ROBECO FINANCIAL INSTITUTIONS BONDS

Credit spreads remain tight

- Credit markets rebounded as softer data and dovish Fed boosted risk appetite
- Spreads near cycle lows but financials remain resilient
- Focus on credit selection while maintaining neutral beta positioning

Credit markets faced volatility early in November but rebounded as softer economic data and dovish Fed signals improved sentiment. Investment grade spreads ended near recent lows, reflecting strong demand and resilient fundamentals in the financials and banks sectors. Despite mild pressure from rising rates, risk appetite was supported by stable net interest margins and low credit losses, while new issuance activity remained healthy across US and European markets.

Market Developments

Credit markets experienced notable volatility in November. Early in the month, spreads widened as markets discounted the possibility of a December Fed cut and equity volatility increased. This movement largely reversed following softer labor data, dovish Fed commentary, and the resolution of the US government situation. A benign CPI print and a late-month rally in US and European rates supported risk appetite. The UK Budget on 26 November delivered no major surprises, helping stabilize gilt markets and avoiding renewed pressure on banks.

November was also significant for European banks, with many institutions releasing their 3Q25 earnings and some hosting capital markets days. Results and management commentary continued to confirm strong fundamentals seen over recent quarters: net interest margins have stabilized at structurally higher levels than before covid, fee income is showing solid growth, and credit losses remain at cycle lows. The European new-issue market in subordinated financials was relatively active, with participation in several transactions, including regular tier 2 instruments and cocos.

Portfolio positioning

The fund's rating allocation is determined by bottom-up bond selection rather than an active rating strategy. It is permitted to invest up to 20% in high yield, with current exposure around 13%.

The sector allocation is focused exclusively on financials, though excess cash may be placed in German government bonds. Government-owned banks such as Belfius Bank, Permanent TSB, and ASN Bank are classified under agencies, while exposure to industrials comes from tier 2 bonds issued by Renault Bank.

PORTFOLIO MANAGER'S UPDATE - NOVEMBER 2025

Jan Willem de Moor
Portfolio Manager

Jan Willem Knoll
Portfolio Manager

Currency-wise, the fund is allowed to invest outside the euro, with approximately 7% currently in pound sterling and US dollar-denominated bonds; all foreign currency exposures are fully hedged.

The largest portion of the portfolio is invested in tier 2 debt, with about three quarters issued by banks and the remainder by insurance companies. The hybrid and subordinated categories mainly comprise subordinated debt from insurance companies, while tier 1 exposure is primarily to bank cocos. Senior bonds are mostly German bunds, but the fund also holds senior bank bonds from institutions like Triodos Bank, Bank Millennium, and Banca Transilvania..

Performance

The fund posted a negative return for the period, mainly due to higher rates. Government bond yields rose mildly, and spreads widened slightly, with the average index spread ending the month at 121 bps. Spread performance for the index was -0.02%, while the total return was -0.07%.

The portfolio underperformed the index slightly, with beta positioning around neutral, resulting in no contribution from beta. Issuer selection had a mildly negative impact on performance. The top five positive contributors from issuer selection were overweight positions in NIBC (takeover by ABN), Alpha Bank (continued strong operational performance), and KBC (solid AT1 performance). Underweights in Viridium and Coface also contributed positively. The largest detractors were overweight positions in Deutsche Bank, BBVA, ING, Zurich, and Hiscox. There was no major news flow driving this performance.

Year-to-date, the index delivered a positive credit return of 3.20% as credit spreads tightened, while the euro-hedged total return reached 4.69% due to a substantial decrease in underlying government bond yields. The fund outperformed by 45 bps (5.14% vs. 4.69%) over the year. Beta allocation and issuer selection both contributed strongly, with sector allocation adding value mainly from overweights in Reits and banking. Currency allocation slightly weighed on results due to the overweight in US-denominated paper. The allocation to subordination groups made a large positive contribution, especially from the overweight in subordinated financials and, to a lesser extent, senior financials. Rating allocation also delivered a significant positive impact, reflecting the overweight in BBs and the underweight in As.

Annualized performance Robeco Financial Institutions Bonds						30 November 2025
	Nov-25	3-month	YTD	1-year	3-year	5-year
Robeco Financial Institutions Bonds (D EUR)	**-0.09%**	**1.35%**	**5.14%**	**5.34%**	**8.31%**	**2.72%**
Benchmark (hedged into EUR)	-0.07%	1.27%	4.69%	4.71%	7.38%	1.76%
Relative performance	-0.02%	0.08%	0.45%	0.63%	0.94%	0.96%
Robeco Financial Institutions Bonds (DH USD)	**0.06%**	**1.91%**	**7.06%**	**7.42%**	**10.46%**	**4.60%**
Benchmark (hedged into USD)	0.08%	1.82%	6.64%	6.81%	9.47%	3.59%
Relative performance	-0.02%	0.08%	0.42%	0.61%	1.00%	1.01%

Source: Robeco. Portfolio: Robeco Financial Institutions Bonds. Benchmark: Bloomberg Euro Aggregate: Corporates Financials Subordinated 2% Issuer Cap. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. Performance since inception is as of the first full month. Periods shorter than one year are not annualized. Returns gross of fees, based on gross asset value. In reality costs (such as management fees and other costs) are charged. These have a negative effect on the returns shown.

Outlook

Credit spreads are generally approaching cycle lows, while the financial sector is performing fundamentally well. Consequently, we consider spreads for European financial companies to be relatively attractive. Balance sheets have strengthened following years of deleveraging, and profitability has improved due to higher interest rates, effective cost control, and robust growth in fee income. Looking ahead, we anticipate that profitability will stabilise at a higher level than what was seen between the great financial crisis and the Covid-19 crisis, as we do not foresee central banks reverting to zero interest rates. Additionally, banks have made significant strides in enhancing their underlying profitability, which has greatly improved their resilience to external shocks. There remains a strong appetite for bonds with higher yields, as investors seek to secure attractive yield levels.

We are becoming more selective in our participation in new bond issues, given the tightening of spreads. We aim for a neutral beta positioning in the fund, as we believe that, despite strong fundamentals, valuations are becoming somewhat demanding. Nevertheless, we are confident that we can continue to enhance performance through our credit selection in both primary and secondary markets.

ROBECO

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Additional information for US investors

Additional information for US Offshore investors – Reg S

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Additional information for investors with residence or seat in New Zealand

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