

ARCULUS PREFERRED INCOME FUND

MONTHLY REPORT – September 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, Australian-dollar bonds, 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. Ratings applied to holdings are determined externally by a major rating agency (S&P, Fitch, Moody's).

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

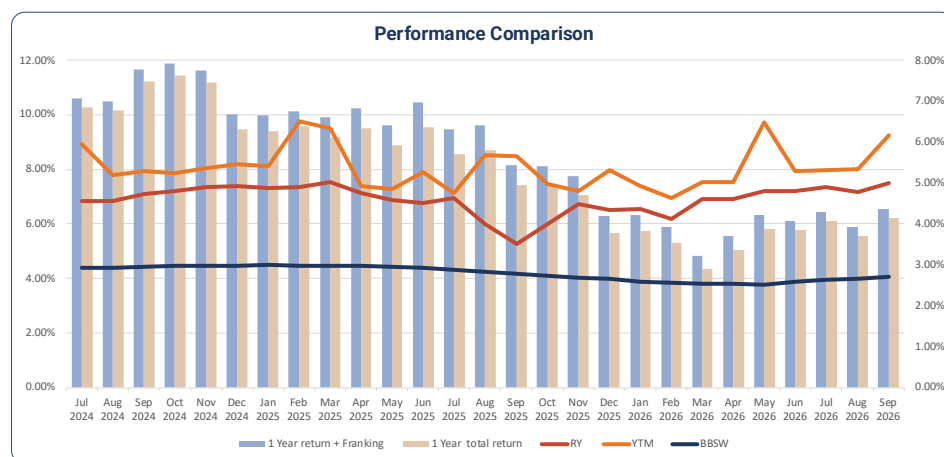
* GST inclusive, net of any reduced input tax credits

Performance to 30 September 2026 *

	3M	6M	1Y	2Y	3Y	5Y	Since Inception
FUND PERFORMANCE							
Fund Total Return (excl. franking credits)	1.65	3.66	4.14	4.54	5.51	4.05	4.54
Franking credit uplift	0.00	0.07	0.22	0.35	0.33	0.28	0.38
Fund Total Return (incl. franking credits)	1.65	3.73	4.36	4.89	5.84	4.33	4.92
DISTRIBUTION INFORMATION							
Cash Distribution (excl. franking)	1.34	2.45	4.79	5.84	5.88	5.18	5.42
Franking credit uplift	0.00	0.07	0.22	0.35	0.33	0.28	0.38
Distribution return, including the value of franking credits	1.34	2.52	5.01	6.19	6.21	5.46	5.80

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.

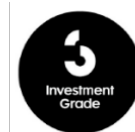
The net monthly total fund return excluding franking credits for the month of September was 69bps and the September distribution was 1.1000 cents per unit. The return over the six months since the end of March was 3.66%, which annualises to 7.34% p.a., with an average monthly total fund return excluding franking credits of 60bps over that period. 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 30 September 2026, the Net Asset Value of the Fund was \$101,406,030.58.



Lonsec

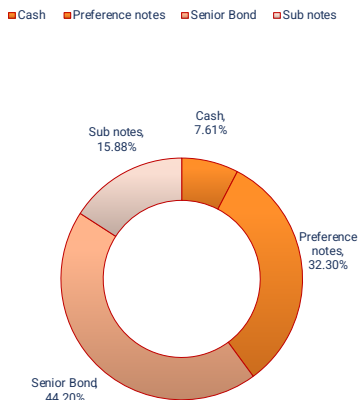
Portfolio characteristics 30 September 2026

Running Yield*	7.34%
Yield to Maturity*	8.02%
Average Margin	3.25%
Average Years to Maturity	2.55
Number of Securities Held	41
Fixed	17.41%
Floating	74.98%
Cash	7.61%
Modified Duration	0.43
Credit Duration	1.48

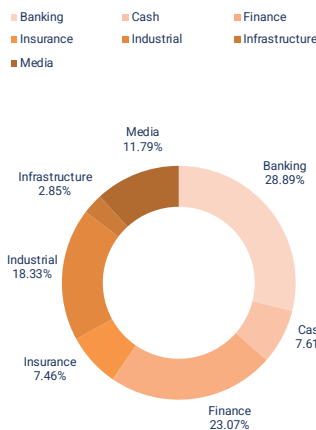
* Based on portfolio metrics (pre fees) at review date. Future fund returns may be different.

