

Strategy & Objective

The investment strategy of the Arculus Fixed Income Fund is to identify appropriate investments from the pool of Australian sovereign and Australian senior bank bonds that are expected to generate a sufficiently high yield, commensurate with the assumed risk, with minimum volatility of returns. The Fund is not benchmark aware so is without a duration target. It is focused on achieving an absolute return of the 90-day BBSW rate plus 150bps. The Fund may be appropriate for investors seeking a low to medium risk investment over a 1 to 3-year period.

The Fund aims 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 90-day Bank Bill Swap Rate plus 1.5% before fees.

ESG

Environmental, Social and Governance issues form part of the risk analysis framework. For further information on Arculus' ESG policies and practices, visit <https://arculus.com.au/environment-social-and-governance/>.

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 DDH8305AU
ARSN 622 419 578

Fund availability

This Fund can be accessed by investing directly, or indirectly, using the BT Panorama, Allan Gray, HUB24, and Netwealth platforms.

Performance to 30 September 2025 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	1.19%	2.44%	5.03%	5.70%	5.39%	2.16%	2.19%
Cash Distribution	1.16%	2.98%	5.70%	5.27%	4.76%	3.24%	2.81%
+/- Growth	0.03%	-0.54%	-0.67%	0.43%	0.63%	-1.08%	-0.62%

The Fund is benchmark unaware, but the target rate of return is the 90-day Bank Bill Swap Rate plus 1.5% before fees.

* 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 16 November 2017.

Australian index returns 30 September 2025

Index	1m Return	3M Return	12M Return
Bloomberg Australia Bank Bill Index	0.29%	0.92%	4.19%
Bloomberg Australia Gov't 3-5 Year Index	-0.21%	-0.02%	3.73%
Bloomberg Australia Composite 0-3 Year Index	0.08%	0.56%	4.26%
Bloomberg Australia Composite 3-5 Year Index	-0.17%	0.20%	4.38%
Bloomberg Australia Composite All Maturities Index	0.10%	0.40%	4.09%

Bloomberg Index data is sourced from Evans & Partners.

Fund rating

Initially rated 'Favourable' by SQM Research in December 2018, the Fund was upgraded to 'Superior' in December 2020 and retained annually. The latest review was March 2025.

As of 30 June 2025, the Fund is also rated by FundMonitors.com.

Fund ratings are not a recommendation and are subject to change.



5 Year



Fund size

As of 30 September 2025, the Net Asset Value of the Fund was \$60,586,903.24.

Portfolio characteristics 30 September 2025

Running Yield*	2.72%
Yield to Maturity*	4.75%
Average Margin	1.21%
Average Years to Maturity	2.17
Number of Securities Held	38
Floating	89.95%
Fixed	2.35%
Cash	7.69%
Modified Duration	0.11
Credit Duration	1.12

* Based on fund metrics at review date. Future returns may be different.

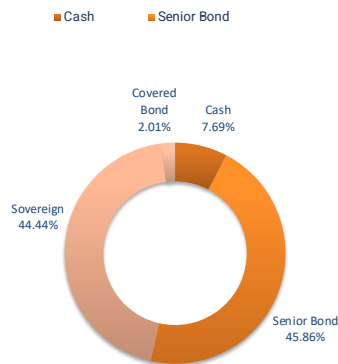
Fees

MER	0.368% + GST
Buy/Sell Spread	+0.10% / -0.10%
Performance Fees	Nil

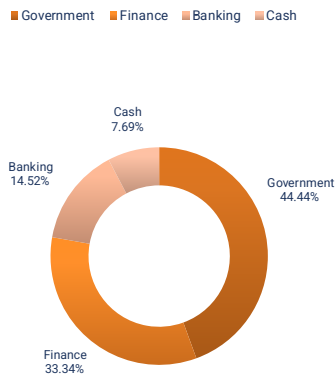
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Asset breakdown

