

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.

Fees

MER*	0.40%
Buy/Sell Spread	+0.10% / -0.10%
Performance Fees	Nil

* GST inclusive, net of any reduced input tax credits

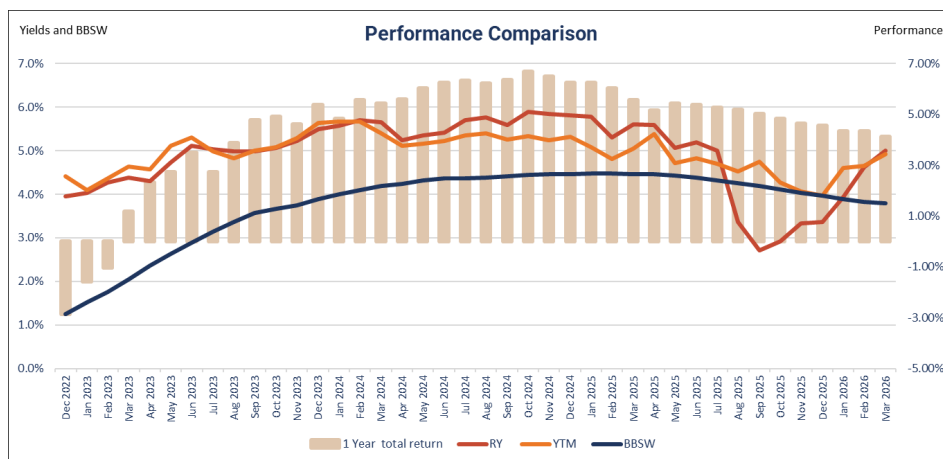
Performance to 31 March 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	0.71%	1.65%	4.13%	4.84%	5.04%	2.54%	2.26%
Cash Distribution	0.94%	1.65%	4.67%	4.92%	4.81%	3.46%	2.85%
+/- Growth	-0.23%	0.00%	-0.54%	-0.08%	0.23%	-0.92%	-0.59%

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.



Source Arculus, DDH Graham Limited data.

The Fund returned a negative 11 basis points (bps) after all fees in March after its distribution of 0.94%. This was due to senior bank credit spreads widening because of the sharp increase in global bond volatility. Performance over the next few months will primarily be driven by the running yield, currently estimated at 5.01%, and be linked to further increases in the 90-day BBSW rate, should the RBA increase rates again.

Fund rating

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

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



Fund size

As of 31 March 2026, the Net Asset Value of the Fund was \$40,057,617.50.

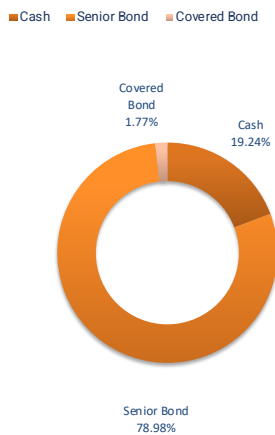
Portfolio characteristics 31 March 2026

Running Yield*	5.01%
Yield to Maturity*	4.92%
Average Margin	0.67%
Average Years to Maturity	1.85
Number of Securities Held	36
Floating	75.94%
Fixed	4.82%
Cash	19.24%
Modified Duration	0.79
Credit Duration	1.44

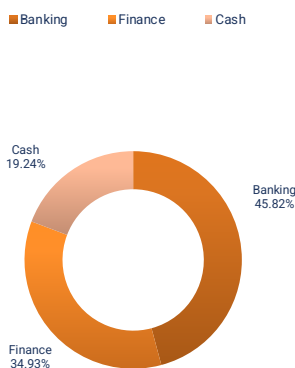
* Based on fund metrics at review date. Future returns may be different.

Asset breakdown

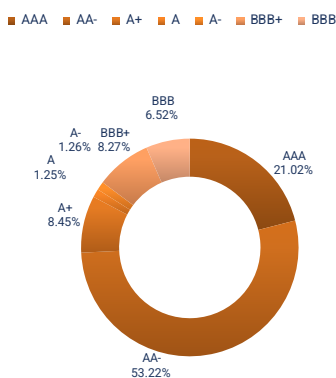
Sub Type Analysis



Sector Allocation



Credit Rating



Fund positioning

On the first day of trading in March (March 2nd) the Fund executed a significant tactical rotation following the news over the previous weekend of the Iran conflict beginning on the 28th of February. This involved selling the entire sovereign bond portfolio and parking the proceeds predominantly in cash, while simultaneously rebuilding floating rate exposure and cutting duration nearly in half. In doing this a profit was taken on the duration sovereign position, and a switch was made to a defensive, high-cash, high-floating-rate stance consistent with the view that geopolitical risk, inflationary oil price pressure, and historically tight credit spreads create an unfavourable near-term risk/reward for duration and credit exposure. The portfolio enters April with considerably more optionality and less rate risk than it had a month earlier. It has a higher running yield as a result of the BBSW reset and the improved spread profile of the retained major bank bond holdings. This resulted in the following outcomes:

