

Peripheral Europe Update

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- **Spreads rise in run-up to referendum**
- **New all-time low in German 2-year yield**

Main market events

Peripheral government debt lagged German bonds this week. The approaching Italian referendum continues to put pressure on the periphery, while German bonds performed well. Fears for scarcity of collateral, especially around year-end and aggravated by the ECB's bond buying, drove German 2-year yields to new all-time lows. Italian spreads over German bonds reached the highest level in 2.5 years. Italian bonds have returned -1.39% this year, Spanish bonds 2.72%, Portuguese bonds -3.11% and Irish bonds 2.31%.

Italy

Italian spreads rose further this week as the last polls released before the blackout period confirm that the No-vote is increasing its lead. Prime Minister Renzi reiterated that he only wants to remain PM if he can implement reforms. Finance minister Padoan on the other hand stressed that the 2017 budget will be approved, irrespective of the outcome of the vote.

ECB

Several press stories related to the December ECB meeting surfaced this week. Anonymous sources told Reuters that the ECB could act in December to alleviate the scarcity of Bunds, together with a decision on the extension of its bond buying and adjustments to the rules for this QE program. Bloomberg reported that the ECB might delay these decisions to January. Bundesbank president Weidmann called for a gradual tapering of the ECB bond buying.

Spain

Opposition parties won a vote in Congress on Podemos' proposal to increase the minimum wage. The government can block this initiative in the Senate, where it has an absolute majority, but it illustrates the difficulties the minority government will face in getting a budget approved.

Robeco Euro Government Bonds

We have maintained the underweight position in Italian government bonds and the overweight position in Irish government bonds. Italy needs reforms to increase growth. Stronger growth is necessary to improve the sustainability of the public debt, to reduce bank NPLs and to reduce unemployment and hence political unrest. A no vote in the referendum will slow the implementation of reforms and could lead to a political crisis. Rising yield levels are also unfavorable given Italy's large public debt. Irish bond spreads are attractive given the improved Irish fundamentals and its strong ESG scores.

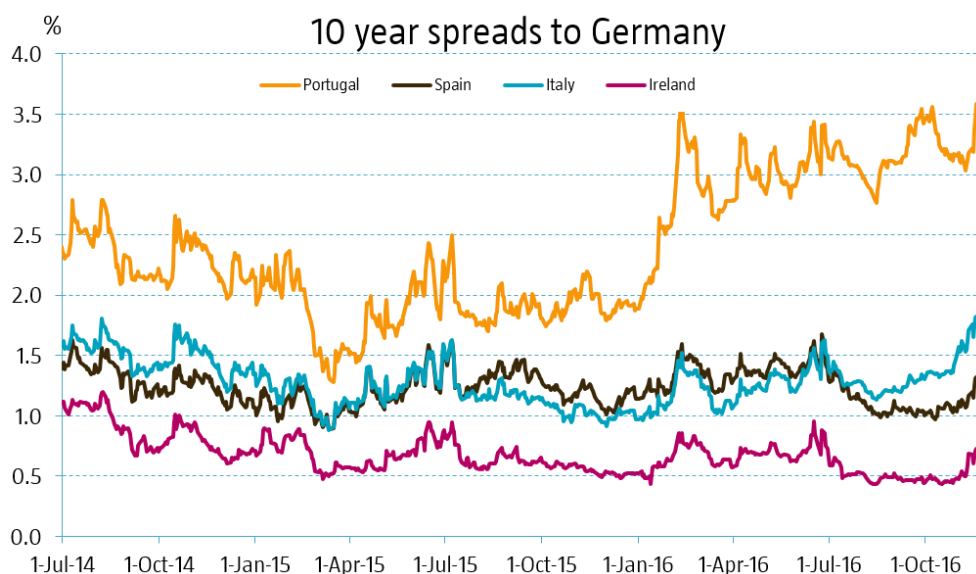
The fund doesn't hold any short-dated Italian bonds. Furthermore the fund has underweight positions in 10- and 30-year Italian bonds and an overweight position in 10-year Irish bonds. Currently the fund is 24% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 2.35%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD November 24th, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

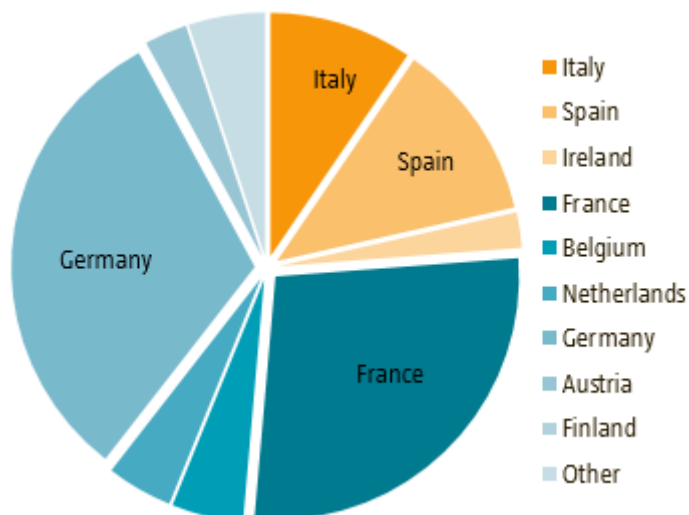
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.82	0.16									
2	-0.75	0.15	0.84	0.64	0.04	0.10	0.10		0.25	0.10	1.15
3	-0.72	0.33	1.09	0.82	0.06	0.20	0.18	7.9	0.32	0.11	1.69
4	-0.60	0.41	1.25	0.89	0.03	0.17	0.17		0.32	0.17	2.29
5	-0.44	0.42	1.42	0.97	0.16	0.15	0.16		0.45	0.08	2.54
6	-0.35	0.35	1.57	1.20	0.09	0.21	0.24		0.36	0.18	3.04
7	-0.22	0.37	1.71	1.25	0.13	0.19	0.21		0.46	0.26	3.28
8	-0.09	0.49	1.83	1.39	0.18	0.32	0.28			0.20	3.44
9	0.06	0.56	1.78	1.40	0.21	0.41	0.29		0.64	0.27	3.37
10	0.23	0.54	1.84	1.32	0.18	0.43	0.31	6.71	0.67	0.21	3.36
15	0.46	0.65	1.94	1.50		0.58	0.47	6.78	0.79	0.36	3.59
20	0.67	0.69	2.03			0.41	0.32	6.66			3.56
30	0.88	0.71	2.23	1.89	0.10	0.70	0.42			0.11	3.61

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (November 24, 2016)



Source: Robeco

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