

Peripheral Europe Update

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

- **Portuguese government approves 2016 budget**
- **Italian banking sector problems hurt markets**

Main market events

Peripheral bonds saw the sharpest daily sell-off since the summer of last year on Wednesday, but partly recovered the next day, as Draghi said during a press conference that the ECB has the power, willingness and determination to act if needed. Italian bonds have returned 0.3% this year, Portuguese bonds -2.0%, Spanish bonds 0.3% and Irish bonds 1.1%.

ECB

ECB President Draghi said on Thursday that the ECB will review and possibly reconsider its monetary stance at the next meeting in March, as downside risks have risen again. Next to a further cut in the deposit rate the ECB might also further increase its asset purchase program.

Portugal

The Portuguese government approved the 2016 draft budget, which targets a fiscal deficit of 2.6% of GDP. This is slightly better than the 2.8% which was agreed with the left-wing coalition, but still well above the original 1.8% target. Debt/GDP ratio is projected to fall to 126% in 2016 from 129% last year.

The Bank of Portugal has offered to partly compensate losses imposed to bondholders of Novo Banco, following the transfer of EUR 2bln from Novo Banco to bad bank 'Banco Espirito Santo'.

Italy

Market concerns around the large stock of non-performing loans of Italian banks are growing as no progress is made on sector consolidation, while chances of bail-ins of banks' investors, like at Novo Banco, have increased. The ECB's Single Supervisory Mechanism is planning to send inspectors to a group of banks to acquire additional information on bad loan management.

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.

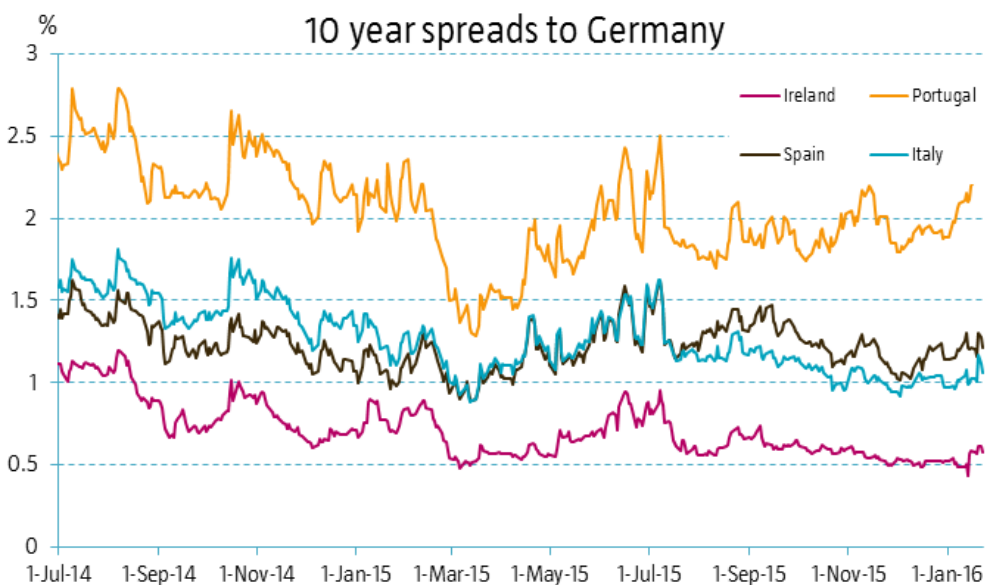
The fund has overweight positions in Portugal and Ireland and underweight positions in Italy. We don't hold any short dated bonds of Italy and Spain due to stretched valuations. We like Portuguese bonds as they benefit disproportionately from QE. Strong economic growth is rapidly improving the Irish debt metrics. Peripheral bonds make up 32% of the fund. Year-to-date the fund's absolute return is 0.94%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD January 21, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

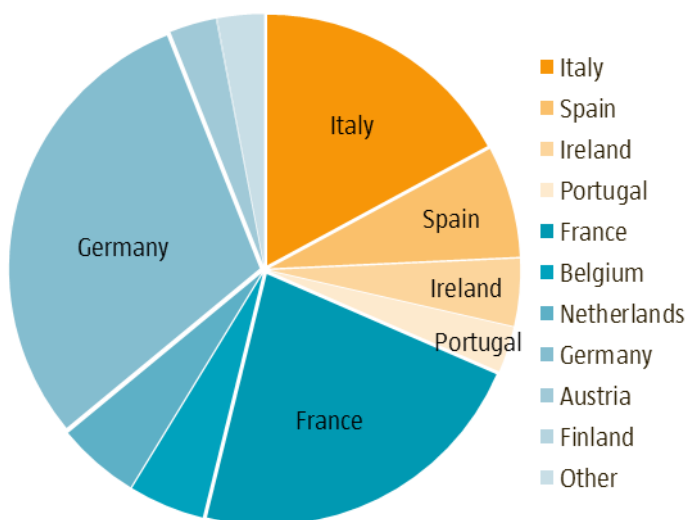
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.39	0.04									
2	-0.39	0.05	0.40	0.40	-0.01	0.03	0.04		0.09	0.00	0.49
3	-0.36	0.15	0.45	0.50	0.04	0.08	0.08	9.5	0.21	0.07	0.64
4	-0.28	0.19	0.64	0.65	0.07	0.15	0.13		0.30	0.08	1.00
5	-0.14	0.20	0.71	0.81	0.05	0.14	0.08	16.2	0.29	0.12	1.32
6	0.00	0.17	0.85	1.00	0.05	0.15	0.09		0.34	0.05	1.48
7	0.13	0.22	0.88	1.13	0.07	0.19	0.17		0.43	0.14	1.89
8	0.27	0.22	0.90	1.14	0.10	0.21	0.18			0.13	
9	0.44	0.27	0.98	1.21	0.08	0.22	0.19		0.56	0.13	1.84
10	0.57	0.32	0.98	1.19	0.12	0.28	0.24	8.03	0.57	0.25	2.10
15	0.81	0.65	1.16	1.48		0.71	0.14	7.87	0.75	0.49	2.47
20	1.09	0.51	1.17			0.53	0.35	7.53			
30	1.33	0.58	1.31	1.58	0.12	0.58	0.29	7.46		0.12	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (January 21, 2016)



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.