

Peripheral Europe Update

Olaf Penninga, Lead Portfolio Manager Robeco Euro Government Bonds
Marck Bulter, Portfolio Manager

- **Podemos disappoints in Spanish elections**
- **Italy proposes bank rescue plan**

Main market events

Peripheral government bond spreads tightened significantly this week, in a general risk-on environment. The periphery was supported by a market-friendly election outcome in Spain, support for Italian banks and rumors about the ECB. Italian bonds have returned 3.09% this year, Portuguese bonds -1.42%, Spanish bonds 4.99% and Irish bonds 4.27%.

Spain

Extreme-left Podemos disappointed in last Sunday's election. It did not gain seats and remained the third party, while the polls had indicated that Podemos would overtake PSOE and become the second-biggest party. The big winner was Rajoy's Partido Popular. It advanced from 123 to 136 seats. The government formation can again be complicated, just as after the December elections, as no obvious combination of parties would result in a majority.

Italy

Newspapers suggested Italy wanted to inject EUR 40bn of capital in the Italian banking sector without bail-in of retail bond holders. The Brexit-related unrest was cited as reason to deviate from the European bail-in rules. Merkel ruled out this possibility. On Thursday it turned out that the EU has approved a liquidity guarantee package of EUR 150bn for the Italian banking sector instead. This allows banks to issue government-guaranteed bonds if necessary to access liquidity.

ECB

On Thursday Reuters reported (based on anonymous sources) that some members of the ECB's Governing Council want to adjust the QE program, by buying more debt of heavily indebted countries like Italy and less German debt. On Friday, an anonymous Council member stated to Reuters that this was not being discussed.

Robeco Euro Government Bonds

We maintain our cautious stance towards peripheral debt. 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 after the recent rally. We remain cautious with respect to the periphery, despite the ECB's QE program.

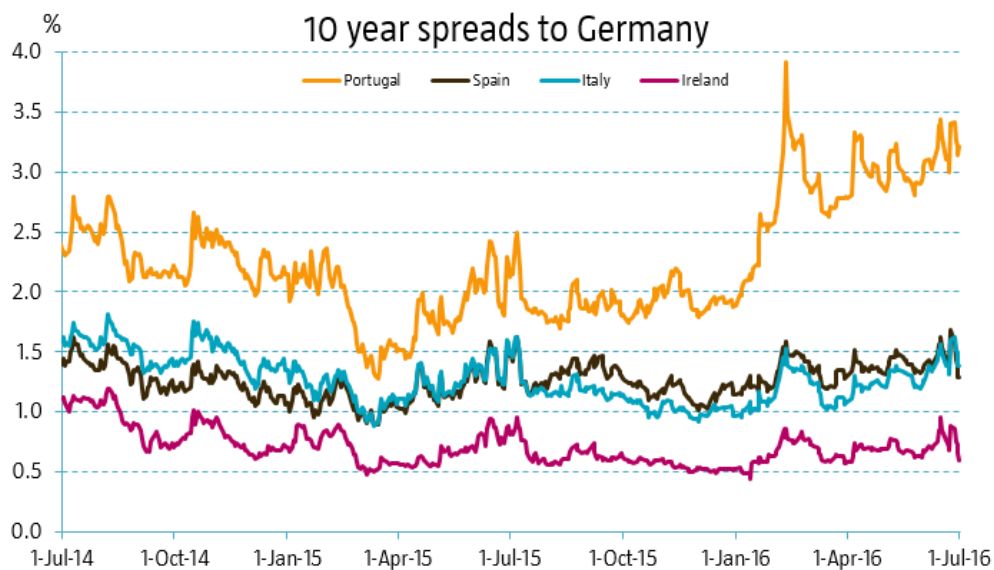
We don't hold any short dated bonds of Italy and Spain due to unattractive valuations. We used the rally after the election outcome to increase the underweight position in Spanish bonds. Peripheral bonds make up 20% of the fund versus 39% in the benchmark. Year-to-date the fund's absolute return is 5.91%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD July 1, 2016.
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

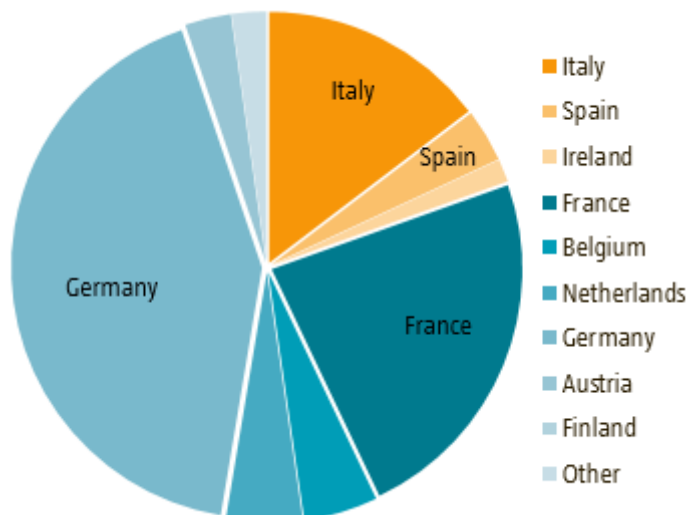
| maturity | German yields | Spreads | | | | | | | | | |
|----------|---------------|---------|-------|-------|-------------|---------|---------|--------|---------|---------|----------|
| | | France | Italy | Spain | Netherlands | Belgium | Austria | Greece | Ireland | Finland | Portugal |
| 1 | -0.61 | 0.08 | | | | | | | | | |
| 2 | -0.64 | 0.10 | 0.55 | 0.48 | 0.07 | 0.06 | 0.11 | | 0.29 | 0.07 | 1.18 |
| 3 | -0.65 | 0.13 | 0.62 | 0.55 | 0.08 | 0.10 | 0.15 | 9.3 | 0.38 | 0.08 | 1.80 |
| 4 | -0.62 | 0.16 | 0.71 | 0.64 | 0.06 | 0.11 | 0.15 | | 0.40 | 0.16 | 2.18 |
| 5 | -0.55 | 0.20 | 0.87 | 0.75 | 0.14 | 0.14 | 0.19 | | 0.56 | 0.14 | 2.39 |
| 6 | -0.52 | 0.22 | 1.02 | 0.79 | 0.12 | 0.19 | 0.20 | | 0.45 | 0.22 | 2.21 |
| 7 | -0.45 | 0.24 | 1.13 | 0.93 | 0.16 | 0.21 | 0.14 | | 0.57 | 0.22 | 2.78 |
| 8 | -0.38 | 0.27 | 1.27 | 1.22 | 0.20 | 0.29 | 0.12 | | | 0.27 | |
| 9 | -0.26 | 0.30 | 1.35 | 1.25 | 0.20 | 0.32 | 0.28 | | 0.67 | 0.24 | 3.14 |
| 10 | -0.13 | 0.29 | 1.38 | 1.29 | 0.20 | 0.33 | 0.31 | 8.26 | 0.60 | 0.26 | 3.20 |
| 15 | -0.07 | 0.56 | 1.64 | 1.58 | | 0.61 | 0.23 | 7.97 | 0.86 | 0.45 | 3.62 |
| 20 | 0.13 | 0.61 | 1.80 | | | 0.47 | 0.48 | 7.67 | | | |
| 30 | 0.39 | 0.53 | 1.90 | 1.87 | 0.13 | 0.64 | 0.47 | | | 0.16 | |

Source: Bloomberg



Source: Bloomberg

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



Source: Robeco

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