

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/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 (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 30 November 2025 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	0.96%	2.41%	4.71%	6.07%	5.94%	4.35%	4.55%
Cash Distribution	1.56%	3.63%	6.88%	6.42%	5.94%	4.85%	5.41%
+/- Growth	-0.60%	-1.22%	-2.17%	-0.35%	0.00%	-0.50%	-0.86%

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 30 November 2025

Index	1m Return	3M Return	12M Return
Bloomberg Australia Bank Bill Index	0.30%	0.89%	4.04%
Bloomberg Australia Gov't 3-5 Year Index	-0.70%	-0.73%	3.92%
Bloomberg Australia Composite 0-3 Year Index	-0.05%	0.29%	4.20%
Bloomberg Australia Composite 3-5 Year Index	-0.71%	-0.66%	4.44%
Bloomberg Australia Composite All Maturities Index	-0.88%	-0.42%	4.35%

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 30 November 2025, the Net Asset Value of the Fund was \$113,061,165.77.

Portfolio characteristics 30 November 2025

Running Yield*	6.74%
Yield to Maturity*	7.21%
Average Margin	3.57%
Average Years to Maturity	2.55
Number of Securities Held	57
Fixed	10.41%
Floating	80.76%
Cash	8.83%
Modified Duration	0.30
Credit Duration	1.83

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

Fees

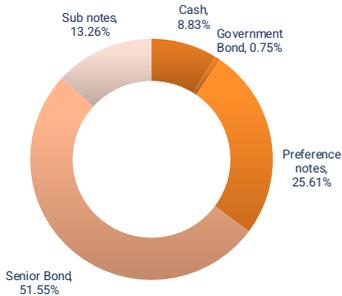
MER	0.75% + GST
Buy/Sell Spread	+0.15% / -0.15%
Performance Fees	Nil

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Asset breakdown

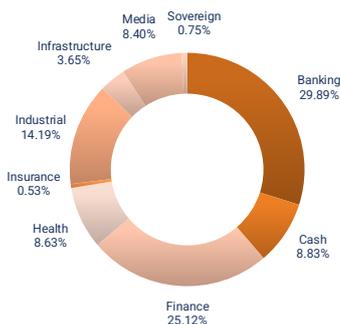
Sub Type Analysis

- Cash
- Government Bond
- Preference notes
- Senior Bond
- Sub notes



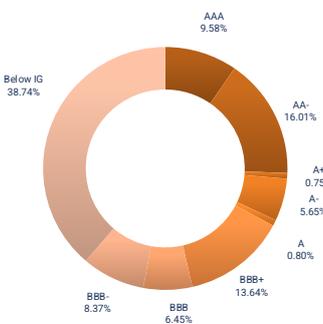
Sector Allocation

- Banking
- Cash
- Finance
- Health
- Insurance
- Industrial
- Infrastructure
- Media
- Sovereign

