

### 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 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 undertakes 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

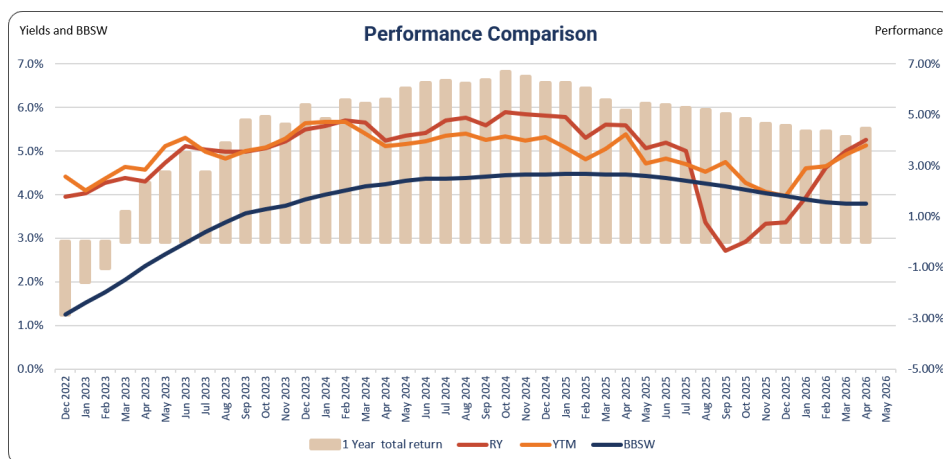
### Performance to 31 May 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
<b>Total Return</b>	<b>0.67%</b>	<b>1.86%</b>	<b>4.01%</b>	<b>4.71%</b>	<b>5.15%</b>	<b>2.66%</b>	<b>2.30%</b>
Cash Distribution	0.94%	1.65%	4.66%	4.91%	4.81%	3.46%	2.79%
+/- Growth	-0.27%	0.21%	-0.65%	-0.20%	0.34%	-0.80%	-0.49%

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.

We expect that performance over the next few months will be driven primarily by the running yield, currently estimated at 5.39%, and will be linked to further increases in the 90-day BBSW rate should the RBA raise rates again. The Fund returned a solid 37 basis points (bps) in May sourced almost entirely from coupons paid as there was very little change in senior bank credit margins over the month.

### 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 May 2026, the Net Asset Value of the Fund was \$43,527,891.19.

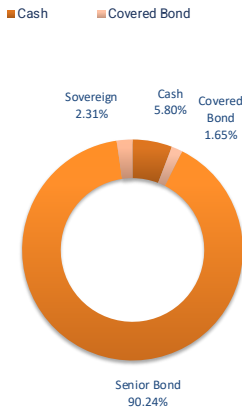
### Portfolio characteristics 31 May 2026

Running Yield*	5.39%
Yield to Maturity*	5.19%
Average Margin	0.74%
Average Years to Maturity	1.91
Number of Securities Held	46
Floating	91.87%
Fixed	2.33%
Cash	5.80%
Modified Duration	0.15
Credit Duration	1.71

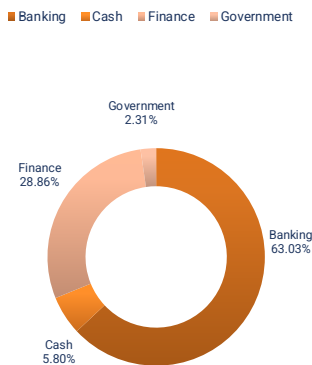
\* Based on portfolio metrics (pre fees) at review date. Future fund returns may be different.

## Asset breakdown

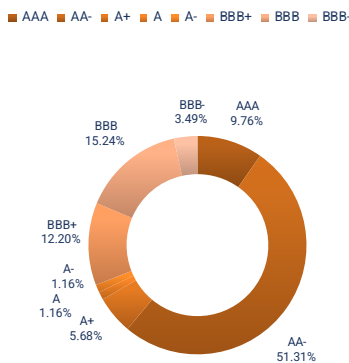
### Sub Type Analysis



### Sector Allocation



### Credit Rating



## Fund positioning

Over May the Fund accommodated a substantial new investor inflow, with assets under management rising from \$38.7 million to \$43.5 million (a \$4.8 million or 12.4% increase). Cash rose from 1.85% to 5.80% of the portfolio, reflecting late-month application monies sitting in the Fund’s cash accounts ahead of further deployment. The number of securities held rose from 40 to 46, with eight genuinely new positions added and two existing lines retired (the Rabobank May-26 fixed-rate note matured, and a Suncorp (ANZ) floating rate bond was rolled into a longer-dated equivalent).

