ARCULUS PREFERRED INCOME FUND
MONTHLY REPORT – JANUARY 2026

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 undertake 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 January 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	**-0.06%**	**1.33%**	**3.82%**	**5.03%**	**5.25%**	**3.86%**	**4.50%**
Cash Distribution	1.15%	2.71%	6.40%	6.23%	6.01%	4.89%	5.41%
+/- Growth	-1.21%	-1.38%	-2.57%	-1.20%	-0.75%	-1.03%	-0.91%

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 January 2026

Index	1m Return	3M Return	12M Return
Bloomberg Australia Bank Bill Index	0.30%	0.91%	3.89%
Bloomberg Australia Gov't 3-5 Year Index	0.03%	-1.21%	2.44%
Bloomberg Australia Composite 0-3 Year Index	0.20%	0.13%	3.39%
Bloomberg Australia Composite 3-5 Year Index	0.12%	-1.05%	2.98%
Bloomberg Australia Composite All Maturities Index	0.21%	-1.29%	3.20%

Bloomberg Index data is sourced from Evans & Partners.

Fund rating

The Fund has been rated by SQM Research and FundMonitors.com.

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

Superior
SQM RESEARCH
5 Year

Fund size

As of 31 January 2026, the Net Asset Value of the Fund was $108,673,480.68.

Portfolio characteristics 31 January 2026

Running Yield*	6.53%
Yield to Maturity*	7.37%
Average Margin	3.53%
Average Years to Maturity	2.72
Number of Securities Held	57
Fixed	13.53%
Floating	82.44%
Cash	4.03%
Modified Duration	0.57
Credit Duration	2.67

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

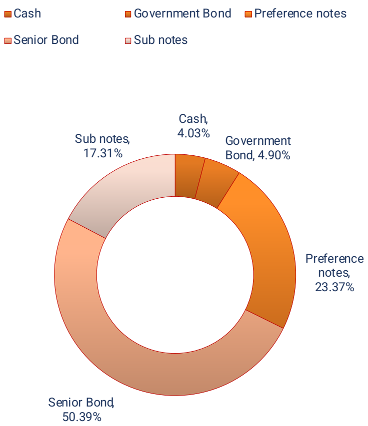
Fees

MER*	0.72%
Buy/Sell Spread	+0.15% / -0.15%
Performance Fees	Nil

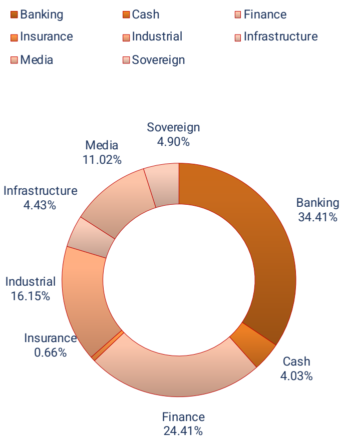
* GST inclusive, net of any reduced input tax credits