Asset breakdown

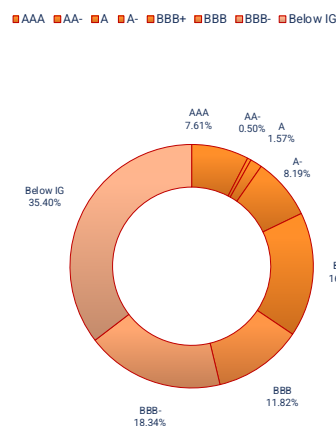
Sub Type Analysis



Sector Allocation



Credit Rating



Fund positioning

September was an active month at both ends of the portfolio. Cash stood at 7.61% of the Fund against 0.87% at August, with roughly \$4.9 million of purchases awaiting settlement on 2 October against sales that occurred during the month. The rise should be read as a timing position rather than a deliberate liquidity build. The direction of travel is a shorter and more defensive book. Modified duration fell from 0.61 years to 0.43 years and credit duration from 1.64 years to 1.48 years, both reversing the extension taken in August. The hybrid weight rose again, with preference notes at 32.30% of the Fund against 31.12% at August. That increase came through the addition to the Commonwealth Bank capital note rather than through new names, and the hybrid book is now concentrated in short-dated listed lines close to their call dates.

Running yield

Running yield rose 16bps from 7.18% to 7.34%. Two forces account for the move. The 90-day BBSW benchmark rose 22bps over the month from 4.55% to 4.77%, which resets through the three quarters of the Fund that carry floating rate coupons. The balance is composition, with the sale of the Alphabet line at a margin of 90bps and the rotation into short-dated hybrid paper lifting the income run rate.

Yield to maturity

Yield to maturity rose 3bps from 7.99% to 8.02% over the month.

Fixed versus floating

The floating rate bias remains the Fund's central structural position and the fixed rate weight continues to sit in a small number of corporate senior and APRA-regulated corporate subordinated holdings rather than representing a duration view.

Duration

Modified duration fell from 0.61 years to 0.43 years and credit duration from 1.64 years to 1.48 years. Both measures have now given back the extension taken in August and sit below the levels carried through the middle of the year. On the portfolio's own sensitivity measures a 25bps rise in the benchmark curve costs approximately 23bps of forward twelve-month return, against a base case of 7.37%, while a 100bps widening in credit margins costs approximately 141bps. Credit margin risk remains the dominant driver of mark-to-market variability and that exposure is roughly 10% lower than it was a month ago.

Average years to maturity

Average years to maturity shortened from 2.61 years to 2.55 years. The maturity profile is barbelled. Some 36.35% of the Fund matures or reaches a call or reset date within twelve months and a further 19.14% falls between one and three years.

Credit quality

The AA+ band left the distribution entirely with the sale of the Alphabet line, which had been the single highest-rated corporate holding in the Fund. Within the rated block the weight moved down from BBB+, which fell from 22.12% to 16.56%, and into A-, which rose from 5.22% to 8.19%. Below investment grade exposure eased from 35.92% to 35.40% of the Fund. No below investment grade security was purchased during the month.

Sector and structure

Preference notes rose from 31.12% to 32.30% of the Fund and senior bonds fell from 45.14% to 44.20%, while subordinated notes fell from 22.93% to 15.88%. The reduction in subordinated paper came through sales in the insurance and financial sectors and is the clearest structural change of the month.

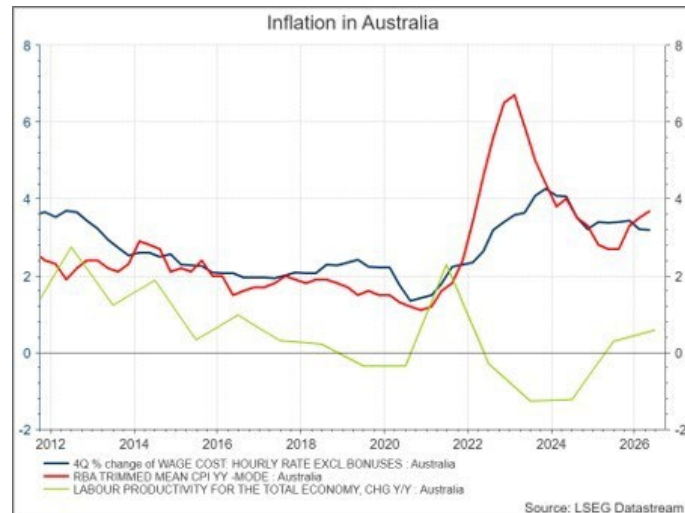
Sector	30 Sep 2026	31 Aug 2026	Change
Banking	28.89%	26.93%	+1.96pp
Finance	23.07%	26.65%	-3.58pp
Industrial	18.33%	18.29%	+0.04pp
Media	11.79%	12.09%	-0.30pp
Cash	7.61%	0.87%	+6.74pp
Insurance	7.46%	12.97%	-5.51pp
Infrastructure	2.85%	0.20%	+2.65pp
Software	nil	2.00%	-2.00pp

