DDH PREFERRED INCOME FUND
MONTHLY REPORT – OCTOBER 2021

Description/strategy
The fund's investment strategy is to identify appropriate investments to generate a sufficiently high yield, considering risk and minimum volatility of returns. The fund is constructed with reference to macroeconomic factors and industry exposure. The fund does not employ leverage either directly or using derivatives and has no offshore currency or market exposure. Up to 30% of the Fund can be invested in non-investment grade securities (S&P, Fitch rated below BBB-, Moodys rated below Baa3). The fund is best suited to investors who seek a medium risk investment over a 3 to 5-year period.

Investment objectives
The DDH Preferred Income Fund aims to provide unitholders with returns in excess of cash and bank deposits over the medium to long term by investing in Australian sovereign bonds, senior & subordinate debt issued by Australian financial institutions, senior & subordinate bonds issued by Australian corporates and ASX-listed hybrid and debt securities. The return is a combination of income distribution and capital growth. The target rate of return is the Bank Bill Swap Rate plus 350 basis points.

ESG
Environmental, Social and Governance issues form part of the risk analysis framework.

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 a private, boutique asset manager 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 Wealth02, HUB24, Netwealth, OneVue, Praemium Investment, Ausmaq, BT Panorama, Macquarie Wrap and Australian Money Market platforms.

Performance to 31 October 2021 (annualised)

	3M %	6M %	1Y %	2Y %	3Y %	5Y %	Since Inception
Cash Distribution	0.71	1.31	3.07	3.00	3.39	3.83	5.46
+ Franking	-0.00	0.03	0.10	0.09	0.07	0.07	0.40
+/- Growth	-0.51	-0.19	1.81	0.23	0.32	0.96	-0.82
Total Return	**0.20**	**1.15**	**4.98**	**3.32**	**3.78**	**4.86**	**5.04**
Index	0.00	0.01	0.03	0.27	0.73	1.17	3.49

*Fund returns are net of all fees

Australian index returns 31 October 2021

Index	1M Return	3M Return	12M Return
Bloomberg Australia Bank Bill Index	0.00%	0.00%	0.03%
Bloomberg Australia Gov't 3-5 Yr Index	-3.17%	-3.54%	-3.38%
Bloomberg Australia Composite 0-3 Yr Index	-0.96%	-0.99%	-0.66%

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.

The benchmark is the Bloomberg Australian Bank Bill Index. The inception date of the fund was 25 October 2004. E&P commenced as Investment Manager on 31 December 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
Initially rated 'Favourable' by SQM Research in December 2016 the Fund was upgraded to 'Superior' in December 2020.

Superior

Fees

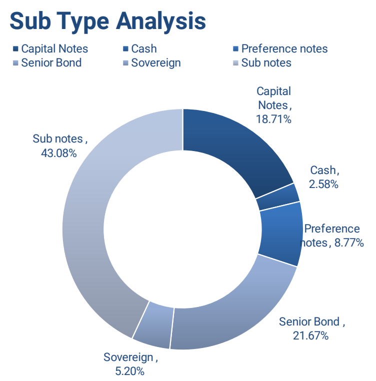
MER	0.82%
Buy/Sell Spread	+0.15% / -0.15%
Performance Fees	Nil

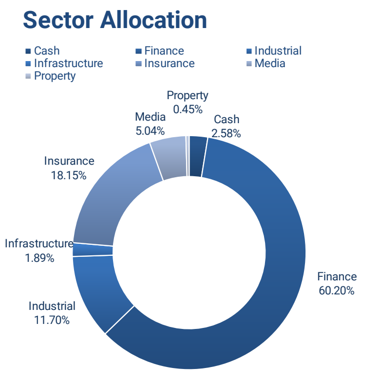
Fund Size
As at 31 October 2021, the Net Asset Value of the fund was $158,997,956.69.

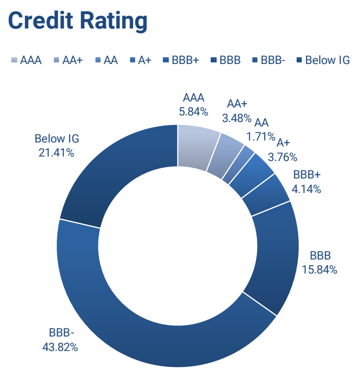
Portfolio characteristics

Running Yield	3.70%
Yield to Maturity	4.59%
Average Margin	4.58%
Average Years to Maturity	3.47
Number of Securities Held	43
Fixed	32.00%
Floating	65.43%
Cash	2.58%
Modified Duration	0.41
Credit Duration	2.81