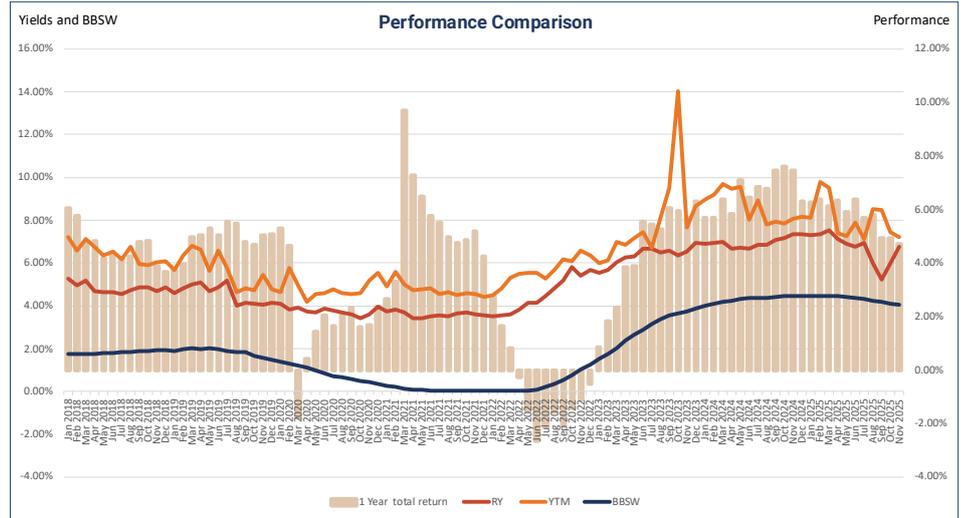


Credit Rating

- AAA
- AA-
- A+
- A-
- A
- BBB+
- BBB
- BBB-
- Below IG



Performance



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

The Fund returned 20 basis points (bps) after all fees in the month of November. This reflects the more conservative positioning in Commonwealth Treasuries with 90-days to maturity and the short-dated maturity profile of the overall portfolio. Portfolio performance was also impacted by the significant ASX listed Tier 1 weighting where margins shifted 19bps wider last month. Supported by the 6.74% running yield and the 7.21% YTM, the Manager’s outlook is for a performance outcome in this range over the next 12 months.

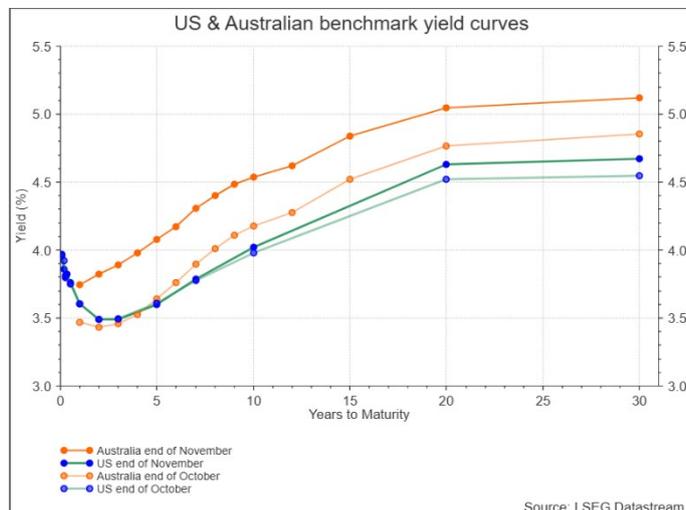
Fund positioning

Recent platform-wide rationalisation by Macquarie and Netwealth, including related rating-agency requirements, resulted in the Fund being removed before Arculus had the opportunity to secure a replacement rating. These external factors have contributed to a reduction in the Fund’s size during the period. We are working to resolve the ratings issue early in the new year. Despite the reduction in the Fund’s size, Arculus is committed and has the capacity to maintaining the mandate as part of its entire funds under management strategy. Underlining this commitment Arculus has reduced its investment management fee by 10bps to bring the MER down to 65bps plus GST.

The Manager believes that the Fund will outperform over the next few months through a combination of the tactical strategic decision to reduce credit spread risk – at a time when credit margins are very tight – and the maturity profile of its higher yielding non-investment grade holdings. These non-investment grade holdings maturing in the short term are senior secured bonds backed by identifiable physical collateral and not subordinated issues or opaque warehouse facilities.

Market review

In contrast to the US yield curve, where yields hardly moved at all in November, the Australian benchmark yield curve has shifted dramatically higher. This shift in bond yields can be partly explained by rising Japanese bond yields and partly by the higher-than-expected Australian inflation readings over the past four months. Although there are still some banks publicly forecasting rate cuts in 2026 the market is in the early stages of pricing for actual rate increases at the May meeting.

