

Peripheral Europe Update

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- **Spain heads for government formation**
- **Italian and Portuguese economic growth disappoint**

Main market events

In a risk positive environment peripherals bonds spreads tightened further versus German bonds this week, with the most pronounced spread compression in Portugal. Spread development of Ireland is particularly interesting as it reached new multi-year lows versus Germany. Due to a lack of both new issuance in peripheral markets and negative headlines, spreads compressed further. The possible positive turn in the Spanish political deadlock helped Spanish spreads to perform. Italian bonds have returned 5.16% this year, Spanish bonds 7.05%, Portuguese bonds 0.93% and Irish bonds 5.41%.

Spain

The centrist political party Ciudadanos might be willing, under certain conditions, to support a PP led government. One of the more relevant pre-conditions is the suspension of government officials which are under investigation of corruption. The pre-conditions are potentially negotiable, but it remains uncertain if a government minority government can be formed. The second largest Socialist Party is opposing a PP led government, and could potentially prevent government formation in the upcoming vote for Prime Minister.

Italy

Second quarter economic growth stalled to 0.0% QoQ where 0.2% was expected. This compares to a 0.3% growth in Q1 2016. The weaker than expected economic growth was primarily caused by a decrease in domestic demand.

Portugal

Also Portuguese economic growth disappointed at 0.2% QoQ, where 0.4% was expected for Q2 2016. Especially the fall in exports had a negative contribution to growth. The weaker economic growth in Italy and Portugal contrasts with the relative strong economic growth in Germany and the Netherlands.

Robeco Euro Government Bonds

We maintain our cautious stance towards euro periphery debt, despite the ECB's QE program. The lack of further reforms and the failure to improve public finances sufficiently in the current benign environment makes the periphery vulnerable. The Brexit will have ramifications for the peripheral countries, since it will result in further uncertainty and lower economic growth. Consensus positioning is overweight in the periphery and valuation is not really compelling.

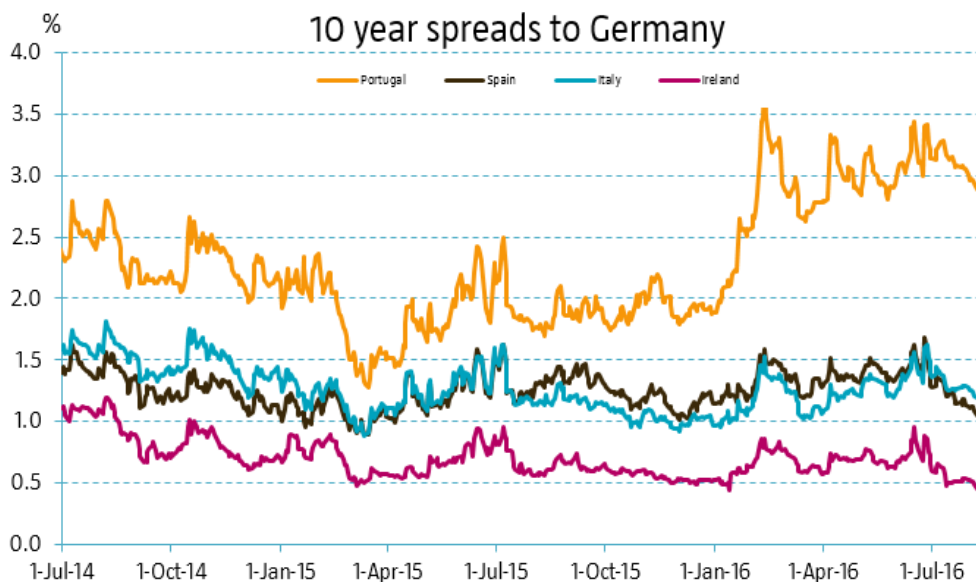
We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. The holdings of peripheral bonds are unchanged at 24%, versus 39% in the benchmark. Year-to-date the fund's absolute return is 6.77%*.

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

Current spreads and the movement over time

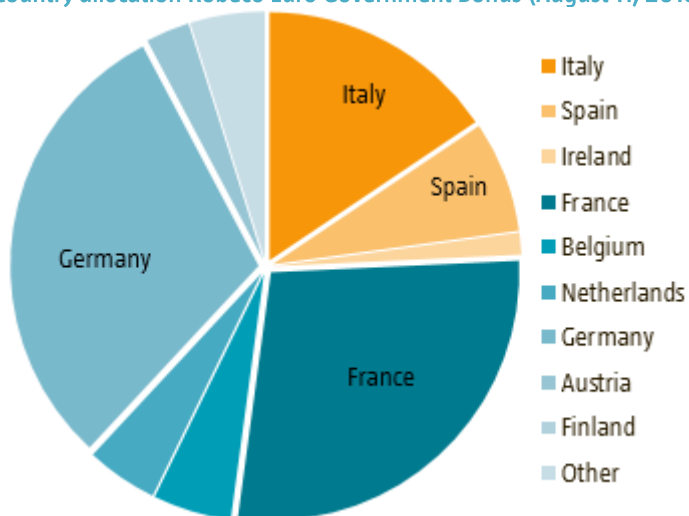
| maturity | German yields | Spreads | | | | | | | | | |
|----------|---------------|---------|-------|-------|-------------|---------|---------|--------|---------|---------|----------|
| | | France | Italy | Spain | Netherlands | Belgium | Austria | Greece | Ireland | Finland | Portugal |
| 1 | -0.61 | 0.04 | | | | | | | | | |
| 2 | -0.63 | 0.05 | 0.54 | 0.46 | 0.03 | 0.02 | 0.09 | | 0.23 | 0.04 | 1.01 |
| 3 | -0.66 | 0.10 | 0.63 | 0.57 | 0.05 | 0.08 | 0.12 | 9.5 | 0.27 | 0.07 | 1.48 |
| 4 | -0.62 | 0.11 | 0.65 | 0.62 | 0.02 | 0.06 | 0.10 | | 0.29 | 0.09 | 1.92 |
| 5 | -0.55 | 0.12 | 0.76 | 0.67 | 0.08 | 0.05 | 0.08 | | 0.55 | 0.05 | 2.12 |
| 6 | -0.52 | 0.13 | 0.88 | 0.72 | 0.07 | 0.10 | 0.09 | | 0.33 | 0.12 | 2.21 |
| 7 | -0.46 | 0.17 | 1.00 | 0.86 | 0.10 | 0.13 | 0.06 | | 0.40 | 0.13 | 2.54 |
| 8 | -0.36 | 0.17 | 1.07 | 1.03 | 0.12 | 0.19 | -0.01 | | | 0.12 | |
| 9 | -0.24 | 0.21 | 1.13 | 1.02 | 0.12 | 0.22 | 0.14 | | 0.48 | 0.10 | 2.77 |
| 10 | -0.11 | 0.22 | 1.16 | 1.04 | 0.10 | 0.22 | 0.16 | 8.24 | 0.44 | 0.13 | 2.83 |
| 15 | 0.02 | 0.44 | 1.35 | 1.24 | | 0.45 | -0.03 | 8.04 | 0.62 | 0.27 | 3.00 |
| 20 | 0.22 | 0.51 | 1.45 | | | 0.32 | 0.26 | 7.68 | | | |
| 30 | 0.41 | 0.50 | 1.61 | 1.56 | 0.08 | 0.58 | 0.32 | | | 0.10 | |

Source: Bloomberg



Source: Bloomberg

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



Source: Robeco

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