Source Arculus.

Market review

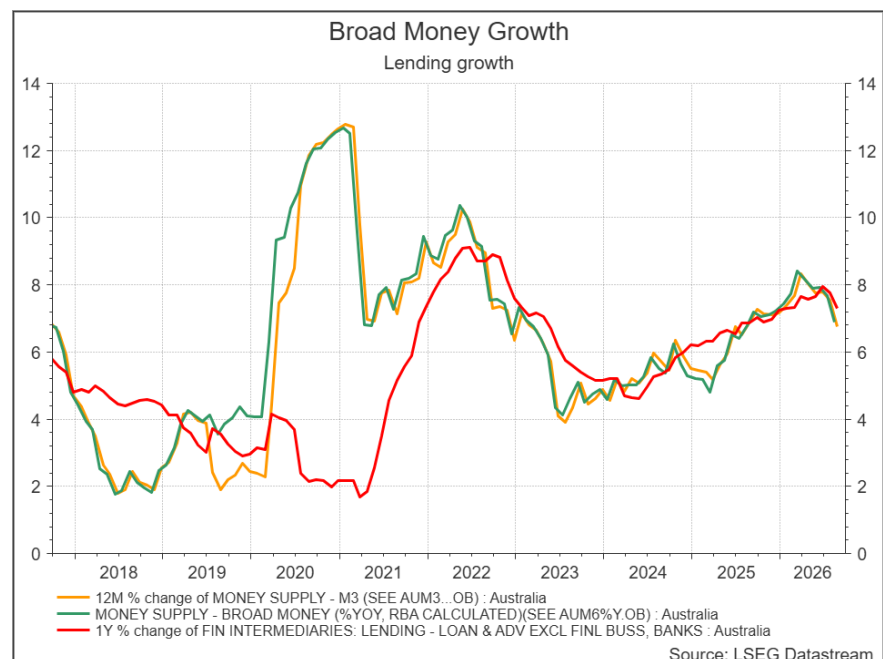
September marked the return of the tightening cycle after what had only been a brief lull. The Reserve Bank raised the cash rate 25bps to 4.60% at its September meeting, a unanimous decision paired with a hawkish post-meeting statement, and the balance of bank forecasts now points to a follow-up increase at the November meeting that would take the cash rate to 4.85%. The move vindicates the higher-for-longer stance we have held through the year and reflects a domestic picture in which underlying inflation is rising again rather than cooling into the target band.

The August monthly CPI kept headline inflation at 4.0% year on year and the trimmed mean at 3.6%, consistent with a Q3 trimmed mean pace around 1.0% quarter on quarter — a material upside surprise relative to the forecasts in the Bank's August Statement on Monetary Policy. Three- and six-month annualised trimmed mean measures are running well above the band, with the six-month pulse approaching 4%. Automotive fuel was the largest monthly contributor as the fuel excise discount ended, and with pump prices higher again a further energy contribution is likely in September. Housing inflation continued to ease as builders struggle to pass on costs into a soft market, but the underlying, domestically generated pressure that the RBA targets has not abated.



Wages, underlying inflation and productivity. The trimmed mean has turned higher again while wage growth holds near 3.3% and productivity growth remains weak, leaving unit labour cost pressure elevated.

