ARCULUS PREFERRED INCOME FUND
MONTHLY REPORT – JULY 2026

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

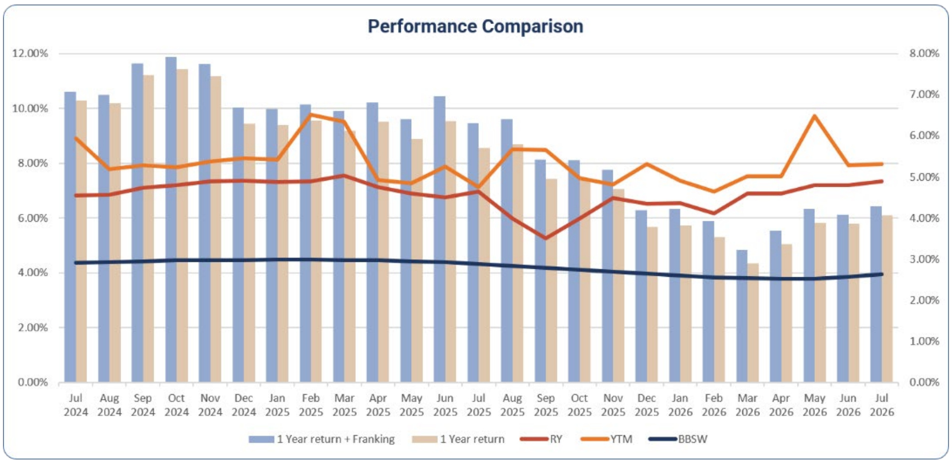
* GST inclusive, net of any reduced input tax credits

Performance to 31 July 2026 *

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
FUND PERFORMANCE							
Fund Total Return (excl. franking credits)	1.61	2.70	4.07	4.88	5.54	3.94	4.53
Franking credit uplift	0.07	0.14	0.22	0.41	0.34	0.29	0.38
Fund Total Return (incl. franking credits)	**1.68**	**2.84**	**4.29**	**5.29**	**5.88**	**4.23**	**4.91**
DISTRIBUTION INFORMATION							
Cash Distribution (excl. franking)	1.08	2.26	5.01	5.92	5.92	5.05	5.40
Franking credit uplift	0.07	0.14	0.22	0.41	0.34	0.29	0.38
Distribution return, including the value of franking credits	**1.15**	**2.40**	**5.23**	**6.33**	**6.26**	**5.34**	**5.78**

The Fund is benchmark unaware, but the target rate of return is the 90-day Bank Bill Swap Rate plus 3.5% before fees.

* Refer to Performance table notes section for further detail.



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

Performance remains solidly in the range bordered by the running yield of 7.33% and the YTM of 7.96%. The net monthly total fund return (excl. franking credits) for the month of July was 68 basis points (bps) and the return since the end of March annualised, repesents 8.01% pa, with an average monthly total fund return (excl. franking credits) of 66bps. While the Fund does not target or rely on franked income to achieve the target rate of return some of the distributions received are partly franked.

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 $100,488,567.10.

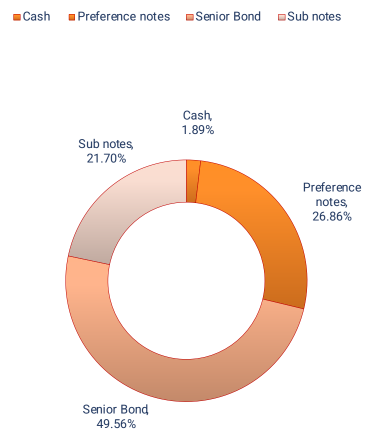
Portfolio characteristics 31 July 2026

Running Yield*	7.33%
Yield to Maturity*	7.96%
Average Margin	3.45%
Average Years to Maturity	2.25
Number of Securities Held	48
Fixed	19.05%
Floating	79.06%
Cash	1.89%
Modified Duration	0.45
Credit Duration	1.63

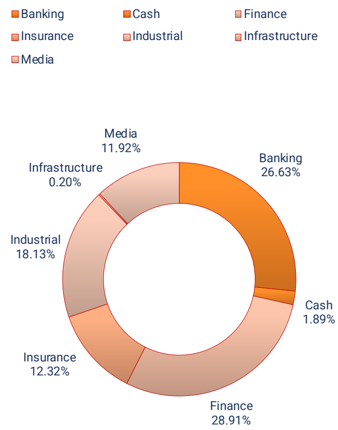
* Based on portfolio metrics (pre fees) at review date. Future fund returns may be different.

