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

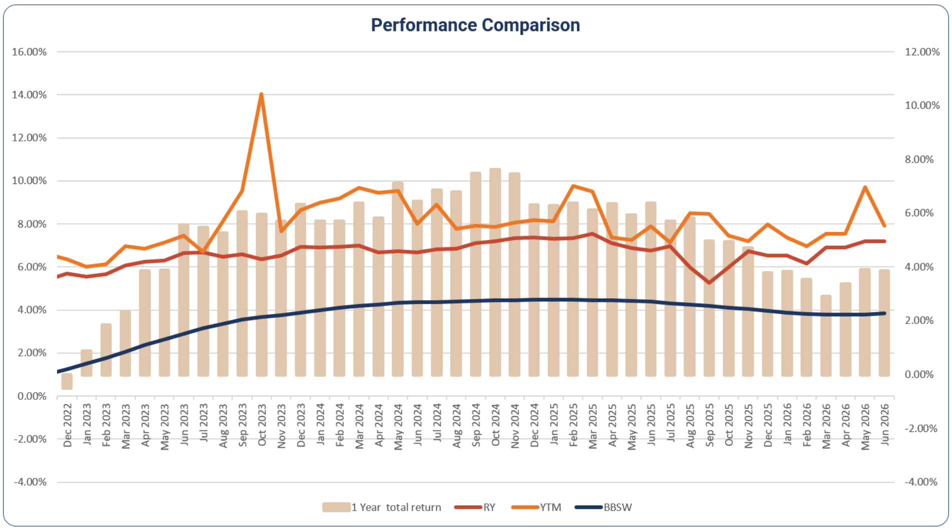
Performance to 30 June 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	**1.98%**	**2.30%**	**3.86%**	**5.10%**	**5.55%**	**3.86%**	**4.51%**
Cash Distribution	1.08%	2.25%	5.00%	5.93%	5.92%	5.05%	5.42%
+/- Growth	0.90%	0.05%	-1.14%	-0.83%	-0.37%	-1.19%	-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.

Performance - The Fund returned 0.29% after all fees in June, following its distribution of **1.08%** for the June quarter. Performance over the next few months is expected to be driven primarily by the running yield, currently estimated at 7.19%, with the 90-day BBSW rate at 4.46%. The RBA raised the official cash rate three times earlier in 2026 before holding steady at its June meeting; with that RBA tightening now widely anticipated by markets, the 90-day BBSW rate may not move materially higher in the near term. 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 Investment Grade by Lonsec.

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

Fund size

As of 30 June 2026, the Net Asset Value of the Fund was $102,184,598.76 after the quarterly distributions.

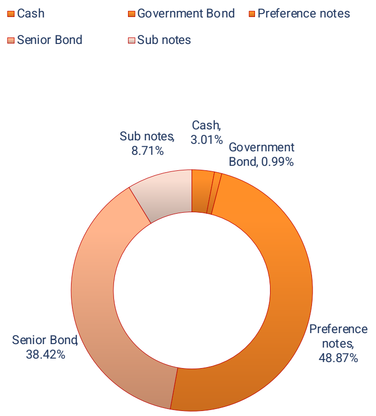
Portfolio characteristics 30 June 2026

Running Yield*	7.19%
Yield to Maturity*	7.93%
Average Margin	3.47%
Average Years to Maturity	2.92
Number of Securities Held	51
Fixed	32.46%
Floating	64.53%
Cash	3.01%
Modified Duration	1.09
Credit Duration	1.60

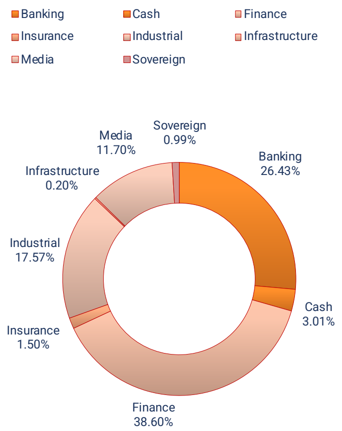
* Based on portfolio metrics (pre fees) at review date. Future fund returns may be different.