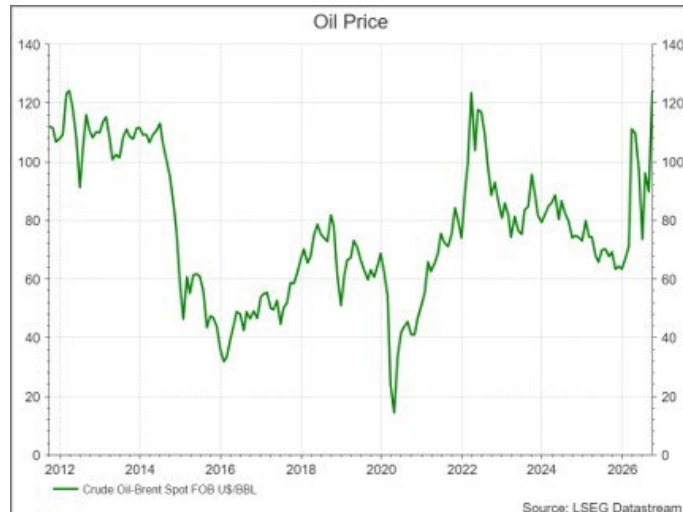
Inflation remains a problem while money growth remains this strong, and the strength of private business credit growth is further evidence that policy is not yet restrictive. On that reading the September increase is neither a surprise nor an end point, and the risk profile stays skewed to a higher terminal rate for longer than the market has been willing to price.



The above chart shows a clear correlation between money supply and business credit demand (credit growth). There was a lag between them in 2020-21 that can be explained by the pandemic lockdowns.

Energy is the live upside risk. Oil has re-accelerated, with Brent crude surging above US\$100 a barrel, as an uneasy calm over the Strait of Hormuz keeps the market prone to sharp swings even as Gulf export flows recover toward pre-conflict levels. Distillate and gasoline inventories in the United States

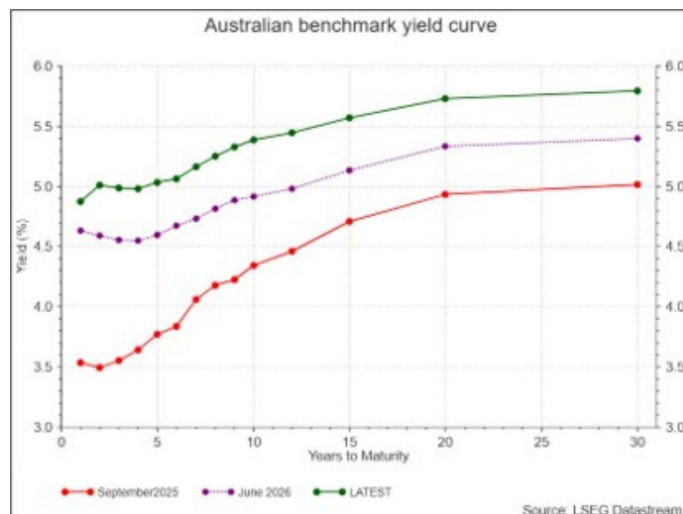
sit at, or close to, record seasonal lows, a backdrop that leaves fuel a persistent source of headline inflation pressure into the fourth quarter.



Brent crude, long history. The recent sharp move higher restores energy as a direct contributor to headline inflation and an upside risk to the trimmed mean through transport and goods pass-through.

For the Fund, the relevant short-rate benchmark is 90-day BBSW, which closed September at 4.77%, up 22bps on the month and now 17bps above the new 4.60% cash rate. The 180-day rate closed at 5.12%, up 25bsp. Both sit well above the cash rate, the clearest market expression that a November increase is being priced. Rising BBSW lifts the running income on floating rate assets directly through the coupon reset, which remains the core of our positioning. The 90-day BBSW has been near or above 4.70% since mid-September, which means coupon resets in the past two weeks have already had the benefit of the RBA cash rate rise.

Australian Benchmark Yield Curve



Australian benchmark yield curve, September 2025, June 2026 and latest. The curve has shifted materially higher since June and steepened at the long end.

At end-September levels, the three-year sits around 5.0%, the 10-year around 5.4% and the 30-year near 5.8%, a move of roughly half a percentage point higher at the long end since June. The premium of the Australian 10-year over its United States equivalent has compressed toward 10bps from the 35bps just a month ago.

Investment-grade credit

Macroeconomics reasserted itself as the dominant driver of Australian dollar credit in September, and spreads leaked wider through the month as softer global risk sentiment, a heavy United States long-end selloff, renewed country-specific concern around French banks, and quarter and year-end balance-sheet management all weighed on the complex. The move was orderly rather than disorderly – low-volume indicative 5-year major-bank senior widened from 67bps to 69bps. Across the AusBond benchmarks the A index closed 93.0bps, the BBB index 116.2bps and the Industrials index 102.3bps, each around 3bps wider on the month and each printing its month high in the final sessions.

