

Peripheral Europe Update

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- **Portugal injects fresh capital in state bank**
- **No early election in Italy after referendum**

Main market events

Peripheral bond markets traded more or less in line with German bonds this week. The exception was Portuguese bonds, which came under pressure due to renewed banking issues. Italian bonds have returned 4.62% this year, Spanish bonds 7.19%, Portuguese bonds -0.51% and Irish bonds 5.00%.

Portugal

The Portuguese government received approval from the EC to inject EUR 2.7bn (1.5% of GDP) into state bank Caixa Geral de Depositos. The largest bank of Portugal, in terms of assets, experiences continued issues with its large portfolio of non-performing loans. The Portuguese fiscal deficit for 2016 will increase because of this capital injection, and it will also further increase Portugal's already high public debt to GDP ratio (129%).

Italy

PM Renzi mentioned that even in the case of a negative outcome to the referendum on the constitutional reform he does not expect early elections in 2017. This contrasts with earlier comments from the PM that he would step down if the constitutional reform was rejected. Renzi's comments serve as a signal to Italy's international partners, that the Italian political landscape is stable and sound.

Spain

The final estimate for Spain's second quarter GDP was slightly revised up to 0.8% from 0.7%. The year on year growth is set at 3.2%. Also retail sales was stronger than the market expected, and came at 4.9% year on year vs an expectation of 4.3%.

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.

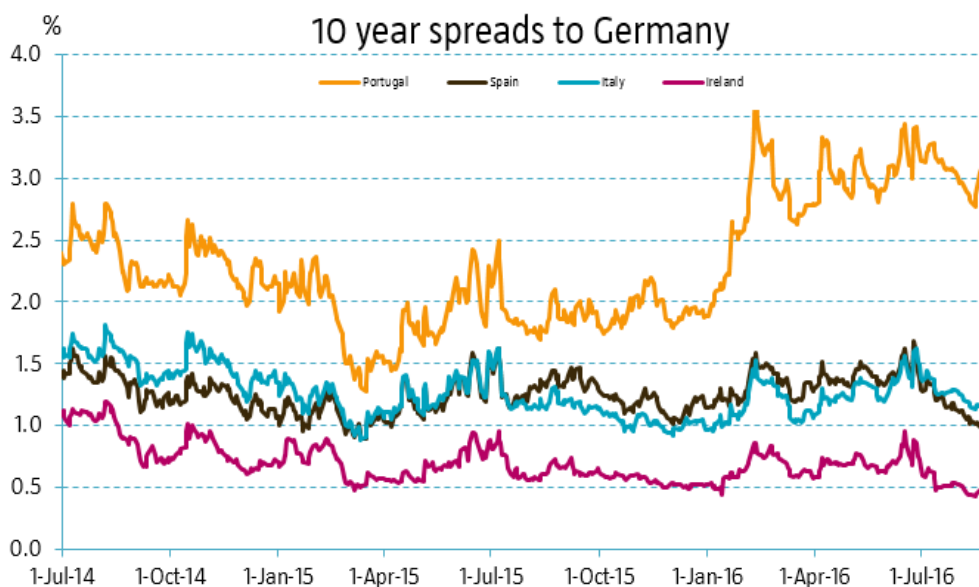
The fund's underweight positioning in the periphery has remained unchanged this week. We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. Currently the fund is 27% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 6.52%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD August 25, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

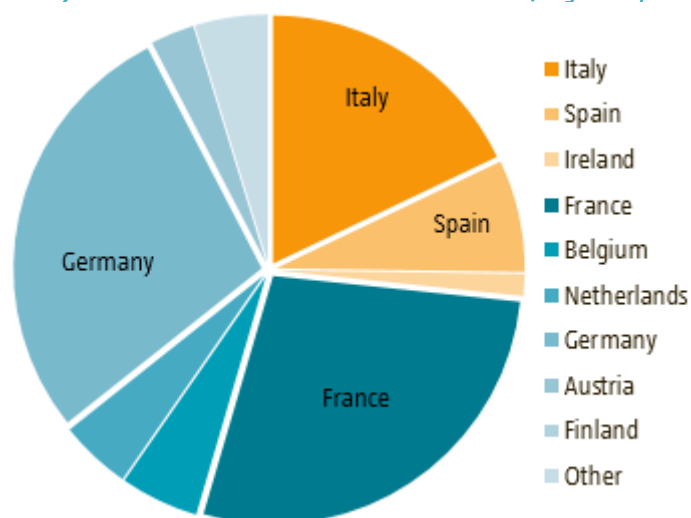
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.59	0.02									
2	-0.61	0.05	0.52	0.41	0.03	0.03	0.08		0.22	0.02	1.10
3	-0.63	0.09	0.61	0.49	0.04	0.09	0.12	9.2	0.27	0.06	1.59
4	-0.59	0.10	0.63	0.52	0.02	0.07	0.11		0.28	0.10	2.20
5	-0.50	0.11	0.72	0.58	0.07	0.06	0.07		0.51	0.05	2.35
6	-0.48	0.13	0.87	0.63	0.06	0.10	0.10		0.33	0.13	2.17
7	-0.42	0.17	0.99	0.76	0.09	0.12	0.07		0.41	0.15	2.78
8	-0.33	0.19	1.10	0.98	0.11	0.18	0.03				0.16
9	-0.20	0.22	1.17	0.98	0.13	0.21	0.19		0.53	0.14	3.05
10	-0.07	0.24	1.20	1.01	0.10	0.22	0.21	8.11	0.49	0.16	3.09
15	0.06	0.45	1.43	1.19		0.45	-0.01	7.94	0.65	0.31	3.33
20	0.26	0.52	1.51			0.33	0.29	7.58			
30	0.45	0.51	1.70	1.55	0.09	0.59	0.34			0.13	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (August 25, 2016)



Source: Robeco

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