

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

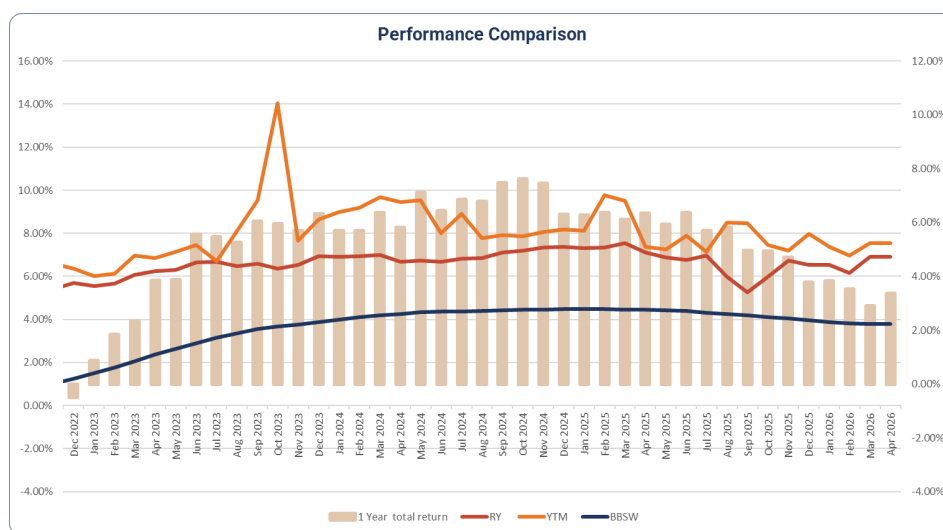
Performance to 30 April 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	1.07%	1.01%	3.36%	4.84%	5.17%	3.80%	4.50%
Cash Distribution	1.17%	2.31%	5.94%	6.09%	5.97%	4.95%	5.41%
+/- Growth	-0.11%	-1.30%	-2.58%	-1.26%	-0.79%	-1.15%	-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.



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

The Fund returned 1.05% after all fees in April, following its distribution of 1.16% for the March quarter. Performance over the next few months is expected to be driven primarily by the running yield, currently estimated at 7.17%, with the 90-day BBSW rate at 4.37%. If the RBA increases the official rate at the May meeting, the 90-day BBSW rate may not move materially higher, as markets have widely anticipated this increase. However, if the 90-day BBSW rate does rise further, the portfolio's running yield will move higher in tandem, given that the holdings are mostly floating-rate bonds whose coupons are linked to the 90-day BBSW rate on a quarterly reset basis.

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 30 April 2026, the Net Asset Value of the Fund was \$105,924,473.82.

Portfolio characteristics 30 April 2026

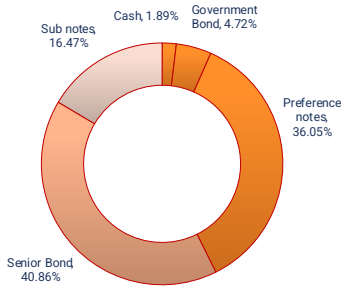
Running Yield*	7.17%
Yield to Maturity*	8.10%
Average Margin	3.73%
Average Years to Maturity	3.00
Number of Securities Held	59
Fixed	9.59%
Floating	88.52%
Cash	1.89%
Modified Duration	0.47
Credit Duration	2.12

