

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 medium risk investment over a minimum 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

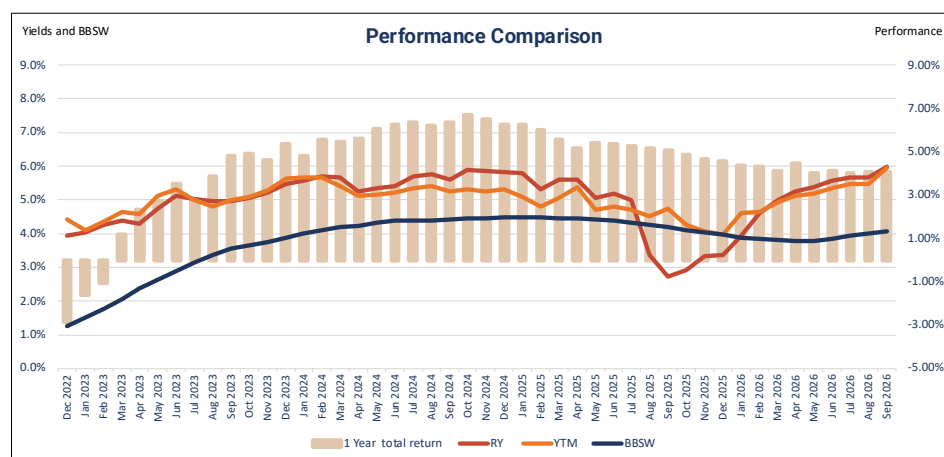
Performance to 30 September 2026

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
Total Return	1.13%	2.37%	4.05%	4.54%	5.15%	3.01%	2.40%
Cash Distribution	1.31%	2.18%	3.86%	4.78%	4.80%	3.81%	2.93%
+/- Growth	-0.18%	0.19%	0.19%	-0.24%	0.35%	-0.80%	-0.53%

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 greater than 2 years are annualised. Returns are calculated using exit prices and are calculated after all fees and costs have been deducted, and assume any distributions are reinvested and that no allowance is 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 35 basis points (bps) after all fees in September. 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 6.00%, and will remain linked to the 90-day BBSW rate. It can hold only Australian dollar sovereign and bank senior bonds that have qualified to be repo-eligible when issued. Repo-eligible bonds are those that an authorised deposit-taking institution (ADI) can convert into high quality liquid assets through lending them to the RBA. As such they are highly liquid.

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 September 2026, the Net Asset Value of the Fund was \$40,072,236.77.

Portfolio characteristics 30 September 2026

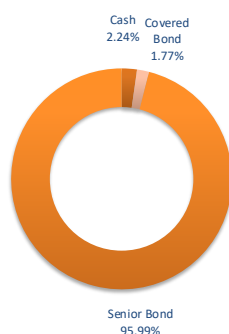
Running Yield*	6.00%
Yield to Maturity*	5.94%
Average Margin	1.17%
Average Years to Maturity	1.90
Number of Securities Held	43
Floating	95.23%
Fixed	2.54%
Cash	2.24%
Modified Duration	0.10
Credit Duration	1.83

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

Asset breakdown

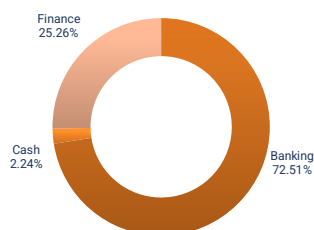
Sub Type Analysis

■ Cash ■ Covered Bond ■ Senior Bond



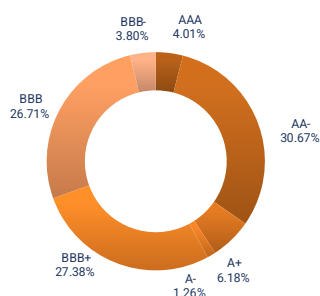
Sector Allocation

■ Banking ■ Cash ■ Finance



Credit Rating

■ AAA ■ AA- ■ A+ ■ A- ■ BBB+ ■ BBB ■ BBB-



Fund positioning

The portfolio remains entirely senior and covered paper, entirely investment grade, and effectively entirely floating rate. The Fund holds 43 securities against 44 at August.

Running yield

Running yield rose 25bps from 5.75% to 6.00%. Almost all of the move is mechanical. The 90-day BBSW rose 22bps over the month from 4.55% to 4.77% and resets through a book in which effectively every holding carries a coupon linked to it on a quarterly basis.

