

### Strategy & Objective

The Arculus Preferred Income Fund is a domestic fixed income portfolio invested in Australian government and semi-government bonds, corporate senior and 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/environmentsocial-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.

### Fees

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

\* GST inclusive, net of any reduced input tax credits

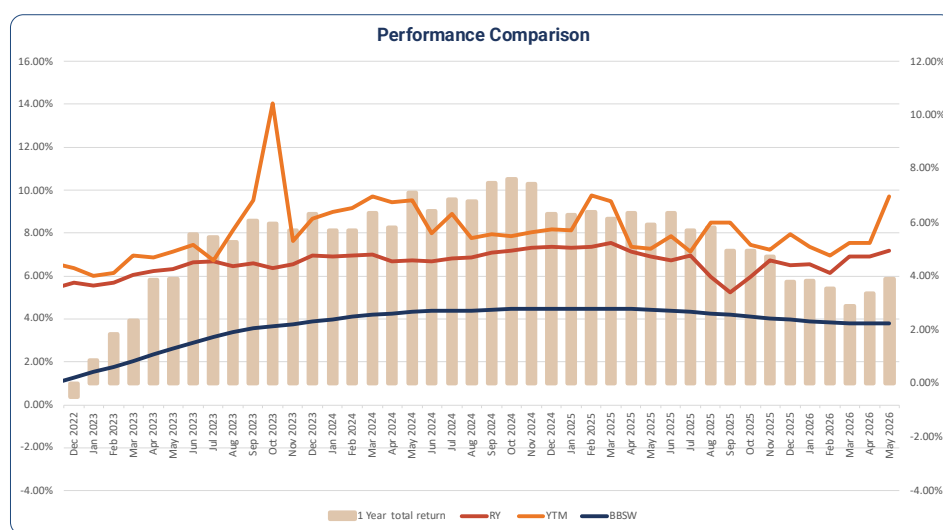
### Performance to 31 May 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
<b>Total Return</b>	<b>1.44%</b>	<b>1.44%</b>	<b>3.88%</b>	<b>4.90%</b>	<b>5.63%</b>	<b>3.81%</b>	<b>4.52%</b>
Cash Distribution	1.17%	2.32%	5.97%	6.10%	6.00%	4.95%	5.39%
+/- Growth	0.27%	-0.88%	-2.09%	-1.20%	-0.37%	-1.14%	-0.87%

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.

**Performance** followed the 105 basis points (bps) increase in April with a strong increase of 63bps in May. This reflects the positioning in short-dated Tier 1 hybrids that have relatively high yields to call. The running yield of 7.20% and the yield to maturity (YTM) of 9.72% is expected to support a performance outcome in this range over the next few quarters. The yield to maturity is currently at a high level that reflects the weighting towards bank investment grade Tier 1 securities that are due to mature at their first call date over the next few months and pay a final coupon.

### 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 \$102,963,229.50.

### Portfolio characteristics 31 May 2026

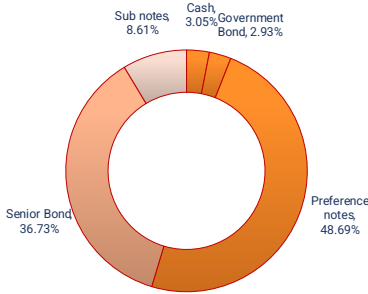
Running Yield*	7.20%
Yield to Maturity*	9.72%
Average Margin	5.35%
Average Years to Maturity	2.76
Number of Securities Held	47
Fixed	12.75%
Floating	84.21%
Cash	3.05%
Modified Duration	0.38
Credit Duration	1.78

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

## Asset breakdown

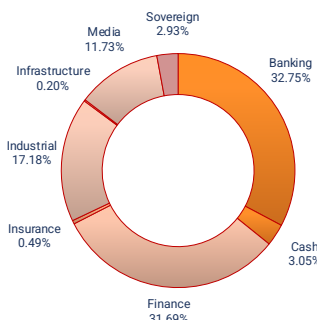
### Sub Type Analysis

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



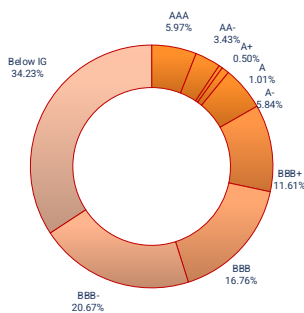
### Sector Allocation

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



### Credit Rating

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



## Fund positioning

Over May, the Fund consolidated its book and de-risked its duration profile, selling seventeen mostly smaller bank senior floating rate and fixed-rate lines. The result was a sharp uplift in spread income alongside a shortening of both interest rate and credit risk. Yield to maturity rose to 9.72% and average credit margin to 5.35%, while running yield was broadly unchanged at 7.20% and modified and credit duration both fell. These are positive developments from an income perspective, achieved while reducing duration.

