ARCULUS PREFERRED INCOME FUND
MONTHLY REPORT – OCTOBER 2025

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, issued by Australian corporates, ASX-listed hybrid and debt securities, 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 target return is not guaranteed. 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-, Moody's rated below Baa3).

The Fund may be appropriate for investors seeking a medium risk investment over a 3 to 5-year period.

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/environmentsocial-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 (GCI) ABN 68 140 364 576 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, Clearstream and Australian Money Market platforms.

Performance to 31 October 2025 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	**1.39%**	**2.33%**	**4.94%**	**6.27%**	**6.16%**	**4.35%**	**4.56%**
Cash Distribution	1.57%	3.63%	6.90%	6.44%	5.95%	4.85%	5.43%
+/- Growth	-0.18%	-1.30%	-1.96%	-0.17%	0.21%	-0.50%	-0.87%

The Fund is benchmark unaware, but the target rate of return is the 90-day Bank Bill Swap Rate plus 3.5% 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 25 October 2004. Arculus commenced as Investment Manager on 01 July 2015.

Australian index returns 31 October 2025

Index	1m Return	3M Return	12M Return
Bloomberg Australia Bank Bill Index	0.30%	0.91%	4.11%
Bloomberg Australia Gov't 3-5 Year Index	0.18%	0.34%	5.44%
Bloomberg Australia Composite 0-3 Year Index	0.25%	0.68%	4.74%
Bloomberg Australia Composite 3-5 Year Index	0.23%	0.48%	6.04%
Bloomberg Australia Composite All Maturities Index	0.36%	0.80%	6.47%

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.

Fund size

As of 31 October 2025, the Net Asset Value of the Fund was $140,398,233.18.

Portfolio characteristics 31 October 2025

Running Yield*	5.98%
Yield to Maturity*	7.46%
Average Margin	3.82%
Average Years to Maturity	2.54
Number of Securities Held	58
Fixed	10.51%
Floating	86.88%
Cash	2.61%
Modified Duration	0.34
Credit Duration	1.56

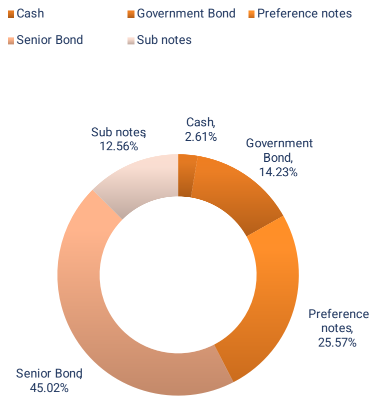
* Based on fund metrics at review date. Future returns may be different.

Fees

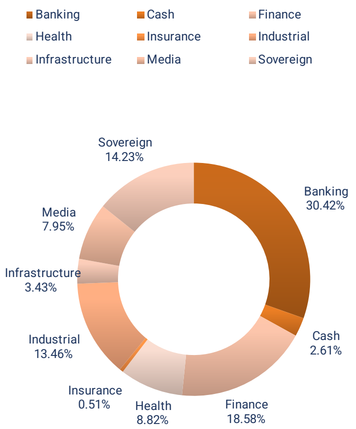
MER	0.75% + GST
Buy/Sell Spread	+0.15% / -0.15%
Performance Fees	Nil