Yield to maturity

Yield to maturity rose from 5.39% to 5.94%, an increase of 55bps, while average credit margin rose from 0.84% to 1.17%, an increase of 33bps. The margin widening is almost entirely mix rather than market, since the line sold was the tightest asset in the book at a traded margin of 0.67% and the lines bought carry issue margins between 1.15% and 1.32%.

Fixed vs. Floating

Floating rate exposure eased to 95.23% from 95.52%, with fixed broadly unchanged at 2.54% and cash rising to 2.24% from 2.01%. The Fund does not hold hybrid, subordinated or perpetual paper and takes no fixed rate position of consequence. The two lines classified as fixed remain the same two major bank holdings, together 2.54% of the Fund, and both continue to be modelled with rate duration inside the range of the floating rate cohort. On that basis the effective floating weight is 97.77%.

The cash figure is stated net of unsettled transactions. Gross cash at bank at month end was \$4.44 million, or 11.1% of the Fund, against \$3.53 million of purchases awaiting settlement on 2 October. The net figure of 2.24% is the better representation of the economic position.

Duration

Modified duration fell from 0.16 years to 0.10 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. In days, the average time to reset moved from roughly 58 days at August to roughly 38 days at September, which is a function of where the book sits in the quarterly coupon cycle at the reporting date and nothing more.

The relevant measure is credit duration, which fell from 1.96 years to 1.83 years, a decrease of 0.13 years.

Average years to maturity

Average years to maturity shortened from 1.95 years to 1.90 years, a decrease of 0.05 years. The shape of the profile changed more than the average suggests. The three-to-five-year bucket fell from 20.87% to 16.37% with the sale of the 2031 line, while the two-to-three-year bucket rose from 38.81% to 43.41%. The front end was broadly stable at 29.36%.

Maturity profile	30 Sep 2026	31 Aug 2026
Within twelve months	29.36%	29.69%
One to two years	10.86%	10.63%
Two to three years	43.41%	38.81%
Three to five years	16.37%	20.87%
Beyond five years	Nil	Nil

Cash is included within the twelve-month bucket. Source Arculus.

The twelve-month bucket still gives the Fund substantial self-liquidating cash flow over the year ahead.

Credit quality

All of the Fund's holdings remain investment grade and are issued by APRA-regulated institutions. The quality mix moved down materially over the month. Exposure rated AA- or better fell from 43.52% to 34.68%, a reduction of 8.84 percentage points, while the BBB band rose from 49.21% to 57.89%. The single A band was little changed at 7.44%.

Credit rating	30 Sep 2026	31 Aug 2026
AAA	4.01%	3.76%
AA-	30.67%	39.77%
AA- and better	34.68%	43.52%
A+ to A-	7.44%	7.27%
BBB+ to BBB-	57.89%	49.21%
Below investment grade	Nil	Nil

The AAA band comprises the Fund application account and one covered bond holding. Source Arculus.

Sector and structure

By sub type the book is unchanged in character. Senior bonds eased from 96.24% to 95.99%, covered bonds were steady at 1.77%, and cash rose from 2.01% to 2.24%. By sector, banking rose from 71.98% to 72.51%, and finance fell from 26.01% to 25.26%. There is no exposure outside banking, financials and cash, which is the intended construction for a cash alternative mandate.

Sub type and sector	30 Sep 2026	31 Aug 2026
Senior bonds	95.99%	96.24%
Covered bonds	1.77%	1.75%
Cash	2.24%	2.01%
Banking	72.51%	71.98%
Finance	25.26%	26.01%

Source Arculus.

Liquidity

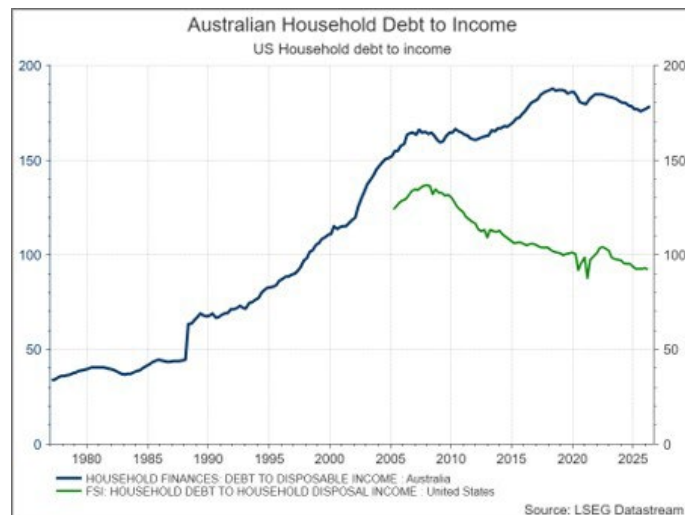
The whole of the portfolio is classified as investment grade senior for liquidity purposes. Under the low stress and moderate stress assumptions the entire book is modelled as liquidating within seven days. Under the extreme stress assumption the same holds, with cash settling in one day and securities in three. No holding sits in a liquidity category requiring more than seven days to realise.