Asset breakdown

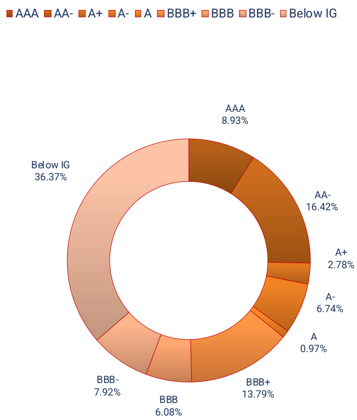
Sub Type Analysis



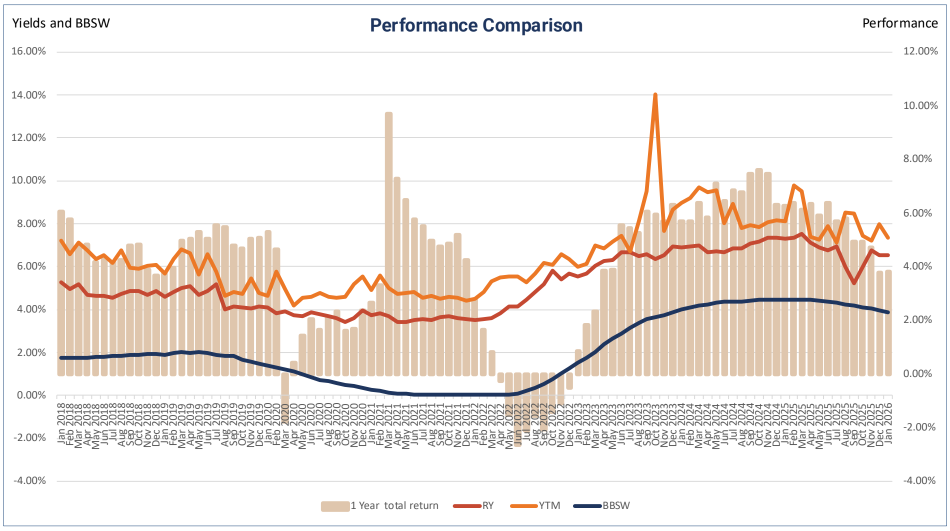
Sector Allocation



Credit Rating



Performance



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

The Fund returned 29 basis points (bps) after all fees in January. Over the next 12 months, performance is expected to be supported by the 6.53% running yield and the 7.37% yield to maturity of the portfolio. If inflation remains outside the RBA 2% to 3% target band and private credit growth does not decline, then we expect the RBA to make several increases to its official overnight rate beginning in February. This will mean that the 90-day BBSW rate is likely to rise from the current 3.84%, and because floating rate bond quarterly coupons are benchmarked against the 90-day BBSW rate, the portfolio's yield is expected to rise.

Fund positioning

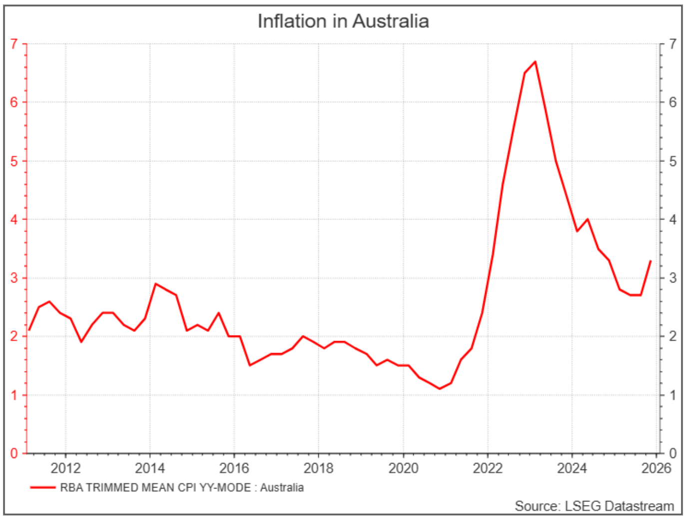
In anticipation of inflation forcing interest rates higher in 2026, and this increasing corporate default risk, the tactical strategy remains to reduce non-investment grade exposure (defined as debt not rated BBB- or higher by either S&P, Moodys or Fitch rating agencies) in line with the portfolio maturity profile.

It is an overlooked aspect of investing in non-investment grade debt, that not all non-investment grade issuers are equal – or even similar. A detailed analysis and understanding of the implications under a number of possible scenarios is an important part of the process for investment. Many debt funds have mandates that allow the Investment Manager to self-classify an investment as 'investment grade.' Arculus does not 'self-classify' any of its investments. If a holding is not rated by a major rating agency (S&P, Moodys or Fitch) then it is classified as 'not rated' and non-investment grade.