Asset breakdown

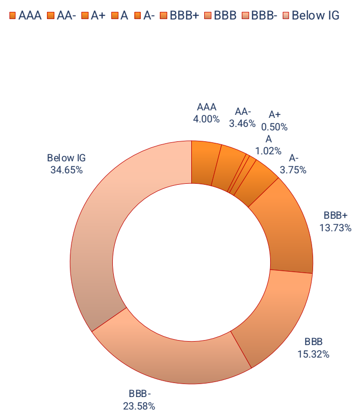
Sub Type Analysis



Sector Allocation



Credit Rating



Fund positioning

During June, several ASX listed Tier 1 securities were redeemed at their first call dates. The funds received from the redemptions were reinvested into investment grade AT1 securities with fixed rates of between 7.00-7.65%.

Running yield

Running yield was broadly unchanged at 7.19%. The high coupons on the new fixed-rate lines replaced the running income from the cap notes that were redeemed, and 90-day BBSW rose modestly over the period (from 4.45% to 4.46%), so current cash yield was maintained.

Yield to maturity

Yield to maturity fell from 9.72% to 7.93%, a reduction of 179 basis points (bps), and average credit margin fell from 5.35% to 3.47%, a reduction of 188bps. With 90-day BBSW up only c.1bps, essentially the entire fall was spread-driven — a normalisation rather than a re-pricing. The move reflects the full exit of the two high-margin listed cap notes (NABPF at BBSW+400bps and SUNPH at BBSW+300bps with proceeds redeployed into fixed-rate investment grade bank and financial debt securities.

Fixed vs. Floating

Fixed rate exposure rose sharply from 12.75% to 32.46%, and floating rate exposure fell correspondingly from 84.21% to 64.53%. This +19.7-percentage point shift into fixed rate is the Fund's principal structural change this month. The cash weight was broadly unchanged at @3.0%. The Fund retains a majority floating book but now carries materially more fixed-rate exposure than in prior months.

Duration

Modified duration rose from 0.38 years to 1.09 years, an extension of 0.71 years, reflecting the large increase in fixed rate. Credit duration moved in the opposite direction, falling from 1.78 years to 1.60 years on the exit of the perpetual cap notes and the continued run-down of longer-dated lines. The month therefore saw a deliberate lengthening of interest rate duration funded from spread duration — a shift in the balance of risk from credit toward rates, albeit from a low base that keeps overall rate duration modest.

Average years to maturity

Average years to maturity lengthened modestly from 2.76 years to 2.92 years, an increase of 0.16 years, as the perpetual and long-reset cap notes were replaced with dated fixed-rate bonds.