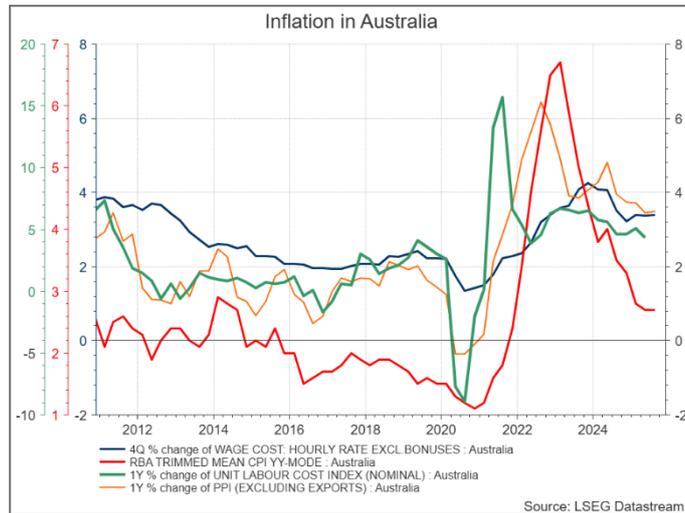


Source: LSEG Datastream

It is the Manager’s belief that we are unlikely to see any further rate cuts for the following reasons:

1. Inflation is gathering momentum with a sharp headline increase in the October monthly reading to 3.8% and more importantly the RBA trimmed mean is rising at 1% per quarter.

There is a significant lag between rising employment costs or a fall in labour productivity and the impact on final prices (CPI). The chart below shows the sharp deceleration of inflation once the global supply chains were restored after the pandemic lockdowns. In the next phase there is a strong likelihood that inflation will be dragged higher by wages growth, producer prices and unit labour cost all stubbornly remaining higher than where they were prior to the pandemic. This is cost push inflation and once it gathers momentum it is very difficult to slow down.

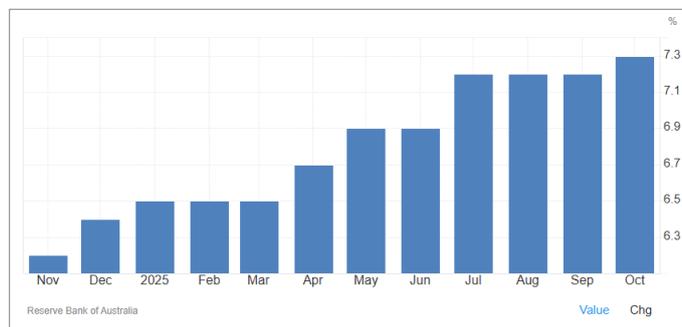


2. APRA have made a big deal about the surge in investment lending in the September quarter, and this will have been compounded by the stronger, again, October reading. The value of loans in Australia increased 7.30% in September and October over the same month in the previous year, marking the fastest expansion since January 2023. The following articles are worth reading:

- [Australian home loans could face curbs as APRA warns about high debt-to-income lending](#)
- [APRA stress test: Australian banks and super funds can survive severe financial shock but housing is a worry](#)
- [Australian housing: Investor mortgages surge at fastest rate in four years, raising concerns regulators will curb credit for investors](#)

Such strong private credit growth implies that the current RBA official rate is below the neutral rate and stimulative, not restrictive.

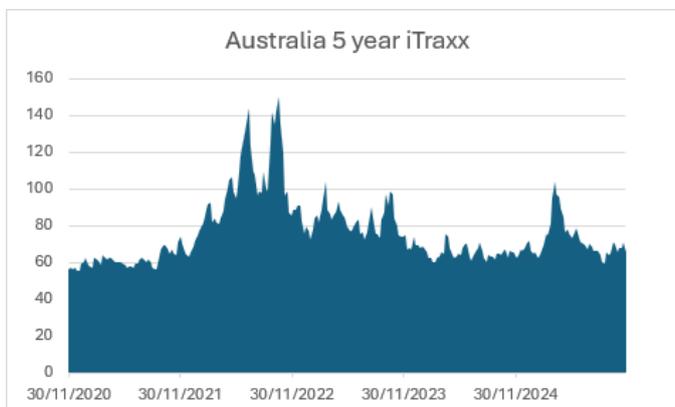
Private credit growth



Senior bank credit

In general bank credit margins remained well supported near the tight levels seen over the past six months. The weaker equity markets and the spike in the VIX to 28 had a minimal impact on credit margins as buying demand broadly matched supply for most issuers. Major bank senior margins moved slightly wider over the month, while the 5-year iTraxx index fell to 67.3. The major banks have largely completed their senior issuance for the year, so we now expect to see the regionals and mutuals dominate issuance in the last month of the year. This will only be possible if we don't see a spike in asset volatility like seen in April after the Liberation Day tariff announcement.

