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/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 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

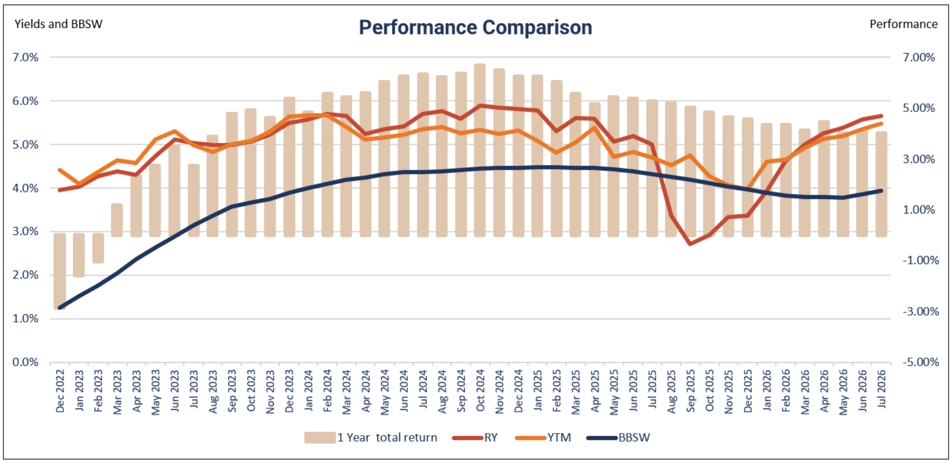
Performance to 31 July 2026 (annualised)

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	**1.24%**	**2.05%**	**4.01%**	**4.64%**	**5.20%**	**2.79%**	**2.36%**
Cash Distribution	0.85%	1.81%	3.71%	4.76%	4.75%	3.60%	2.84%
+/- Growth	0.39%	0.24%	0.30%	-0.12%	0.45%	-0.81%	-0.48%

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.

The Fund returned 44 basis points (bps) after all fees in July, following its distribution of **0.85%** for the June quarter. June returns for unitholders were driven primarily by the income received from bond coupons. Performance over the next few months will continue to be driven primarily by the running yield, currently estimated at 5.66%, and will remain linked to the 90-day BBSW rate. This is a cash-like fund option for investors. It can hold only Australian dollar sovereign and bank senior bonds that have qualified to be repo eligible when issued.

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 31 July 2026, the Net Asset Value of the Fund was $41,336,480.17.

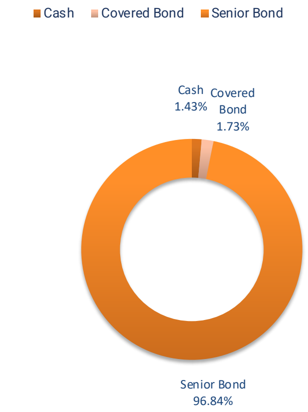
Portfolio characteristics 31 July 2026

Running Yield*	5.66%
Yield to Maturity*	5.48%
Average Margin	0.97%
Average Years to Maturity	1.89
Number of Securities Held	45
Floating	96.10%
Fixed	2.47%
Cash	1.43%
Modified Duration	0.08
Credit Duration	1.74

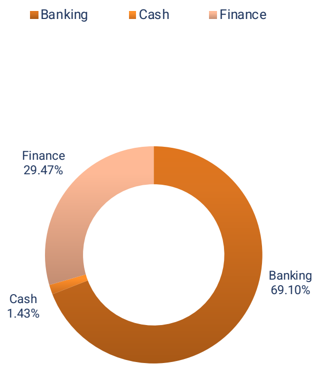
* Based on portfolio metrics (pre fees) at review date. Future fund returns may be different.