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

Asset breakdown

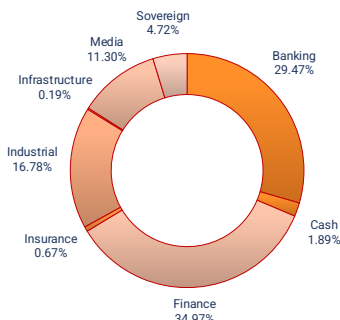
Sub Type Analysis

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



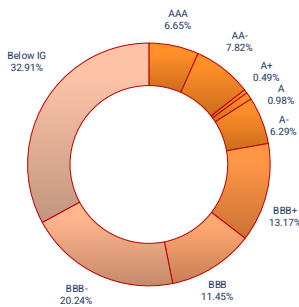
Sector Allocation

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



Credit Rating

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



Fund positioning

Over April the Fund executed a clear rotation out of cash and short-dated bank senior floating rate notes (FRN) into ASX-listed hybrid notes and a new \$5.0 million AAA Export Finance Australia FRN. The cash balance was drawn down from \$6.91 million to \$1.71 million, twelve OTC and listed lines were exited, and eight new lines were added, headed by the Suncorp SUNPH cap note position which more than tripled in size. The result was a meaningful uplift in income with no material extension of interest rate risk. The running yield and yield to maturity rose to 7.17% and 8.10%, respectively, while average credit margin widened from 3.22% to 3.73%. These are positive developments from an income perspective.

The following outcomes were achieved:

Running yield

Running yield rose from 6.90% to 7.17%, an improvement of 27 basis points (bps). The increase came principally from the rotation into ASX-listed hybrid cap notes (CGFPC, NABPF, AYUPA plus the SUNPH top-up), which carry materially higher BBSW margins than the bank senior FRNs that were sold. The continued upward drift in 90-day BBSW over the period (from 4.25% to 4.37%) also lifted the coupon resets on existing FRN holdings.

Yield to maturity

YTM rose from 7.53% to 8.10%, an improvement of 57bps. The widening was driven by the same trade-out of low-margin bank senior FRNs (typical margins of BBSW+58 to BBSW+130 bps) into higher-margin listed hybrid notes (margins of BBSW+275 to BBSW+460 bps). Average credit margin widened from 3.22% to 3.73%, a 51bps improvement, confirming that the move in yield was driven by spread rather than by movement in the underlying reference rate alone.

Fixed vs. floating

Floating rate and fixed rate exposures rose marginally from 87.95% to 88.52%, and 9.56% to 9.59%, respectively. These shifts were funded principally by the drawdown of the cash balance from 2.48 to 1.89% of the Fund. The Fund continues to run a structurally floating book, consistent with the objective of sourcing income from credit margin while keeping interest rate risk low.

Duration

Modified duration rose modestly from 0.38 years to 0.47 years on the addition of the longer-reset Export Finance Australia FRN and the listed hybrid additions. Credit duration moved in the opposite direction, falling from 2.33 years to 2.12 years, reflecting the exit of several longer-dated bank senior and Tier 2 lines in favour of shorter-reset hybrid issuance.

Average years to maturity

Average maturity was relatively unchanged at 3.00 years (2.82 years on 30 March and 3.00 years on 30 April). The composition of that maturity profile shifted, however, with shorter-dated bank FRN holdings replaced by longer-reset hybrid notes and the new 2029 AAA Export Finance Australia FRN.

Credit quality

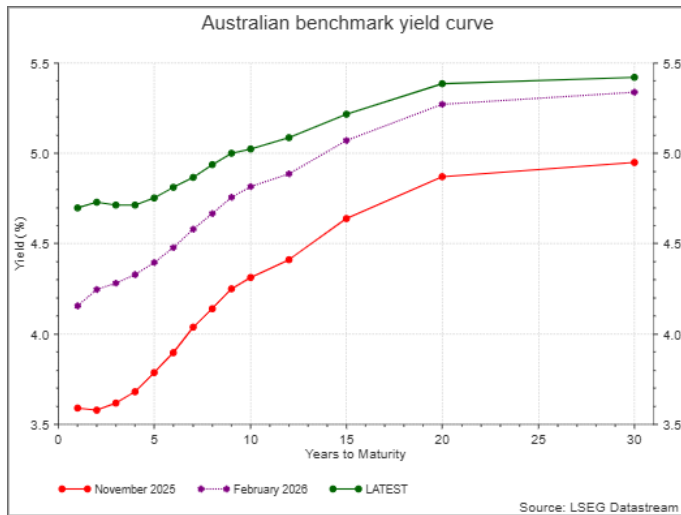
Investment grade corporate exposure was essentially unchanged at 67.1% of the Fund (from 67.2%), and below investment grade exposure was also essentially flat at 32.9% (from 32.8%). Sovereign fell from 5.7% to 4.7% on the switch into the AAA-rated Export Finance Australia FRN. AAA weight settled at 6.6% (from 8.3%) and AA-/AA combined weight fell from 15.8% to 7.8% on the exit of several bank senior FRN holdings, with the proceeds redeployed into BBB-band listed hybrids. Overall, the average credit rating of the Fund has drifted modestly lower across investment grade ratings while the AAA addition partially offsets that. The non-investment grade weight remains stable for now and is expected to step down over coming months as OTC senior bonds are repaid and the listed Nufarm note position is gradually trimmed through on-market sales.