Market review & outlook

The Economy

The Reserve Bank raised the cash rate 25bp to 4.60% in September and may not be finished, with an above-target inflation pulse keeping a further move live at the November or February meeting. Inflation is the reason the Bank is still tightening. It is not, in our view, the risk that should dominate the outlook. The risk that should is the balance sheet the tightening is now being applied to. Australian household debt sits at around 178% of disposable income, among the highest in the developed world and well above the level that preceded the United States mortgage crisis. When the United States housing market broke in 2007 and 2008, household debt there had peaked near 137% of income. Australia carries materially more, has never deleveraged in the way the United States did afterward, and is being taken back into a tightening cycle rather than away from one.

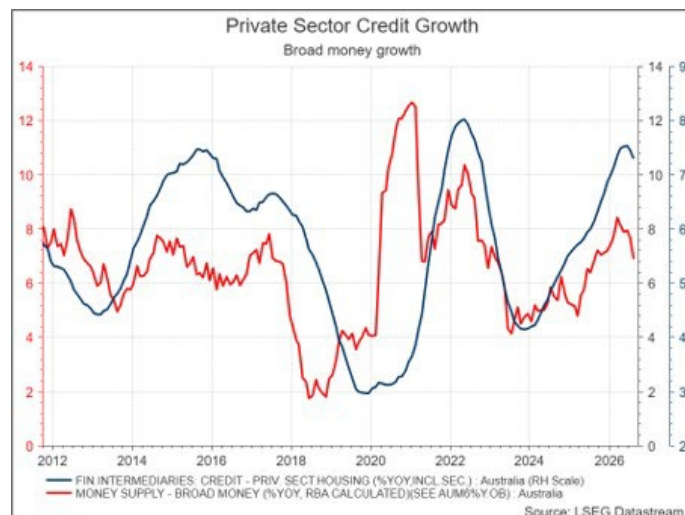
The contrast is hard to look past. Since the crisis United States households cut debt from around 137% of income to near 93%, a deleveraging of more than forty percentage points. Australian households did the reverse, lifting the ratio from around 150% in the mid-2000s to a peak close to 187% late last decade and holding near those levels ever since. The transmission also runs faster here. Australian mortgages are overwhelmingly variable-rate or short-fixed, so each increase in the cash rate reaches household cash flow within weeks, where the United States thirty-year fixed mortgage insulated most borrowers from rising rates altogether. A smaller rate move does more to the Australian household budget than the same move would do in the United States, which is the uncomfortable edge of carrying a higher debt load into a live tightening cycle.



Australian and United States household debt to disposable income. Australia sits near 178%, above the level of around 137% from which the United States entered its 2008 mortgage crisis and has not deleveraged as the United States has since.

We do not read this as a mechanical repeat of 2008, and the differences matter. Australian mortgages are full-recourse, underwriting has been conducted against serviceability buffers the pre-crisis United States never applied, there has been no equivalent of the subprime and low-documentation lending that seeded the United States collapse, and the major banks are strongly capitalised. The more likely path is a slow grind rather than a sudden break, with a stretched household sector showing up first as weaker consumption, rising arrears and a housing correction rather than a system-wide credit event. Forecasters are already pencilling in a record housing correction alongside a data-centre investment boom, and household spending is running at its slowest in a year.

The debt is still building. Private-sector housing credit growth has re-accelerated to around 7% year on year and broad money growth is running near the same pace, both faster than is consistent with inflation returning to target and both adding fresh borrowing to an already record household balance sheet. On our long-held reading this is the clearest sign that policy is not yet restrictive. A tightening cycle that has not yet slowed the growth of credit has not yet done its work, which is why the risk sits in how much further the RBA may need to go and what that does to the borrowers already carrying the most.



