

Vontobel Fund – European Equity Income Plus

Marketing document for institutional investors in: AT, CH, DE, ES, FI, FR, GB, IT, LI, LU, NL, NO, SE.

Investors in France should note that, relative to the expectations of the Autorité des Marchés Financiers, this fund presents disproportionate communication on the consideration of non-financial criteria in its investment policy.

Market developments

European equities ended the third quarter of 2026 slightly lower, with the MSCI EMU declining 1.42%. Early hopes for a diplomatic resolution to the U.S.–Iran conflict faded in mid-July, when the ceasefire collapsed and the Strait of Hormuz was closed again. As the conflict turned into a protracted stalemate, energy prices and rising bond yields became the dominant market drivers. A strong second-quarter earnings season, with Stoxx 600 earnings up around 24% year on year, provided an important counterweight.

Brent crude, which had traded close to pre-war levels in early July, climbed back above USD 100 per barrel. With euro-area inflation rising to 3.3% in August, central banks tightened further. The ECB and the U.S. Federal Reserve each raised rates by 25 bp in September, with the ECB signaling more hikes to come. Together with growing deficit concerns, the German 10-year yield climbed to a 15-year high, while political and fiscal uncertainty widened French spreads. Rate-sensitive sectors came under pressure, and technology stocks remained volatile amid shifting views on the AI investment cycle.

In summary, the third quarter was a tug-of-war between resilient economic fundamentals and a more hawkish shift of central banks to contain inflation. Euro-area economic activity remained robust, but the persistence of the energy shock and the resulting rise in interest rates increasingly weighed on valuations. Investors ended the quarter focused on the development of the Iran conflict, the inflation outlook and the path of monetary policy.

Portfolio review

Quality Dividend: During the third quarter, no major changes to the equity portfolio were made, as the fund positioning at the end of the second quarter provided a stable baseline. However, post-earnings abrupt weakness in two names was exploited to initiate two smaller positions. We added Universal Music Group as an opportunistic position outside our Quality Dividend model, as the stock traded around two standard deviations below its historical valuation average after a disappointing earnings release. It offers a dividend yield of around 3.6% and a low correlation to the MSCI EMU. We also bought Adidas, one of the highest-quality companies in the Consumer Discretionary sector. Despite strong results and raised guidance, the shares fell around 15%, which we viewed as an overreaction. The position also reduces our concentration in luxury names. Overall, the portfolio remains underweight Technology and Industrials, with overweights in Energy and Consumer Discretionary.

Enhanced Income: In a quarter characterized by an extended sideways market phase and a modest correction in the first half of September, the permanent option-writing strategy generated a positive performance contribution of approximately 0.6%. The coverage ratio had been reduced in the previous quarter due to strong market momentum. After the earnings season during the third quarter, it was gradually increased towards its strategic target level. As a result, option premiums of approximately 1.2% were collected, with options written on average 4.8% out of the money.

Dynamic Participation: As the lower enhanced income coverage during the Q2 earnings season offered less protection against a broader correction, the portfolio protection was increased by implementing index collars, selling index call options and buying index put options. In mid-September, following a roughly 5% correction in the Euro Stoxx 50, our proprietary V-shape model signaled a potential sharp market recovery and we selectively bought out-of-the-money index call options to offset part of the foregone upside exposure should markets recover sharply.

Performance analysis

The Vontobel Fund – European Equity Income Plus delivered strong outperformance versus its benchmark, the MSCI EMU Net Total Return Index, in the third quarter of 2026. The primary driver was the Quality Dividend Equity portfolio, which outperformed particularly in July. The underweight in Information Technology proved to be the right positioning, while stock selection within the sector also contributed meaningfully, notably through SAP. The underweight in Industrials and the overweight in Financials were also beneficial. At the stock level, SAP, Wolters Kluwer and DHL were the top contributors over the quarter.

Dispersion among individual stocks was less pronounced than in previous quarters, with only a few stocks moving significantly against the broader market trend. This environment proved favorable for the covered call strategy, which delivered the expected positive results in a largely sideways market and generated a positive performance contribution of approximately 0.6% for the Fund. Only the options written on Münchener Rückversicherungs-Gesellschaft AG and Wolters Kluwer detracted slightly, as they expired in the money and were exercised. Across all other holdings, the premiums earned contributed positively, with ASML, Ferrari and LVMH each generating around 6 basis points.

The Dynamic Participation strategy and tactical risk adjustments resulted in a small cost, which was more than offset by the positive contributions from the Quality Dividend portfolio and the permanent covered call strategy.