Market review

April 2026 delivered a near-complete reversal of the risk-off shock that defined March. The combination of a partial diplomatic de-escalation around the Strait of Hormuz, softer global growth signals that pulled US Treasury yields lower, and continued strong domestic demand for Australian high-grade paper drove a broad-based tightening across senior, semi-government, supranational and index-level credit. The exception – and a meaningful one – was major bank AT1, which extended the widening that began in late March. iTraxx Australia 5-year retraced more than half of the March widening but did not return to pre-Iran conflict levels.

Yield curve

The Australian yield curve remained near March end levels in April with the market now appearing comfortable with an expectation that the RBA will increase official rates twice more in 2026 and then remain on hold for a considerable period. The timing of the 25bps increases is yet not certain with increases at the May or August meetings expected, but if fuel rationing of diesel does eventuate, any rate increases may be delayed. The 1–5-year segment of the curve is trading relatively flat, anchored by the RBA's cash rate setting where policy has the greatest influence. Beyond the 5-year point the curve steepens significantly out to ten years where there is likely to be selling pressure from the unwinding of the yen carry trade.



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

Instrument	Apr Open (bps)	Apr Close (bps)	Apr Chg (bps)	YoY Chg (bps)
Major bank 5yr indicative (senior)	74	68	-6	-27
Major bank RMBS 2.5–3.5yr	93	87	-6	-17
~5yr major bank B3 Tier 2	131	124	-7	-55
~5yr major bank AT1	197.7	207.0	+9.3	-9.7

Source: LSEG Workspace, Arculus Capital

Major Bank Senior Unsecured

Indicative 5-year senior spreads opened the month at 74bps, briefly widened to 76bps on 7 April, and then tightened steadily through the second half of the month to close at 68bps – a net move of -6bps. The tightening reflected three reinforcing dynamics: a return of offshore RMBS and senior bid following the partial de-escalation of Middle East tensions, continued strong primary market reception for major bank issuance at progressively tighter new-issue concessions, and a measurable reallocation away from semi-government paper into senior unsecured debt as relative-value buyers locked in the wider March levels. The 68bps close represents the tightest level for major bank 5-year senior since mid-2024 and is 27bps tighter than the equivalent level twelve months prior.

iTraxx Australia CDS Index

The iTraxx Australia 5-year CDS index opened April at 84.4bps and closed at 77.4bps – a net move of -7.0bps and a partial retracement of the +24.7bps March widening. The path through the month is informative. iTraxx initially extended the March widening to 86.3bps on 2 April as positions were re-marked through quarter-end. From that peak, the index rallied sharply, reaching 72.7bps on 16 April and 72.1bps on 21 April – its tightest level since early March. A modest re-widening into month-end took the index back to 77.4bps by 30 April, broadly consistent with the senior bank tightening and well below the March peak.



The intra-month rally of 14bps from the early-April peak to the mid-April low was the largest two-week tightening move in the index since 2023 and reflects three converging factors:

- The partial de-escalation of Strait of Hormuz tensions and the easing of the most extreme oil-price scenarios.
- Clearer evidence that Australia’s direct goods-trade exposure to the US tariff regime is materially smaller than that of regional peers, which had been mispriced in late March.
- The strong technical bid for high-grade Australian credit from domestic superannuation portfolios rebalancing into the wider March spread levels. On a year-on-year basis, the 77.4bps close compares to 91.9bps at end-April 2025 – approximately 14.5bps tighter YoY. This represents a significant improvement on the March YoY position (+5.4bps wider) and supports the view that the March widening was a localised volatility event rather than a regime shift.