The following outcomes were achieved:

### Running yield

Running yield rose from 5.26% to 5.39%, an improvement of 13bps. The increase came from the deployment of inflow monies into invested floating rate notes carrying coupon margins well above the cash rate. The upward drift in 90-day BBSW over the period further lifted coupon resets across the broader floating rate book.

### Yield to maturity

Yield to maturity (YTM) rose from 5.13% to 5.19%, an improvement of 6bps. Average credit margin narrowed slightly from 0.76% to 0.74%, a 2bps reduction. The headline margin compression reflects the higher cash balance at month-end (cash carries zero margin in the calculation) not any deterioration in the invested book. The YTM uplift is consistent with the deployment of fresh capital into invested securities at coupons above the cash rate.

### Fixed vs. Floating

The Fund remains structurally floating. Floating rate exposure was little changed at 91.87% (from 93.14%), while fixed rate exposure fell from 5.00% to 2.33% on the maturity of the Rabobank 4.25% May-26 fixed-rate line. Cash rose from 1.85% to 5.80%, reflecting late-month inflow monies awaiting deployment rather than any tactical de-risking. The Fund continues to run a structurally floating book, with fixed rate exposure held at a small tactical level.

### Duration

The portfolio has a modified duration (fixed) of 0.15 and a credit duration of 1.71 years. Both measures remain low in absolute terms, consistent with the Fund’s mandate to keep interest rate risk contained.

### Average years to maturity

Average maturity extended modestly from 1.83 years to 1.91 years, reflecting the addition of new positions clustered in the 2028–2031 maturity range – most notably the Newcastle Greater Mutual 2031 FRN and the Suncorp (ANZ) May-2030 FRN – partially offset by the natural roll-down of existing holdings.

### Credit quality

Overall credit quality remains strong with the entire portfolio in investment grade bonds. The move out of major bank short-dated bonds when margins contracted near month end reduced the AA-weighting while the shift into BBB+ large Mutual issuers enabled an uplift in yields.

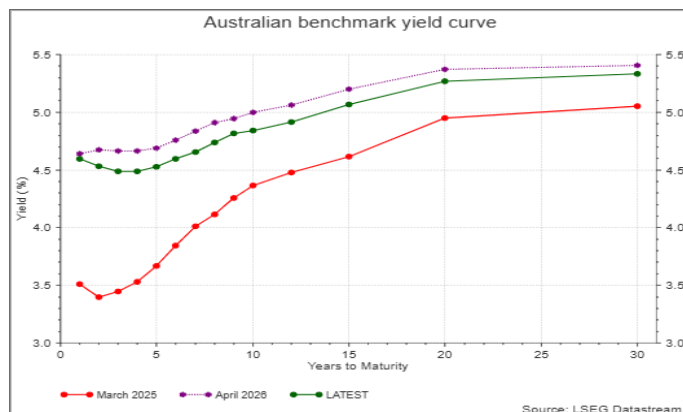
### Market review & outlook

The dominant domestic event of May was the Reserve Bank of Australia’s decision on 6 May to raise the cash rate by 25bps to 4.35% – the third consecutive rate increase in 2026, following hikes in February (to 3.85%) and March (to 4.10%). The decision was reached by the majority, with eight board members voting to hike and one voting to hold. The RBA’s official statement made clear that inflation was the primary driver: "Inflation is likely to stay above the 2–3 per cent target range for some time. Inflation was already too high before the Middle East conflict and increased fuel prices have pushed it up further."

The board specifically highlighted two distinct inflationary pressures operating simultaneously:

- pre-existing domestic capacity pressures – "reflecting greater capacity pressures in the economy"
- the externally imposed energy shock from the Iran war.

The statement warned of "early signs that many firms experiencing cost pressures are looking to increase prices," and flagged the risk of "second-round effects" on broader goods and services prices. Short-term inflation expectations had risen to 5.2% in March, the highest since July 2023, adding to the board’s concern that inflation expectations could become unanchored.

