

As we move into a new year, our thoughts are with the families that lost loved ones, and everyone impacted by the Bondi terror attack. This will have a profound impact on all Australians for a very long time to come.

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 undertake 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 31 December 2025 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	0.93%	2.13%	4.55%	5.40%	5.39%	2.25%	2.24%
Cash Distribution	0.69%	1.86%	5.08%	5.03%	4.80%	3.31%	2.81%
+/- Growth	0.24%	0.27%	-0.53%	0.37%	0.59%	-1.06%	-0.57%

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 31 December 2025

Index	1m Return	3M Return	12M Return
Bloomberg Australia Bank Bill Index	0.31%	0.90%	3.97%
Bloomberg Australia Gov't 3-5 Year Index	-0.54%	-1.06%	2.77%
Bloomberg Australia Composite 0-3 Year Index	-0.01%	0.19%	3.62%
Bloomberg Australia Composite 3-5 Year Index	-0.46%	-0.95%	3.25%
Bloomberg Australia Composite All Maturities Index	-0.63%	-1.15%	3.17%

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 31 December 2025, the Net Asset Value of the Fund was \$42,949,393.99.

Portfolio characteristics 31 December 2025

Running Yield*	3.37%
Yield to Maturity*	3.97%
Average Margin	0.31%
Average Years to Maturity	1.97
Number of Securities Held	37
Floating	93.68%
Fixed	4.48%
Cash	1.84%
Modified Duration	0.12
Credit Duration	1.86

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

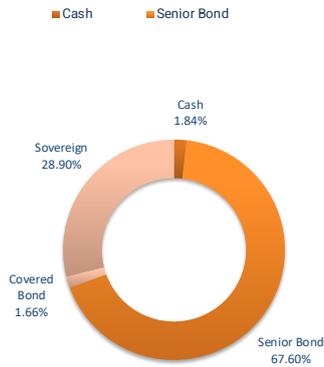
Fees

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

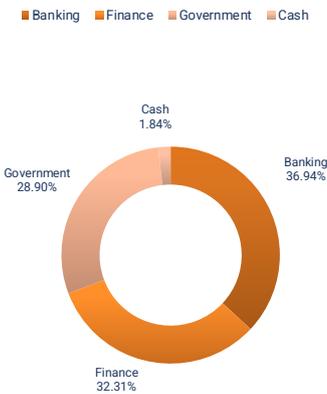
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Asset breakdown

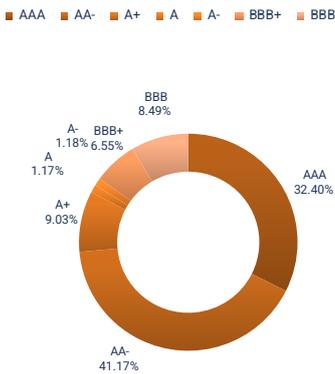
Sub Type Analysis



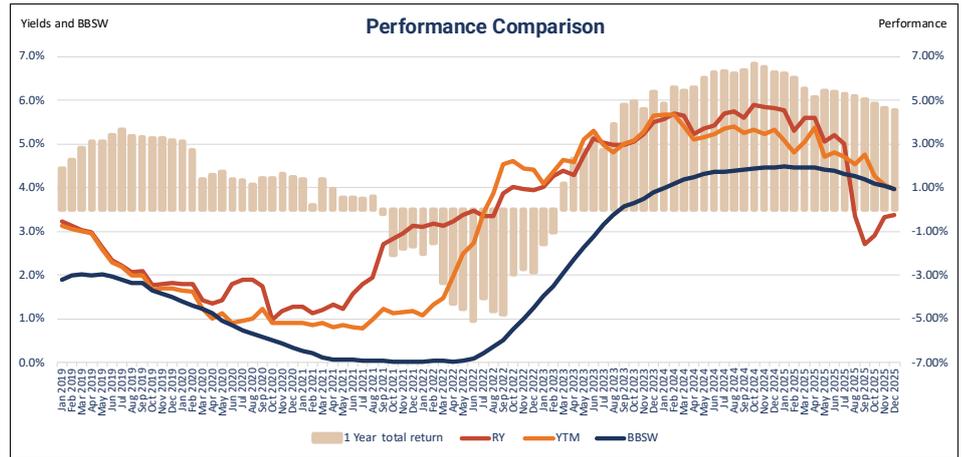
Sector Allocation



Credit Rating



Performance



Source Arculus, DDH Graham Limited data.