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

Index	Apr Open (bps)	Apr Close (bps)	Apr Chg (bps)	YoY Chg (bps)
AusBond Credit A-/A+ Index	87.8	85.9	-1.9	-21.7
AusBond Credit BBB-/BBB+ Index	111.4	111.6	+0.2	-27.2
AusBond Credit Industrials Index	95.5	94.4	-1.1	-22.5

Source: LSEG Workspace

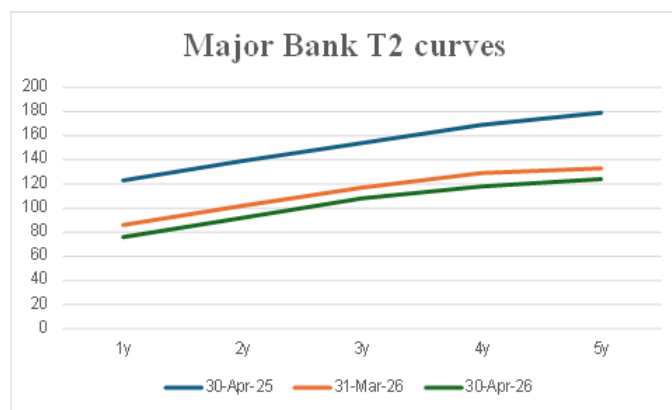
The AusBond credit indices reversed the bulk of the March widening. The A-rated index tightened 1.9bps and the Industrials index tightened 1.1bps. Both indices traced a similar path: an initial widening into the 8 April highs (A- at 88.2bps, Industrials at 96.6bps) followed by a sustained tightening grind that ran from mid-April through month-end. The BBB index was the laggard, finishing essentially unchanged (+0.2bps), reflecting the more cautious tone in the lower tier of investment grade where credit selection and trade-policy sensitivity remain top of mind for allocators. Year-on-year, the picture is unambiguously constructive. The BBB index at 112bps is 27bps tighter than April 2025; the A-rated index is 22bps tighter; and the Industrials index is 23bps tighter. The April performance, viewed against this 12-month backdrop, suggests that the March widening is best understood as a short-lived volatility episode within an otherwise persistent structural tightening regime – not the start of a credit cycle turn.

Tier 2 Bonds

Tier 2 had a strong month, with 10-year non-call 5-year spreads 10bps tighter, reversing most of March’s widening. In March, major bank Tier 2 spreads at the 5-year point in the curve shifted out from 132 bps to 133 bps, but the pause in new issuance in March and April brought about margins contracting back into an average of 124 bps by the end of April.

The contraction in Tier 2 margins over the past 12 months is worth noting. Last April, post the US Liberation Day Tariff announcement, major bank tier 2 margins were averaging 179bps. Although the margin expansion, after the Iran Conflict commenced on February 28, was modest, the banking sector faces several headwinds with its Tier 2 issuance in the months ahead. These include:

- Heightened loan book default risk with RBA official rate increases resulting in 90-day BBSW rate rising. This is more likely to impact non-bank lenders not supervised by APRA.
- Increased global bond market volatility with the outcome of the Iran conflict still uncertain.
- Increased supply of Tier 2 bonds that is needed because of strong bank credit growth and the maturity of both Tier 2 bonds and AT1 (tier 1) securities.
- Maturities of Tier 2 bonds for the major banks to January 2027 total \$10.7bn and AT1 maturities will require an additional \$4.5bn of tier 2 issuance.



