MACQUARIE ASSET MANAGEMENT

Macquarie Subordinated Debt Active ETF

Monthly report – 31 March 2026

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	$520.9m
Scheme Size	$520.9m
Distribution frequency	Generally monthly
Management fee*	0.290% pa

*Other costs apply, which may vary year to year. See the Product Disclosure Statement for any indirect costs, expense recoveries, or underlying fund performance fees (if any).

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

Fund performance to 31 March 2026

	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	-0.02	0.32	-0.34
3 months (%)	1.00	0.91	0.09
6 months (%)	2.49	1.82	0.67
1 year (%)	6.30	3.80	2.50
Since inception (% pa)	5.93	3.85	2.08

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	2.3 years
Interest rate duration	0.1 years
Yield to worst*	5.9% pa
Running yield^	5.8% pa
Number of issuers	27
Average credit rating	A-

*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^	51.2
Other Australian issuers	18.3
Foreign issuers in AUD	24.5
Foreign issuers in non-AUD	3.0
Cash	3.0

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

Top 5 issuers

Issuer	%
NATIONAL AUSTRALIA BANK LTD	12.3
WESTPAC BANKING CORP	11.3
AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD	10.9
COMMONWEALTH BANK OF AUSTRALIA	8.5
MACQUARIE BANK LTD	8.4

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Fund review

Australian investment grade (IG) credit spreads widened further in March, as geopolitical developments elevated inflation expectations and triggered significant repricing of the domestic rates outlook. The Australian 10-year yield peaked to 5.12% intra-month, while market pricing for the year-end Reserve Bank of Australia (RBA) cash rate ratcheted as high as 5.00% before partially retracing to close at 4.60%. Within credit, Tier 2 marginally underperformed majors, though outperformed equities and bonds, and the curve modestly flattened as the basis between non-call 10yr and non-call 5yr paper fell to 16bps. Nonetheless, the absence of new A$ Tier 2 supply in March provided some technical offset with the major bank 10yr non-call 5yr Tier 2 spreads moving 8bps wider over the month. Senior financials were comparatively resilient as 5-year major bank paper closed only 2bps wider at 74bps (albeit peaking to 80bps mid-moth), aided by the largest negative net A$ senior supply month since the TFF (term funding facility) period. Corporates widened in tandem with global markets, though five transactions printed through the instability, one of which was within the subordinated debt market. Markets closed the month on a more constructive note, with tentative signs of de-escalation providing some late relief.

Despite Tier 2 spreads moving 7-10bps wider in March, the Fund generated a broadly flat total return. Better than benchmark carry and roll-down mostly offset the performance detraction from the spread widening. CDS protection in the Fund also provided an effective hedge for the portfolio in March as CDS spreads widened further. The Fund participated in a primary transaction from Verizon Communications Inc.

Outlook

Australian Investment Grade

Short-term outlook

The near-term outlook for credit markets is characterised by an unusually elevated degree of uncertainty. The ongoing conflict in the Middle East, sustained pressure on energy prices, and the resulting tension between rising inflation expectations and slowing growth present a challenging backdrop for risk assets. In this environment, spread volatility is likely to remain elevated and the distribution of outcomes wider than usual. We continue to monitor developments closely and, at present, believe a focus on carry and capital preservation remains appropriate given current valuations, while remaining selective in identifying opportunities as they arise.

Medium Term-outlook

Fundamentals remain broadly solid with EBITDA, leverage ratios and interest coverage stable across most sectors, however earnings will be vulnerable to weaker growth and higher inflation. The energy price shock stemming from the Middle East conflict further elevates risk of a stagflationary environment and presents a credit-negative backdrop that could pressure earnings and strain interest coverage for more leveraged issuers. Central banks face a difficult trade-off in balancing both challenges. Technical factors driven by the global search for yield should provide some support for credit, particularly in higher quality and shorter duration segments, however this dynamic could fade if risk aversion continues to build. The AI spending theme remains a source of uncertainty for investors given the capital intensity of the buildout and the ongoing disruption to incumbent business models. Overall, we expect credit spreads to remain under pressure in the months ahead until there is greater clarity on the trajectory of geopolitical risk and its broader economic consequences.

Subordinated debt

While we face an unusually elevated degree of uncertainty in the near-term given the ongoing conflict in the Middle East, we think financial subordinated debt continues to present compelling risk-adjusted returns over the medium-term. The technicals for major bank issuers are likely to remain strong — APRA's late 2024 announcement phasing out AT1 capital instruments will drive meaningful capital redeployment over the coming years, with financial subordinated debt the natural beneficiary as the closest replacement instrument and as banks ramp up Tier 2 issuance to fill the gap. The attractiveness of Tier 2 bonds on a risk-adjusted basis is a further tailwind, with major bank instruments rated A- across all three rating agencies continuing to draw strong investor demand and reinforcing the constructive technical backdrop for the sector.

Australian macroeconomic outlook

The 'RBA Dilemma' deepens as the central bank continues to hike policy, making another 25bps move higher this month to 4.1% in a narrow 5-4 decision. Australia's economy has been cyclically improving but remains structurally subdued, and the RBA have faced a deepening dilemma between upside risks to inflation but downside risks to the labour market. Australia's headline inflation is elevated at around 3.7-3.8% YoY into early 2026, while underlying measures are above the RBA's 2-3% target band, reinforcing the Board's concern that inflation could remain above target for longer and be exacerbated by the tensions in the Middle East.

Whilst the impact of the conflict in the Middle East is deeply concerning, in Australia the reality is things were not in a great place even before the hostilities. Australia has struggled over the last 20 years to make energy security a key priority, and has not ensured adequate supplies of vital fuels. Australia signed onto the International Energy Agency's agreement to hold reserve fuel equal to "at least 90 days worth of imports" but only holds approximately 30 days of petrol, diesel and aviation fuel. Australia imports around 90% of its refined fuels, and Australia's capacity to refine crude oil domestically has been materially depleted. Australia's high frequency data shows that the ANZ-Roy Morgan consumer confidence survey has fallen from already depressed levels to the lowest levels since records began 53 years ago. In terms of the outlook of households for their financial situation over the next 12 months, that has fallen to sit dramatically below its pandemic era lows. Meanwhile, the inflation expectations of households with a 2-year time horizon have spiked sharply to 6.9%, higher than even the absolute peak seen during the pandemic.

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The combination of RBA rate hikes and energy uncertainty are weighing on the housing market, where falling clearance rates and a pick up in advertised supply is seeing Sydney and Melbourne navigate the early stages of a downturn. We expect RBA policy tightening to result in a relatively swift and material slowing in domestic activity, which should ease inflationary pressures and prompt the RBA to reverse course and resume lowering the cash rate – sooner rather than later.

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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