Looking forward into the first quarter of 2026 there are two additional factors that may impact credit margins. There is a substantial amount of refinancing to be completed by globally significant banks and other investment grade issuers with many issuers due to roll bonds that were issued during the low-interest rate pandemic period. Estimates for the size of this refinancing are \$1.4-\$1.5 trillion. To some extent the amount of senior issuance will be mitigated by the new US requirements for Total Loss-Absorbing Capital and long-term debt issuance. The other factor will be a surge in AI-driven issuance. It is expected that these types of issuers will need to raise \$300bn-\$400bn for their capex in 2026. While it is not banking debt, it will still have an impact given the size of capital needed.



Source: LSEG

Bank subordinated debt – Tier 2

Bank Tier 2 issuance surged in November led by Westpac's \$1bn 20-year at +160bps that found strong demand from Asia, in much the same way ANZ did with its 20-year issue earlier in the year. This is a curious outcome given the rise in the Australian benchmark yield curve. In contrast the NAB \$1.75bn 10-year non call 5-year Tier 2 that priced at +130bps received limited support from Asia but strong support from Australian wealth management channels. Despite these two large issues, the net increase in supply was only \$800m as there were large redemptions and ANZ opted to issue offshore. 10-year non call 5-year margins rose over the month to finish near 132bps.

Hybrids – November eventful

November saw hybrid margins lift from their historical lows. The average major-bank hybrid margin bottomed at 1.71% on 8 October, edged to 1.77% towards month-end, and finished 30 November at 1.96%, a rise over the month of 19bps, equivalent to roughly \$0.77 of price impact on a five-year hybrid. The widening was driven by three forces.

1. Supply funding: November settlements for RAMHA and AYUPA, an MA1 raising, and some early-December deals pushed matched volumes about 20–30% above normal, weighing on prices.
2. Risk repricing: Equity volatility picked up, with the MOVE and VIX jumping and Australian iTraxx widening mid-month before easing late; the average hybrid margin relative to iTraxx is now back in line with its post-October 2021 average.
3. Weaker bank equities: Despite recent highs and solid quarterly prints, CBA fell 11.15% in November. After dividends, ANZ slipped 3.77%, NAB minus 6.19%, and Westpac was flat (+0.08%).

Away from broader risk, issuer-specific moves also mattered. Macquarie surprised the market by effectively extending redemption expectations. MBLPC had been priced for repayment in December 2025, but a brief note in Macquarie's 7 November trading update, that wasn't fully absorbed for weeks, stated that the call date would be extended 12 months. By contrast, AMP confirmed the call of AMPPB, to be repaid on 16 December at \$100 plus a final \$1.85 distribution.

Looking ahead, next year’s redemption calendar is already thin and may thin further. APRA’s capital rule changes are set to steadily shrink—and likely end—traditional ASX-listed bank hybrids. Insurance hybrids (IAG, Suncorp, Challenger) sit outside the mechanical CET1-trigger regime and should be refinanced at optional or final calls, with CGFPC (May 2025) and SUNPH (June 2025) the next likely redemptions. Meanwhile, Lendlease’s recent wholesale OTC franked callable hybrid highlights a viable, faster, cheaper issuance channel for meeting franking demand, potentially hastening the shift away from listed ASX hybrids as more issuers follow suit into 2026. On a risk-adjusted basis no comparison can be made between an APRA-regulated Tier 1 and a corporate Tier 1 like the new Lend Lease security.