Asset breakdown

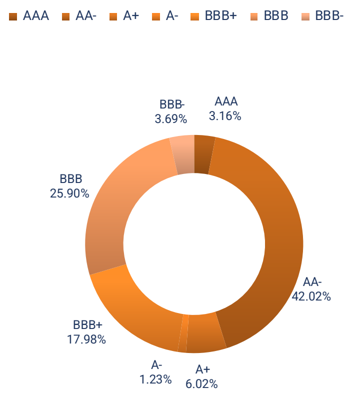
Sub Type Analysis



Sector Allocation



Credit Rating



Fund positioning

July was a quiet month for the Fund. The portfolio remains entirely senior and covered paper, entirely investment grade, and 96% floating rate.

Running yield

Running yield rose 8bps from 5.58% to 5.66%. The move is almost entirely mechanical with the 90-day BBSW rising 6bps over the month, from 4.45% to 4.51%, and resets through a book in which 96% of holdings carry coupons linked to it on a quarterly basis.

Yield to maturity

Yield to maturity rose from 5.35% to 5.48%, an increase of 13bps, and average credit margin rose from 0.90% to 0.97%, an increase of 7bps.

Fixed vs. Floating

Floating rate exposure was essentially unchanged at 96.10%, from 96.43%, with fixed at 2.47% and cash at 1.43%. The Fund doesn't hold hybrid, subordinated or perpetual paper and takes no fixed rate position of consequence. The two lines classified as fixed are both National Australia Bank holdings totalling 2.47% of the Fund, and both are modelled with rate duration of 0.03 to 0.04 years — that is, they behave as floating rate notes. On that basis the effective floating weight is closer to 98.6%.

Duration

Modified duration fell from 0.10 years to 0.08 years. For a book of this construction, that figure measures the average time to the next coupon reset rather than any meaningful exposure to the level of interest rates, and it should not be read as a duration position. The relevant measure is credit duration, which fell from 1.78 years to 1.74 years, a reduction of 0.04 years, as the book rolled down a month against a single new 2029 line.

Average years to maturity

Average years to maturity shortened from 1.94 years to 1.89 years, a reduction of 0.05 years. Natural roll-down of approximately 0.08 years was partly offset by the addition of the 2029 line. The maturity profile remains heavily front-loaded:

- 34.9% of the Fund matures within twelve months (36.1% at June).
- 9.3% between one and two years.
- and 39.5% between two and three years, with nothing beyond five years.

Credit quality

The Fund remains entirely investment grade: Aggregated, exposure rated AA− or better fell from 49.4% to 45.2% while the BBB band rose from 43.6% to 47.6%. The move is modest in absolute terms, and every holding remains investment grade.

Sector and structure

By sub type, the book is unchanged in character: senior bonds eased from 97.2% to 96.8%, covered bonds rose from 1.6% to 1.7% and cash from 1.2% to 1.4%. By sector, banking rose from 68.0% to 69.1% and finance fell from 30.8% to 29.5%. There is no exposure outside banking, financials and cash, which is the intended construction for a cash alternative mandate.

Market review & outlook

July was a quiet month for Australian credit and a volatile one for rates. Major bank floating rate margins finished the month marginally wider across the curve with no meaningful dispersion, while the sovereign benchmark curve traded a wide range at the long end, driven principally by the oil price and the continued unwinding of the yen carry trade.

The quiet may prove short-lived. The August bank reporting cycle, the 11 August RBA decision and an accelerating decline in residential property values make for a considerably more eventful month ahead.

Major Bank Credit Margins

Tenor	30 Jun 2026	31 Jul 2026	Chg
5yr	63.5	64.0	**+0.5**
4yr	60.0	61.0	**+1.0**
3yr	54.0	55.0	**+1.0**
2yr	46.0	47.0	**+1.0**
1yr	36.0	38.0	**+2.0**

Source: Arculus

Two features of the month are worth drawing out. First, the direction of margins was uniformly wider — there was no tenor at which margins tightened. Second, the widening was concentrated at the front end, taking the 5 year/1 year credit curve from 27.5bps to 26.0bps. A 1.5bps flattening is immaterial in isolation, but it is the shape one would expect if the marginal buyer of short-dated bank paper is becoming more discriminating, rather than less.

At a fund management level, such stability is always welcome. It allows returns to be driven by coupon yields with lower volatility. However, this stability may equally be signalling the market's reluctance to tighten current margins any further. If that is the case, then the asymmetric risk-for-return outcome is skewed against adding credit spread duration to portfolios.