Major bank capital structure and RMBS, September 2026, with year-on-year change versus September 2025

Instrument	Open (bps)	Close (bps)	Mth Chg	YoY Chg
Major bank 5yr indicative (senior)	67	69	+2	+1
Major bank RMBS 2.5–3.5yr WAL	83	88	+5	+11
~5yr major bank B3 Tier 2	127	133	+6	+1
~5yr major bank AT1	168	151	–17	–37

Source – LSEG Workspace and Westpac CreditFan backing data. Figures rounded to whole basis points. The AT1 screen series is covered in the bank capital section below.

AusBond credit indices, September 2026, with year-on-year change versus September 2025

Index	Open (bps)	Close (bps)	Mth Chg	YoY Chg
AusBond Credit A-/A+ Index	89.7	93.0	+3.3	+9.5
AusBond Credit BBB-/BBB+ Index	112.9	116.2	+3.3	+6.8
AusBond Credit Industrials Index	99.3	102.3	+3.0	+13.8

Source – LSEG Workspace and Westpac CreditFan backing data.

The year-on-year picture has turned. Where June closed the financial year with the cash indices materially inside their prior-year levels, September leaves senior, RMBS and all three AusBond benchmarks modestly wider than a year ago, a reminder that the market has given back a good part of the mid-year compression. Australian sovereign bonds were the exception and margins held firm – AAA and AA semi-government spreads were little changed and the supranational complex a touch tighter – consistent with a flight-to-quality tilt within spread product as credit softened.

Floating rate senior bank bonds remain the most defensively positioned segment of the market. The BBSW reset, the absence of duration risk, seniority in the capital structure, and RBA repo eligibility of Bank Senior debt together provide a liquidity backstop available to no other private-sector instrument in Australia. In an environment of rising short rates that defensiveness is reinforced, because the coupon reset passes the higher rate through to income while leaving capital largely insulated.

Bank capital Tier 2 and AT1

The subordinated complex was the clear underperformer. Major-bank Tier 2 widened through the month, with the 5-year reference moving from 127bps to around 133bps, as reduced investor appetite into quarter and major bank year-end met persistent, modest selling from local and global asset managers. French bank subordinated risk was the standout laggard, with the BPCEGP and ACAFP 41-36 lines around 15bps wider over the month on renewed country-specific concern. The end-September on-the-run desk marks below show the shape of the major-bank curve.

Major-bank Tier 2 secondary marks by call bucket, end September 2026

Call bucket	FRN mid (BBSW+, bps)	Fixed mid (ASW+, bps)
41-36	159	155
37-32	133	134
36-31	129	130
35-30	121	125
34-29	110	114
33-28	98	100
32-27	85	88
31-26	73	84
20-year bullet	–	155

Source – ANZ trading desk indicative mids. FRN shown as discount margin over BBSW, fixed shown as asset-swap margin. The Westpac CreditFan 5-year Tier 2 reference and the desk on-the-run marks are drawn to different call points, so absolute levels differ between sources while the widening direction is common to both.

The rates selloff reshaped relative value within the curve. The 5-year swap rose through the quarter, taking fixed-rate paper to a small pickup over floating at the 5-year point and leaving the fixed-float basis compressed. Longer-dated bullets outperformed callable paper, so the 10s20s segment sits deeply inverted, while French names and fresh 10NC5 supply lagged.

AT1 was the relative bright spot. The 5-year reference closed September at around 151bps, some 17bps inside where it began the month. That outperformance against broadly weaker Tier 2 is consistent with the all-in yield bid that a higher rate structure creates for floating rate hybrids, and with the large June AT1 redemptions still being redeployed ahead of a further CBA A\$1.2bn AT1 redemption in October.

We would read the AT1 move with some caution. The indicative series traded in a choppy 148 to 168bps band through September with no clean trend, a pattern we have flagged before, so the net tightening is better understood as AT1 outperforming a weaker Tier 2 market on a genuine yield bid than as a decisive rally. However, the AT1 market can have a mind of its own and not follow the general path of the credit market – this opens up great trading opportunities. The retail market, the real driver of AT1 spreads, is enamoured with the major banks and hence AT1 may, again, be a place where retail investors hide during market volatility.

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

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