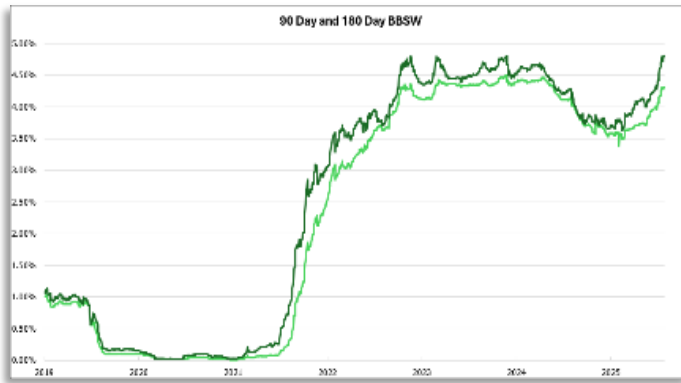
- Running yield – higher despite the repositioning.**
 Running yield increased from 4.62% to 5.01%. This is notable because the exit from sovereign bonds (which carry very low coupons/yields) and reinvestment partly into higher-spread floating rate bank bonds has improved the income-generating quality of the portfolio, even as the duration risk was reduced. The higher BBSW rate following the RBA's February increase (BBSW moving from 3.84% to approximately 4.25%) also contributed.
- Yield to maturity – significantly higher.**
 Yield to maturity rose from 4.66% to 4.92%. This is a large move and partly reflects the change in the portfolio's composition – low-yielding sovereign bonds have been replaced with higher-spread bank paper and high-cash holdings – as well as the higher prevailing BBSW. The average credit margin in the portfolio rose from 0.66% to 0.67%, reflecting a shift toward higher-spread instruments.
- Average years to maturity – shortened.**
 Average maturity fell from 2.24 years to 1.85 years, consistent with a more defensive, shorter-dated posture.
- Credit quality – improved at the top.**
 AAA-rated assets (cash + covered bonds) fell from 35.1% to 21.0% as the sovereign bond position (rated AAA) was exited. However, AA- rose from 41.0% to 53.2%, driven by increased weightings in major Australian bank paper. The BBB bucket remained roughly stable at approximately 13.4%.

Market review & outlook

March 2026 will be remembered as the month in which the Australian bond market's entire narrative was subordinated to a single geopolitical shock. The US-Israeli military campaign against Iran, launched on 28 February, and the subsequent de facto closure of the Strait of Hormuz transformed what had been a manageable domestic inflation story into a full-scale energy supply crisis with deep implications for monetary policy, the yield curve, inflation expectations, and credit conditions. Brent crude surpassed US\$100 per barrel on 8 March for the first time in four years, rising to US\$126 per barrel at its peak, and the closure of the strait was described by the International Energy Agency as the largest supply disruption in the history of the global oil market, with crude and oil product flows through the Strait of Hormuz plunging from around 20 million barrels per day before the war to a trickle. Against that backdrop, the RBA delivered its second consecutive rate rise, and the Australian government yield curve sold off sharply across all tenors. Senior bank credit spreads widened modestly from historically tight levels but held up better than might have been expected, supported by the structural strength of the Australian banking system and the active supervision of both APRA and the RBA.