Over the next six months we expect all bank floating rate credit margins to widen from current levels, for several reasons:

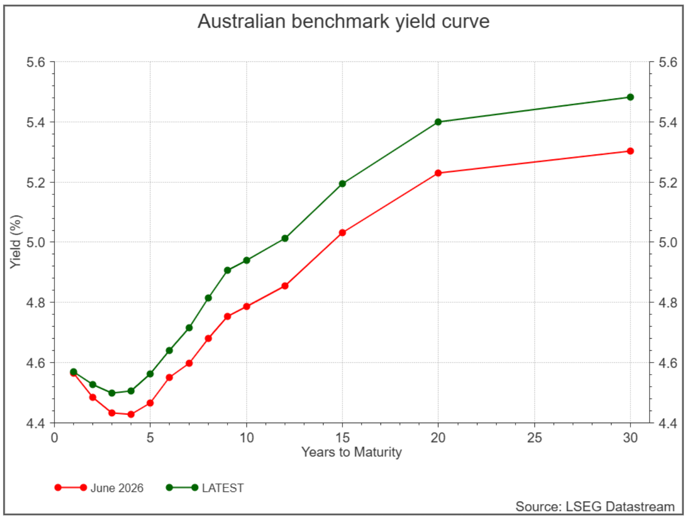
- Credit spreads are currently tight when judged against historical levels.
- Geopolitical risk will not abate.
- Domestic economic risk may increase if the decline in housing prices post the Federal Budget extends significantly.
- A rise in the yield of fixed rate benchmark sovereign bonds will reduce demand for floating rate bonds where a yield differential opens up.

The quiet July was specific to the domestic banks rather than general to the market. Australian syndicated issuance in the first half of 2026 reached approximately A$191.7 billion, some 42% above the same period in 2025, with Kangaroo issuance alone setting a record at around A$52 billion. What was absent was the major banks. With reporting due, domestic senior and subordinated supply effectively stopped, and it is this absence that accounts for much of the calm in secondary margins. Post results, the banks can return to issuing. A concentrated re-opening of major bank supply into a market that has already shown no appetite to tighten is, in our view, the single most likely near-term catalyst for the widening set out above.

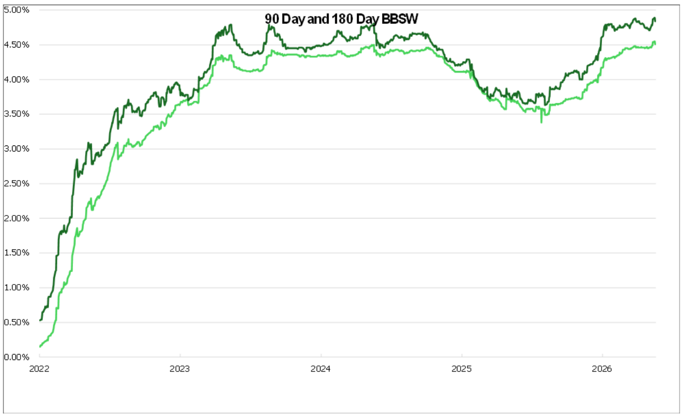
The bank reporting season that begins in the second week of August will be monitored closely. This is because of the increased uncertainty — post the Federal Budget changes to capital gains tax and negative gearing — that is impacting residential sales turnover and, to some extent, price outcomes. In Australia, residential real estate is the main risk collateral that allows the financial system to function and grow, so there is a heightened degree of sensitivity to even small declines in house prices. The specific line items to watch are new investor lending flow, loan-to-valuation profiles on recent mortgages, arrears in the 30–89-day bucket, and any change to collective provision overlays. None of these will move materially in a single reporting period, however, the commentary from the banks on the outlook will be important.

Rates and the Curve

The Australian benchmark yield curve had a wild ride in July, particularly at the long end where the impact of the unwinding of the yen carry trade is more profound. The initial fall in yields in the first week quickly gave way to a sharp rise when the conflict with Iran escalated again.



