

Peripheral Europe Update

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- **ECB reinforces balance sheet target, more easing to come**
- **Catalans will proceed with consultation vote on independence this Sunday**

Main market events

On average peripheral bonds performed in line with Bunds last week, with short-dated peripheral bonds doing better than longer-dated ones. Perhaps most striking is the relative lack of movement in peripheral spreads after the dovish ECB meeting. Spanish bonds have returned 13.4% year-to-date, Italian bonds 12.2% and Irish bonds 11.6%.

European Central Bank

The ECB reinforced its target to increase its balance sheet to March 2012 levels, which means an expansion of around EUR 1 trillion. The statement that “further measures” will be “implemented, if needed” could point to sovereign bond purchases if the balance sheet target is not reached with the current covered bond and ABS buying programs and the TLTROs.

Euro area

The European Commission lowered Eurozone GDP growth forecasts significantly in its recent Economic Outlook. 2014 growth was lowered from 1.2% to 0.8%, while 2015 growth was lowered from 1.7% to 1.1%, mainly due to further weakness in Germany, France and Italy.

Spain

The Catalan government will proceed with the consultation vote on independence this Sunday, despite the negative ruling from the Constitutional Court. Polls show the declining popularity of Rajoy’s ruling People’s Party, partly due to corruption allegations. The recently created anti-establishment party Podemos gained significantly, and is leading the polls with 28% of the votes.

Robeco Euro Government Bonds

We remain positive on peripheral bond markets. Fundamentals are improving and the ECB’s policy remains very supportive for periphery. The fact that the ECB is now clearly targeting a significant balance sheet expansion means further unconventional measures may well be needed. We expect that the covered bond and ABS purchase program will not be able to reach the targeted size. The current purchase programs and potential further measures will continue to spur the search for yield. Peripheral bonds remain attractive in this environment.

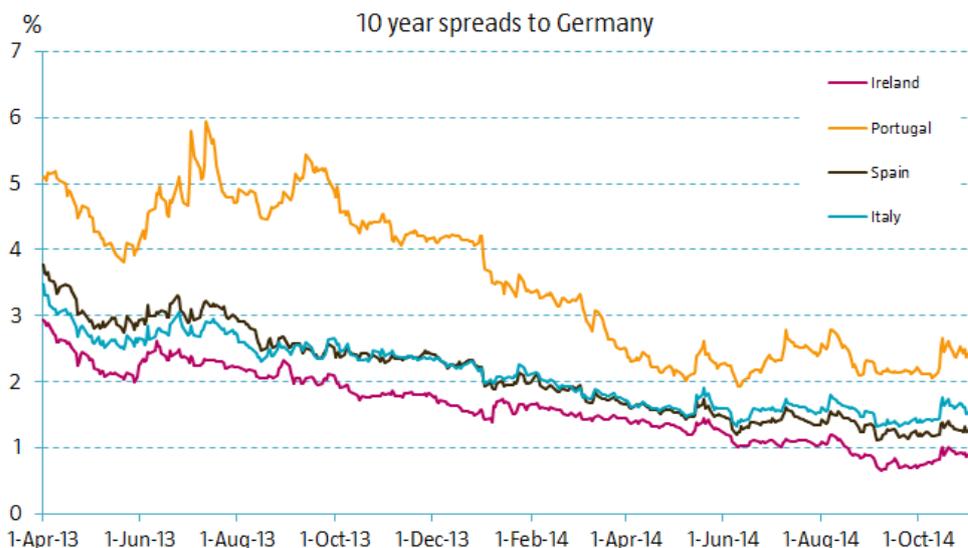
We slightly reduced our positions further in Italy and Spain on Friday. With the year-end getting closer, some profit taking after the strong performance of the periphery throughout the year can be expected. The limited effect on peripheral bonds from the dovish ECB statement could be an example of this risk. We remain overweight Spanish, Italian, Irish and Portuguese debt. Peripheral bonds make up 52% of the fund, more than half of which is Italian. Year-to-date the fund’s absolute performance is 10.88%*, helped by the strong performance of periphery bonds.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD November 6, 2014.
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

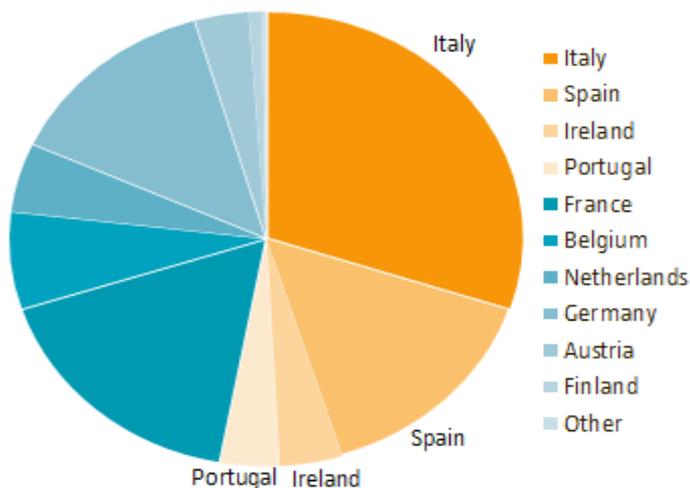
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.06	0.05									
2	-0.06	0.07	0.71	0.53	0.06	0.05	0.06		0.11	0.05	0.84
3	-0.03	0.06	0.88	0.70	0.05	0.05	0.04	6.72	0.36	0.03	1.27
4	0.02	0.14	0.99	0.88	0.10	0.08	0.06		0.46	0.06	1.57
5	0.14	0.17	1.03	0.92	0.11	0.12	0.03	6.82	0.39	0.04	1.73
6	0.23	0.22	1.18	1.04	0.09	0.19	0.11		0.54	0.07	1.96
7	0.37	0.26	1.46	1.01	0.12	0.23	0.15		0.47	0.11	2.07
8	0.55	0.28	1.47	0.99	0.12	0.26	0.10			0.17	
9	0.69	0.28	1.45	1.25	0.16	0.28	0.19		0.79	0.11	2.47
10	0.86	0.35	1.51	1.29	0.14	0.29	0.18	7.12	0.83	0.10	2.37
15	1.29	0.55	1.79	1.56		0.30	-0.04	7.41		0.12	
20	1.56	0.46	1.84			0.48	0.13	7.11			
30	1.80	0.53	1.98	1.77	0.05	0.54	0.11	6.20			

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (November 7, 2014)



Source: Robeco

Important information

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