MACQUARIE

Macquarie Subordinated Debt Active ETF

Monthly report – 31 August 2025

Investment objective

Aims to outperform the Bloomberg AusBond Bank Bill Index over a rolling three-year basis (before fees). It aims to provide regular monthly distributions with some potential for growth.

The Macquarie Subordinated Debt Active ETF (**Fund**) is a class of units in the Macquarie Subordinated Debt Fund (**Scheme**).

Key Information

Fund details	
ASX Code	MQSD
APIR code	MAQ5289AU
Date of quotation on ASX	19 February 2025
Fund inception date	14 February 2025
Scheme inception Date	4 December 2024
Fund Size	$171.4m
Scheme Size	$236.0m
Distribution frequency	Generally monthly
Management fee*	0.290% pa

*Read the Product Disclosure Statement for more details on fees and costs.

Investors who are not Authorised Participants can invest in the Fund by buying units on the Exchange.

Fund performance to 31 August 2025

	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.62	0.32	0.30
3 months (%)	2.08	0.94	1.14
Since inception (% nom)	3.36	2.17	1.19

Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

Fund statistics

Credit spread duration	2.8 years
Interest rate duration	0.1 years
Yield to worst*	4.9% pa
Running yield^	5.7% pa
Number of issuers	26
Average credit rating	BBB+

*Pre-fee returns Fund would earn over next year based on current market conditions if there were no changes to interest rates or holdings of Fund. It is not an actual or estimated return.

^The expected income yield of the Fund. It is calculated as the aggregation of the current coupon rates of the Fund divided by the current price of all underlying securities of the Fund.

Sector breakdown

Sector	%
Australian banks^	50.3
Other Australian issuers	22.6
Foreign issuers in AUD	23.0
Foreign issuers in non-AUD	2.7
Cash	1.4

^Major banks includes ANZ, CBA, NAB, WBC and MQG

Top 5 issuers

Issuer	%
AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD	14.0
WESTPAC BANKING CORP	12.6
COMMONWEALTH BANK OF AUSTRALIA	12.1
QBE INSURANCE GROUP LTD	8.3
HSBC HOLDINGS PLC	6.5

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Fund review

Australian credit outperformed offshore markets in August. Spread tightening was broad-based with some of the REITs and transportation names being the notable outperformers in the corporate sector. In the financial space, senior bank paper grinded 2-4bps tighter. Meanwhile, Tier 2 curve bull-steepened with front-end spreads moving as much as 10bps lower and 5-year call paper tightening 3-4bps over the month with major bank 10NC5 Tier-2 ending the month at 138bps. There was around 20bn of primary supply in the Australian investment grade (IG) market. While it was not the largest month of issuance volume, some records were set during the month. One of the records set was Australia and New Zealand Banking Group Ltd's (ANZ) dual tranche Tier-2 deal in August, where the bank printed 750m of 15NC10 and 750m of 20-year bullet. What was notable about this transaction was the fact that ANZ was able to execute the 20-year bullet in AUD, as this is traditionally the tenor banks have to go to the USD market for. Not only that, the 20-year bullet received more demand than the 15NC10 tranche.

The Portfolio outperformed the benchmark in August as the positioning benefitted from the tightening in spreads over the month. Core positions in domestic banks again positively contributed to performance with a material contribution coming from ANZ's 20-year bullet Tier-2 bond. Attractive carry and spread tightening in Kangaroo banks also drove the outperformance in August. The Portfolio participated in primary deals from issuers such as ANZ, ING Group NV and Commonwealth Bank of Australia.

Outlook

Australian Investment Grade

Short-term outlook

A strong rebound since the April wides sees little room for significant spread tightening in IG. Risk assets have proved to be more resilient to the recent tighter financial conditions, given that companies have been coming from a strong fundamental position. However, as it is still uncertain where tariffs will settle given the ongoing negotiation, we anticipate increased volatility to feature at some point going forward. Technical factors such as attractive total yield continue to provide support for valuations.

Medium Term-outlook

Fundamentals are currently solid with EBITDA, leverage ratios, and interest coverage stable to improving in line with improving macro picture. Earnings however will be vulnerable to slower growth, and although less likely, higher inflation, though both potentially result from the higher tariffs. Technical factors driven by the ongoing global search for yield should provide some support given improved valuations, however this dynamic could fade with increased risk aversion. Credit spread moves from here should see further pressure in the months ahead as the impacts of credit tightening, and tariffs, are factored into valuations, though this could be ameliorated by further central bank easing.

Subordinated debt

While the comment on the broader IG market also applies to the financial subordinated market, there are additional factors that could potentially see financial subordinated debt spreads outperform the broader IG market still, particularly major banks, despite the recent outperformance. The most important one of all is the upcoming maturities of AUD bank hybrids over the next few years, as banks progress towards a complete phase out of AT1s as per APRA's announcement in late 2024. We believe that the wall of maturities will need to be redeployed elsewhere with some capital likely to find its way into the financial subordinated debt market, given that it is the closest replacement as banks ramp up T2 issuance to replace AT1s. The attractiveness of Tier-2 bonds on a risk-adjusted basis, particularly for major banks as they are rated A- by all three rating agencies, is also another factor that has continued to draw strong demand for the sector.

Australian macroeconomic outlook

Australia's economy continues to cyclically improve but remain structurally subdued off the back of the Reserve Bank of Australia (RBA) cutting rates by another 25 bps to 3.6%. Following the RBA's shock hold last month, choosing to wait for more confirmation that inflation is on track to return to the mid-point of the 2-3% target range, this confirmation came with Australia's Q2 CPI. With the quarterly trimmed mean inflation at 0.6-0.7%, within target, the CPI and labour market data point to continued easing. It has been our expectation that the RBA will cut rate 4-5 times over the course of 2025, so with 3 cuts now in place we expect 1-2 more cuts this year, likely in November and potentially February early next year, taking the cash rate to a cycle low of 3.1%. Continued strong net migration combined with the RBA having started a rate cutting cycle with widespread expectations of further cuts to come has seen Australia's housing market rebound. This is reflected by the sharp increase in the real value of residential building approvals in Australia in Q2, particularly apartments, pointing to solid construction growth in the near-term. Even with a pickup in construction activity we remain alert to the risk of housing shortages continuing as population-driven demand continues to exceed supply, putting upward pressure on house prices and housing construction costs. The Q2 CPI release, alongside monthly CPI prints, reinforces the importance of housing to the inflation outlook: the four major housing expenditure categories remain at high price levels, though growth is slowing as affordability constraints bite. Housing, traditionally one of the more persistent components of inflation, has recently shown some signs of disinflation. That said, the renewed upswing in the housing market may act as a constraint on how much further this trend can go. In the absence of a significant employment shock, this dynamic could also limit the RBA's scope to lower rates beyond the two cuts anticipated.

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For more information speak to your financial adviser, call us on 1800 814 523, email mam.clientservice@macquarie.com or visit macquarie.com/mam