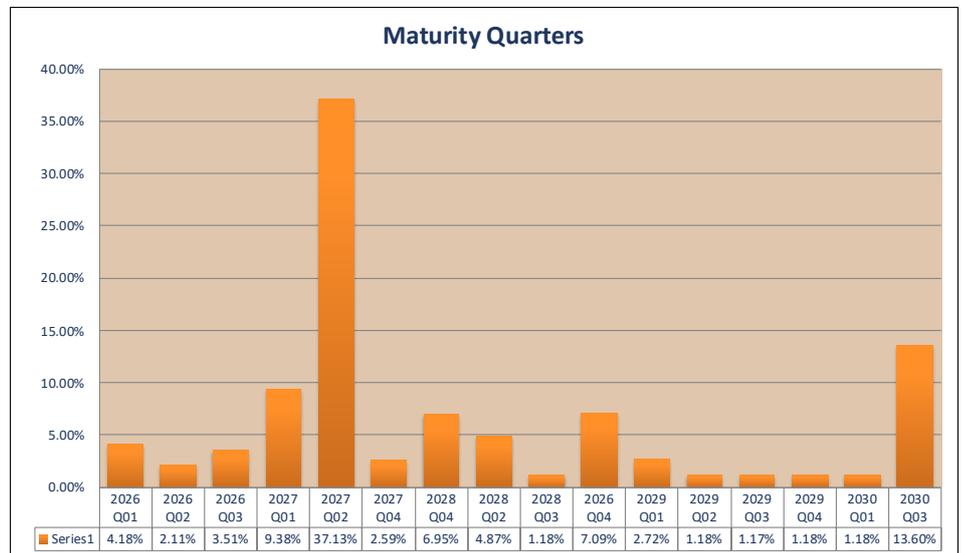
The Fund returned 36 basis points (bps) after all fees in the month of December. Due to the 29% weighting in 90-day Commonwealth Treasuries the Fund currently has a 3.37% running yield and 3.97% YTM. These yields are expected to increase when the Fund's positioning strategy allows for a shift back into floating rate or fixed senior bank bonds.

Fund positioning

The portfolio has been strategically positioned with a low fixed duration in anticipation of inflation returning to the Australian economy and interest rates rising in 2026. The significant steepening of the benchmark Australian yield curve in 2025 (due to rising yields offshore) has impacted the returns of a fixed rate bond portfolio when compared to a floating rate bond portfolio.

In November, the Commonwealth bond holdings matured, and these funds were again rolled into AAA Commonwealth Treasury bonds that are maturing in March. This will mean that the Fund has a lower income distribution and a higher capital growth outcome without increasing duration risk over the investment period. If, as expected, inflation continues to rise in the months ahead, an opportunity may arise whereby we can extend the portfolio's duration by weighting towards longer dated AAA Commonwealth treasuries for larger potential capital gains. The strategic purpose of the short-dated Commonwealth bond exposure is to insulate the portfolio outcome from a widening of bank credit spreads from the current tight levels.

