

Vontobel Fund – Green Bond

Marketing document for institutional investors in: AT, CH, DE, ES, FR, GB, IT, LI, LU, NL, PT, SE, SG (Professional Investors only).

Market developments

The third quarter repeated a lesson from the first half of the year. Good news can have a very short shelf life, and almost everything seems to come with the same small print: subject to change. It opened with hopes for a more lasting peace deal between the US and Iran already fraying. Only three weeks earlier, the two countries had signed a preliminary agreement allowing 60 days to negotiate their outstanding disputes. Before the ink was dry, talk of diplomacy gave way to strikes, blockades, and retaliation. The US reinstated its naval blockade, ended a waiver on Iranian oil sanctions, and threatened more bombing unless Tehran stopped attacking ships and reopened the Strait of Hormuz. Each side said the other had broken the agreement first. Oil prices rose. Central banks provided a different sort of suspense. The European Central Bank kept interest rates unchanged in July, and the US Federal Reserve (Fed) followed suit. But Chair Kevin Warsh left investors guessing as to why the Fed had chosen to hold or what would make it change course. The bond market drew its own conclusions, and Treasuries suffered one of their biggest selloffs in years, sending the 30-year bond yield to its highest level since 2007. By mid-July, companies at the heart of the AI buildout, and among the biggest contributors to the S&P 500 Index's gains this year, sold off as investors questioned whether the returns could justify the sums being spent. Earnings provided enough reassurance to steady the market by August, while a cooling labor market and moderating inflation gave the Fed some room to breathe. But inside the Fed, things were less settled. Minutes from the July FOMC meeting showed disagreement over the right course for rates, nor could the improvement in inflation be taken for granted as the war was still pushing energy prices around.

In August, attention returned to the cost of financing in the US. Treasury Secretary Scott Bessent announced plans to buy back longer-dated government debt, a "Treasury twist" intended to push yields lower. It managed that for about a day. Most of the pressure on the Treasury market was outside Bessent's control. Federal debt had passed USD 40 trillion, corporate issuance was swelling as companies borrowed to finance the AI investment boom, the Iran conflict was keeping energy and inflation risks alive, and nobody really knew where Fed policy was heading. Investors' response was to demand more compensation to lend to the government for decades at a time. Bessent was becoming more interventionist elsewhere too. US authorities bought Japanese yen for the first time in three decades, while the Treasury threatened an "economic onslaught" against Iran's financial links around the world. That put the US in a bit of a pickle, because China buys about 90% of Iranian oil, and hence a serious attempt

to cut Tehran off from its customers would probably complicate the US relationship with Beijing.

Then came Jackson Hole. Warsh surprised investors with a hawkish speech, and markets began pricing in rate hikes again. He stressed the importance of price stability and defeating inflation but didn't explain why he had voted to leave rates unchanged only weeks earlier. Some investors concluded that the Fed would now have to raise rates in September or risk losing credibility. US President Donald Trump wanted the opposite. In early September, after keeping relatively quiet on Fed policy since Warsh replaced Jerome Powell, he again publicly demanded lower rates and threatened trade measures against countries running surpluses with the US. His comments came just after unexpectedly strong August jobs data. Brent rose above USD 100 per barrel as the Iran conflict worsened again, stoking inflation concerns. Then mid-month, the Fed unanimously raised rates by 25 basis points (bps), as had been widely anticipated, and indicated that at least one more increase could follow by year-end.

Bond markets had a difficult quarter. Solid US growth and ongoing inflationary pressures gradually pushed expectations for Fed policy higher, while heavy government borrowing and a rising term premium added pressure at the long end of the yield curve. By September, the 10-year Treasury yield had reached around 5%. The Fed then delivered the 25bps increase markets had widely anticipated and raised its projections for rates over the coming years, catching up with repricing that had already taken place in the market. Credit held up surprisingly well through all of this. Companies continued to issue large amounts of investment-grade debt, with AI and data-center spending adding to their borrowing needs, while demand stayed healthy. High yield also performed well, helped by its shorter duration and solid credit fundamentals. The US government bond market was down 3% in the third quarter (in US dollars).