Asset breakdown

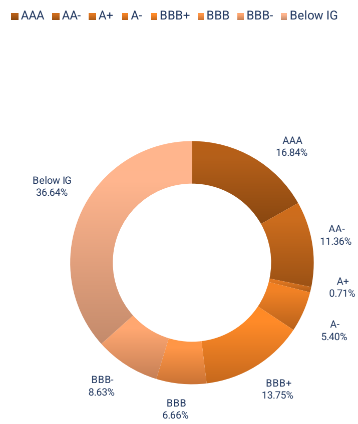
Sub Type Analysis



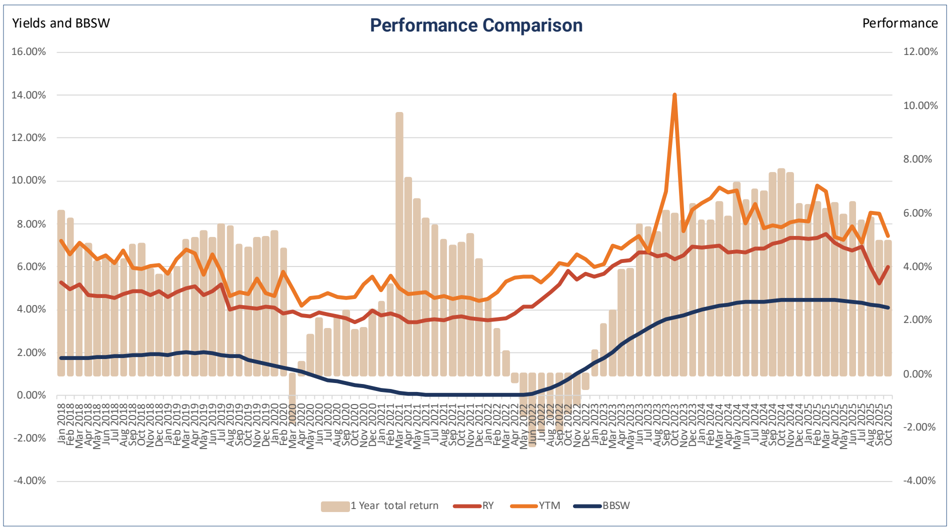
Sector Allocation



Credit Rating



Performance



Source Arculus, DDH Graham Limited data. Past performance is not an indicator of future performance.

The Fund had a performance net of all fees of 50 basis points (bps) in October, even with a significant weighting to AAA Commonwealth Treasury bonds yielding 3.64%. The performance was delivered mostly by the coupon driven running yield as floating rate credit margins remained near September levels. Returns over the December quarter will be supported by the portfolio's running yield of 5.98% and yield to maturity of 7.46%.

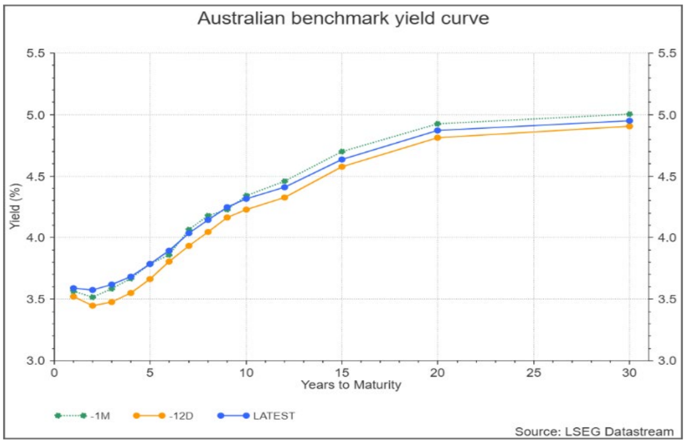
Fund positioning

Over the next few months several of the non-investment grade holdings will mature and it is anticipated that these funds will be rolled into a basket of short-dated investment grade holdings and floating rate semi-government bonds. These are liquidly traded bonds that will enable a switch back into higher yielding bonds should a rise in global asset volatility result in floating rate margins widening significantly. This will mean that the portfolio yield will fall from the current estimated YTM of 7.46%, however, it is expected that a yield of 90-day BBSW (currently 3.64%) plus 350bps will still be possible with the rolling of the 14% weight in short-dated Commonwealth Treasuries (AAA) into bank senior and Tier 2 subordinated bonds.

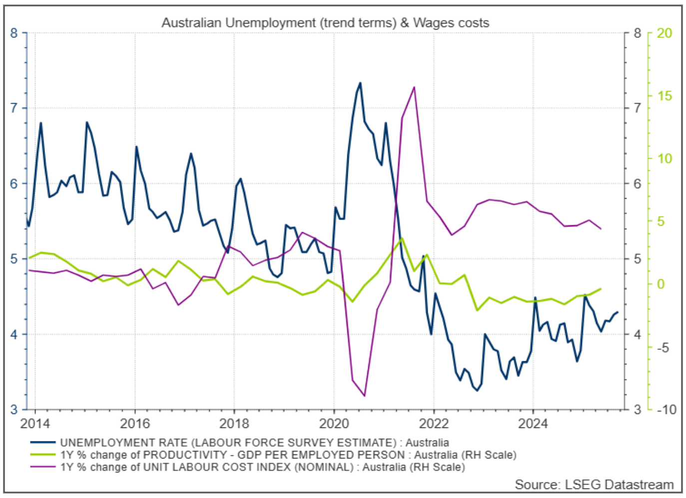
Market review

Every year investors brace for volatility in the month of October and this year it did not come from the equity or credit asset markets but the fixed rate bond markets. The sharp moves in bond prices were driven by the release of two key economic statistics:

- Unemployment data showing a rise in unemployment to 4.5% on the 16th of October which pushed the yield curve down (orange line).
- CPI data on the 29th of October that showed a surge in headline inflation to 3.2% which pushed the yield up to almost where it began the month.



