

### Strategy & Objective

The Arculus Preferred Income Fund is a domestic fixed income portfolio invested in Australian Government and Semi-Government Bonds, Corporate Senior & subordinated Bonds, and cash. The Fund aims to provide unitholders with returns higher than cash and traditional debt securities over the medium to long term with a target rate of return of the 90-day BBSW rate plus 350bps. The return is a combination of income distribution and capital growth. The Fund does not employ leverage either directly or using derivatives and has no offshore currency, structured credit or leveraged securities. 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.

The 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 (one of Australia's leading investment management businesses) ABN 68 140 364 576 (GCI) as the Fund's outsourced investment manager. Arculus Funds Management Pty Ltd (Arculus), a wholly owned subsidiary and Corporate Authorised Representative of GCI undertakes the investment management activities for the Fund.

**APIR Code DDH0001AU**  
**ARSN 108 161 575**

### Fund availability

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 2024 (annualised)

|                     | 3M           | 6M           | 1Y           | 2Y           | 3Y           | 5Y           | Since Inception |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| <b>Total Return</b> | <b>2.13%</b> | <b>3.70%</b> | <b>7.62%</b> | <b>6.78%</b> | <b>3.98%</b> | <b>3.68%</b> | <b>4.54%</b>    |
| Cash Distribution   | 1.45%        | 2.92%        | 5.96%        | 5.47%        | 4.75%        | 4.05%        | 5.35%           |
| +/- Growth          | 0.68%        | 0.78%        | 1.66%        | 1.31%        | -0.77%       | -0.37%       | -0.81%          |
| <b>Index</b>        | <b>1.12%</b> | <b>2.23%</b> | <b>4.45%</b> | <b>4.05%</b> | <b>2.94%</b> | <b>1.87%</b> | <b>3.40%</b>    |

\*Fund returns are net of all fees. Returns are calculated using exit prices and are calculated after all fees and costs have been deducted, assumes any distributions are reinvested, 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. Past performance is not an indicator of future performance.

The inception date of the Fund was 25 October 2004. E&P commenced as Investment Manager on 31 December 2010. Arculus commenced as Investment Manager on 01 July 2015.

### Australian index returns 31 October 2024

| Index  | 1m Return | 3M Return | 12M Return |
|--|-----------|-----------|------------|
| Bloomberg Australia Bank Bill Index                | 0.37%     | 1.12%     | 4.45%      |
| Bloomberg Australia Gov't 3-5 Year Index           | -1.44%    | -0.10%    | 5.80%      |
| Bloomberg Australia Composite 0-3 Year Index       | -0.20%    | 0.79%     | 4.93%      |
| Bloomberg Australia Composite 3-5 Year Index       | -1.34%    | 0.11%     | 6.59%      |
| Bloomberg Australia Composite All Maturities Index | -1.88%    | -0.39%    | 7.08%      |

The benchmark is the Bloomberg Australian Bank Bill Index. Bloomberg Index data is sourced from Evans & Partners.

### Fund rating

Initially rated 'Favourable' by SQM Research in December 2016, the Fund was upgraded to 'Superior' in December 2020 and retained annually. Last updated February 2024.



### Fund size

As at 31 October 2024, the Net Asset Value of the Fund was \$169,776,793.71.

### Portfolio characteristics 31 October 2024

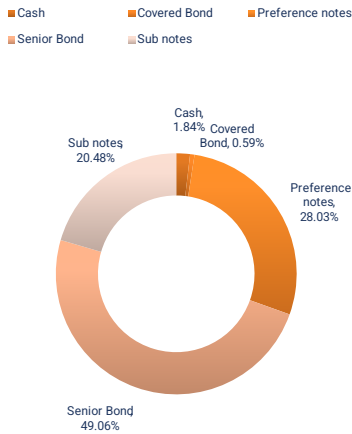
|                           |        |
|---------------------------|--------|
| Running Yield             | 7.19%  |
| Yield to Maturity         | 7.86%  |
| Average Margin            | 3.47%  |
| Average Years to Maturity | 3.17   |
| Number of Securities Held | 83     |
| Fixed                     | 13.59% |
| Floating                  | 84.57% |
| Cash                      | 1.84%  |
| Modified Duration         | 0.51   |
| Credit Duration           | 1.98   |