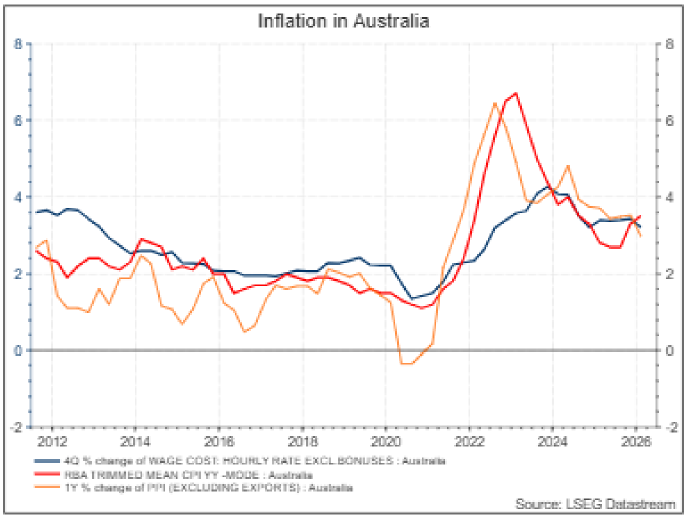
Credit quality

On a ratings basis, investment grade exposure was broadly unchanged at 65.4% of the Fund (from 65.8%), and below investment grade exposure was also broadly flat at 34.7% (from 34.2%). On an asset-class basis, investment grade corporate exposure rose to 61.4% (from 59.8%) and below investment grade corporate was essentially flat at 34.7% (from 34.2%). Sovereign exposure fell from 2.9% to 1.0% as the AAA Export Finance Australia FRN was run down to a negligible position, with AAA weight falling correspondingly from 6.0% to 4.0%. Within investment grade, the BBB band rose (BBB+ from 11.6% to 13.7%, BBB- from 20.7% to 23.6%) as the fixed-rate bank and financial additions landed there, while A- eased from 5.8% to 3.8% and AA- was unchanged at ~3.4%. Overall, the ratings mix was little changed at the investment grade / below investment grade level, with the composition shifting toward the BBB band and away from AAA and sovereign.

Market review

The domestic read was a study in contrasts: a soft headline CPI against a firmer core and a labour market that reasserted its strength — a combination that, in our view, keeps the RBA's hiking bias alive even as the market treats the cash rate as having peaked. The Reserve Bank held the cash rate at 4.35% on 16 June — its first pause of 2026 after consecutive increases in February, March and May — in a unanimous decision, while explicitly retaining the option to tighten further if required.

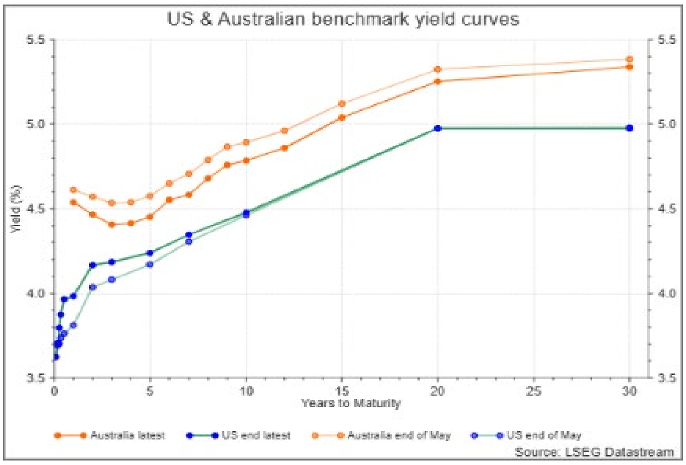
On inflation, May headline CPI fell a larger-than-expected 0.69% MoM to 4.0% YoY (down from 4.2% in April), dragged by an 11.9% fall in automotive fuel — reflecting both the halving of the fuel excise on 1 April and lower world oil prices — and a 6.9% drop in travel, both of which look transitory. Underneath, the **trimmed mean rose to 3.6% YoY (from 3.4%), the high of its monthly series**, led by housing, the largest contributor at +6.5% YoY: new-dwelling construction costs (+5.6% YoY, adding ~42bps to headline on its own), accelerating rents (toward 4%) and electricity up 21.1% YoY as government rebates rolled off, with market services still firm. All of this is before the Fair Work Commission's Annual Wage Review — a 4.75% lift to modern award wages and a ~6% rise in the National Minimum Wage, handed down on 2 June — takes effect from the first full pay period on or after 1 July. That decision lifts pay for roughly 2.7 million award-reliant workers (around 21% of the workforce) and, at 4.75%, sits just below headline inflation — broadly real-wage-neutral, but a fresh cost input we expect to feed market services through the second half.



The May Labour Force reinforced the point: unemployment fell back to 4.4% (from 4.5% in April, reversing April's spike) on a +40k employment rebound, participation steady at 66.7% and underutilisation at 10.2%, near multi-decade lows. Against firm core inflation and a tight labour market, Australian 10-year Commonwealth Government Bond (ACGB) yields were little changed on the month — the 10-year around 4.85% and the 30-year near 5.30% — and the AUD held close to US$0.70. The Street is split on the next move — some houses see further tightening later in 2026, others judge the next step to be down — but our own bias, given the core build and labour-market strength, remains toward one more hike.