Asset breakdown

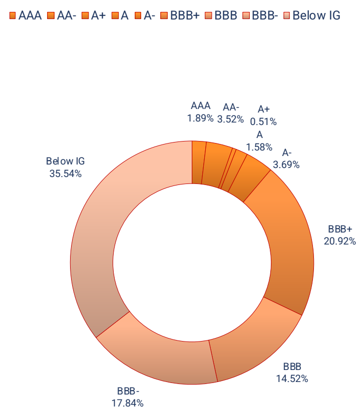
Sub Type Analysis



Sector Allocation



Credit Rating



Fund positioning

Early in July the positioning of the Fund shifted out of the fixed rate holdings and into floating rate bonds after the oil price rose in response to renewed hostilities in the Strait of Hormuz. This involved taking profits on the fixed rate bonds where prices had risen due to a combination of a fall in benchmark sovereign bond yields and specific credit margins contracting. Funds were reinvested in a combination of floating rate Australian major bank senior and Tier 2 bonds as well as Tier 2 bonds issued by major insurance companies.

Running yield

Running yield increased 14bps from 7.19% to 7.33%.

Yield to maturity

Yield to maturity was little changed, rising from 7.93% to 7.96%, an increase of 3bps, while average credit margin eased from 3.47% to 3.45%, a reduction of 2bps against a 5bps rise in 90-day BBSW.

Fixed vs. Floating

Fixed rate exposure fell from 32.46% to 19.05% and floating rate exposure rose correspondingly from 64.53% to 79.06%, with cash easing from 3.01% to 1.89%. This −13.41-percentage point move out of fixed rate substantially reverses June's +19.7-point shift into it and is the Fund's principal structural change this month. The Fund now carries a larger floating weight than at any point in recent months.

Duration

Modified duration fell from 1.09 years to 0.45 years, a reduction of 0.64 years, unwinding almost all of June's extension. Credit duration moved in the opposite direction, rising from 1.60 years to 1.63 years, an increase of 0.03 years. The portfolio now carries very little sensitivity to a parallel shift in the yield curve.

Average years to maturity

Average years to maturity shortened from 2.92 years to 2.25 years, a reduction of 0.67 years, as perpetual and long-dated fixed-rate hybrids gave way to lines carrying 2027 call and reset dates.

Credit quality

On a ratings basis, investment grade exposure (including cash) eased from 65.4% to 64.5% of the Fund and below investment grade rose from 34.7% to 35.5%. The increase in the below investment grade weight is arithmetic rather than intentional as no below investment grade securities were purchased during the month.

Within investment grade the composition shifted up through the BBB band. BBB+ rose from 13.7% to 20.9%. BBB eased from 15.3% to 14.5% and BBB− fell from 23.6% to 17.8%. The A band rose from 1.0% to 1.6% and AA− was little changed at 3.5%. On an asset class basis, investment grade corporate exposure rose from 61.4% to 62.6% and below investment grade corporate from 34.7% to 35.5%.

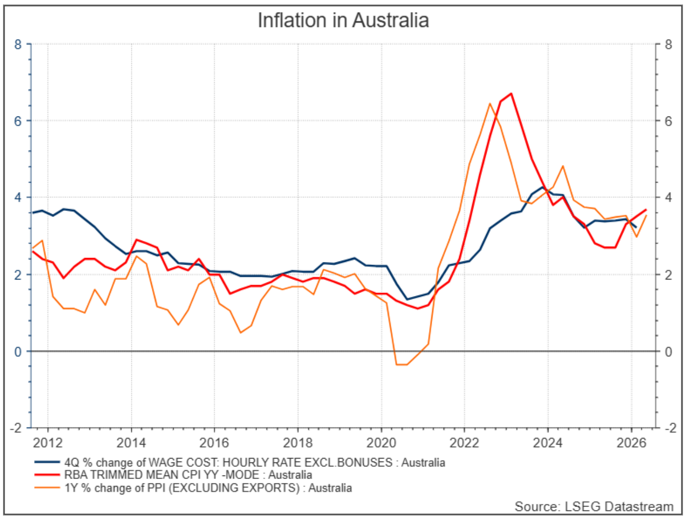
Sector and structure

Preference notes fell from 48.9% to 26.9%; senior bonds and subordinated notes rose from 38.4% to 49.6% and 8.7% to 21.7%, respectively. By sector, finance fell from 38.6% to 28.9% on the offshore hybrid exits while insurance rose from 1.5% to 12.3%. Banking rose from 26.4% to 26.6%.