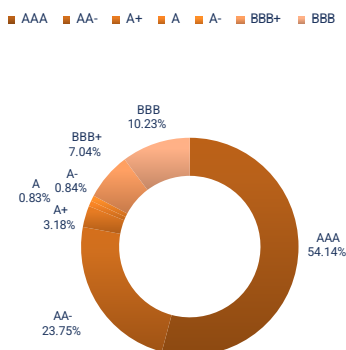
Sub Type Analysis



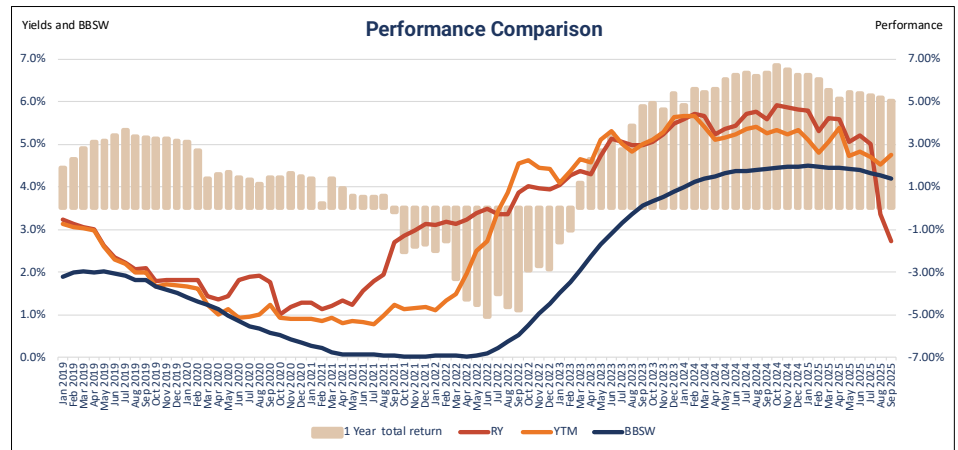
Sector Allocation



Credit Rating



Performance



Source Arculus, DDH Graham Limited data.

The Fund returned, net of all fees, 34 basis points (bps) in September. The September quarter income distribution to unit holders was 1.16%. These returns are reflective of the Fund's mandated universe of Australian Sovereign and APRA-regulated financial sector senior bonds.

Fund positioning

At the end of September, the portfolio has retained similar risk positioning to August with:

- Average rating AA after profits taken on triple B rated issuers in August and September with funds switched into Commonwealth Treasuries maturing within 90 days.
- Credit duration of 1.12 which is well below the peer group at 3.9.
- Modified (fixed) duration of 0.11.

The maturity profile remains heavily weighted to the very short term. The portfolio has two relatively large holdings of Commonwealth treasury bonds rated AAA. Nearly half of these holdings will mature on the 10th of October and the other half on the 11th of December 2025.

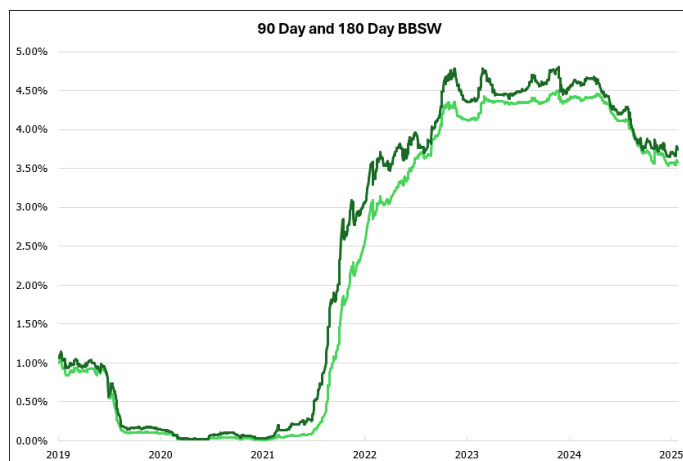
In early October it is anticipated that profits will continue to be taken on triple B rated issuers and funds switched into two-year major bank bonds rated AA-.