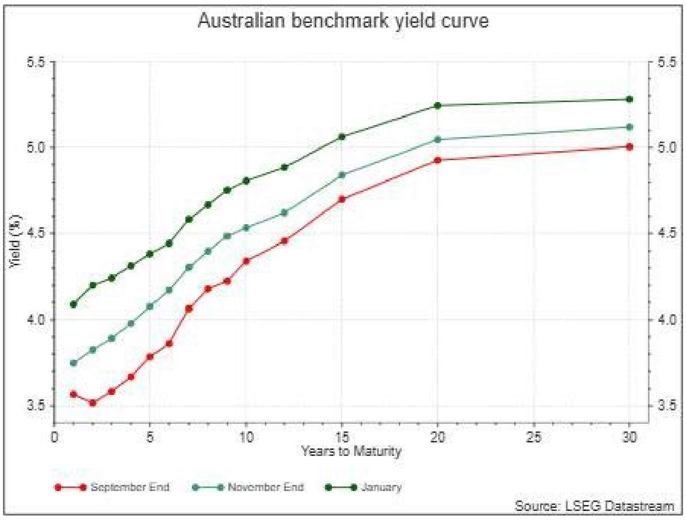
Over the next two months several of the non-investment grade holdings are expected to be redeemed under the terms and conditions, as detailed in their issue documents. When an early redemption occurs the terms of the issue require a premium to the face value. Generally, this is 3% in the first 12 months, 2% in the first 24 months and 1% in the first 36 months. Our performance estimates will be updated when an event occurs that triggers an early redemption for any specific holding.

Market review

Despite a relatively strong currency over the past 12 months, inflation has once again emerged in Australia. In anticipation of the RBA beginning a new rate increase cycle at its February meeting, the 90-day BBSW rate has moved from near 3.45% a few months ago to 3.86%. This is important because floating rate bond coupons are linked to the 90-day BBSW rate.



We have seen the benchmark curve shifting upwards over the past four months. The way that the entire curve has moved up indicates that the RBA will be increasing rates at the short end, while at the long end investors are predicting stronger growth and higher inflation in the period ahead.



Senior Credit Margins

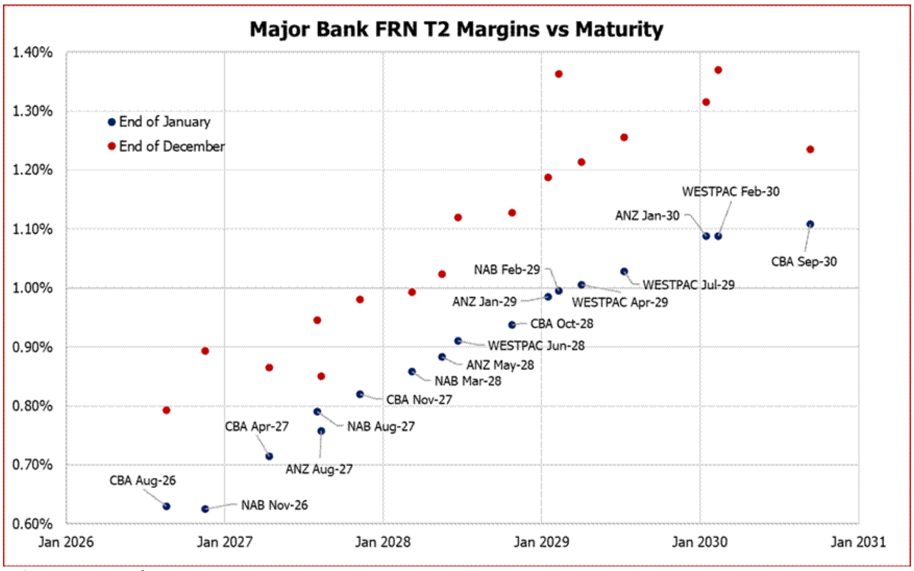
Floating rate credit margins for Australian banks and corporates remain at very tight levels. This implies a benign economic outlook where default risk is low.

Tier 2 bonds

Tier 2 margins tightened considerably in January. The 10NC5 year major bank margin moved from 132bps at the end of December to 115bps at the end of January. This margin contraction was driven by a heavy supply-demand imbalance due to the absence of Tier 2 primary issuance for 84 days and dealer inventories beginning the year at lower levels that we have seen in the past. Additionally, there are several March quarter redemptions that will also add to demand:

- $1.25bn WSTP on 29 January
- $1.25bn ANZ on 26 February

The upward move in the Australian dollar from US66 cents to US70 cents over the month may mean that offshore investor demand weakens in the months ahead and spreads may also be pressured wider by profit taking.

