

Peripheral Europe Update

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- **Draghi delivers again**
- **Spain issues 50-year bond**

Main market events

Peripheral bonds again outperformed German Bunds this week. Performance was especially strong after the ECB had surprised the markets by cutting interest rates further. Spanish bonds have returned 13.6% year to date, Italian bonds 12.5% and Irish bonds 11.5%.

ECB

The ECB surprised markets by lowering rates by 10 basis points. Draghi also announced a large-scale purchase program of ABS and covered bonds. Details of this program will be announced next month. Together with the TLTROs this bond buying should increase the ECB's balance sheet by a trillion euro. These measures reinforce the carry trade in the periphery.

Italy

The Italian government approved the judicial reform. The decree-law bill has to be passed by Parliament over the next 60 days. The reform mainly aims at reducing the backlog of civil cases. PM Renzi defined the reform as a "revolution" of the notoriously slow Italian judicial system and pledged civil cases will from now on take less than one year to be completed.

Spain

Spain issued a EUR 1bn 50-year bond, demonstrating investors' improved perception of Spain. Back in 2012 Spain issued mostly 2- and 3-year bonds, helped by the 3-year TLTROs. The share of Spanish central government held debt by non-residents has risen to 45% of total debt.

Portugal

Portugal issued EUR 3.5bn of a new 15-year bond, with a total order book of above EUR8 billion. This is the longest bond Portugal has issued since its bailout program.

Robeco Euro Government Bonds

We remain positive on peripheral bond markets as these bonds are attractive in the current low yield environment and the ECB's and EU's stance is supportive. The credit rating upgrade cycle is continuing, which draws new investors into peripheral bonds.

This week's policy action by the ECB confirms our case for the periphery. The coming TLTROs will support short dated peripheral bonds, and the announced bond buying program will likely be most beneficial to Italy and Spain. We remain overweight Spanish, Italian, Irish and Portuguese debt. Peripheral bonds make up 56% of the fund, more than half of which is Italian. Year to date the fund's absolute performance is 10.49%*, helped by the strong performance of periphery bonds.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD September 4, 2014. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

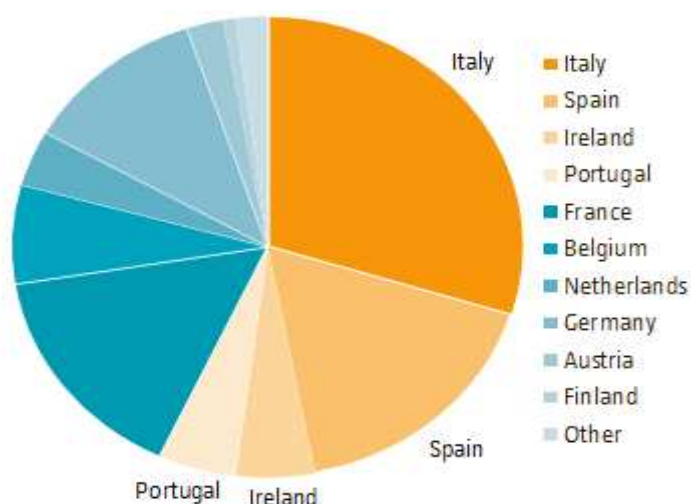
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.07	0.02									
2	-0.07	0.04	0.32	0.28	0.03	0.03	0.05		0.07	0.03	0.58
3	-0.02	0.04	0.52	0.41	0.00	0.00	0.03	3.19	0.21	-0.02	0.98
4	0.06	0.08	0.67	0.56	-0.03	0.03	0.04		0.28	0.06	1.28
5	0.21	0.10	0.77	0.61	-0.07	0.08	0.00	3.60	0.29	0.03	1.37
6	0.28	0.19	0.99	0.80	0.10	0.18	0.12		0.46	0.11	1.57
7	0.43	0.25	1.09	0.76	0.15	0.24	0.19		0.37	0.11	1.82
8	0.63	0.27	1.26	0.79	0.15	0.26	0.11			0.19	
9	0.79	0.27	1.26	1.07	0.18	0.27	0.23		0.71	0.14	2.16
10	0.97	0.32	1.33	1.12	0.14	0.28	0.23	4.62	0.74	0.13	2.10
15	1.39	0.53	1.58	1.33		0.30	0.02	4.71		0.13	
20	1.76	0.34	1.50			0.38	0.08	4.51			
30	1.95	0.45	1.71	1.53	0.04	0.47	0.09	4.39			

Source: Bloomberg



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Country allocation Robeco Euro Government Bonds (September 5, 2014)



Source: Robeco

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Important information

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