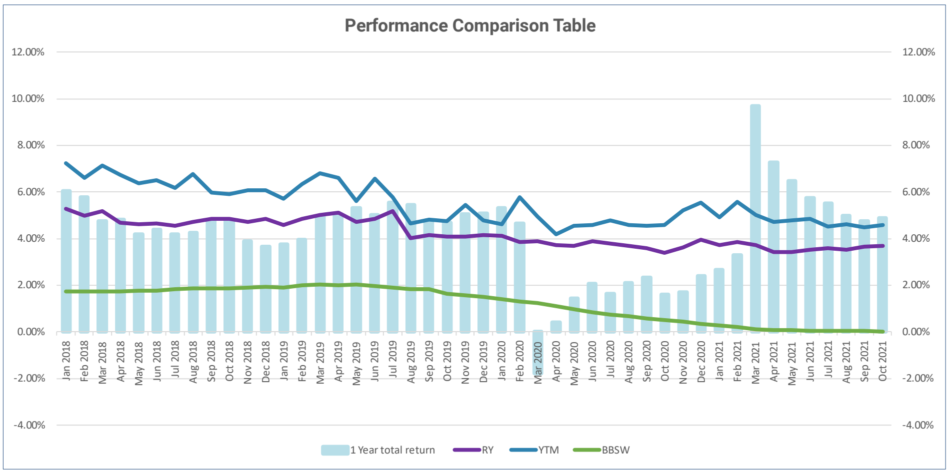
Asset breakdown







Monthly performance



Source GCI Australia, DDH Graham data

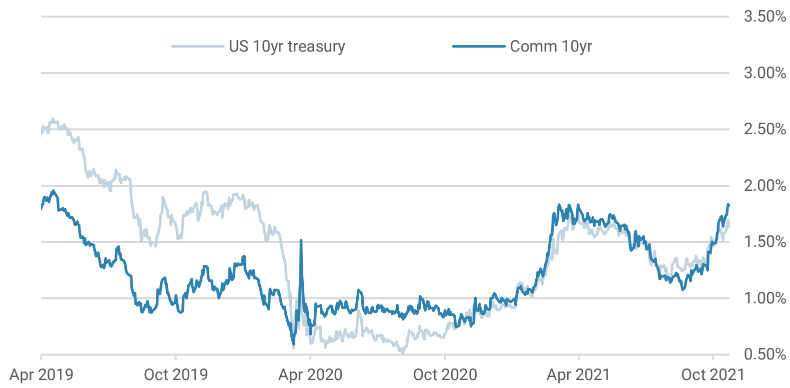
The Fund is expected to generate a performance supported by the running yield of 3.70% and the yield to maturity of 4.59%. Over the past month the running yield on the portfolio moved up in line with a rise in the 90-day BBSW rate to which most floating rate bonds are linked. If the 90-day BBSW rate continues to rise, then the running yield and performance of the Fund will also increase.

Market review

Our view remains that we will see wider floating rate credit spreads due to a combination of factors that include:

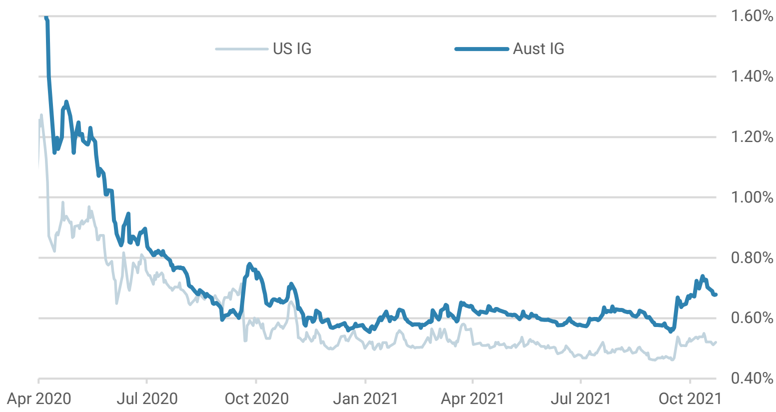
- Asset market volatility is expected to rise over the next six months as the tapering of QE reduces system liquidity. During the past month there was a marked increase in the sovereign yields at the short end of the benchmark curve. This move emanated initially from the UK market, then flowed into the US before pushing yields higher in Australia.

Sovereign bonds



- Since early September margins have widened from near 39 basis points (bps) to 60bps. On a historical basis major bank margins have been good value near 90bps due to the strong capital adequacy of Australian banks providing a lower technical risk than offshore comparisons.

Investment Grade credit margins



- Increased supply with all the banks returning to issuing 5-year senior bonds now that the Term Finance Facility has expired, and the Committed Liquidity Facility is no longer available as a holding account for bank issued bonds and RMBS.

- At some point a macro risk premium may begin to be applied to all Australian issued debt, due to risks associated with a slowdown in China growth and the housing price bubble that the RBA has referred to as an APRA level issue. The following Australian 5-year iTraxx chart represents the average debt margins in Australia. Australian credit margins may also be impacted by external issues such as the Evergrande debt crisis that caused a significant spike in margins in September.

Inevitably, as the margins widen and push senior bank bond yields higher, we will begin to see the margins on total loss absorbing capital (TLAC) also begin to widen. So far this has not occurred with major bank tier margins hovering near 140bps and major bank Tier 1 margins tightening into near 205bps over the past month. Unlike the senior bond market, the TLAC securities margins are being supported by a lack of new supply. This may prove to only be a short-term reprieve for these markets because, if sovereign fixed rates continue to rise, investors will begin to move away from the TLAC due to higher credit and liquidity risks and towards both sovereign and bank senior debt.

Fund positioning

The strategic positioning of the Fund required very few changes in October. The Fund is well positioned with a running yield of 3.70% and a higher yield to maturity of 4.59%. Many credit funds now have running yields well above their yield to maturity. This reflects just how strong the rally in the bond markets has been on the back of the monetary stimulus provided to avert the impact of the pandemic.

The Fund has a Macaulay duration of 0.41 which is much lower than the duration of the Bloomberg Australian 3-5-year index at 3.84. Duration risk has been an issue recently for some fixed income funds with mandates that require the tracking of a bond index.

Gradually as value in the senior bond market emerges, we expect to shift away from subordinate BBB-bonds that have enjoyed a strong rally this year and towards lower risk senior debt and some short-term sovereign debt where a strong distribution yield can be found. The aim will be to maintain an average margin better than 400bps while also reducing credit and liquidity risks.

There is a strong preference at the moment for major bank senior and subordinate exposures as the banks have emerged from the pandemic with strong capital ratios while avoiding direct exposure to property and property developers.