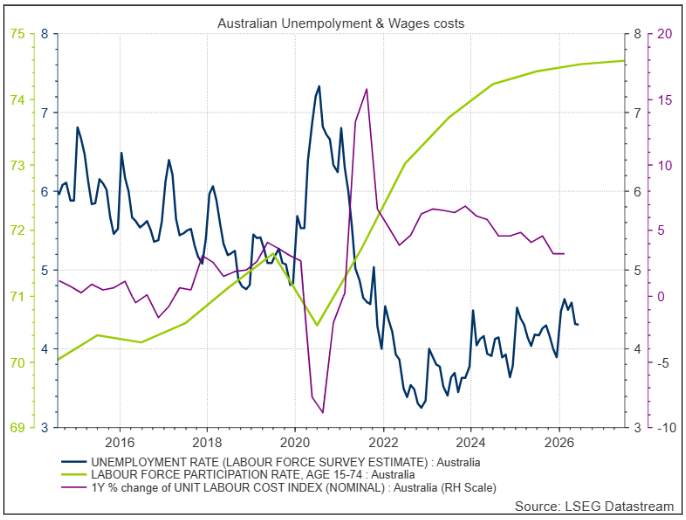
Market review

Economic Outlook

July was the month the inflation data finally broke the market's way. The Reserve Bank had held the cash rate at 4.35% on 16 June, after consecutive increases in February, March and May. Perhaps the June-quarter CPI released on 29 July did enough to **take an August hike off the table on market pricing** without pulling rate cuts forward. The Board meets next on 11–12 August, where a hold is now widely expected. The domestic picture is one of a still-tight labour market and sticky underlying inflation that has cooled over the winter period when the lower oil price and the fall in the pump petrol price in May-July had its biggest impact. Only by the end of the September quarter will we begin to see the impact of the supply disruption to fertiliser, sulphur and helium begin to flow into final goods prices and without a rise in the Australian currency this will largely flow into the CPI basket.



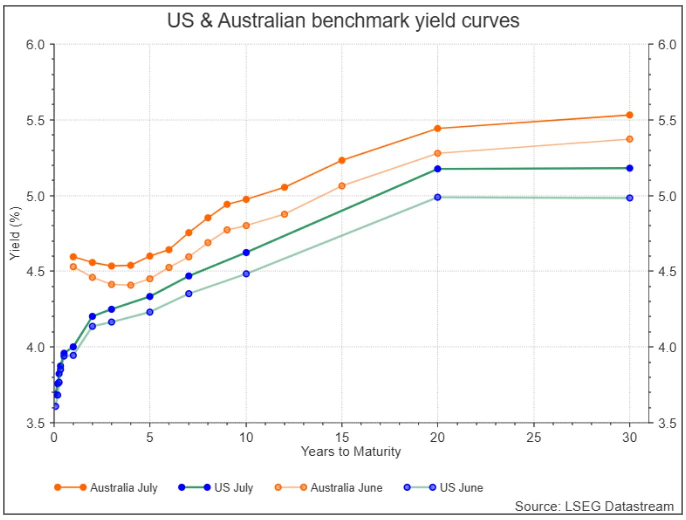
Headline CPI eased to 3.8% YoY in June (from 4.0% in May), down from the March-quarter peak of 4.6%, with the June-quarter CPI up 0.6% and the monthly indicator falling 0.1%. The more important signal was underneath: the **trimmed mean held at 3.6% YoY — the first month this year it stopped rising** — after climbing from 3.3% in March, with the weighted median at 3.7%. Housing remained the largest contributor (+6.8% YoY), led by electricity (+22.4% as government rebates stayed off) and new-dwelling construction (+5.8%); food and recreation & culture each rose 3.3%. Services inflation continues to run well above goods, underlining that the residual pressure is domestically generated. The risk for the RBA not increasing rates again at the August meeting is that inflation is still well above its 2-3% target range and given the length of time it has been above the target it is likely that inflationary expectations will lead to increased wages growth (without a productivity increase) and a wage-cost spiral will drive inflationary higher.