Australian Benchmark Yield Curve

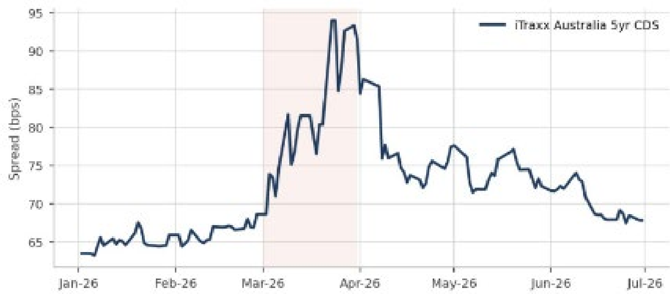
Our strategic frame is a **widening US–Australia policy divergence** that splits the domestic curve. The front end is pulled higher by a domestic cost-push story the RBA cannot easily look through; the long end is pulled lower by a global growth signal that is beginning to discount slower US activity. The net expression is a **flatter ACGB curve**.



iTraxx Australia CDS Index

The iTraxx Australia 5-year CDS index completed its retracement of the March episode in June. The index opened at 71.7bps, briefly ticked up to a month high of 74.0bps on 9 June, then tightened steadily to a low of 67.4bps on 25 June and closed the month at 67.8bps — a net move of −3.9bps. With this, the synthetic index has effectively round tripped the entire March blow-out, which had carried it to a peak near 94bps.

On a year-on-year basis the 67.8bps close is approximately 7.5bps tighter than the 75.3bps recorded on 30 June 2025. On a year-to-date basis the index now sits just 4.3bps above its early-January starting level of 63.5bps — down from a peak differential of roughly 30bps at the height of the March episode, and evidence that virtually all of the tariff-driven widening has now unwound. With the cash-versus-synthetic basis normalised and risk premia at historically tight levels, the market enters the new financial year from a firm but historically compressed starting point.



iTraxx Australia 5yr CDS index, *Jan 2026 – Jun 2026. Shaded band marks March 2026. Source: LSEG Workspace, Arculus Capital.*

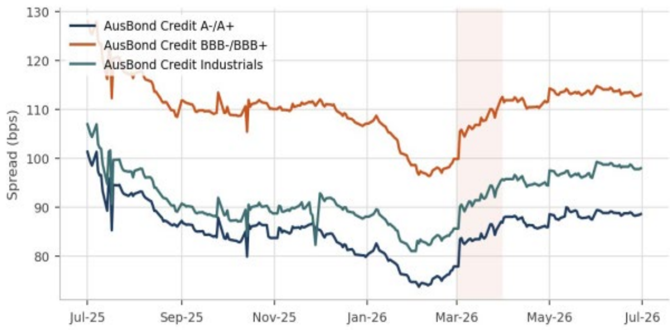
Investment-grade credit

June delivered a broad-based tightening across the entire capital structure, carrying spreads in most segments to tighter levels than seen for some years and completing the unwind of March's tariff-driven dislocation. Indicative 5-year major-bank senior ground from 68bps to 65bps (−3bps), the tightest month-end of the cycle and 14bps inside its end-June 2025 level.

Major bank capital structure — June 2026 (YoY vs June 2025)

Instrument	Open (bps)	Close (bps)	Mth Chg	YoY Chg
Major bank 5yr indicative (senior)	68	65	−3	−14
Major bank RMBS 2.5–3.5yr WAL	90	87	−3	+1
~5yr major bank B3 Tier 2	126	121	−5	−40
~5yr major bank AT1	181	167	−14	−46

Source: LSEG Workspace, Arculus Capital. Figures rounded to whole basis points.



AusBond Credit A, BBB and Industrials indices, Jul 2025 – Jun 2026. Shaded band marks March 2026. Source: LSEG Workspace, Arculus Capital.