The US yield curve got steeper at the front end but flattened in the area 5-year to 30-year, as yields on 3-year Treasuries increased by 82bps while 30-year Treasury yields "only" rose by 75bps. Yields on German government bonds (Bunds) mirrored the US curve movement as 3-year yields increased by 75bps while 30-year yields rose by 51bps. As rising interest rates increasingly called into question the debt sustainability of highly indebted countries like France and with the political landscape offering no prospect of improvement for the French national budget, risk premiums on French government bonds (OATs) surged. By the end of the quarter, the spread between 10-year OATs and 10-year Bunds had reached 127bps, a level last seen during the European debt crisis of 2012. Spreads on Italian and Spanish govern-

ment bonds were unable to decouple from this trend, likewise recording significant increases during the reporting period. The Japanese yield curve experienced upward shifts also across all maturities but flattened the most as 2-year yields increased by 57bps while 30-year yield on Japanese government bonds increased by 21bps.

Portfolio review

During the third quarter, we kept the positioning of the fund stable. We still maintained an average implied temperature rise (ITR) well below 1.5 degrees Celsius for the corporate portion of the fund, which represents more than 78% of the overall portfolio. Consistent with the fund's objective to maximize avoided CO2 emissions, we continue to favor green bonds within the utility and energy sectors, where we have identified the most impactful projects.

Performance analysis

In the third quarter of 2026, the Vontobel Fund – Green Bond reported an absolute return of -2.72%, underperforming its bench-

mark during the period. The primary factor contributing to this underperformance was the fund's overweight position in duration exposure, as yields increased massively as described above.

Outlook

With rate increases having resumed across major economies, the global easing cycle has effectively come to an end. But much of the inflationary pressure central banks are responding to stems from supply-side factors, such as higher oil prices and the lingering effect of tariffs, which monetary policy can't do much about. As such, we believe the scope for additional tightening is limited. The global economy, and especially the US, has held up well. We believe growth will lose some momentum from here as central banks provide less support than at the start of the year, the scope for further fiscal stimulus remains limited, and geopolitical risks haven't gone away. But we don't expect the slowdown to tip the economy into recession. The inflation outlook could improve somewhat if tensions in the Middle East ease and energy price pressures moderate over the coming months. The impact of the oil shock should also fade as more crude is rerouted to bypass disruption in the Strait of Hormuz.

Fund characteristics

Fund name	Vontobel Fund – Green Bond
ISIN	LU0278087357
Share class	I EUR
Benchmark	Bloomberg MSCI Global Green Bond Index (EUR hedged)
Inception date	3.5.2007

Historical performance (net returns, in %)

Time period	Fund	Benchmark	Time period	Fund	Benchmark
MTD	-2.3%	-1.9%	2025	1.7%	2.0%
YTD	-3.7%	-2.5%	2024	1.5%	2.1%
1 year	-3.5%	-2.2%	2023	6.3%	7.1%
3 yrs p.a.	2.1%	2.8%	2022	-19.4%	-19.0%
5 yrs p.a.	-3.3%	-2.6%	2021	-3.2%	-3.0%
10 yrs p.a.	-0.6%	-0.6%	2020	6.0%	5.1%
ITD p.a.	2.3%	2.4%	2019	8.0%	6.9%
			2018	0.4%	0.9%
			2017	1.5%	0.2%
			2016	2.6%	3.3%

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.

Since fund inception until 9.3.2021, the fund had different characteristics and performance was achieved under circumstances that no longer apply.

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.
- Using derivatives generally creates leverage and entails valuation risks and operational risks. Leverage magnifies gains but also losses. Over-the-counter derivatives involve corresponding counterparty risks.
- 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.
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