield has either traded at a discount or premium to the US 10-year yield. The difference in this margin reflects the outlook for the Australian economy relative to the US. In June, the Australian 10-year was trading at a discount to the US 10-year of 22 bps; the largest margin since the GFC. That spread is now 50 bps, in a very stark reflection of the different outlooks for the two economies. We are cognisant of the fact that the collapse in broad money growth is indicating an Australian recession in 9 months' time so the Australian bond is being reluctantly dragged higher by the US 10-year. Even though the Australian 10-year to US 10-year yield spread may remain wide we expect the Australian 10-year to at least trade in line with the US 2-year yield so we still expect a peak close to 3%.

Our strategy will likely involve adding Sovereign long dated fixed rate bonds to the portfolio at some point in the December quarter.

As the June quarter ended, credit spreads were widening and peaked at 0.85% on a 5-year basis in early July. Since then margins have been stable. Into the end of the September quarter credit margins were expected to widen sharply, but this is now occurring in early October. While we have risk tested for iTraxx 5-year margins to move as high as 118 bps we do not expect a move through 100 bps yet.



At the end of June, we commented that the outlook for the key Australian 90-day BBSW rate, which reflects Australian bank funding costs and is passed onto investors in Australian floating rate debt, is difficult to determine. We expect Australian rates to track higher over the next quarter in line with the following:

- US 90-day Treasury yield
- USD LIBOR

We still expect the 90-day BBSW rate to peak near 2.25% which should coincide with a peak in the bank credit margins as measured by iTraxx near our target of 100. At this point we will change the investment strategy and sell short dated floating rate notes and buy 5-year paper.