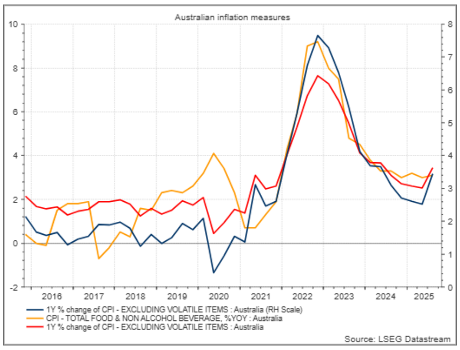
The unemployment rate rose to 4.5% (seasonally adjusted) and 4.3% in trend terms in September. It is worth noting that employment increased by 15,000 (full and part time), hours worked increased and the employment to population ratio was steady at 64%. The rise in the unemployment rate was due to the participation rate increasing from 66.8% in August to 67% in September and the seasonal adjustments.

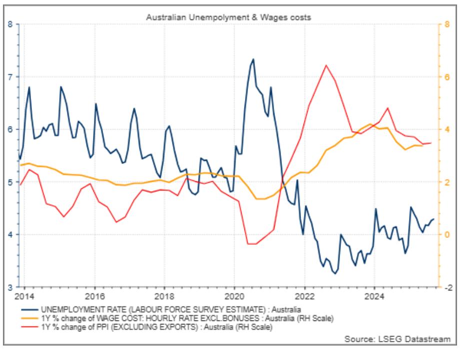


This chart (above) shows the unemployment rate, labour productivity, and the unit labour cost index. Even if unemployment rises in the months ahead, we may still see inflation increasing because the current growth in unit labour costs has not been supported by a rise in labour productivity.

The CPI statistics as reported by the ABS shocked the market:

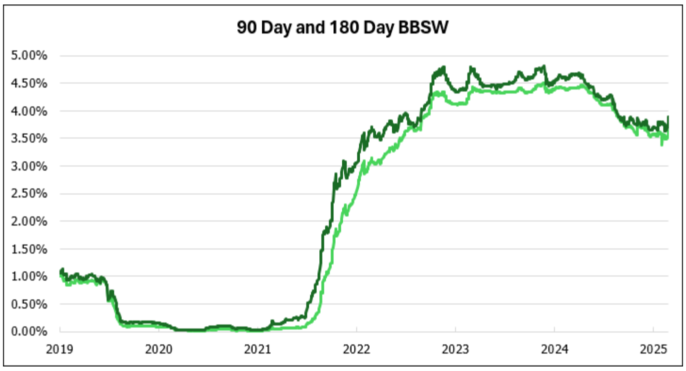
- Headline CPI +1.3% for an annual rate of 3.2%.
- Trimmed mean 3% pa from 2.7% in the June quarter.
- Food and non-alcoholic beverages +3.1% pa.
- Services inflation +3.5%.





The concerning aspect of the CPI result was that it confirmed that input cost growth is now driving a broad increase in prices. This was evident in the Producer Price Index (PPI) figures that showed a 1% quarter on quarter increase for a 3.5% annual increase. In a stable inflation environment, we would expect that the PPI would be below both the headline and trimmed mean measures of inflation so the fact it is at 3.5% pa (and increasing) does suggest rising inflation pressures that may mean that perhaps by February, but more probably May, the RBA interest setting board should be increasing rates.

Immediately following the CPI data, the market re-repriced the outlook for official interest rates. The 90-day BBSW rate began the month at 3.61% but fell to 3.49% after the unemployment data only to finish the month at 3.64% after the inflation data. The rise in the 90-day BBSW rate is important for floating rate credit investors as it is the rate at which coupons are adjusted each quarter. A higher 90-day BBSW rate indicates that a higher yield over the next 90 days is possible.