Outlook

As we enter the fourth quarter, investors are faced with a seemingly contradictory macroeconomic backdrop.

On the one hand, the global economic engine remains relatively resilient across large parts of the developed world, as reflected in the latest purchasing managers' indices. Corporate earnings have also remained broadly robust, while the AI investment boom, despite some moderation towards the end of the third quarter, shows little sign of coming to an end. AI-driven productivity gains are increasingly extending beyond the technology sector and into a broad range of industries.

On the other hand, the bond market is sending cautious signals for equity investors. The key question is when will the sharp rise in interest rates begin to weigh materially on equity markets. Equity risk premiums in several regions are now close to their lowest levels in years, leaving markets with limited room for disappointment. In the US, 10-year Treasury yields have risen to around 5.2%, levels not seen since before the Global Financial Crisis. European government bond spreads have also widened to levels that are becoming increasingly uncomfortable in certain markets, with France standing out amid elevated political uncertainty ahead of the 2027 presidential election.

Geopolitical tensions add another layer of uncertainty. Persistent conflicts and geopolitical risks have contributed to elevated crude oil and diesel prices, neither of which provides an ideal backdrop as we enter the winter months. Higher energy costs could put renewed pressure on inflation and, consequently, on interest rates.

Against these opposing macroeconomic forces, the upcoming US midterm elections add another potential source of volatility in the final quarter of the year. Nevertheless, given the historically supportive seasonality, we believe a positive fourth quarter remains a realistic scenario despite concerns surrounding interest rates and inflation, which we continue to regard as the key risks for financial markets.

Geopolitical tensions can ease relatively quickly, at least temporarily, while the productivity gains generated by AI are likely to continue spreading across a growing number of sectors. At the same time, policymakers and governments have strong incentives to support economic growth and maintain favorable financial conditions.

Historical market patterns also provide some support for our view. In years in which the first three quarters have delivered positive equity returns, it has been relatively uncommon for the fourth quarter to reverse that momentum decisively. In many cases, positive momentum has carried through to the end of the year.

Overall, while uncertainty has been rising, we remain cautiously optimistic about the outlook for the remainder of the year. In this challenging and increasingly divergent market environment, we believe the Fund's focus on high-quality dividend-paying companies, combined with its defensive characteristics and disciplined investment process, offers an attractive balance between participation in further market gains and resilience during periods of elevated volatility. In our view, this continues to be a compelling place to be heading into the final quarter of 2026.

Fund characteristics

Fund name	Vontobel Fund – European Equity Income Plus
ISIN	LU2967766705
Share class	I EUR
Benchmark	MSCI EMU Net Total Return EUR Index
Inception date	25.3.2025

Historical performance (net returns, in %)

Time period	Fund	Benchmark	Time period	Fund	Benchmark
MTD	-1.7%	-1.9%	2025	–	–
YTD	10.4%	10.8%	2024	–	–
1 year	16.7%	16.5%	2023	–	–
3 yrs p.a.	–	–	2022	–	–
5 yrs p.a.	–	–	2021	–	–
10 yrs p.a.	–	–	2020	–	–
ITD p.a.	13.0%	14.4%	2019	–	–
			2018	–	–
			2017	–	–
			2016	–	–

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

- Limited participation in the potential of single securities.
- Success of single security analysis and active management cannot be guaranteed.
- It cannot be guaranteed that the investor will recover the capital invested.
- Derivatives entail risks relating to liquidity, leverage and credit fluctuations, illiquidity and volatility.
- Price fluctuations of investments due to market, industry and issuer linked changes are possible.
- Investments in mid and small cap companies may be less liquid than investments in large cap companies.
- With the use of a covered call options strategy the participation in the potential positive price development of the underlyings is limited.
- There is no guarantee that all sustainability criteria will always be met for every investment. Negative impact on subfund's performance possible due to pursuing sustainable economic activity rather than a conventional investment policy.
- The sub-fund's investments may be subject to sustainability risks. The sustainability risks that the sub-fund may be subject to are likely to have an immaterial impact on the value of the sub-fund's investments in the medium to long term due to the mitigating nature of the sub-fund's ESG approach. The sub-fund's performance may be positively or negatively affected by its sustainability strategy. The ability to meet social or environmental objectives might be affected by incomplete or inaccurate data from third-party providers. Information on how environmental and social objectives are achieved and how sustainability risks are managed in this sub-fund may be obtained from vontobel.com/sfdr.

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