Private-sector housing credit growth and broad money growth. Both have re-accelerated and are running well above the pace consistent with inflation at target, a sign that policy is not yet restrictive and that household debt continues to build.

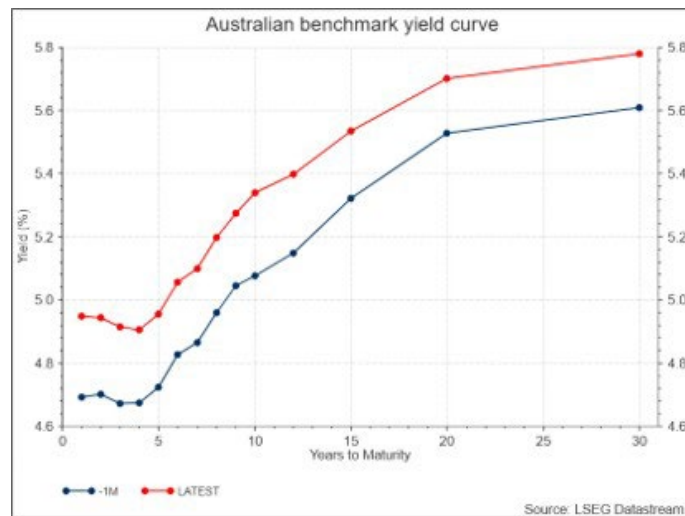
None of that makes the position comfortable. A household sector this leveraged is acutely sensitive to any rise in unemployment, and it is the combination of a renewed tightening cycle and a record debt load that frames the risk for the year ahead. For a fund invested in Sovereign bonds and Bank senior unsecured debt, the response is to sit high in the capital structure and high in quality. Senior unsecured ranks ahead of subordinated debt, hybrids and equity, the mortgage book stands behind it as collateral, and bank capital absorbs loss well before a senior bondholder is reached. Added to this is the fact that these bonds are repo-eligible so that banks can take them to the RBA window on any day and convert them into their exchange settlement balance (HQLA asset). In contrast, a bank term deposit is an unsecured liability of any bank that is illiquid (in that early redemption will attract an interest penalty and a term deposit cannot be redeemed within the first 30 days from issuance) and cannot be converted into cash using the RBA window (exchange settlement balance) but does have the benefit of the Australian Government deposit guarantee of up to \$250,000 per account.

holder. The debt risk is a reason to own the most defensive part of these issuers rather than to avoid them, and it reinforces the short-duration, floating-rate, sovereign-and-senior construction the Fund already runs.

The Global Bond Market

The dominant force in September came from offshore. United States government bonds posted their worst month in four years, with the 10-year Treasury yield surging more than half a percentage point to around 5.3%, the highest since 2007, and the 30-year Treasury yield was close to levels last seen in 2002. The selloff began with concern over the United States fiscal position and inflation, then fed on itself as yields rose to levels at which certain funds were obliged to sell, setting off further waves of selling in a market that anchors global finance. United States activity data gave the move a fundamental underpinning, with second quarter GDP revised up to 2.2% annualised and core PCE holding around 3.0%, so the rise in yields reflected resilience rather than distress. For a fund whose assets are priced off the Australian curve, the relevance is transmission. A higher and more volatile United States long end pulls Australian yields up with it and raises the beta of the domestic market to moves offshore.

Australian Government Bonds



Australian benchmark yield curve, one month ago and latest. Yields rose across the curve in September as the Reserve Bank raised the cash rate and the global bond selloff pushed the long end higher.

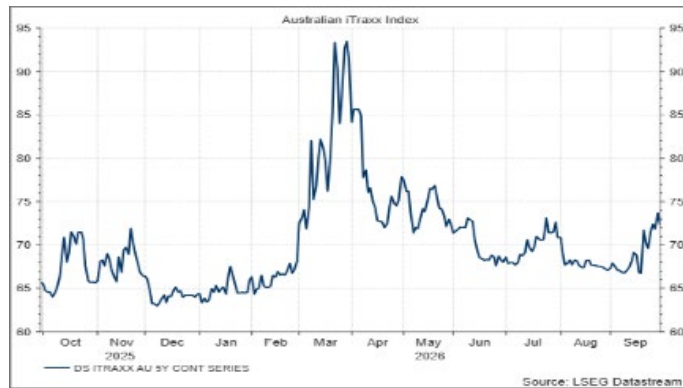
Yields rose across the Australian Commonwealth Government bond curve in September, by around 25bp at the three-year and the 10-year and around 17bp at the 30-year, as the Reserve Bank moved back into tightening and the global bond selloff dragged the long end higher. On indicative end-September levels the three-year sits around 4.9%, the 10-year around 5.3% and the 30-year near 5.8%, roughly half a percentage point higher at the long end than in June and a near-complete reversal of the constructive long-end view that prevailed mid-year. The premium of the Australian 10-year over its United States equivalent has compressed to under 10bp from around 35bp mid-year, but through a global selloff rather than a domestic rally.