The labour market stayed tight. June's Labour Force (23 July) left unemployment steady at 4.4% on a strong +76k employment gain — mostly part-time, and partly a spillover of people who had been waiting to start jobs in May — with participation rising to 67.0% and underemployment ticking up to 6.5%. Jobs growth remains solid, but the lift in participation and the part-time skew hint at a labour market cooling at the edges rather than tightening further. The Fair Work Commission's 4.75% award and ~6% minimum-wage increase took effect from 1 July; a fresh cost input we still expect to feed market services price rises through the second half.

Australian Benchmark Yield Curve

Our strategic frame — a **US–Australia policy divergence** splitting the domestic curve — remains intact, but its front-end leg has softened. The June-quarter CPI has taken near-term tightening off the table, relieving the upward pressure on the front end that had underpinned our flattening bias. The front end is now better anchored by a steady RBA official rate outlook, the flattening case rests more on the long-end / global-growth leg than on the RBA. The net expression is still a **flatter curve**.



Investment-grade credit

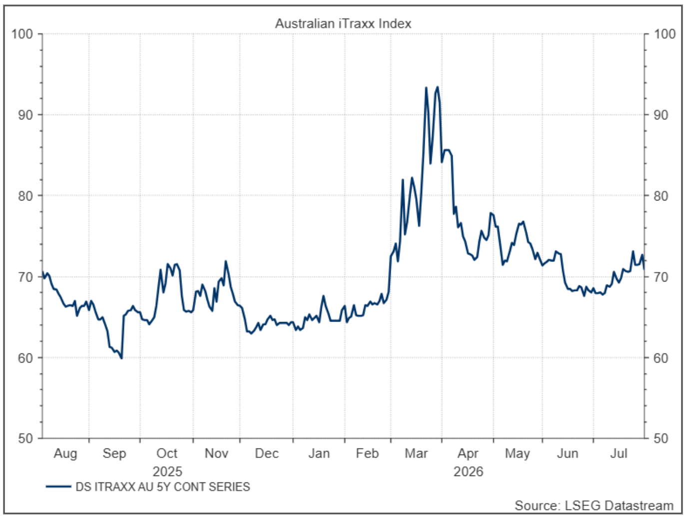
July extended the tightening in cash credit. Indicative 5-year major-bank senior ground a further 2bps to a **fresh cycle-tight 64bps** (−13bps YoY); RMBS closed 84bps (−2bps). The AusBond benchmarks tightened across the board again — the A index to 88.3bps (−1.6bps), the BBB index to 112.6bps (−2.2bps, again leading) and the Industrials index to 98.3bps (−1.6bps) — each printing fresh cycle lows late in the month.

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

Instrument	Open (bps)	Close (bps)	Mth Chg	YoY Chg
Major bank 5yr indicative (senior)	66	64	−2	−13
~5yr major bank B3 Tier 2	121	121	0	−21
~5yr major bank AT1 *	147	161	+14	−50

*Source: LSEG Workspace Figures rounded to whole basis points. * The AT1 indicative series was revised and thinly / volatilely quoted in July — treat the July move with caution.*

The one offset came in synthetics. The iTraxx Australia 5-year index drifted 2.6bps wider to 70.6bps (from a 67.6bps low on 7 July to a 72.5bps high on 30 July), a mild risk-off tone that left cash comfortably outperforming credit defaults swaps on the month.



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 available to no other private-sector instrument in Australia. With cash spreads at cycle tights and the synthetic index off its lows, cash credit closed July tighter than at any prior point in the cycle.

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

Index	Open (bps)	Close (bps)	Mth Chg	YoY Chg
AusBond Credit A-/A+ Index	90.0	88.3	−1.6	−4.0
AusBond Credit BBB-/BBB+ Index	114.8	112.6	−2.2	−3.7
AusBond Credit Industrials Index	99.9	98.3	−1.6	+2.2

Source: LSEG Workspace.