### Fees

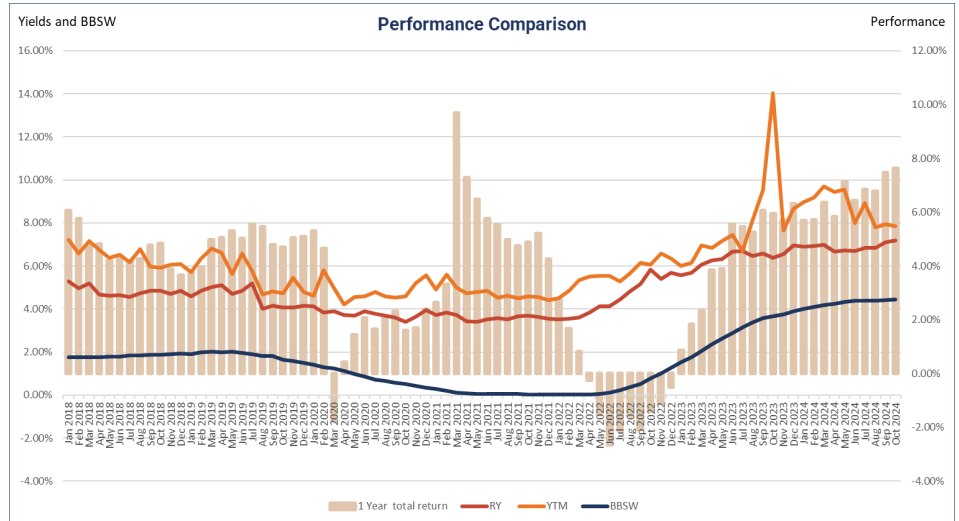
|                  |                 |
|------------------|-----------------|
| MER              | 0.75% + GST     |
| Buy/Sell Spread  | +0.15% / -0.15% |
| Performance Fees | Nil             |

### Asset breakdown

#### Sub Type Analysis



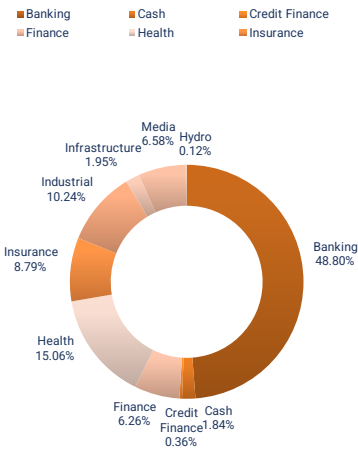
### Performance



Source Arculus, DDH Graham Limited data.

The Fund delivered a solid 51 basis points (bps) after all fees and costs in October. The timing of the coupon payments from the holdings means portfolio income will rise sharply in November and December – as it did in the September quarter. The management focus is on providing consistent income and capital stability.

#### Sector Allocation

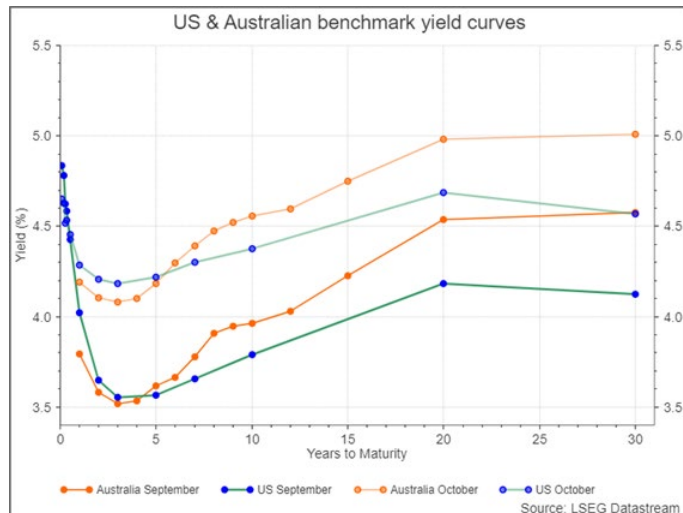
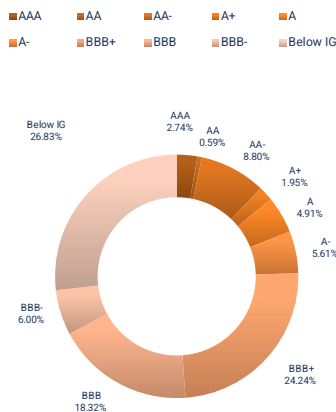


### Market review

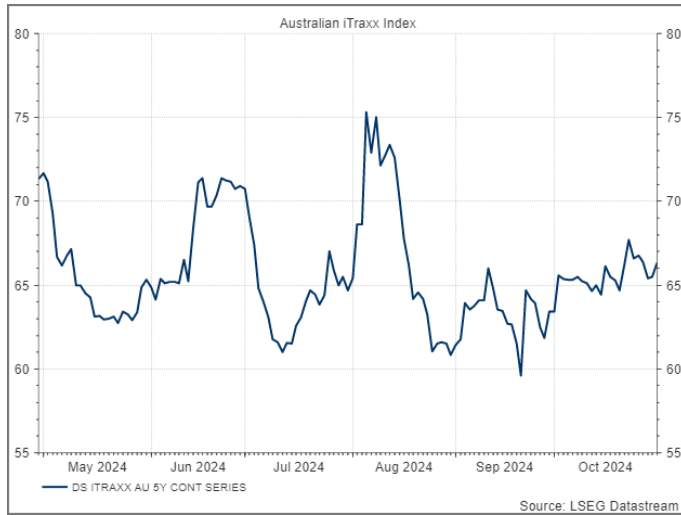
It is important to understand the changes in US economic conditions when forecasting the outlook for the Australian yield curve because in the long end of the curve (5 to 10-years) there has been, for some years, a relatively close correlation. There have been instances of uncertainty about the Australian economic outlook, such as May/June 2022 when there was a change of government at a federal level, when the Australian 10-year yield was trading 75bps above the US 10-year yield; however, the range has generally been plus or minus 15bps historically.