The following outcomes were achieved:

### Running yield

Running yield rose marginally from 7.17% to 7.20%, an improvement of 3bps. Current coupon income changed little month-on-month: the cap-note additions (NABPF, SUNPH) carry running coupons broadly in line with the bank senior FRNs that were sold. The increase in the 90-day BBSW rate from 4.37% to 4.45% was the main reason for the increases in the running yield. The spread pickup from the rotation shows up in yield to maturity rather than in current cash yield.

### Yield to maturity

YTM rose from 8.10% to 9.72%, an improvement of 162bps. Average credit margin widened from 3.73% to 5.35%, a 162bps improvement. This reflects the portfolio's near-dated maturity profile, confirming that almost the entire gain was spread-driven rather than rate-driven. The widening reflects the exit of the long tail of low-margin bank senior floating rate bonds (typical margins of BBSW+70 to +110 bps) and the switch into ASX-listed hybrids approaching their first call dates and final coupon payments. This switch has reduced duration risk at a heightened time of market uncertainty and increased the YTM. At this stage we expect to be able to reinvest maturing hybrids into other ASX-listed hybrids until 2030 when their phasing out will have reached a point where their scarcity factor reduces their yields considerably.

### Fixed vs. Floating

Floating rate exposure fell from 88.52% to 84.21%, while fixed rate exposure rose from 9.59% to 12.75%. 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. The sharp sell off in fixed rate bonds in the first half of May provided an opportunity to buy short dated fixed rate bonds at a discount to par value. They provide the portfolio with a low-risk yield outcome.

### Duration

Modified duration fell from 0.47 years to 0.38 years, and credit duration fell from 2.12 years to 1.78 years. Both moved lower on the exit of the longer-dated bank senior and fixed-rate lines, with the redeployment into shorter-reset listed capital notes.

### Average years to maturity

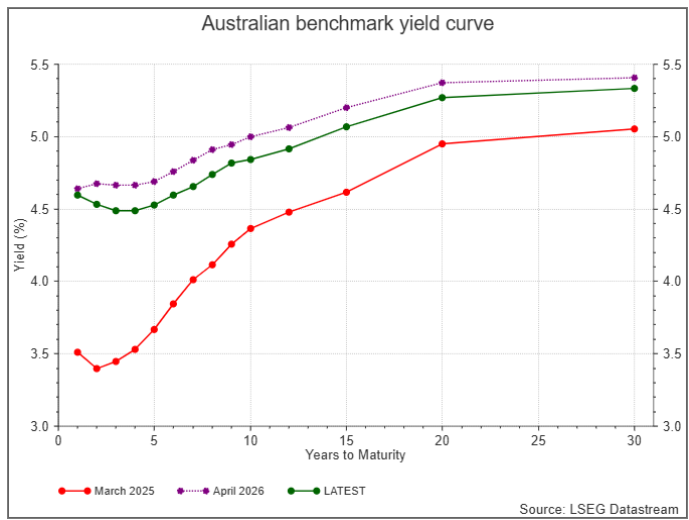
The average years to maturity fell from 3.00 in April to 2.76 in May. The composition of that maturity profile continues to be shorter-dated bank senior floating rate bonds and hybrid notes approaching their first call dates.

### Credit quality

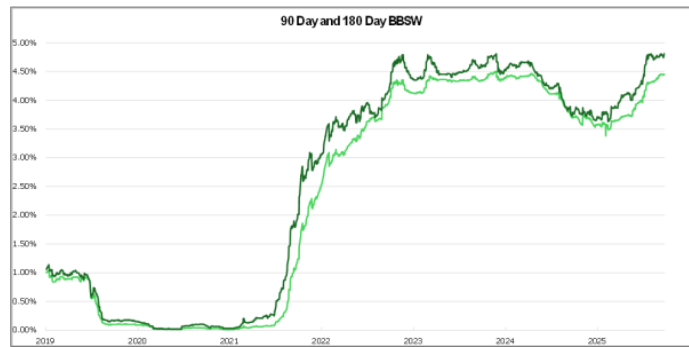
Investment grade corporate exposure was essentially unchanged at 65.77% of the Fund, and below investment grade exposure was also essentially flat at 34.23% – the slight increase was due to the Nufarm notes ASX-listed price after the company reported better than expected first half earnings. The non-investment grade weight remains stable for now and is expected to step down over coming months as OTC senior bonds are repaid and the ASX-listed Nufarm note position is gradually trimmed through on-market sales.

### Market review

May 2026 proved to be a month of two distinct halves for Australian fixed income markets. The first three weeks brought **the most significant domestic policy decision of the year** – the RBA's third consecutive 25bps rate hike on 6 May, lifting the cash rate to 4.35% – against the backdrop of a global sovereign bond sell-off triggered by the Moody's downgrade of the United States and record-high Japanese government bond yields. Australian Commonwealth Government Bond (ACGB) yields surged to multi-year highs during this period, with the 10-year briefly exceeding 5.1% and the 30-year touching 5.57% in March before carrying elevated levels into May's early weeks.