The RBA's March Decision – A Narrow but Consequential Split

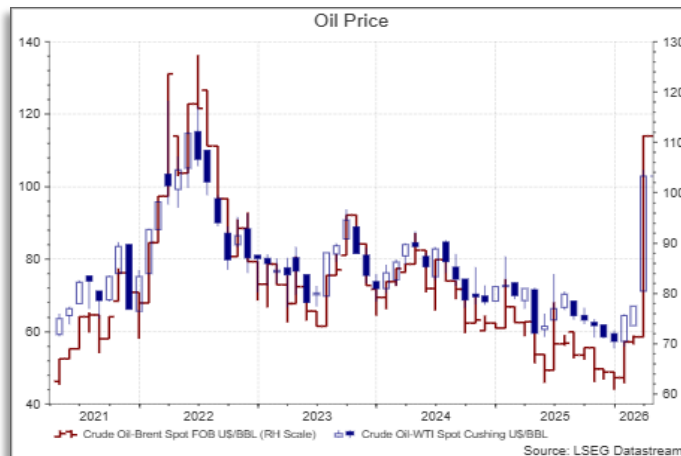
In a split five-to-four decision, the RBA's Monetary Policy Board lifted the cash rate by 25bps to 4.1%, following a hike of the same size in February. The margin of the vote was the most consequential element of the announcement, revealing a Board that is genuinely divided – not on whether further tightening was ultimately necessary, but on the timing. All Board members agreed that a hike was needed and the question was more about timing, with the narrow split pointing to growing divergence within the Board around when, rather than whether, to act. The Board's statement noted that while inflation has fallen substantially since its peak in 2022, it picked up materially in the second half of 2025, however, the incontrovertible fact remains that RBA monetary policy settings in 2025 were sufficiently accommodative to deliver a surge in private credit growth. The practical implication of the five-to-four vote is significant for May pricing. With the Board already split, a follow-up hike in May looks less certain.



Source: Arculus Capital

In addition, the conflict in the Middle East has resulted in sharply higher fuel prices, which, if sustained, will add to inflation. The impact of the higher prices at the pump will have some impact in the March CPI readings but will have greater impact in April where, alone, they should add 0.6% to the headline CPI reading. On its own this fuel price impact is then likely to lift the April CPI reading to 4.4%, before the impact on other goods, such as pharmaceuticals and food is considered. This could contribute to an April CPI reading near 4.5% and may continue to pressure inflation higher over the entire June quarter.

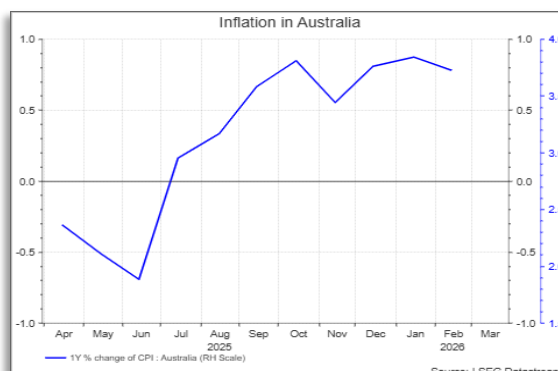
The real question, though, will be whether or not this jump in oil the price has a ‘transitory’ impact on inflation. At this stage, the markets appear to have efficiently priced the impact of the reduced oil flow through the Strait of Hormuz into global markets with Brent trading near US\$110 per barrel.



Domestic Inflation – A Deceptive Calm Before the Storm

The February CPI data, released on 26 March, provided the final pre-conflict read on the underlying inflation trajectory. Annual CPI inflation was 3.7% in the 12 months to February 2026, down marginally from 3.8% in January. Trimmed mean inflation was 3.3%, unchanged from January – still well above the RBA’s 2–3% target band.

The headline result was softer than expected, but the composition was less reassuring. The largest contributor to annual inflation was housing, which rose 7.2%, followed by food and non-alcoholic beverages at 3.1% and recreation and culture at 4.1%. Electricity costs rose 37.0% in the 12 months to February, reflecting households exhausting Commonwealth Energy Bill Relief Fund rebates. Transport was the one deflationary contributor, with automotive fuel prices 7.2% lower year-on-year prior to the conflict – a figure that is now entirely historical.



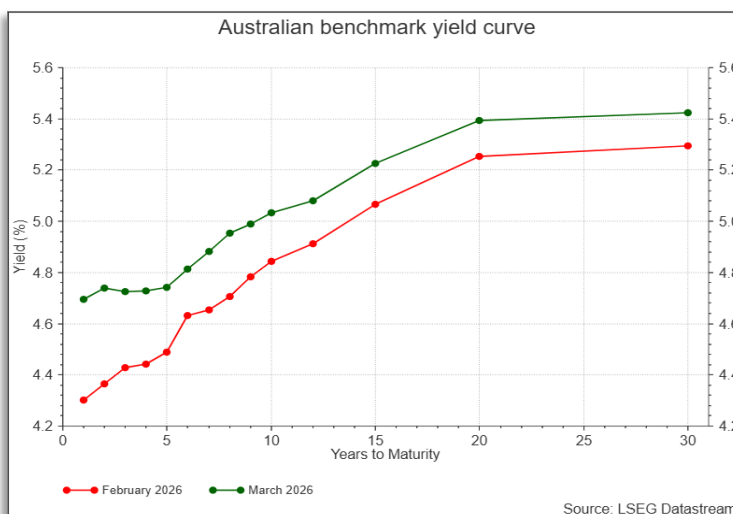
Australian major banks have estimated March CPI at 1.0% month-on-month, with headline inflation peaking around 5.5% year-on-year by mid-2026, driven largely by fuel. Core inflation was projected to show a more modest lift to around 3.5% year-on-year over the same period.