Source: LSEG Workspace

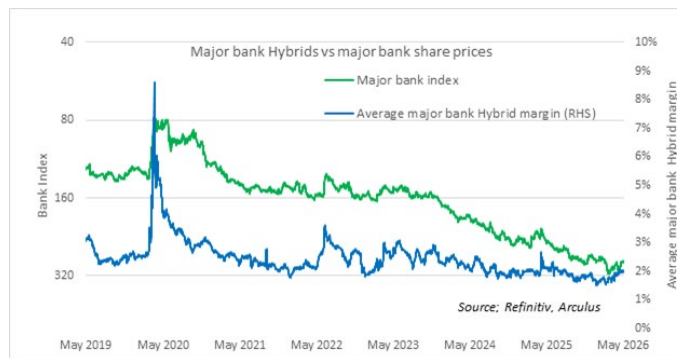
The pause in Bank Tier 2 issuance, in March and April, opened a window for corporates to issue subordinated long-term debt. There was a record Australian dollar corporate issuance – A\$6.5bn across ten deals in two weeks in April. This issuance was led by corporates that are seen to have earnings profiles that will not be impacted by an economic contraction such as Powercor and APA.

AT1

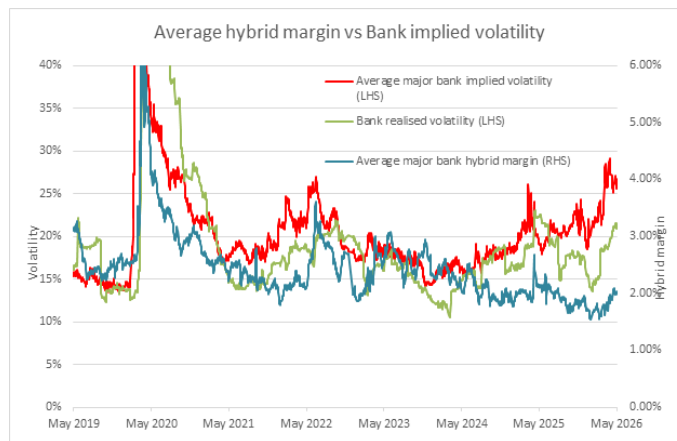
Major bank AT1 spreads were the standout underperformer of the month. Opening at approximately 198bps, AT1 widened steadily through the month to close at 207bps – a net move of +9bps, extending the directional widening that began with the Iran conflict shock on the 28th of February. The peak of 208bps was set on 28 April.

Two factors drove the underperformance against the rest of the bank capital stack. First, continued primary supply of competing yield product on the ASX absorbed natural retail demand. Second, a degree of fatigue from the structural compression theme that had supported AT1 through 2024 and 2025 – at 207bps the close is still 10bps tighter than April 2025, but the directional tailwind that earlier supported the trade is no longer evident. Secondly, the widening of AT1 margins is a reflection of increased banks equity price volatility.

The first chart shows an equally weighted index of the four major bank share prices (including cash dividends), presented on an inverted log scale to align with hybrid margin movements. The strong rally in bank equities from late 2023 broadly supported tighter hybrid margins, but the modest equity retracement seen recently would not typically justify a meaningful widening. Yet that is what we have observed.



The second chart updates the analysis from a few weeks ago and points to the actual driver. Increases in both bank option implied volatility and realised share price volatility have coincided closely with the widening in hybrid margins. The key driver is therefore not the absolute level of bank share prices, but the rate of change in volatility – likely amplified by the recent broader market volatility.



Source: Arculus Capital

Outlook for May

The credit market enters May in materially better shape than it entered April. Spreads have substantially repriced the March risk-off, technical conditions in primary issuance remain strong, and the relative-value backdrop continues to favour the front and middle of the bank capital structure. The principal risks for May are:

- The RBA policy decision and whether a hike is delivered against a still-soft PMI backdrop.
- The Q1 CPI release and the trajectory of the trimmed mean.
- Any re-escalation of Middle East tensions or a fresh round of US trade policy announcements.
- The path of AT1 spreads, where we believe further moderate widening is the more likely outcome absent a clear catalyst for renewed retail demand.

Our base case is for senior, Tier 2 and supranational spreads to consolidate at, or modestly inside, April closing levels through May, with continued underperformance in AT1 and ongoing two-way risk in the semi-government segment as relative-value flows continue to dominate.

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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