

Peripheral Europe Update

Olaf Penninga, Lead Portfolio Manager Robeco Euro Government Bonds
Stephan van IJendoorn, Portfolio Manager

- **Last-minute spending cuts in Portugal**
- **Draghi to support bond markets for years**

Main market events

European bond markets rallied this week, recovering half of the ground lost after the disappointing ECB meeting. Peripheral bonds kept pace with Bunds, only short-dated bonds underperformed a bit. Italian bonds have returned 5% this year, Portuguese bonds 4.1%, Spanish bonds 2.4% and Irish bonds 1.9%.

ECB

Draghi tried to change the perception that the ECB delivered only marginal additional stimulus at its December meeting. In a speech in New York last weekend he claimed that the new measures –including reinvestment of maturing bonds- will lead to EUR 680bn of additional bond buying by 2019. Apparently he expects the ECB to keep buying bonds at least until then.

Portugal

The government passed last-minute measures to push the 2015 budget deficit just below 3%. The draft 2016 budget will be submitted early next year. Finance Minister Centeno assured Eurogroup head Dijsselbloem that Portugal will respect the Eurozone's fiscal rules, although the Socialists envisage a more gradual decline of the deficit than previously agreed with Brussels.

Spain

One week ahead of the national elections, the ruling Partido Popular leads the polls with circa 28% of the votes. Ciudadanos has come very close to the Socialists, with both polling on average 20% to 21% of the votes. There is no sign of electoral uncertainty in the Spanish bond market.

Ireland

Economic growth remains strong, with third-quarter GDP growth of 7% year-on-year. S&P affirmed its A+ rating for Ireland, expecting real growth of 4% on average over 2012-2018.

Robeco Euro Government Bonds

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 to a large extent these positives are already reflected in current valuations. We therefore prefer to focus on relative differences between countries in the periphery.

We took profit on part of our overweight position in Portugal versus Italy and Spain this week as markets have recovered after the formation of a government.

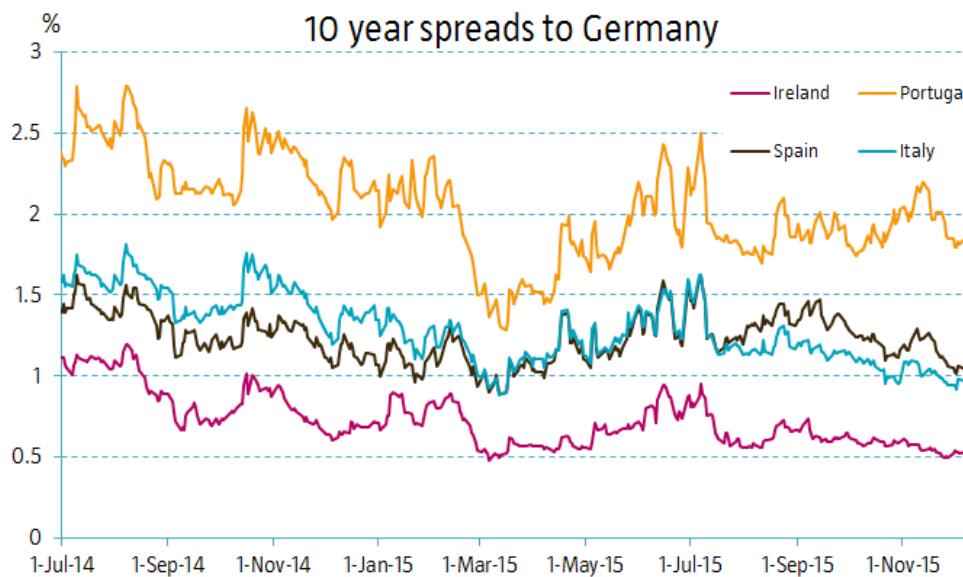
The fund has overweight positions in Portugal and Ireland and underweight positions in Spanish and Italian bonds. Portugal benefits disproportionately from QE and strong economic growth is rapidly improving the Irish debt metrics. Peripheral bonds make up 25% of the fund. Year-to-date the fund's absolute return is 1.95%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD December 10, 2015. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

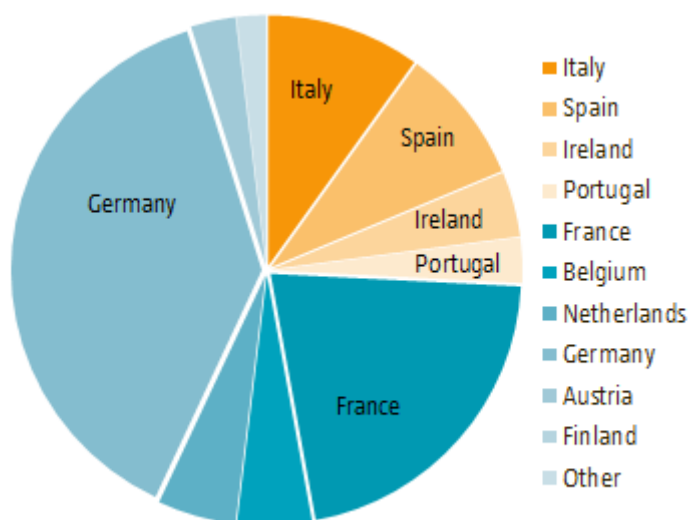
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.36	0.07									
2	-0.35	0.06	0.43	0.42	0.02	0.04	0.08		0.19	0.03	0.45
3	-0.32	0.10	0.48	0.50	0.05	0.05	0.07	22.6	0.23	0.07	0.56
4	-0.25	0.15	0.55	0.61	0.04	0.09	0.08		0.26	0.06	0.94
5	-0.11	0.14	0.61	0.73	0.00	0.07	0.01	16.1	0.24	0.06	1.17
6	-0.03	0.17	0.89	0.94	0.05	0.13	0.08		0.42	0.05	1.38
7	0.08	0.24	0.93	1.07	0.09	0.22	0.20		0.57	0.16	1.78
8	0.21	0.26	0.94	1.07	0.15	0.24	0.22			0.17	
9	0.39	0.31	1.04	1.14	0.15	0.26	0.24		0.75	0.17	1.89
10	0.55	0.32	0.99	1.07	0.15	0.30	0.25	8.00	0.52	0.26	1.89
15	0.87	0.57	1.10	1.30		0.61	0.08	7.74	0.72	0.41	2.22
20	1.13	0.44	1.14			0.44	0.29	7.42			
30	1.37	0.50	1.25	1.43	0.15	0.49	0.26	7.42		0.08	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (December 10, 2015)



Source: Robeco

Important information

This statement is intended for professional investors. Robeco Institutional Asset Management B.V. has a license as manager of UCITS and AIFs from the Netherlands Authority for the Financial Markets in Amsterdam. This document is intended to provide general information on Robeco's specific capabilities, but does not constitute a recommendation or an advice to buy or sell certain securities or investment products. The prospectus and the Key Investor Information Document for the Robeco Funds can all be obtained free of charge at www.robeco.com.