

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 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.

Fees

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

* GST inclusive, net of any reduced input tax credits

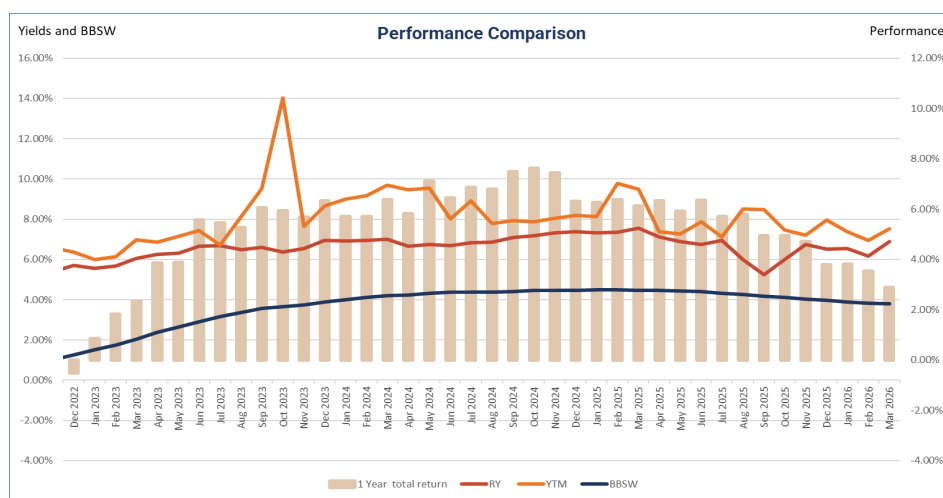
Performance to 31 March 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	0.32%	0.46%	2.89%	4.50%	5.12%	3.68%	4.47%
Cash Distribution	1.16%	2.30%	5.92%	6.07%	5.97%	4.94%	5.43%
+/- Growth	-0.85%	-1.84%	-3.02%	-1.59%	-0.84%	-1.26%	-0.97%

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.



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

The Fund returned a negative 24 basis points (bps) after all fees in March after its distribution of 1.15%. The sharp increase in bond volatility last month was closely correlated to the global oil price and expected to remain a central focus over the rest of April. Performance over the next few months is expected to be primarily driven by the running yield currently estimated at 6.90%. The 90-day BBSW rate is currently near 4.30%, however, it will increase by 25bps if the RBA increases the cash rate again in May. If this occurs, then the portfolio's running yield will also increase as the portfolio's coupon driven income is linked to the 90-day BBSW rate.

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 \$106,557,219.78.

Portfolio characteristics 31 March 2026

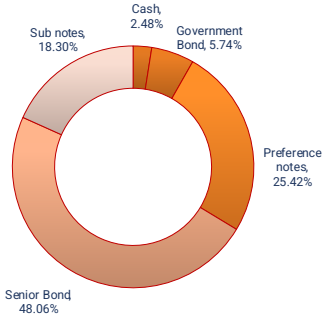
Running Yield*	6.90%
Yield to Maturity*	7.53%
Average Margin	3.22%
Average Years to Maturity	2.82
Number of Securities Held	65
Fixed	9.56%
Floating	87.95%
Cash	2.48%
Modified Duration	0.38
Credit Duration	2.33

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

Asset breakdown

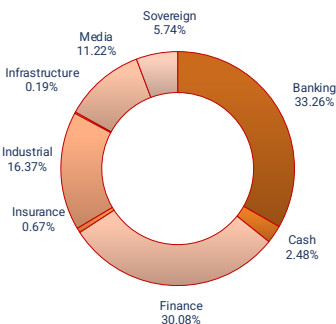
Sub Type Analysis

■ Cash ■ Government Bond ■ Preference notes
■ Senior Bond ■ Sub notes



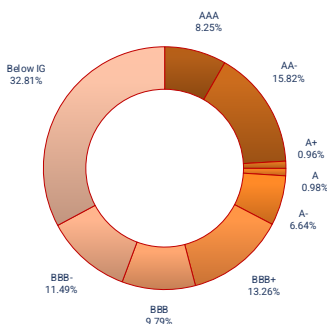
Sector Allocation

■ Banking ■ Cash ■ Finance
■ Insurance ■ Industrial ■ Infrastructure
■ Media ■ Sovereign



Credit Rating

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



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 investing the proceeds initially in cash. Later in the month, funds were invested into floating rate exposure in order to keep duration risk low. The running yield and yield to maturity increased to 6.90% and 7.53%, respectively. These are broadly positive developments from an income perspective.

