

Resilient Demand Fuels High-Yield Gain

Ongoing Demand Absorbs Elevated Supply

Credit spreads tightened by 31 basis points in the High Yield (HY) market in Q3. Accrued interest was the largest positive contributor to the benchmark return for the quarter. This resulted in a benchmark return of 2.01% in Q3, bringing the year-to-date return up to 5.46%.

The global high-yield market delivered solid returns in the third quarter of 2025, driven by strong carry and tighter credit spreads. A modest decline in U.S. Treasury yields supported price gains, while resilient corporate fundamentals and steady demand fueled further spread tightening, particularly among BB-rated issuers. European high yield mirrored the strength of the U.S. market, reflecting broad confidence in corporate credit. Returns illustrated a favorable balance between income generation and limited duration risk, reinforcing the asset class's appeal in a stable yield environment.

Investor appetite remained strong despite persistent geopolitical and policy uncertainty. The search for yield continued amid slowing global growth and moderating inflation, with steady inflows from both institutional and retail investors. Robust demand absorbed elevated new issuance without materially widening spreads, and liquidity in secondary markets stayed healthy. The resilience of capital flows highlighted investors' confidence in corporate fundamentals and the asset class's ability to deliver consistent, carry-driven performance.

The primary market was exceptionally active, reaching record issuance levels over the quarter as companies refinanced existing debt and extended maturities under favorable terms. Most activity centered on refinancing rather than leveraged or event-driven transactions, reflecting prudent balance sheet management. This refinancing wave improved overall maturity profiles and helped mitigate default risks heading into 2026. The surge in issuance also provided

selective opportunities for active managers to add new positions at attractive entry points in a still supportive credit environment.

Credit fundamentals in the global high-yield market remained broadly resilient throughout the quarter. Default rates stayed low and well below historical averages, supported by steady earnings and ample liquidity across most sectors. Many issuers continued to take advantage of favorable market conditions to refinance upcoming maturities, helping to extend debt profiles and reduce refinancing risk. Overall, balance sheets remain solid, providing a healthy backdrop for credit risk despite ongoing macro uncertainties.

Positive return behind the benchmark

The portfolio delivered a positive return of 1.51% in Q3, which was 0.49 percentage points behind the benchmark. Year-to-date the fund's return is 4.97%, which is 0.49 percentage points behind of the benchmark.

Performance dispersion across sectors remained a defining feature of the quarter. The Materials sector made a particularly strong contribution to returns, supported by both overweight positioning and successful issuer selection amid stable commodity prices and improving fundamentals. Conversely, Communication and Energy weighed on relative performance, reflecting both underweight exposure and weaker credit selection within the sectors. The Consumer Discretionary segment delivered mixed results, shaped by uneven demand dynamics across subsectors.

Overall, the pattern of sector returns underscored the importance of active positioning and credit selection. While spread tightening was broad-based, investors continued to favor issuers demonstrating stable cash generation, prudent leverage, and visible progress on balance sheet improvement—factors that helped differentiate performance across industries and issuers during the quarter.

Strategy

Ethical High Yield Value Bonds invests in global corporate bonds, cf. the fund's prospectus. Bond selection is based on the value approach, meaning that the team focuses on bonds issued by companies with healthy long-term earnings power and strong balance sheets as well as an expected ability to service outstanding debt. The portfolio is diversified across sectors, regions and credit ratings. At least 2/3 of the portfolio are invested in High Yield bonds. Up to 15% may be invested in corporate bonds issued by companies operating in Emerging Markets.

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