

Peripheral Europe Update

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- **Portuguese bonds drop 6% this week**
- **Ireland upgraded by Fitch**

Main market events

Peripheral bonds were not resilient to the general risk off climate this week. Especially Portuguese bonds came under severe pressure, as doubts over the Portuguese budget and the willingness and ability of the new government to comply with EU rules rose. Italian bonds have returned -0.7% this year, Portuguese bonds -7.4%, Spanish bonds -0.1% and Irish bonds 1.3%.

Spain

The Spanish budget deficit came at 4.5% of GDP in 2015, down from 5.9% in 2014, but still overshooting the 4.2% target. Spain should reduce the fiscal deficit to 3% of GDP this year, but this will require further consolidation measures from the yet-to-be-formed government.

Portugal

The Eurogroup found the Portuguese 2016 budget "not to be in particularly serious non-compliance" with the Stability and Growth Pact and no resubmission was needed. They did however highlight several risks which need to be addressed by the new government.

Italy

Italian 4th quarter GDP came out weaker than expected at just 0.1%. Especially domestic demand disappointed surprisingly given the recent gains in consumer confidence and business sentiment.

Ireland

Fitch upgraded the rating for Ireland to A from A-, with a stable outlook. The upgrade was based on stronger growth projections and a continued decline in the debt/gdp ratio.

Greece

The Eurogroup noted good progress in the negotiations on the first review of the bailout program, while the IMF posted a critical note, warning Grexit fears could resurface again.

Robeco Euro Government Bonds

We sold our remaining Portugal exposure early in the week, before the strong spread widening. We continue to see the ECB's QE program, the generally supportive stance of EU policy makers towards the periphery and the improvement in growth as positives for peripheral debt. But the general risk off sentiment in financial markets favors a cautious stance towards peripheral bonds.

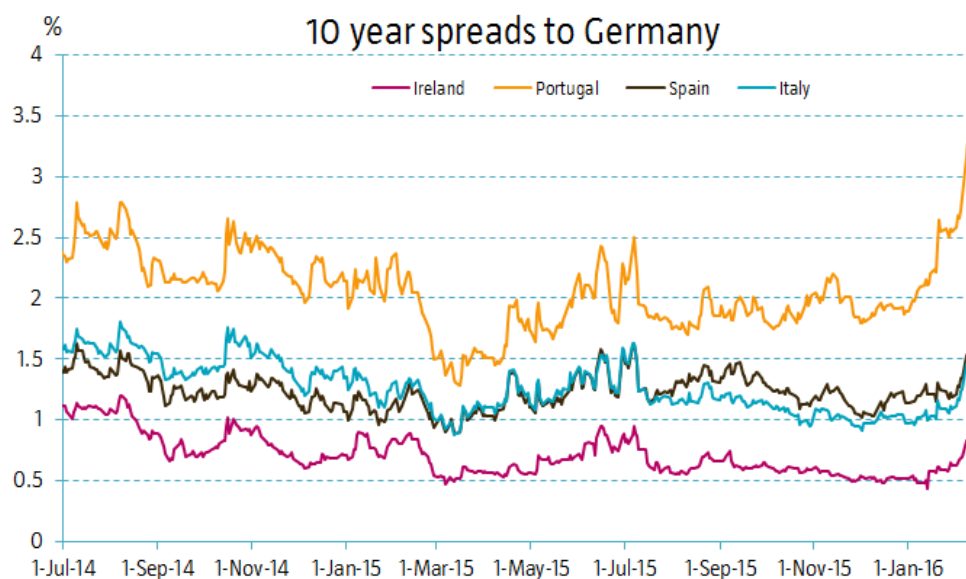
The fund has an overweight position in Ireland as strong economic growth is rapidly improving the Irish debt metrics, and a small overweight in Spanish longer dated bonds. We don't hold any short dated bonds of Italy and Spain due to stretched valuations. Peripheral bonds make up 36% of the fund. Year-to-date the fund's absolute return is 1.70%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD February 11, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

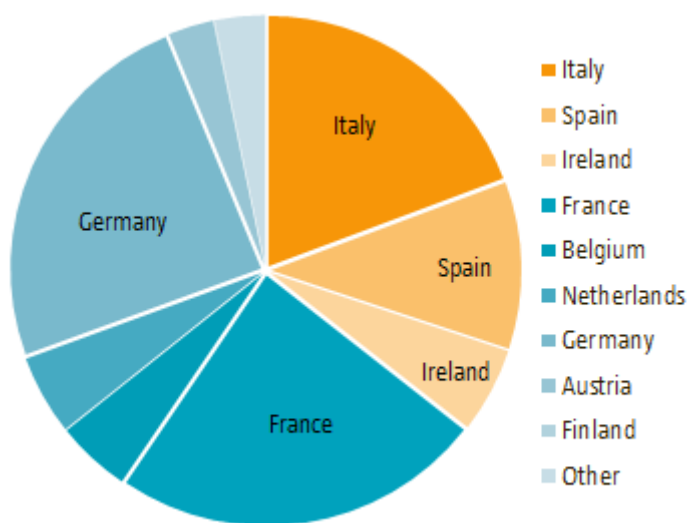
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.52	0.10									
2	-0.54	0.10	0.62	0.60	0.04	0.09	0.08		0.26	0.05	1.71
3	-0.48	0.11	0.66	0.64	0.02	0.12	0.05	15.4	0.35	0.06	2.29
4	-0.42	0.17	0.82	0.79	0.02	0.11	0.11		0.44	0.08	2.82
5	-0.31	0.18	0.93	0.97	0.01	0.11	0.06	16.3	0.43	0.13	3.06
6	-0.26	0.24	1.16	1.23	0.09	0.20	0.14		0.57	0.15	1.95
7	-0.17	0.29	1.25	1.38	0.12	0.26	0.24		0.67	0.22	3.42
8	-0.06	0.31	1.31	1.44	0.16	0.48	0.28			0.23	
9	0.09	0.35	1.44	1.52	0.12	0.52	0.28		0.84	0.22	3.77
10	0.22	0.41	1.45	1.51	0.16	0.55	0.32	11.16	0.84	0.33	3.83
15	0.40	0.76	1.70	1.89		0.81	0.26	10.21	1.04	0.59	4.07
20	0.65		1.78			0.66	0.46	9.38			
30	0.90	0.71	1.97	2.12	0.15	0.71	0.38	7.90		0.24	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (February 11, 2016)



Source: Robeco

Important information

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