

Vontobel Fund – Credit Opportunities

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IE, IT, LU, NL, NO, SE, SG (Professional Investors only).

Market developments

September was a difficult month for markets, as a fresh inflationary impulse and renewed energy-supply fears extended the global bond selloff. The US-Iran conflict remained the dominant driver. Early in the month, concerns intensified over energy supplies: Saudi Arabia halted operations at multiple energy sites after they were attacked, with the Houthis claiming responsibility, and in mid-September, the Saudi East-West pipeline was closed before beginning to restart. Hopes that some kind of deal might emerge around the UN General Assembly were dashed by month-end, with US President Donald Trump saying on September 26 that "They made a proposal but I rejected it," and Iran's Foreign Minister Abbas Araghchi saying on September 27 that Iran had "no reason to come back to diplomacy and engage with this administration once again." Brent ended September up +42.0% quarter-on-quarter at USD 103.53 per barrel, with investors pricing in a more protracted period of high prices. In France, uncertainty over the budget, coupled with more favorable polls for a potential far-left presidential candidate, provoked a substantial widening of French spreads. In Germany, the landslide victory of the far-right Alternative for Germany party in Saxony-Anhalt's regional elections also raised concerns for European assets.

Central banks turned decisively hawkish, with the US Federal Reserve (Fed), European Central Bank (ECB), and the Bank of Japan (BoJ) all hiking interest rates in September. The Fed delivered its first rate hike since 2023, and its dot plot signaled another rate increase by year-end. The ECB also hiked, with several hawkish elements in its statement, which warned that "inflation is set to remain well above target for an extended period." The BoJ raised its policy rate to 1.25%, its highest level since 1995. Resilient growth gave central banks room to move: the flash September PMIs showed activity accelerating, with the US composite at a five-year high and the Eurozone at a three-year high. That combination of rising inflation and strong growth proved negative for sovereign bonds. The 10-year Treasury yield posted a seventh consecutive monthly increase in September – the first such run since 2011 – closing the third quarter at a post-2007 high of 5.28%. Fiscal concerns also resurfaced, with the 10-year French-German sovereign bond spread widening to 127 basis points (bps) by quarter-end, its highest level since 2012.

Equities held up better than bonds, supported by resilient growth and robust earnings. The S&P 500 Index, which had reached a new record in August, lost -0.45% in September. Performance was uneven elsewhere: Europe's STOXX 600, which also hit a record in August, lost 2.49% at quarter-end, as French assets underperformed sharply.

In fixed income and credit markets, September saw a broad risk-

off widening that spared almost no segment, with Europe underperforming this time. EUR investment grade (IG) widened by +12 bps as every sector gave ground, led by autos (+21 bps) and real estate (+18 bps), while USD IG held up far better at +4 bps. Global IG widened +6 bps. Subordinated and higher-beta segments bore the brunt: EUR non-financial subordinated widened +21 bps, European bank CoCos +26 bps, Euro LT2 +12 bps, and global hybrids +13 bps. BBs sold off materially, with EUR BBs +41 bps and US BBs +42 bps, showing that the stress seen in September was broad-based and that the European outperformance of prior months clearly reversed.

Portfolio review

The portfolio remains overall highly barbelled, with an overweight in financials and synthetics, and an underweight in emerging-market (EM) sovereigns and developed-market high yield (HY) versus the long-term asset allocation of the strategy. We continue to see interesting risk-adjusted opportunities in European financials and CDS indices, especially after the recent underperformance, with carry and roll-down remaining compelling to us.

During the month, the sharp move higher in rates and the broad spread widening weighed on absolute performance. However, the portfolio benefited from disciplined risk management, diversification, and active security selection, which helped performance relative to the broader HY market. We remained highly active in financials, using the sector's liquidity to add exposure during periods of weakness and reduce risk into stronger markets. We remain comfortable with the space given the solid underlying fundamentals and resilient capital positions.