Bank capital: Tier 2

July was a benign month in A$ Tier 2. The major-bank Non Call5 FRN spread was unchanged at 121bps and traded in a remarkably tight 119–122bps band — the narrowest monthly range on record back to 2022. While the long end outperformed, the 10-year mark 2bps tighter at 149bps and the 20-year bullet 6bps tighter at 131bps. That resulted in the 10-year/20-year curve being around 18bps inverted, its most inverted since 20-year bullets (a bullet bond is non-amortising) began. A near-empty primary calendar (typical ahead of August reporting period) and June's A$3bn-plus of redemptions kept the market technically firm, holding the Non Call 5 mark inside 120bps for the first time since the Iran conflict flared in late February. Spread volatility has collapsed as the sector has shifted from its multi-year Tier 2 build into a refinancing period from next year.

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

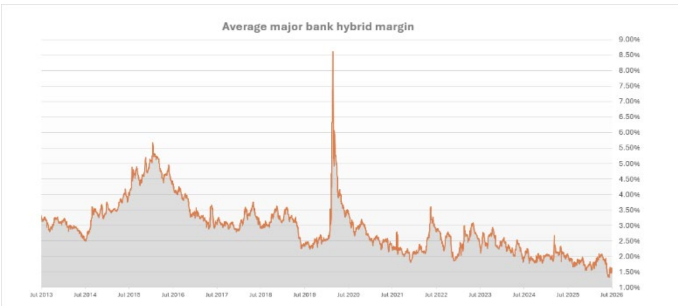
	1y	2y	3y	4y	5y	10y	20y
30 Jun	**76**	**88**	**105**	**114**	**121**	**151**	**137**
31 Jul	**76**	**88**	**104**	**112**	**121**	**149**	**131**
Change (bp)	**0**	**0**	**−1**	**−2**	**0**	**−2**	**−6**

Source: dealer secondary marks from ANZ, WBC & Goldman Sachs

Primary issuance was near-silent. The only new issue was Bank of Queensland's A$350m 10Non Call 5, priced at +158bps — its first Tier 2 since 2024 and its tightest-ever spread, just 37bps behind the major-bank Non Call 5 mark. This was a refinancing of the A$250m redemption that was the month's sole AUD bank/insurer capital maturity. Unlike recent months there was no offshore capital issuance from the Australian banks or insurers, against ~A$8.1bn-equivalent across EUR/JPY/USD/SGD in May and June.

Bank capital: AT1

The effect of the large NAB and Suncorp redemptions in mid-June pushing down margins, due to investors reinvesting into secondary AT1, abated in Mid-July. The average major bank hybrid margin was at a record tight of 1.33% in early July but finished the month at 1.60%. This level will find support given the ASX yield universe has found a new buying reason – invest in income rather than equity for a better tax treatment post the Federal budget. Most yield products including the rash of bonds issued in 2025 have found buying support. The calendar of upcoming redemptions is sparse for the rest of 2026, with only CBAPJ and MBLPC due to be repaid in October and December respectively. Macquarie announced they are seeking to redeem MQGPD in March 2027 rather than this September.



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.

Performance table notes

1. Returns are expressed as percentages.
2. Returns for periods of less than one year are not annualised. Returns for periods of one year or longer are annualised.
3. Fund total returns are calculated using exit prices, are net of fees and costs, and assume that distributions are reinvested. They include realised and unrealised gains and losses.
4. “Fund total return (incl. franking credits)” incorporates the value of franking credits attributable to the Fund’s distributions. Except for the specific inclusion of franking credits in the identified rows, returns do not reflect the tax consequences applicable to any particular investor.
5. An investor’s ability to use franking credits depends on the investor’s tax circumstances and satisfaction of applicable eligibility requirements. The value attributed to franking credits may not be available to every investor.
6. Distribution return represents distributions paid or payable during the period, including net realised gains. It is not the same as the Fund’s total investment return and may exceed total return where the Fund’s unit price has declined over the period.
7. Franking credit uplift is shown as the difference between the inclusive and exclusive figures presented. Figures may not add precisely due to rounding.
8. The Fund commenced on 25 October 2004. Arculus commenced as investment manager on 1 July 2015. Accordingly, since-inception performance includes periods during which the Fund was managed by a previous investment manager.
9. Past performance is not a reliable indicator of future performance.