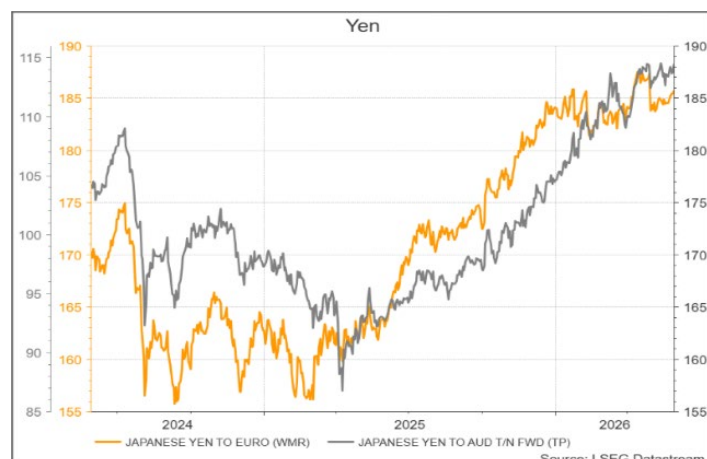


The short end of the Australian benchmark curve is now quite flat – offering investors little incentive to increase duration. This reflects the market’s view that the RBA will increase rates once more in the second half of the year and then remain on hold for a considerable period of time. The long end of the curve is being determined by two factors:

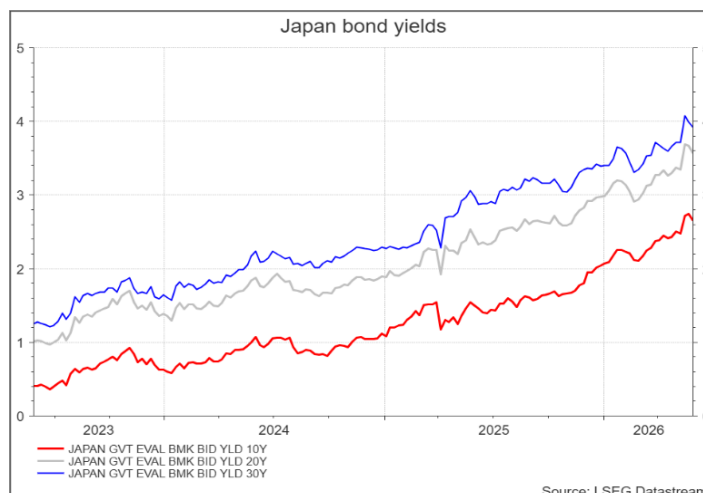
- The market determined premium of the Australian 10-year yield over the US 10-year yield. This has now contracted from 75bps to 40bps since the beginning of March.
- The unwinding of the yen carry trade.

**Japanese 30-year government bond yields reached a record 4.17% on 18 May** – the highest since the tenor’s 1999 debut. This amplified the selling in the 5–10-year segment of the Australian curve that had already been a feature of the prior months’ repricing, as Japanese institutional investors reassessed their relative positioning between AUD and JPY duration assets. Japan’s \$3.7 trillion in net foreign assets makes it a meaningful swing factor for global long-end yields, and the potential for further repatriation flows represented a structural risk for Australian Commonwealth Treasury demand in this segment. There are two key factors to monitor:

1. The Exchange Rate – The Australian dollar’s strength against the yen was maintained in May, despite the intervention by the Bank of Japan to stop the \$US/Yen rising above 160. The pressure, however, is coming from the yen’s weakness against the AUD and euro.



## 2. Japanese bond yields rising

**Australian Investment Grade - Senior Debt**

The Australian dollar investment grade credit market demonstrated resilience through May's volatile sovereign backdrop. Australian investment grade (AUD IG) credit spreads (measured against Australian Commonwealth Government Bond (ACGB) benchmarks) widened modestly during the 16–19 May global stress period to approximately 105–115bps at the 10-year point, from the approximately 90–100bps level that characterised the start of the month. By month-end, following the government bond rally and oil price decline, spreads had retraced to the 90–100bps range – broadly unchanged from the month's opening level.

The resilience of AUD IG credit through the volatile period reflects three structural supports:

- **Strong corporate fundamentals** across AUD IG issuers – particularly the major banks, which reported sound capital positions and manageable impairments.
- **Compelling all-in yield proposition** for the asset class at approximately 5.7–6.0% at the 10-year point (ACGB yield plus ~90–100 bps spread), attracting sustained demand from domestic superannuation funds and offshore investors.
- **Australia's AAA sovereign rating** – one of only ten countries globally to retain the top rating from all three major agencies following the Moody's US downgrade – which underpins the relative credit quality premium that attracts global allocators to AUD IG assets.

**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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