The following outcomes were achieved:

- Running yield**

Running yield rose from 6.16% to 6.90%, moving from 35bps below the 6.50% target to 40bps above it. This is a meaningful improvement and the most positive development of the period. The improvement in yield has come from the shift into floating senior and Tier 2 bonds from fixed rate Commonwealth Treasuries on the first trading day of the month as the floating rate bonds coupons are linked to the 90-day BBSW rate that rose over the month.

- Yield to maturity**

YTM rose from 6.96% to 7.53%, remaining close to the 7.5% target. Average credit margin widened from 2.96% to 3.22% with active management shifting between bonds.

- Fixed vs. Floating**

This is the most structurally significant change. Fixed rate exposure fell from 25.08% to just 9.56%, while floating rate (FRN) exposure rose from 68.47% to 87.95%.

- Duration**

Modified duration fell sharply from 0.67 years to 0.38 years, and credit duration fell from 3.08 years to 2.33 years.

- Average years to maturity**

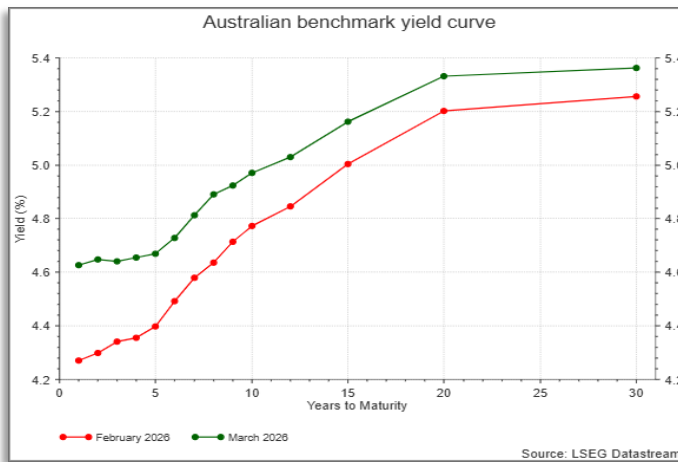
Average maturity fell from 3.33 years to 2.82 years, continuing the trend toward a shorter-dated portfolio.

- Credit quality**

AAA-rated assets were reduced from 13.03 to 8.25% and the funds reinvested in floating bonds without materially changing the average rating of the portfolio. Below Investment Grade weight at approximately 32.81% – essentially unchanged from 32.32% at end of February. The non-investment grade weight is expected to reduce over the next few months through a combination of OTC senior bonds being repaid and the ASX-listed notes position being reduced through on market sales.

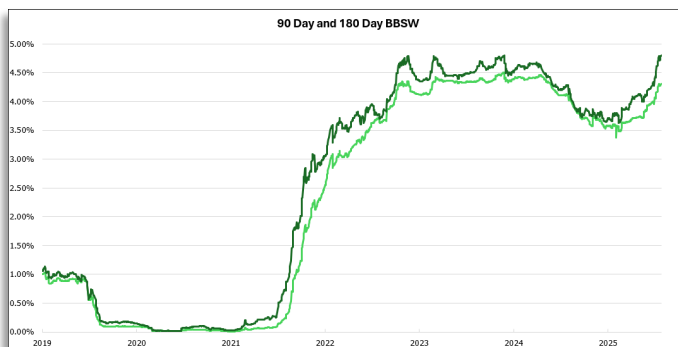
Market review

Australian bond and credit markets experienced elevated volatility during March, shaped by a confluence of geopolitical shocks, domestic monetary policy tightening, and persistent inflationary pressures. The Reserve Bank of Australia's (RBA) back-to-back rate hikes to 4.10% in March – the second increase in as many meetings – combined with escalating conflict in the Middle East and its effect on global oil markets, drove government bond yields toward multi-year highs before a partial recovery late in the week.



The most significant domestic driver of Australian fixed income markets over the recent period was the RBA's decision on 17 March 2026 to raise the official cash rate by 25bps to 4.10% – the second consecutive hike following an increase in February that had lifted rates from 3.85%. The decision reversed the easing cycle of 2025, in which the RBA had cut rates three times between February and August, and returned the cash rate to its highest level since approximately April 2025. The March decision was not unanimous. The Board voted 5–4 in favour of the increase, reflecting genuine internal debate about the appropriate balance between combating inflation and protecting growth. Governor Michele Bullock emphasised at the post-decision press conference that inflation, running at 3.8% in the year to January and with trimmed mean inflation rising to 3.4%, remained well above the RBA's 2–3% target band. The labour market, with unemployment at 4.1%, was described as tight, with limited spare capacity.

Credit spreads



Source Arculus Capital

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, carry no duration risk, and 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.

