

Peripheral Europe Update

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- **First attempt to elect PM in Spain fails**
- **IMF: Greek debt not sustainable "by our standards"**

Main market events

Peripheral bond markets underperformed German bonds this week. Spanish bonds, which had outperformed Italian bonds in recent months, were the main underperformers. Italy, Spain and Portugal all issued bonds after a four-week pause in peripheral bond issuance. Italian bonds have returned 4.16% this year, Spanish bonds 5.97%, Portuguese bonds -1.02% and Irish bonds 4.75%.

Spain

Acting PM Rajoy failed to gain sufficient support for a new government in the first investiture vote. The second round of voting will be held today. At least 11 opposition MPs need to abstain for the PP/C's minority government to pass the vote, but this seems unlikely in today's vote. A new PM has to be found before the end of October, otherwise new elections have to be held in December. These would be the 3rd elections since December 2015. Spain needs to submit its 2017 budget by mid-October to the EU.

Italy

Business confidence dropped in August and the Manufacturing PMI fell below 50. GDP growth stalled in the second quarter as investments declined and domestic demand was weak. This bleak growth backdrop explains why the Italian government is discussing further fiscal stimulus for 2017, but the combination of weaker-than-expected growth and higher government spending means that the debt/GDP ratio will not turn down anytime soon.

Greece

IMF head Lagarde reiterated that the IMF cannot join the third Greek bailout program as the Greek government debt is not sustainable, at least not by the IMF's standards. EU countries officially want the IMF to join the program later this year, but they are unwilling to provide Greece the debt relief the IMF requests.

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 to economic shocks, political risks or financial-market volatility. Consensus positioning is overweight in the periphery.

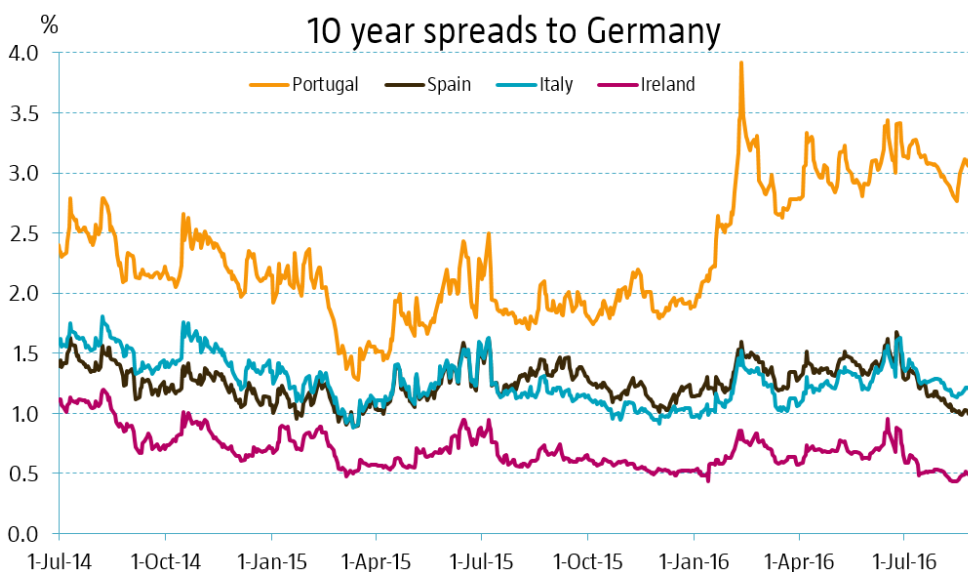
We have increased the fund's underweight position in the periphery this week. We have sold 5-year bonds from Italy and Spain. Spreads in these maturities were close to their post-crisis lows. The fund currently doesn't hold any short-dated bonds of Italy and Spain due to the unattractive valuations. Currently the fund is 22% invested in peripheral bonds, versus 39% in the benchmark. Year-to-date the fund's absolute return is 6.28%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD August 31, 2016. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

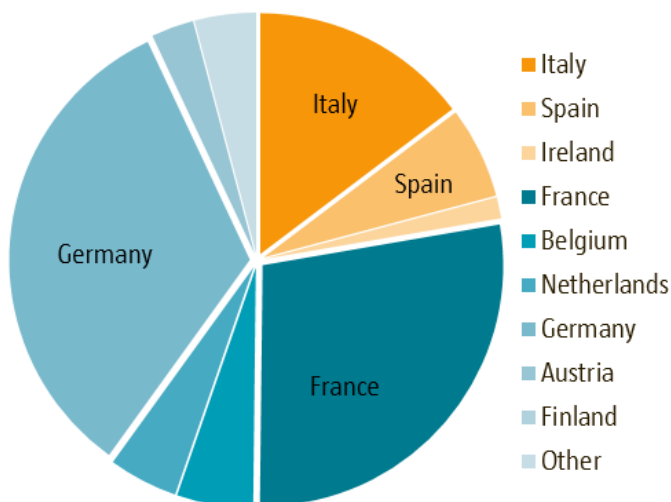
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.59	0.02									
2	-0.63	0.05	0.55	0.48	0.02	0.04	0.08		0.26	0.03	1.15
3	-0.65	0.10	0.64	0.59	0.03	0.10	0.12	9.5	0.28	0.06	1.64
4	-0.60	0.11	0.67	0.65	0.03	0.10	0.11		0.30	0.11	2.21
5	-0.51	0.13	0.78	0.69	0.09	0.09	0.08		0.51	0.05	2.40
6	-0.48	0.14	0.92	0.74	0.07	0.12	0.11		0.36	0.11	2.17
7	-0.42	0.19	1.04	0.89	0.10	0.15	0.08		0.44	0.12	2.82
8	-0.32	0.19	1.14	1.09	0.12	0.21	0.03			0.14	3.15
9	-0.20	0.24	1.20	1.11	0.14	0.24	0.19		0.57	0.11	3.07
10	-0.06	0.24	1.23	1.12	0.11	0.25	0.21	8.18	0.52	0.13	3.10
15	0.09	0.45	1.44	1.33		0.48	-0.03	7.96	0.69	0.26	3.39
20	0.29	0.52	1.54			0.35	0.28	7.58			3.47
30	0.49	0.52	1.75	1.69	0.08	0.61	0.34			0.09	3.45

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (September 1, 2016)



Source: Robeco

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