MACQUARIE ASSET MANAGEMENT

Macquarie Subordinated Debt Active ETF

Monthly report – 30 September 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	$224.5m
Scheme Size	$266.0m
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 30 September 2025

	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.71	0.29	0.42
3 months (%)	2.37	0.92	1.45
6 months (%)	3.72	1.94	1.78
Since inception (% nom)	4.09	2.47	1.62

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	2.9 years
Interest rate duration	0.1 years
Yield to worst*	4.9% pa
Running yield^	5.7% pa
Number of issuers	25
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^	48.6
Other Australian issuers	22.5
Foreign issuers in AUD	25.2
Foreign issuers in non-AUD	2.4
Cash	1.3

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

Top 5 issuers

Issuer	%
AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD	13.2
WESTPAC BANKING CORP	11.8
COMMONWEALTH BANK OF AUSTRALIA	10.7
QBE INSURANCE GROUP LTD	7.8
INSURANCE AUSTRALIA GROUP LTD	7.1

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Fund review

Australian credit spreads continued to perform well in September, although they lagged the rally seen offshore. Spread tightening was again broad-based across corporate and financial sectors. Senior financial spreads consistently narrowed throughout September, with the 5-year major bank spread reaching a post-pandemic low of 68bps. It was another constructive month in financial Tier 2 as well with major bank 10NC5 Tier 2 spreads contracting 6bps to close the month at the four-year tights of 132bps. All the spread contraction took place in the first half of the month after a nearly two-month pause in A$ Tier 2 supply (from 8th August – 15th September) along with CBA's A$1.4bn Tier 2 redemption. Supply finally returned after 16th September with A$1.8 billion of supply in the subordinated/hybrid market, including a A$1.25 bn of AT1 from UBS – making it the first offshore bank AUD AT1 issuance since 2019. With a coupon of 6.375% and APRA's recent phasing out of Australian AT1 securities, this created strong technical support for the bond, attracting a peak order book of over $8bn and strong follow-on demand in secondary markets.

The Portfolio outperformed the benchmark in September as the positioning benefitted from the tightening in spreads over the month. Core positions in domestic banks continued to generate positive performance. Holdings in Kangaroo banks as well as non-AUD financial Tier 2 also made a material contribution to the excess performance in September. The Portfolio participated in primary deals from issuers such as Insurance Australia Group Ltd and UBS Group.

Outlook

Australian Investment Grade

Short-term outlook

A strong rebound since April wides sees little room for significant spread tightening in investment grade (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, however earnings will be vulnerable to slower growth and although less likely, higher inflation, though both a potential 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 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 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, as the Reserve Bank of Australia (RBA) and Australian Government have continued their monetary and fiscal easing. Australia GDP for Q2 came in higher than estimated at 0.6% QoQ and 1.8% YoY, but employment stalled in August though the unemployment rate was steady at 4.2%. Australia's GDP growth was underpinned by the bounce back in cyclical elements, such as consumer spending increasing +0.9% QoQ and +2% YoY after only one cut between Q1 and Q2, though the more structural elements like business investment fell 0.4% with little growth over the year at 0.2% YoY. The weakness in Australia's labour market is adding to the poor backdrop for Australia's ongoing recovery, as the labour market has not experienced a significant 'dislocation', but has had a 'sustained weakening' and step-down to levels below the post-GFC average. Job gains have slowed to an average pace of monthly growth of 15k this year, down from 33k last year, and below the post-GFC average of 18k. There is a shift from full-time employment (which fell -40k) to part-time employment (improving +35k) and the participation rate is falling. The broader labour underutilisation rate, the sum of unemployment and underemployment, sits at 9.9%. This means there are currently 1,518,000 people in willing labour supply who are not being used, even without counting those who have moved into hidden unemployment. This is expected to continue with Australia's labour supply-demand imbalance persisting as we continue to experience a population boom due to immigration. It had been our expectation that the RBA will cut rates 4-5 times over the course of 2025. The past two monthly inflation reports though pointed towards upside risks to the Q3 CPI data, which will be key in determining whether the RBA lowers the cash rate further at its November meeting. While this suggests some chance the RBA may leave rates unchanged for the rest of the year, we still expect a gradual rise in the unemployment rate in coming months to result in at least one further cut (either at the November meeting or the February 2026 meeting).

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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