Major Bank Capital Structure Spread Summary – March 2026 (YoY vs March 2025)

Instrument	Mar Open (bps)	Mar Close (bps)	Mar Chg (bps)	YoY Chg (bps)
Major bank 5yr indicative (senior)	76	75	-1	-11
Major bank RMBS 2.5-3.5yr	87	93	+6	+3
~5yr major bank B3 Tier 2	132	133	+1	-27
~5yr major bank AT1	181	191	+10	-4

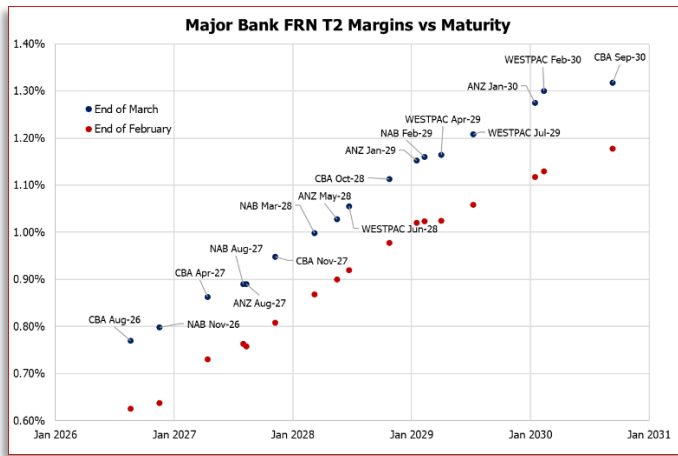
(Source: LSEG Workspace)

Major Bank Senior Unsecured

The most striking feature of March 2026 was the resilience of major bank senior unsecured spreads in the face of acute global risk-off conditions. Indicative 5-year senior spreads opened at 76bps, briefly touched a low of 72bps on 5 March, and closed the month at 75bps – a net change of just -1bp over the full month. This performance stands in marked contrast to the +8bps widening recorded in March 2025 and reflects the improved domestic credit narrative entering 2026 – lower wholesale funding costs, solid arrears metrics, and a more constructive RBA policy trajectory.

Subordinated Capital: Tier 2 & AT1

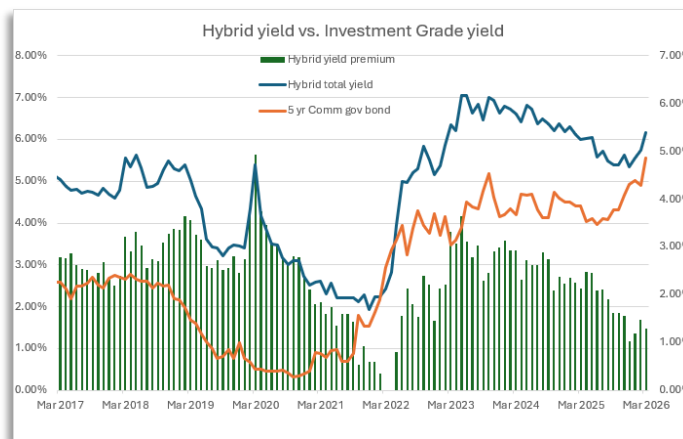
Major bank Tier 2 spreads exhibited high intra-month volatility but ultimately closed broadly flat – opening at 132bps (on a computed basis) and ending at 133bps, a change of less than 1bps for the month. The intra-month range was more meaningful – Tier 2 tightened from 132bps to a low of approximately 127bps around 5–6 March, before widening back through 130–132bps and briefly touching 134bps (30 March) as quarter-end pressures and the tariff shock compounded. The net unchanged outcome masks significant two-way movement.



Source: E&P

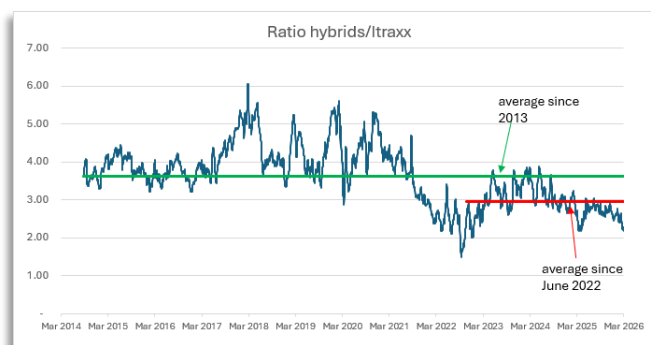
On a year-on-year basis, the 133bps close for Tier 2 is dramatically tighter than the 160bps recorded at end-March 2025 – a 27bps improvement reflecting the structural tightening of bank sub-debt over the past twelve months as investor demand for carry has intensified in a lower-rate environment.