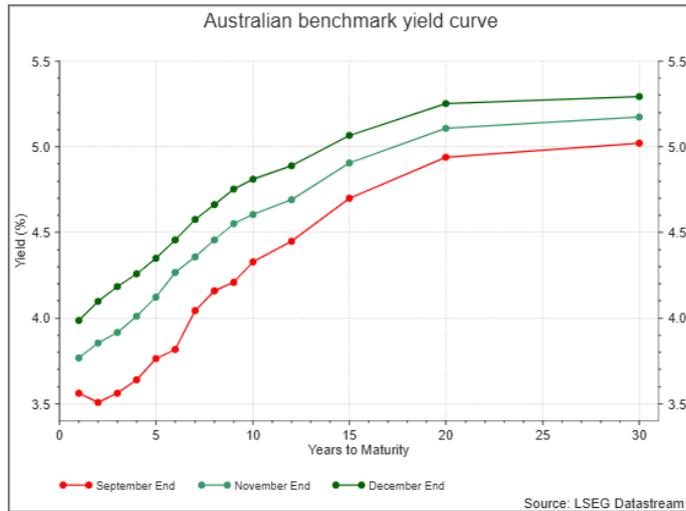
Maturity Quarters



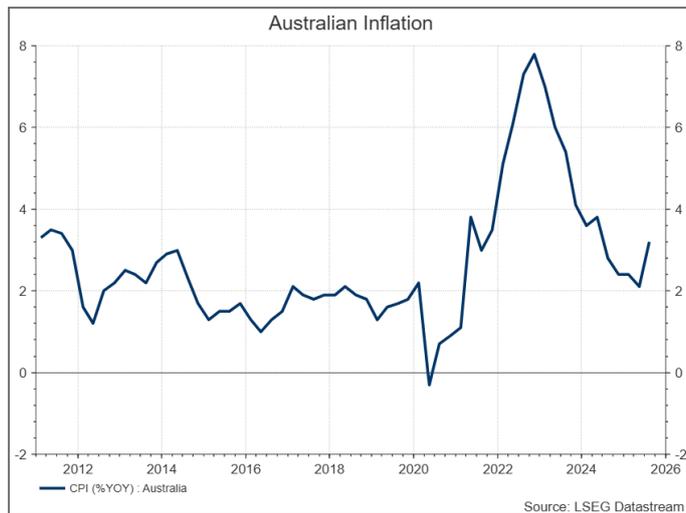
Source Arculus

Market review & outlook

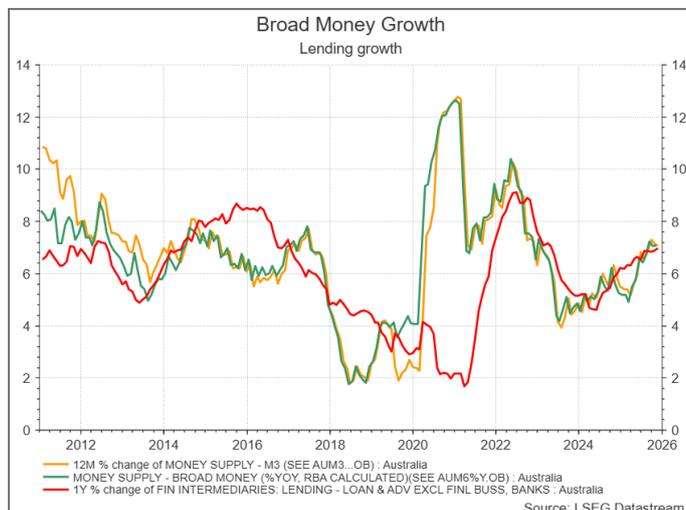
The Australian benchmark yield curve has shifted higher consistently over the past four months.



The market has begun to brace for interest rate increases by the RBA in the year ahead. At the short end of the Australian curve the 1-year bond yield has surged 50bps since the September CPI reading shocked the market. This reflects the reality that the disinflation following the transitory impact of the pandemic lockdowns on global supply chains has been superseded by 'cost-push' inflation.



In an Australian context, inflation will be fuelled by strong money supply growth and strong lending growth that implies the RBA monetary settings are stimulatory.



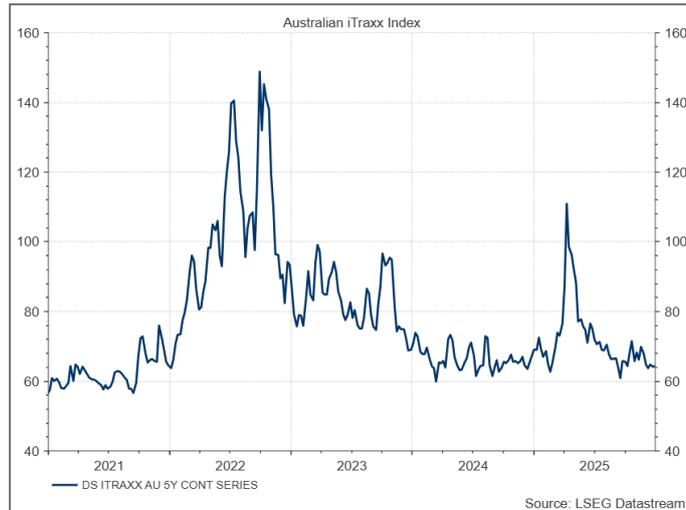
Since September, selling pressure has appeared in the 5 to 10-year part of the benchmark curve and yields have surged. The most plausible explanation for this was the unwinding of the Yen carry trade.

The pressure has come from the Yen's weakness against the Euro and not the US dollar, as was the case in June 2024. The Yen carry trade is done through most developed economy markets. The Bank of International Settlements estimates its size at US\$22 trillion.



Credit Margins

Floating rate credit margins for Australian banks and corporates remain at very tight levels, implying a benign economic outlook. The Australian 5-year iTraxx index (a broad measure of corporate credit margins) was remarkably steady throughout December.



Major bank credit margins moved only slightly wider in December and may remain in a tight range until new issuance arrives after financial reports are released in March. There is a risk that offshore banks may be attracted to issuing new debt in Australia by the tight margins and the lack of new supply from Australian banks in the next two months (Kanga issues) and this pushes credit margins wider.

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