The RBA may be alarmed by the signal that came from inflation expectations surveys. The weekly ANZ-Roy Morgan Inflation Expectations soared to 6.9% in the week of 16–22 March, an increase of 1.6 percentage points from the month of February – the largest monthly jump in years and a direct consequence of petrol prices rising sharply at the bowser across Australian capital cities.

The Government Bond Market – A Violent Repricing

Australian government bond yields moved sharply higher across the curve through March, driven by the combination of the RBA’s back-to-back hikes, the oil price shock’s inflationary implications, and the global bond market sell-off that swept through all major markets in the weeks following the outbreak of conflict.

The scale of the yield moves over the month as a whole was significant. The two-year bond yield ended March around 4.71%, having risen approximately 54bps over the month – one of the largest single-month moves in short-end yields since the aggressive hiking cycle of 2022–23. The 30-year yield reached 5.42%, having risen approximately 19bps over the month.



The yield curve retained a modest positive slope – short rates elevated by the cash rate path, long rates elevated by the inflation and term premium – but the dominant market dynamic was a parallel upward shift across the curve rather than any meaningful steepening or flattening. Australia’s 10-year government bond yield rose to around 5%, attempting to climb towards multi-year highs after the RBA flagged the inflation threat from a global oil shock as Middle East tensions persisted.

Swap markets continued to price in the possibility of further tightening, with the cash rate path tilted toward 4.35% by year-end.

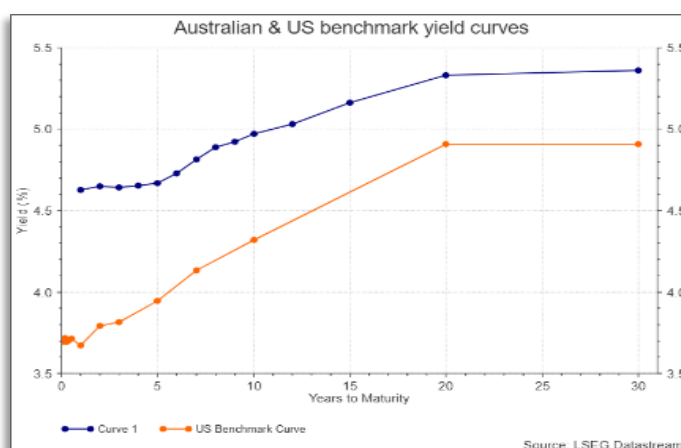
The PMI Signal – A Recessionary Warning Hiding in Plain Sight

Beneath the inflation noise, a more troubling forward indicator emerged late in the month. The S&P Global Flash Australia Composite PMI collapsed to 47.0 in March from 52.4 in February – a contraction reading that represented the first decline in composite activity in eighteen months and a level consistent with COVID-era disruption. Services activity was the primary driver, with the Services Business Activity Index falling to 46.6 from 52.8. Both components of the survey pointed to sharply deteriorating demand conditions. Business sentiment remained positive but weakened to its lowest since mid-2024.

A composite PMI at 47.0 is not consistent with the RBA’s implicit assumption that Australia can sustain the current pace of rate increases without engineering a material economic slowdown. It is the classic stagflationary signal: rising prices driven by a supply shock, collapsing activity driven by higher energy costs and the cumulative weight of two consecutive rate increases. Bond markets absorbed this data point with interest: the growth risk embedded in the PMI would ordinarily be a bullish signal for duration, but with inflation expectations simultaneously surging, the market struggled to price both forces simultaneously, resulting in continued selling at the long end.

The Australian-US Yield Differential – A Structural Anomaly

One of the most important technical features of the Australian bond market through March was the persistence of an unusually large premium of Australian yields over equivalent US Treasuries. The Australian dollar had appreciated a little further over February, with the depressing effect of weaker global risk sentiment being offset by a boost from wider yield differentials, reflecting increased cash rate expectations in Australia, and higher commodity prices.