The bond markets are no longer as confident that rates will continue to be cut by central banks in the months ahead. US treasury yields (orange lines) have been climbing since September on a combination of strong US economic data, rising worry about the outlook for the US deficit and inflation, and a higher term premium that's meant to compensate investors for the risk of holding longer-dated government debt. While Australian bond yields (blue lines) have also risen in unison it is worth noting that, at the long end, the Australian 10-year spread to the US 10-year yield has increased since June from negative 10bps to the current positive 22bps.

#### Credit Rating

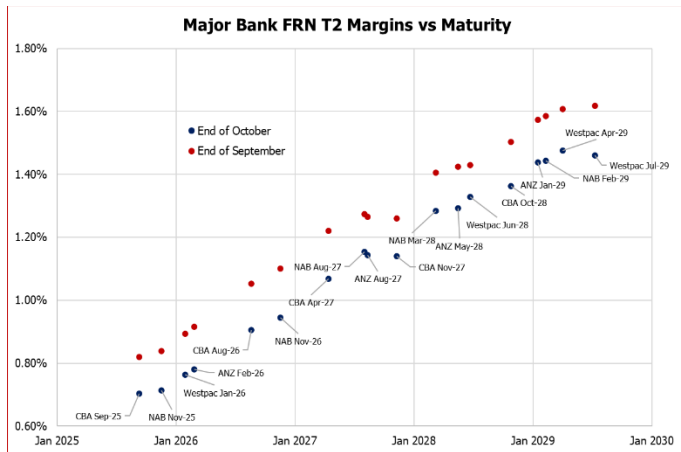


Senior floating rate credit margins were generally unchanged in October. The Australian 5-year iTraxx index moved slightly higher; however, major bank senior margins tightened slightly.



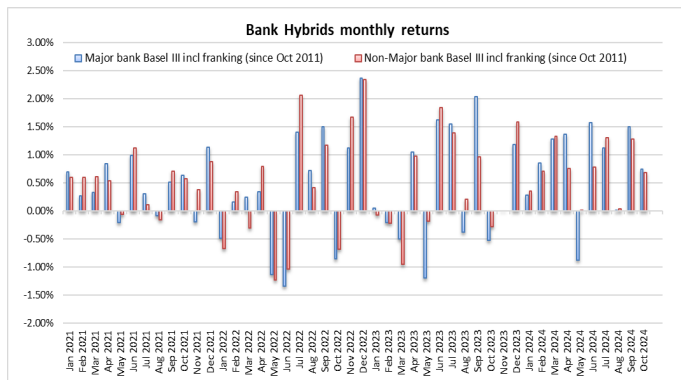
**Tier 2 bonds**

Australian Tier 2 spreads tightened in October as the lack of major bank supply since July was felt across the market. Major bank non-call 5-year floating rate notes (FRNs) closed the month 17bps tighter (167bps to 150bps). This was a material outperformance to 5-year senior which was just 3bps tighter (83bps to 80bps).



**Tier 1 securities**

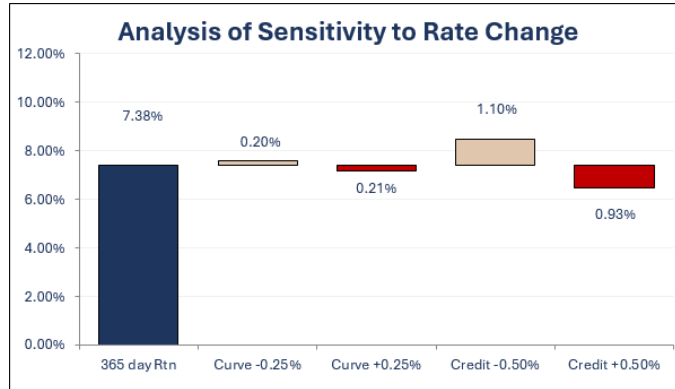
The announcement in early September that APRA are proposing to remove the AT1 sleeve entirely and have the banks more reliant on Tier 2 type debt securities to act as the total loss absorbing capital buffer to term deposits, continued to drive AT1 margins tighter in October. This has meant that major bank hybrids have returned 7.83% YTD and non-majors 7.22% YTD. In the past three years, major banks' hybrids including franking have returned 8.21% p.a. whereas non-majors returned 8.88%. This 0.67% difference is a reliable estimate of the risk premium attributed to the non-majors.



### Fund positioning

At this stage, the balance of risks remains for inflation to stay elevated and the economy to continue to grow (not contract). If this outcome eventuates then floating rate margins will remain near current tight levels and floating rate bonds will outperform fixed rate bonds. The Fund remains positioned with a low fixed duration of 0.51 and a modest credit spread duration of 1.98 with the aim of maintaining an average margin over 90-day BBSW of 350bps.

As the investment manager, Arculus aims to achieve the highest possible effective running yield subject to minimising the credit spread risk and the fixed duration risk. This chart shows the current effective running yield is 7.38%. The fixed duration risk is calculated with the assumption that fixed rates move 25bps and the credit spread risk with the assumption of 50bps move in margins.



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