The final week of May brought a sharp reversal. The April monthly CPI, released on 28 May, came in below expectations at 4.2% – easing from 4.6% in March – as a government fuel tax cut partially offset ongoing energy pass-through. While the **trimmed mean (core) rose to 3.4%**, still firmly above the RBA's 2–3% target band, the softer headline print and signs of cooling consumer spending sharply reduced near-term rate hike expectations. Markets repriced from an 84% probability of a June hike to just **5% implied probability of a June hike** and reduced August pricing from 45% to 24%. The 10-year ACGB yield fell to approximately 4.84% by 29 May – a decline of around **24bps over the month** – even as global yields generally moved higher. The Australian bond market thus outperformed its global peers in May, driven by the domestically specific combination of rate hike completion signals and softer-than-expected inflation data.



The market has priced one further increase in rates (25bps) this year with the 90-day BBSW rate expected to peak near 4.81%. A swap rate at this level will mean that the yield on floating rate bank and insurance bonds reaches the highest level seen since 2018 because floating rate bonds coupons are linked to the 90-day BBSW rate. At the current margins, the 90-day BBSW rate of 4.45% and the expected peak in the second half at 4.70% produce these running yield outcomes.

90-day	4.45%	4.81%
Senior major bank	5.15%	5.51%
Tier 2 major bank	5.70%	6.06%
Tier 1 major bank	6.35%	6.71%

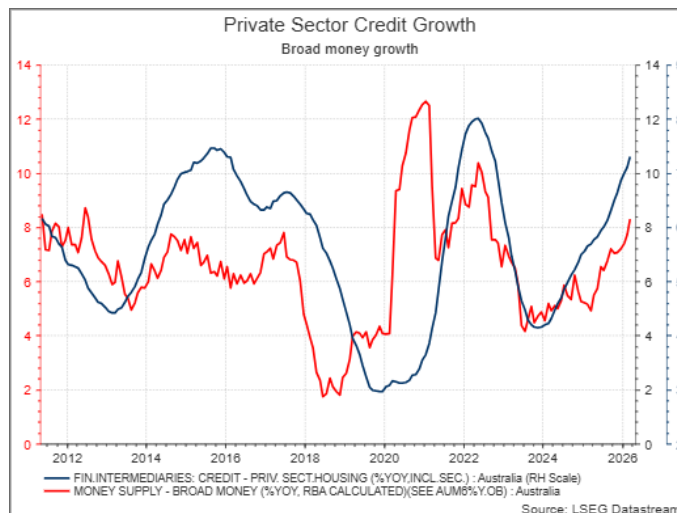
Much has been made of the Federal Budget and decisions made in it that will impact investment in Australia. At this stage we will await the final legislation before considering the likely impacts, however, following three rapid rate increases so far this year, house prices do appear to be more fragile than at any time since the depths of the pandemic lockdowns. Residential real estate in Australia is the key risk asset that drives both consumer and business borrowing. A fall in house prices will impact both household and bank balance sheets. This does not mean that the RBA should not have increased rates as the RBA must focus on what it can control and this is the growth in broad money supply.

**Monetary Base and Broad Money Growth**

One reason bond yields have been rising is that the supply of money in the economy is growing faster than the economy's ability to produce goods and services. In Australia, broad money (known as M3) has been increasing at a fast pace, even though economic growth has been weak. By the fourth quarter of 2025, M3 growth had reached 7.15% per year, while the economy's estimated long-term growth rate was only around 4–5%.

This increase in money supply is partly the result of the Reserve Bank of Australia's (RBA) three interest rate cuts during 2025, beginning in February. Lower interest rates make borrowing cheaper, encouraging households and businesses to take out loans. When banks create new loans, new deposits are also created, which increases the amount of money circulating in the economy.

The effect of money growth on inflation does not happen immediately. It usually takes between 9 and 12 months before changes in the money supply have a noticeable impact on prices. This means the rise in money growth during 2025 is more likely to affect inflation during 2026 rather than 2025. The RBA may therefore be facing a challenge: inflation pressures could remain stronger than expected, meaning interest rates may need to stay higher for longer.



**Private Sector Credit Growth**

Another important reason for rising bond yields is the strong growth in private sector credit. Private credit measures how much households and businesses are borrowing from banks. Credit growth has increased to its fastest annual pace in five years, suggesting that the RBA's rate cuts have successfully encouraged borrowing and spending.

In January 2026, private sector credit growth reached 7.7% per year and remained at that level in February. During December 2025, credit increased by 0.8% in a single month, the strongest monthly rise since June 2022. Housing credit grew by 0.7%, while business credit increased by 1.0%.

The growth in credit has been broad-based. Housing credit, which had been weak during the earlier period of higher interest rates, has recovered strongly. Housing prices increased by 1% in December 2025 alone and rose by 8.5% over the year. Strong borrowing has helped support this rise in property prices. Business borrowing has also increased. Companies have been investing more, particularly in technology and energy-related projects. The RBA believes that lower interest rates are now helping to boost demand across the economy.

This creates a challenge for policymakers. If credit continues to grow at today's pace, inflation could remain higher than desired over the next year. The RBA's recent rate cuts may already have set in motion stronger demand and higher prices, even as the central bank attempts to keep inflation under control.

**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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