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Peripheral Europe Update

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- **Italian bank stocks drop 30% despite bad bank**
- **Portuguese budget runs risk of non-compliance**

Main market events

Peripheral bonds rallied more or less in line with German bonds this week. Global forces are pushing down growth and inflation. Central banks responded by signaling a cautious stance towards further tightening (FED) and by further lowering interest rates (Bank of Japan). Italian bonds have returned 0.8% this year, Portuguese bonds -1.3%, Spanish bonds 1.0% and Irish bonds 1.1%.

Spain

Spain's unemployment rate dropped 2.2% to 20.9% over the year 2015, while employment rose 3% during this period. Its GDP grew by 3.5% versus a year ago in the 4th quarter.

Portugal

The Portuguese parliament warned that the 2016 budget runs the risk of non-compliance with EU rules. An initial analysis by the EU commission also points to the need for further spending cuts. The Left Bloc, which supports the government, opposes further austerity.

Italy

The Italian government reached an agreement with the EU on a 'bad bank' scheme. This plan aims to help banks to free up capital and liquidity to increase lending and support the recovery. The Italian scheme is a much lighter version from those set up in other EU countries since 2008, so it is likely to have a more muted impact on banks' balance sheets. The renewed focus on non-performing loans has caused Italian banks' stock prices to fall by over 30% year-to-date.

Greece

S&P raised the sovereign rating of Greece to B- from CCC+ with a stable outlook. The rating agency said Greece is "broadly complying" with the terms of the ESM bailout program.

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 these positives are partly reflected in current valuations. The general risk off sentiment in financial markets favors a somewhat cautious stance towards peripheral bonds. We did however use this week's spread widening to add somewhat to our Irish exposure.

The fund has overweight positions in Portugal and Ireland and underweight positions in Italy. We don't hold any short dated bonds of Italy and Spain due to stretched valuations. We like Portuguese bonds as they benefit disproportionately from QE. Strong economic growth is rapidly improving the Irish debt metrics. Peripheral bonds make up 34% of the fund. Year-to-date the fund's absolute return is 1.40%*.

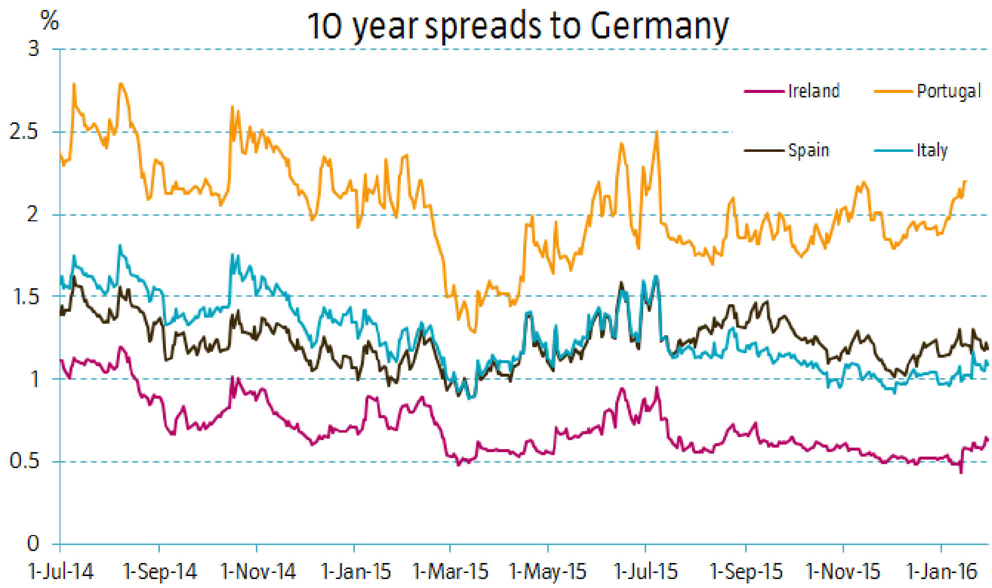
* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD January 28, 2016.

The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

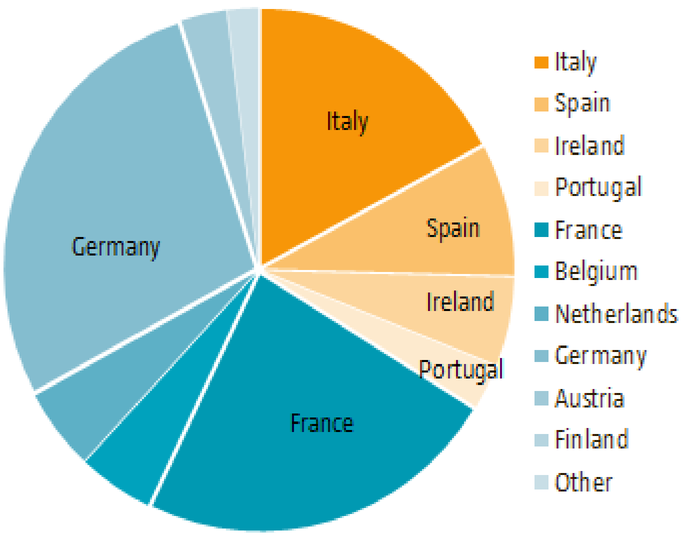
maturity	German yields	Spreads France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.44	0.05									
2	-0.48	0.08	0.48	0.48	0.03	0.07	0.05		0.14	0.07	0.87
3	-0.45	0.11	0.49	0.52	0.03	0.11	0.06	12.4	0.22	0.07	1.33
4	-0.41	0.17	0.65	0.63	0.06	0.13	0.11		0.34	0.09	1.70
5	-0.30	0.17	0.75	0.77	0.04	0.12	0.07	16.3	0.33	0.10	1.87
6	-0.19	0.18	0.90	0.98	0.05	0.16	0.10		0.44	0.06	1.88
7	-0.06	0.21	0.94	1.11	0.05	0.18	0.17		0.51	0.12	2.19
8	0.05	0.22	0.98	1.14	0.09	0.39	0.19			0.12	
9	0.21	0.27	1.08	1.21	0.07	0.41	0.20		0.65	0.14	2.46
10	0.35	0.31	1.09	1.19	0.11	0.44	0.24	9.29	0.63	0.26	2.53
15	0.58	0.64	1.29	1.50		0.68	0.17	8.77	0.79	0.55	2.74
20	0.82	0.54	1.34			0.54	0.43	8.30			
30	1.07	0.61	1.52	1.67	0.15	0.59	0.37	7.73		0.21	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (January 28, 2016)



Source: Robeco

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