Within HY, we continue to actively review evolving credit stories and look for switch opportunities where we see better relative value without increasing overall portfolio risk. This remains an important part of our approach in a more volatile market environment, where dispersion across issuers and instruments is increasing.

We continue to view EM sovereigns positively from a fundamental perspective, but valuation screens currently appear more attractive elsewhere, in our view, particularly in developed markets. As a result, we remain underweight the segment for now.

We believe micro-arbitrage remains an important driver of turnover. We continue to screen for relative-value opportunities within issuer complexes, looking for securities that trade wide versus comparable bonds from the same issuer across currencies, maturities, seniority, or instrument type. Overall, the portfolio remains positioned in a way that seeks to harvest carry and roll-down while retaining flexibility to take advantage of further market dislocations.

Performance analysis

The Vontobel Fund - Credit Opportunities E delivered a return of -2.01%. Performance was ahead of the ICE BofA Global High Yield Index, which returned -2.26%.

Outlook

We remain constructive on fixed income over the medium term, while acknowledging that near-term volatility is likely to persist. We believe sharp move higher in yields has made the asset class more interesting, both in absolute terms and relative to other asset classes. US Treasury yields are close to multi-decade highs, real yields are approaching 3%, and the 10-year Treasury yield now stands around 55 bps above the S&P 500 earnings yield. In

our view, this is likely to increasingly support demand for fixed income.

At the same time, higher yields have been beneficial for forward-looking returns and restored convexity to the bond market. We believe this could create an attractive opportunity set for active security selection, especially where carry, convexity, and relative value combine to offer asymmetric risk-adjusted returns.

We expect dispersion to remain elevated. In our assessment, higher energy prices, tighter financial conditions, and political uncertainty in Europe are poised to continue to create differentiation between issuers, sectors, and regions. We therefore do not view this as an environment for broad beta exposure. Instead, we continue to focus on carry, roll-down, issuer selection, and relative-value opportunities.

Fund characteristics

Fund name	Vontobel Fund – Credit Opportunities
ISIN	LU1242417589
Share class	E USD
Benchmark	–
Inception date	30.6.2015

Historical performance (net returns, in %)

Time period	Fund	Benchmark	Time period	Fund	Benchmark
MTD	-2.0%	–	2025	13.8%	–
YTD	2.7%	–	2024	20.2%	–
1 year	4.6%	–	2023	24.4%	–
3 yrs p.a.	15.0%	–	2022	-10.6%	–
5 yrs p.a.	9.1%	–	2021	9.5%	–
10 yrs p.a.	9.6%	–	2020	16.0%	–
ITD p.a.	8.9%	–	2019	20.1%	–
			2018	0.1%	–
			2017	4.3%	–
			2016	4.4%	–

Past performance is not a reliable indicator of current or future performance.

Performance data does not take into account any commissions and costs charged when shares of the fund are issued and redeemed, if applicable. The return of the fund may go down as well as up, e.g. due to changes in rates of exchange between currencies. The value of the money invested in the fund can increase or decrease and there is no guarantee that all or part of your invested capital can be redeemed.

Investment risks

- Asset-backed and mortgage-backed securities, and their underlying receivables are often intransparent. The sub-fund may also be subject to a higher credit and/or prepayment risk.
- The overall strategy may be volatile and the risk of a substantial loss cannot be ruled out. Active currency and volatility trading may be very speculative. The leverage achieved for investment purposes in the Sub-Fund through the use of derivative financial instruments is calculated using the notional approach. The sum of notionals leverage achieved over the course of the year is expected to be around 500% or less of the net assets of the Sub-Fund. However, the actual sum of notionals leverage achieved on average may be above or below this value.
- Securities with a lower credit quality means a higher risk that an issuer may fail to meet its obligations. The investment value may fall if an issuer's credit rating is downgraded.
- CoCo-Bonds may entail significant risks such as coupon cancellation risk, capital structure inversion risk, call extension risk.
- Using derivatives creates significant leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- Distressed securities have a higher credit and liquidity risk as well as uncertainty in any potential bankruptcy proceedings.
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