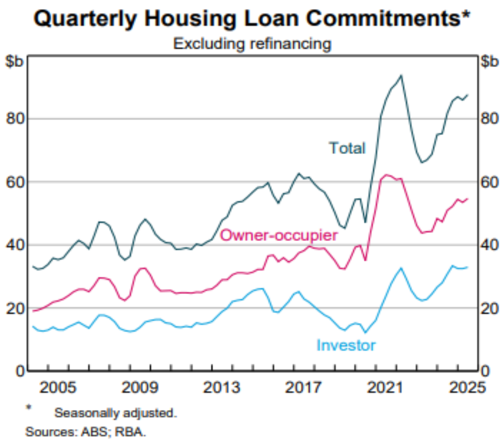


The surge of inflation to a level above what the RBA was expecting in the September quarter (The RBA was expecting a trimmed mean of 2.6% and the outcome is 3%) has generated a lot of debate about what is the **NAIRU** (Non-Accelerating Inflation Rate of Unemployment) and what is the **neutral interest rate**. The NAIRU is regarded as the level of unemployment consistent with the point at which the economy is at 'full employment'. When unemployment falls below NAIRU, wages growth increases and this results in higher inflation just as when unemployment is above NAIRU, wages growth moderates and there is less pressure on inflation. Over the past few years where unemployment has fallen sharply without increasing inflation there were some that thought the NAIRU was below the RBA's 2023 estimate of 4.75%. Now with inflation increasing and unemployment rising this is being re-assessed.

The neutral interest rate is the interest rate judged - at the time - that is not stimulating or restricting economic activity. The RBA would judge the neutral rate to be where we have full employment, or the NAIRU with inflation sustainably within the 2-3% range. In any one economic cycle the neutral rate will be different as there are many factors at work with different economic lags such as:

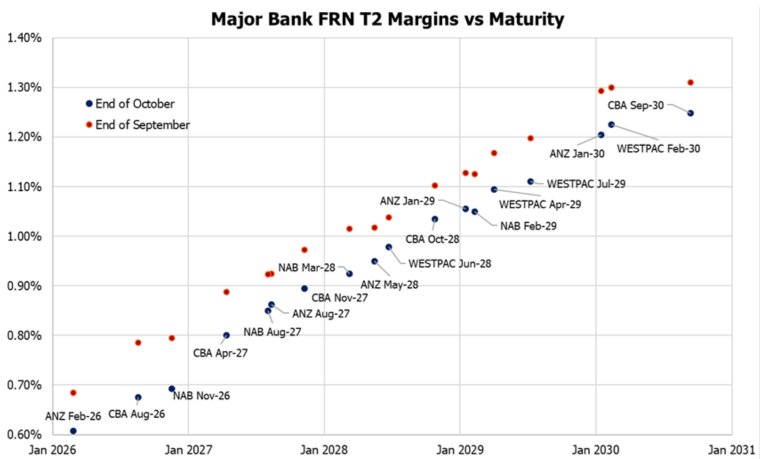
- State & Federal fiscal policies.
- Wage growth and regulations.
- Business investment and its impact on labour productivity.

In an Australian context where borrowing activity is residentially focused, we accept that the neutral rate is the RBA official cash rate consistent with a stable private sector credit outcome. When monetary policy is restrictive, private borrowing for residential property would be falling and when monetary policy is stimulatory, relative to the factors above, such as government fiscal policies, we expect private borrowing for residential property to be strong. In the last week of October the RBA chart pack release (The Australian Economy and Financial Markets) showed that house related loan growth was strong and this prompted APRA to warn the banks to employ macroprudential risk tools to manage lending risks. This strong loan growth is a signal that the current monetary policy settings are stimulative, and the RBA official interest rate is below the neutral rate.



Tier 2 Subordinated bonds

Due to a lack of new issuance by the major banks Tier 2 margins tightened in October at every maturity by a consistent amount. This is not an unusual outcome in October as issuance dries up in the second half of the month ahead of the banks reporting half year results in early November.



Source: Arculus

Hybrids

Typically, the hybrid curve displays a positive slope. As the chart below illustrates, ANZ, NAB, and Westpac hybrids are currently showing a flat curve — in effect, no curve at all — while CBA's curve remains more typical, sitting around 0.70% over five years. This is unusual. For instance, NABPF has been positioned above the curve at the short end for several months. Being a short-term hybrid, NABPF is often mispriced, particularly within 90 days of maturity when franking benefits can no longer be fully utilised. We now see three of the four major banks exhibiting a flat structure, suggesting investors are not differentiating between maturities. This reflects increased buying at the longer end, which is unsurprising given there will be no new Tier 1 securities issued by the major banks.