A rising-rate, bear-steepening environment marks fixed-rate government bonds lower through price, and the near-term risk around the November meeting and a still-volatile United States long end argues against reaching for duration at the front of the curve.

Bank Senior Unsecured

Major bank senior floating rate spreads proved resilient against a broadly softer credit backdrop. The indicative major bank senior curve was little changed on the month, with the 5-year floating rate mid around 67.5bps and the one-year around 40bps, even as buying momentum slowed with Asian investors stepping back amid weakness in their home markets. Senior authorised deposit-taking institution risk was comparatively well supported, with sticky Asian ownership continuing to constrain available paper and generic spreads only a basis point or so wider over recent sessions. Mutual bank paper saw modest, persistent selling from a narrow group of accounts and those curves underperformed, while regional bank spreads held broadly unchanged. The defensiveness of senior relative to the rest of the credit market was on clear display, with higher-beta paper the part of the market that bore the September widening.

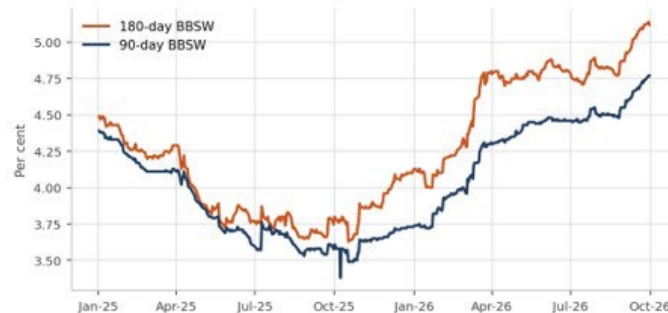
The selling pressure did materialise in non-bank bonds, and this is reflected in the rise in the 5-year iTraxx index. These are not bonds that fall under the Arculus Fixed Income Fund mandate but are often a leading indicator of rising credit pressures.



Floating rate senior bank bonds remain the most defensively positioned instrument available to the Fund. The BBSW reset, minimal duration risk, seniority in the capital structure, and RBA repo eligibility together provide a liquidity backstop available to no other private-sector instrument in Australia. In a rising-rate environment that defensiveness is reinforced, because the coupon reset passes the higher short rate straight through to income while leaving capital largely insulated from the bond selloff that is marking fixed-rate paper lower.

Short Rates and Positioning

The relevant short-rate benchmark for the Fund is 90-day BBSW, which closed September at 4.77%, up 22bp on the month and now 17bp above the new 4.60% cash rate. The 180-day rate closed at 5.12%, up 25bp. Both sit well above the cash rate, the clearest market expression that further tightening is being priced. Rising BBSW lifts the running income on the Fund's floating rate holdings directly through the coupon reset.



90-day and 180-day BBSW, January 2025 to September 2026. Both rates have climbed well off their 2025 trough as the Reserve Bank resumed tightening, and the 180-day sitting above the 90-day reflects further increases being priced into the money-market curve.

Source — Arculus Funds Management.

Money-market benchmarks, end September 2026

Money-market benchmark	End September	Change on month (bp)
90-day BBSW	4.77%	+22
180-day BBSW	5.12%	+25
RBA cash rate	4.60%	+25

Source — Arculus Funds Management BBSW series and RBA.

The positioning that follows is straightforward and consistent with the Fund's mandate. We favour carry over duration, with the floating rate senior bank allocation the core income engine and its coupons resetting higher as BBSW climbs. We keep the Commonwealth government sleeve short in duration while the November meeting and the United States long end remain unresolved, and we treat the senior unsecured complex as the defensive anchor it has again proven to be. The near-term risk to yields is to the upside and the near-term risk to spreads is modestly wider into a softer macro and thinner quarter-end liquidity, a combination that rewards the Fund's floating rate, short-duration, high-quality construction.

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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