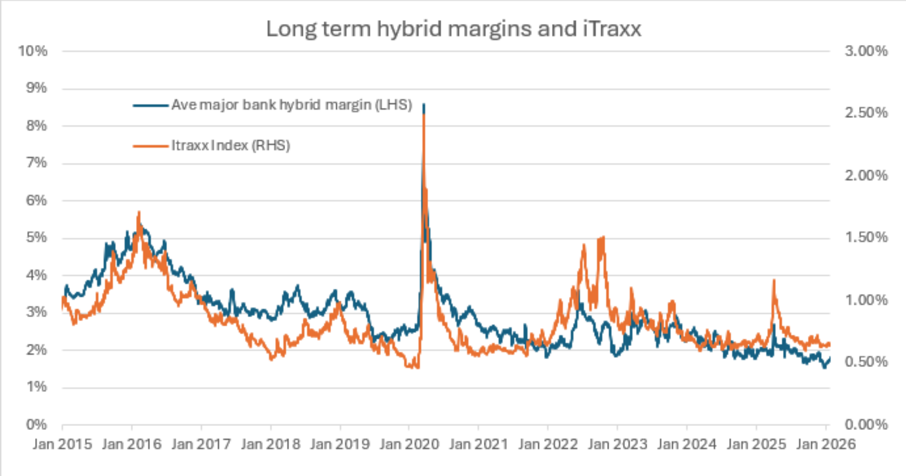


Source: Arculus

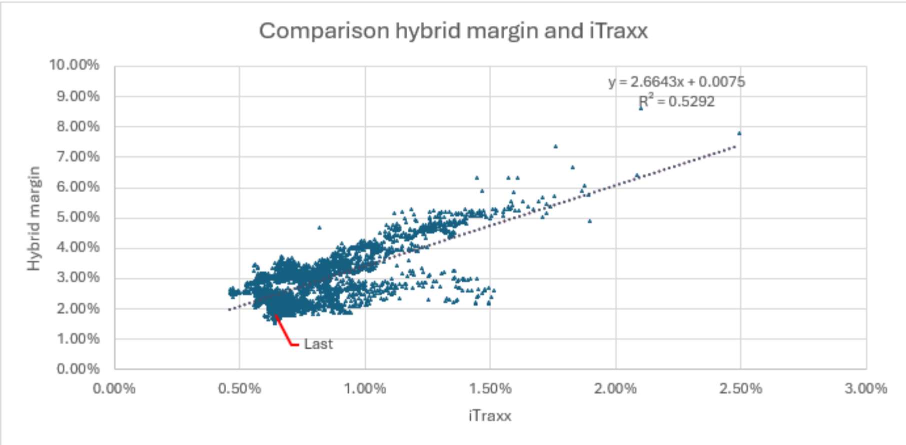
Tier 1 Securities

Over January, Tier 1 margins, on average, increased from 1.55% at the end of December to finish at 1.82%. In context, as shown in the chart below, this is still an extreme low, driven by a lack of new hybrid issuance and less available liquidity.

The chart also shows the iTraxx index, a measure of Australia's top 25 corporate senior bonds trading margins. Banks represent 20% of the equally weighted iTraxx basket (majors plus Macquarie). This index is close to its lows, as are all corporate bond margin spreads globally. On a relative basis, these two-time series are shown in the second chart as a scatter diagram. The mathematical relationship is also shown in the chart. This chart shows that the long-term relationship between the iTraxx index and hybrid margins, of 2.66 times the iTraxx index, is still being maintained.



Source Refinitiv, Arculus



Source Refinitiv, Arculus

These comments reflect the Manager's current views as at the date of this report. These views are subject to change and are not guarantees of future performance.