ROBECO FINANCIAL INSTITUTIONS BONDS

Credit market resilient

- Credit markets stayed resilient as risk sentiment improved
- Outlook stays constructive with solid fundamentals but tighter valuations
- Portfolio keeps exposure to higher-quality issuers

The credit market delivered solid gains as spreads tightened and demand stayed supportive. Market sentiment improved through easing political risks and steadier economic data, while volatility around policy expectations created only brief interruptions. New issuance was active but broadly absorbed, and overall conditions remained constructive despite episodes of uncertainty.

Market Developments

The fourth quarter of 2025 was characterized by resilient market behaviour despite persistent political uncertainty and shifting expectations around monetary policy. Credit spreads held broadly steady, while government bond yields moved slightly higher. October began on solid ground, supported by firm economic data and a constructive earnings season. A short-lived risk-off episode followed early tariff threats from President Trump, but sentiment stabilized after renewed talks with President Xi. The extended US government shutdown added political noise, yet equity and rates markets still rallied. Late in the month, the Federal Reserve cut rates by 25 bps but signalled a cautious approach to further easing, while the ECB and Bank of Japan kept policy unchanged. French sovereign debt tightened modestly, although French banks remained under pressure amid domestic political tensions.

Volatility picked up in November as markets initially priced out a December Fed cut, prompting wider credit spreads and higher equity volatility. Softer labour data and dovish Fed communication later reversed this shift, while the resolution of the US shutdown further supported sentiment. In Europe, the UK's 2025 budget was well received, whereas France faced contentious fiscal negotiations and the risk of a rollover into 2026. Technical conditions were mixed: a heavy wave of new issuance, including large deals from Alphabet and Amazon, briefly weighed on secondary markets before liquidity normalized.

Portfolio positioning

The fund's rating allocation results from bottom-up bond selection rather than an active rating strategy, and high yield exposure remains within the 20% limit, currently around 12%.

PORTFOLIO MANAGER'S UPDATE – Q4 2025

Marketing material for professional investors, not for onward distribution

Jan Willem de Moor
Portfolio Manager

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Portfolio Manager

The portfolio invests exclusively in financials, with excess cash occasionally allocated to German government bonds. Government-owned banks such as Belfius Bank, Permanent TSB and ASN Bank fall under agencies, while the small exposure to industrials reflects Tier 2 bonds issued by Renault Bank.

Approximately 6% of the portfolio is invested in pound-sterling and US-dollar denominated bonds, with all foreign-currency exposure fully hedged.

In terms of subordination, the largest share of the fund is allocated to Tier 2 debt, mostly issued by banks, complemented by insurance issuers. The hybrid and subordinated categories mainly consist of subordinated insurance debt, while Tier 1 exposure is primarily linked to bank CoCos. Senior holdings are dominated by German Bunds, alongside selected senior bank bonds from issuers such as Triodos Bank, Bank Millennium and Banca Transilvania.

Q4 Performance

Over the fourth quarter, the index delivered a positive credit return of 0.56% as credit spreads tightened, while the euro-hedged total return was 0.57% with government bond yields broadly stable. The fund outperformed by 6 bps (0.63% vs. 0.57%).

Issuer selection and beta allocation contributed slightly positively, while sector allocation was neutral, with a positive impact from the overweight in the agency sector and a small detractor from the overweight in the brokerage, asset managers, exchanges sector. Currency allocation detracted somewhat due to the overweight in USD paper. Country allocation contributed slightly positively, mainly from the overweight in Ireland, while the overweight in EM detracted marginally. The allocation to subordination groups added a small positive contribution thanks to the overweight in subordinated financials, and rating allocation contributed slightly positively due to the overweight in BBs. At the issuer level, the underweight in Athora and the overweight in Banco Santander contributed most to portfolio gains, while the overweight in Bank Polska and FirstRand contributed most negatively to the relative performance.

Year-to-date performance

Over the full year, the index delivered a positive credit return of 3.59% as credit spreads tightened, while the euro-hedged total return reached 4.66% on the back of a substantial decline in underlying government bond yields. The fund outperformed by 50 bps (5.16% vs. 4.66%), with performance supported by both beta allocation and issuer selection.

Attribution effects were broadly positive. Sector allocation added value, mainly driven by the overweights in the REITS and banking sectors, while currency allocation was neutral with only small underlying impacts. Country allocation contributed slightly positively, helped by the overweight in Ireland. The allocation to subordination groups delivered a large positive contribution, particularly due to the overweight in subordinated financials and, to a lesser extent, senior financials. Rating allocation also added significantly, supported by the overweight in BB-rated bonds and the underweight in A-rated bonds. At the issuer level, the primary positive contributors were our positions in BBVA, Deutsche Bank, and Raiffeisen Bank, as well as the underweight in Unibail-Rodamco. The main detractors were our investments in KBC, Societe Generale, and BNP Paribas.

Annualized performance Robeco Financial Institutions Bonds						31 December 2025
	Dec-25	3-month	YTD	1-year	3-year	5-year
Robeco Financial Institutions Bonds (D EUR)	**0.02%**	**0.63%**	**5.16%**	**5.16%**	**8.55%**	**2.55%**
Benchmark (hedged into EUR)	-0.02%	0.57%	4.66%	4.66%	7.78%	1.62%
Relative performance	0.04%	0.06%	0.50%	0.50%	0.76%	0.92%
Robeco Financial Institutions Bonds (DH USD)	**0.21%**	**1.17%**	**7.28%**	**7.28%**	**10.67%**	**4.43%**
Benchmark (hedged into USD)	0.16%	1.11%	6.81%	6.81%	9.86%	3.46%
Relative performance	0.04%	0.06%	0.47%	0.47%	0.80%	0.97%

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 approaching cycle lows, while the financial sector continues to demonstrate solid fundamentals. Balance sheets remain robust after years of deleveraging, and profitability has been supported by higher interest rates, disciplined cost control, and healthy growth in fee income. Looking ahead, we expect profitability to stabilize at a stronger level than in the years between the great financial crisis and the Covid-19 crisis, as central banks are unlikely to return to prolonged periods of zero interest rates and banks have made meaningful progress in strengthening their underlying earnings profile. As a result, the sector's resilience to external shocks has improved.

Investor appetite for bonds offering higher yields remains firm, with demand driven by the desire to lock in attractive yield levels. Given tighter valuations, we are becoming more selective in new issuance, while maintaining a neutral beta positioning. Despite somewhat demanding valuations, we believe careful credit selection in both primary and secondary markets can continue to add value.

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