AT1 instruments were more volatile and exhibited clearer directionality. Opening at approximately 181bps on 3 March, AT1 spreads first tightened to a low of ~168bps (6 March) before the tariff shock drove a sharp widening to a peak near 195bps (23 March). Spreads partially recovered to close at ~191bps – a net +10bps move for the month. Despite this widening, the close remains 3–4bps tighter than end-March 2025 (195bps), underlining that the year-on-year trajectory in AT1 remains one of structural compression even accounting for the March volatility episode. Two reasons have supported AT1 in March, firstly the cessation of selling to fund recent ASX yield IPOs and secondly, buying to capture the RBA rate increases. It is expected this will provide ongoing support for AT1 in April.



Source: Arculus Capital

The second chart shows hybrid margins relative to Australian high-grade credit, measured as the ratio of the average hybrid margin to the iTraxx index. The current ratio sits well below both its long term and short-term averages, although it is not as low as the levels seen in the second half of 2022. That period was characterised by rising cash rates, when hybrids were in demand due to their floating-rate structure. Similar forces appear to be at work again, with investors seeking relatively quick exposure to further RBA tightening through floating-rate bank hybrids. On the same theme, rising benchmark bank bill swap rates are lifting distributions. The new generation of monthly-paying credit securities, such as RAMHA, SPPHA and MA2HA, distribute income monthly, meaning any increase in rates is passed through to investors relatively quickly. Chart Source: Refinitiv, Arculus.



Source: Arculus Capital

AusBond Credit Indices

The AusBond credit indices recorded meaningful widening in March, particularly in the BBB and Industrials benchmarks which are more sensitive to global growth and trade dynamics.

AusBond Credit Index Performance – March 2026 (YoY vs March 2025)

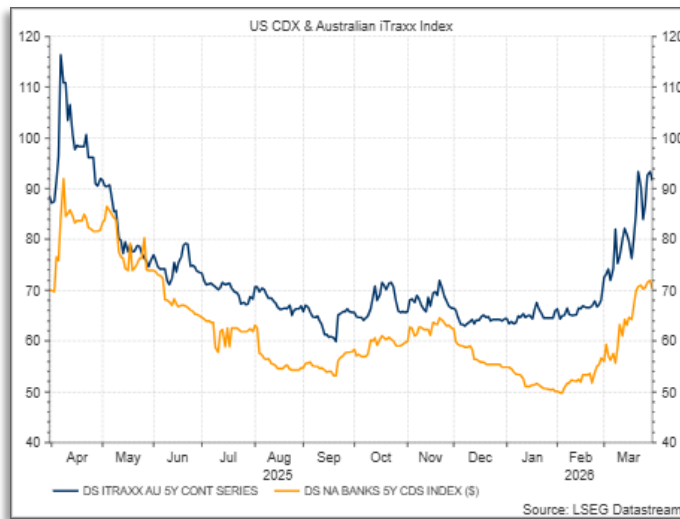
Index	Mar Open (bps)	Mar Close (bps)	Mar Chg (bps)	YoY Chg (bps)
AusBond Credit A-/A+ Index	77.8	87.0	+9.2	-8.5
AusBond Credit BBB-/BBB+ Index	99.8	112.1	+12.3	-11.7
AusBond Credit Industrials Index	85.6	95.4	+9.8	-7.6

(Source: LSEG Workspace)

The BBB-rated index recorded the largest widening at +12.3bps – the sharpest monthly move in this index since early 2025. All three indices hit their month highs on 30–31 March, suggesting the selling pressure had not fully abated at month end. Notably, despite the March widening, year-on-year comparisons remain substantially favourable across all three indices: the BBB Index at 112bps is nearly 12bps tighter than March 2025 (124bps), and the Industrials Index at 95bps compared to 103bps twelve months prior.

The magnitude of the BBB index move relative to the A index (+12.3bps vs +9.2bps) is consistent with the higher tariff transmission sensitivity of sub-investment-grade adjacent corporates, particularly those in the resources, materials and consumer discretionary sectors with direct exposure to trade flows.

iTraxx Australia CDS Index



The iTraxx Australia 5-year CDS index was the most dramatic barometer of March's volatility, widening +24.7bps from 68.6bps at the start of the month to close at 93.3bps on 31 March – the widest close since mid-2023 and the largest single-month move since the COVID-era volatility of 2020. The intra-month peak of 93.97bps, recorded on 23–24 March in the immediate aftermath of the Liberation Day tariff announcement, marked the single most acute risk-off session of the year.

On a year-on-year basis, the 93.3bps close for March 2026 compares to 87.9bps at end-March 2025 – approximately +5.4bps wider YoY. This is somewhat counterintuitive given that most individual sectors showed tighter YoY spreads; the iTraxx widening likely reflects the composition of the index (which captures a broader range of corporate exposures, including resources and trade-sensitive names) relative to the bank-dominated AusBond credit indices.

On a year-to-date basis from January 2026 (iTraxx at 63.5bps), the index has widened approximately +29.8bps – the entirety of which has been driven by the March 2026 episode.

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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