Market review & outlook

There have been two factors at work reducing the yield on floating rate bonds over the past 12 months.

RBA cutting rates

The RBA interest setting board has cut rates three times this year. At the September meeting rates were left on hold and although the 90-day BBSW rate finished the month at 3.58%, the 180-day BBSW rate rose over the month from 3.66% to 3.75%. At the beginning of the year the 90-day BBSW rate was at 4.40%. The RBA official interest rate has a significant impact on the 90-day BBSW rate.



The increase in the monthly reading of the CPI last month has brought about a change in market forecasts for the RBA official interest rate. There is no longer an expectation of another rate cut this year and only one is expected next year. This would bring the terminal rate to near 3.30%.

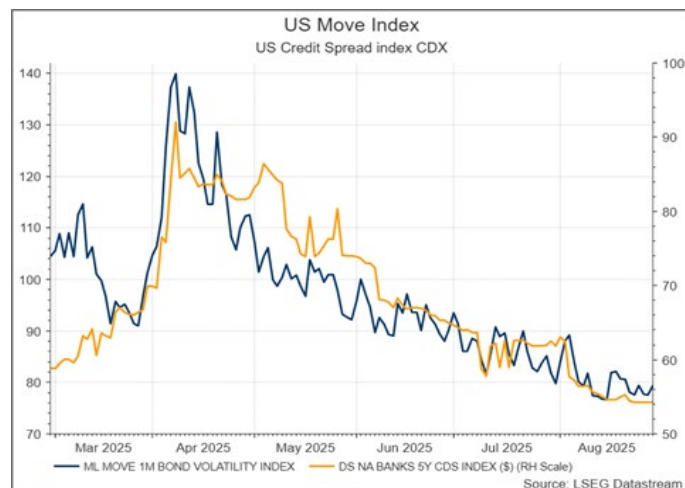
The next question is, when and by how much, official rates will rise. At this stage we expect that the RBA will remain on hold now for a considerable period. This will mean that 3.53% is the low point for the 90-day BBSW rate in this interest rate cycle. It is increasingly apparent that when the 90-day BBSW rate (the rate against all floating rate bonds in Australia are linked) was at 4.40%, lending to many sections of the economy was restricted by our banks and mutual societies. At a 90-day BBSW rate of 4.40% the banks were adding their normal margin plus the 3% buffer to reach a level where many households did not qualify for a new mortgage. This also impacted existing borrowers and the banks responded in many cases by extending the loan term out as far as possible to reduce the amortisation impact. Understanding this is important because:

- The Australian economy with its tremendous growth in the government sector will be increasingly reliant on labour that has greater job security than the private sector, but a lower average income.
- There is an implied soft ceiling on interest rates at 4.5% as this is the point at which mortgage stress becomes apparent.

It is then likely that over the next five years – the duration of typical Australian senior bank bonds – we will see the 90-day bank bill swap rate move in a range of 3.5% to 4.5%.

Credit margin contraction

The second factor is the extraordinary contraction in the credit margins on bonds. Across nearly all developed economy money markets we have seen a consistent and significant fall in bond and credit volatility since the spike in April that occurred when the markets reacted to the Trump tariff announcement. September 5-year major to bank senior margins have contracted only from 72bps to 69bps, but this needs to be viewed in the context of the current economic risks and that margins have fallen from 90bps over the past 12 months.



The MOVE Index (measure of US corporate bond volatility) and the US CDX index (US credit spreads) are highly correlated. This fall in volatility has driven a remarkable tightening of credit margins in all development economy money markets. The US credit tightening is leading the Australian market, but it has now reached levels only seen during the depths of the pandemic lockdowns when both monetary and fiscal stimulus temporarily depressed margins.

At the end of September Australian major bank credit margins had contracted into the levels in this table. With 90-day BBSW at 3.58%, the yield on a 3-year major bank bond would be 4.17%.

Term	Margin
1yr	32
2yr	47
3yr	59
2yr	64
5yr	69