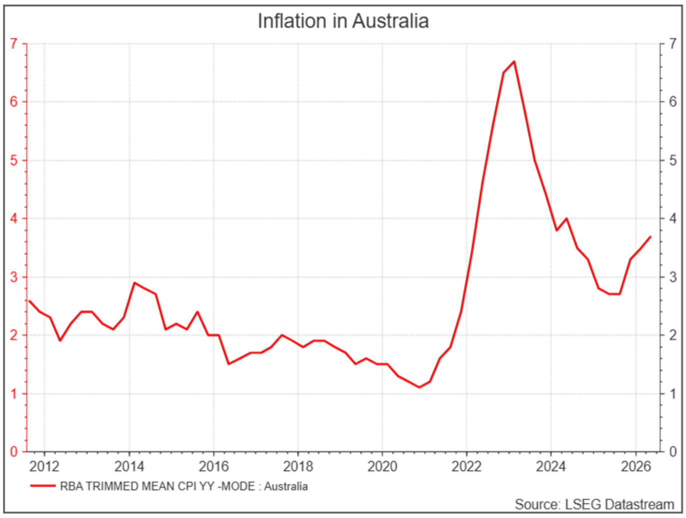
The 10-year ACGB traded a range of roughly 4.71% to just under 5.00% over the month, briefly clearing 5% mid-month on the June employment data before easing back below that level as oil retreated on a pause in the US–Iran conflict. Markets began to price an RBA move in August on the combination of the higher oil price and stronger than expected June employment. This was reflected in the 90-day BBSW rate rising to a new high of 4.55% before easing back to 4.51% after the June inflation reading came in below market expectations.



Inflation

The June CPI, released on 29 July, broke the market's way for the first time this year. Headline annual inflation eased to 3.8%, down from 4.0% in May and below the 4.0% consensus, with the monthly index falling 0.1%. The trimmed mean held at 3.6% against expectations of 3.7%. On the pre-October 2025 quarterly basis, the CPI rose 0.6% for the June quarter and the trimmed mean 0.8%.

Inflation remains above the target band, but for the first time in 2026 it has stopped moving away from it. Fuel did most of the work — automotive fuel fell 10.9% in June following an 11.9% fall in May — while housing at +6.8% remained the largest single contributor, with electricity up 22.4% on the expiry of Commonwealth and State rebates and new dwellings up 5.8%.



Market pricing for a further hike this year was cut sharply on the release, from above 90% to around half, with August pricing collapsing to near zero. Governor Bullock's 30 July address left the door open, noting that a further increase may still be required and that further moderation in domestic demand and labour market conditions would be needed to judge whether the tightening already delivered has been sufficient.

The bond market now appears less concerned about the impact of the oil price on inflation than it was in the June quarter. Several factors are at work:

- The market has determined that there is a pattern whereby when the oil price surges towards Brent US$100/bbl the US President orders that attacks on Iran are paused, and when the oil price falls towards Brent US$70/bbl he takes up a hawkish tone and orders new attacks on the Iranian military. What this means is that the price of oil is driving the war, and not the war bringing changes to the oil price.
- Demand from China is suspected to have fallen.
- Strategic reserve releases by the US, Japan and perhaps also China have allowed the market to manage the fall in oil supply without a sustained price spike above Brent US$100/bbl.

Labour Market

The June labour force release was the month's genuine surprise, with employment rising 76,000 against a consensus closer to 15,000. The headline flattered the underlying picture. Some 47,000 of the gain was part-time, the participation rate lifted 0.3 percentage points to 67.0%, the unemployment rate was unchanged at 4.4%, and the underemployment rate rose 0.2 percentage points to 6.5%.

A print of that composition — strong gross employment absorbed entirely by a rising participation rate, with underemployment drifting higher — is not the signature of a labour market tightening into an inflation problem. It is the signature of a labour market where supply is responding to cost-of-living pressure. That distinction matters for how the August Statement on Monetary Policy is likely to read.

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.