The 10-year Australian government bond traded at a premium of approximately 75–80bps over the equivalent US Treasury yield through the middle of March – an unusually wide differential by historical standards. The last time a comparable premium was sustained was following the 2022 federal election, after which the spread retraced toward a roughly 15bps band either side of the US curve. For investors in the Australian fixed income market, this represented both a risk and an opportunity: if the conflict de-escalated, Australian sovereign bonds would likely rally as the spread compressed back toward historical norms. Japanese selling of Australian bonds – a consequence of the yen carry trade dynamics and Japanese portfolio rebalancing driven by the Strait of Hormuz shock's impact on Japan – has been identified as a partial driver of the premium's persistence.

Australian Credit Markets – Resilience Under Pressure

Australian investment grade credit spreads widened modestly in March but proved considerably more resilient than the macroeconomic backdrop might have suggested. The structural factors identified by the RBA in its February 2026 Bulletin remained intact. Primary market activity slowed but did not shut down. The AUD bond market, which had become the third most important funding currency for some international issuers in 2025, continued to attract selective issuance from foreign bank borrowers and Kangaroo issuers, albeit at wider spreads and with more conservative transaction sizes than had been the norm in the first weeks of the year.

Spreads between bank bond yields and swap rates have narrowed since 2022, reducing the cost of new bond issuance for banks relative to the cash rate, partly reflecting a broad-based narrowing in risk premia across global risk assets. Investor demand for bank bonds has been supported by participation from a broader range of investors within the domestic market, including Asian investors and domestic superannuation funds.

Senior bank bonds – the dominant credit instrument in the Australian investment grade market – continued to trade at spreads in the range of 60–100bps over BBSW depending on tenor and issuer, levels that reflected neither the pre-conflict complacency nor the panic that a Strait of Hormuz closure of this magnitude might historically have been expected to generate. Several factors explained the resilience:

- the Australian banking system's strong capitalisation and funding profile.
- the continued appetite of domestic superannuation funds, which are structurally long credit; and
- the fact that Australian bank senior paper is almost entirely floating rate FRNs, meaning the income component of these instruments actually benefit from the higher BBSW rate environment driven by the RBA's tightening cycle.

Risk premia in equity and corporate bond markets had risen a little since the onset of the current conflict, including in Australia, but remained low overall. The RBA minutes explicitly noted this, suggesting the Board was watching credit conditions carefully but had not yet identified systemic stress.

Outlook for April and May

The bond market enters April in a state of genuine uncertainty which is rare even by post-pandemic standards. The key variables are:

- **Oil prices and the Strait of Hormuz.** Oil industry executives and analysts warn that the Strait of Hormuz needs to be reopened by mid-April, or oil-supply disruptions will get significantly worse, with the estimated loss of supply doubling to approximately 9–10 million barrels per day by that point. A diplomatic resolution or military reopening of the strait would be the single most bullish event possible for Australian government bonds – yields would likely rally sharply as inflation expectations unwound. Continued disruption would push headline inflation toward 5.5% by mid-year and make a May RBA hike near certain.

- **May RBA decision.** Markets are currently pricing a May hike at approximately 50–70%, with ANZ and NAB both forecasting 4.35% as the terminal rate for this cycle. The five-to-four split at the March meeting suggests the decision could again be on a knife's edge, and the conflict's trajectory will be decisive. If oil prices remain above \$100 by the time the Board meets in May, the hawks will likely prevail.
- **Q1 CPI data.** The first-quarter CPI, due in late April, will be the most watched domestic data release of the year. The major banks project headline inflation of approximately 1.0% for March alone, which would take the annual rate sharply higher. The trimmed mean – the measure the RBA weights most heavily in its decisions – is expected to show more moderate acceleration, but any upside surprise would increase the likelihood of a May hike.
- **Credit spreads.** The Australian investment grade credit market is beginning the second quarter from a position of resilience but not complacency. The combination of historically tight entry spreads, an economy showing early signs of contraction in the PMI data, a housing market under mortgage stress from two consecutive hikes, and elevated energy costs creates a backdrop in which spread widening is the more likely direction – particularly if the global risk environment deteriorates further. Floating rate senior bank bonds remain, in the view of most practitioners, the most defensively positioned segment of the credit market:
 - They benefit from the BBSW reset.
 - They carry no duration risk.
 - They are senior in the capital structure with RBA repo eligibility providing a liquidity backstop that is not available to any other private sector instrument in the Australian market.

The month of March demonstrated, with unusual clarity, that in an era of energy supply shocks, geopolitical events, and genuinely divided central bank boards, fixed income positioning cannot be reduced to a single variable. Duration management, credit selection, and liquidity – the three pillars of active fixed income management – were all tested simultaneously, and the portfolios best positioned to navigate the volatility were those with the shortest duration, the highest floating rate exposure, and the most liquid underlying instruments.

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.

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