AusBond credit indices — June 2026 (YoY vs June 2025)

Index	Open (bps)	Close (bps)	Mth Chg	YoY Chg
AusBond Credit A-/A+ Index	89.4	88.6	−0.8	−9.2
AusBond Credit BBB-/BBB+ Index	114.7	113.1	−1.7	−14.1
AusBond Credit Industrials Index	99.2	97.9	−1.3	−6.3

Source: LSEG Workspace, Arculus Capital.

Floating rate senior bank bonds remain the most defensively positioned segment of the market — the BBSW reset, no duration risk, seniority in the capital structure and RBA repo eligibility give a liquidity backstop that's not available to any other private-sector instrument in Australia. With cash and synthetic markets both through their March wides, the financial year closed with credit risk premia at their most compressed levels of the cycle.

Bank capital: Tier 2 & AT1

The sub-debt complex led the tightening on a clean technical backdrop. Major-bank Tier 2 ground tighter across the middle and long end of the curve — NC5 closed 4–5bps tighter and NC10 as much as 10bps tighter (160→151bps), while the 1-year and 20-year bonds were little changed; indicative ~5-year AT1 rallied from 181bps to 167bps (−14bps), 46bps inside a year ago. The dominant driver was a **supply vacuum**: no A$ Tier 2 or AT1 priced in June, with issuers pivoting decisively offshore — more than A$8bn-equivalent of non-A$ Tier 2 has priced since the start of May across eight transactions, the heaviest two-month run on record — leaving maturing paper and coupons to be redeployed in secondary.

Major-bank Tier 2 FRN secondary curve — discount margin (bp), month-end marks

	1y	2y	3y	4y	5y	10y	20y
29 May	75	92	109	118	126	161	138
30 Jun	76	88	105	114	121	151	137
Change (bp)	**+1**	**−4**	**−4**	**−4**	**−5**	**−10**	**−1**

Source: Westpac Markets.

The late-month rates rally reignited the long end, with NC10 demand led by outright investors as 10-year swap fell from 5.00% to 4.62% and RBA terminal-rate uncertainty resolved (for every meeting to December 2027 now sits within a tight 25bps band around 4.25–4.50%). At the front, demand rotated out of fixed and into FRNs as the 5-year semi-quarterly swap traded through 3-month BBSW for the first time since October. QBE's AT1 was the standout, closing 27bps tighter at $101.25 (+228bps) and the single most-traded line of the month, helping to absorb a concentrated slug of 17 June redemptions (NAB, Suncorp and Macquarie); Kanga AT1 was also active as its basis to A$ lines compressed materially.

The month's main idiosyncratic development was **Judo Capital** (ASX: JDO), the SME-focused challenger bank, whose shares fell around 40% on 25 June — trading as much as 46% lower intraday, to about 82c from a $1.535 prior close, erasing roughly A$800m of market value — after it cut FY26 profit-before-tax guidance to $163–169m from $180–190m. The downgrade (~$20m, or ~11%) was driven almost entirely by a lift in the FY26 cost of risk to $116–122m on specific provisions against three borrower exposures across different sectors that deteriorated rapidly in recent weeks, one of which entered voluntary administration.

Judo expects 90-days-past-due and impaired loans at ~3% of its ~$14.4bn book by 30 June, though it held collective provision coverage (94bps) and CET1 (12.4%) and reaffirmed FY27 PBT guidance of $210–220m. The provision increase is only ~15bps of the book, but its abruptness — weeks after an April reaffirmation — has the market questioning whether it is idiosyncratic or an early sign of broader SME or economic stress. The RBA's March 2026 Financial Stability Review had already flagged business non-performing loans edging higher, particularly in hospitality and construction. Judo's Tier 2 lines are 50–55bps wider on the month, and full-year results are due 18 August. ***Note: Arculus has not held Judo Capital debt or hybrid positions in any of its mandates*.**

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.