

Peripheral Europe Update

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- **Greek bonds plunge due to election fears**
- **December TLTRO take-up disappointing, ECB balance sheet shrinks**

Main market events

Peripheral markets struggled this week, as fears of early elections in Greece flared up. Bunds rallied in this environment, also due to the large drop in the oil price. Spreads on 10-year bonds from Spain and Italy rose by ca. 20 basis points. Spanish bonds have returned 15.1% year-to-date, Italian bonds 14.3% and Irish bonds 13.6%.

ECB

Banks took only EUR 130bn of 4-year loans at the second TLTRO. As banks also repaid EUR 40bn of old 3-year loans, the ECB's balance sheet increases only by EUR90bn, less than the market had expected. This increases the pressure on the ECB to buy government bonds as well.

Greece

Greek Prime Minister Samaras has brought forward the Presidential elections. The first round will take place on December 17. If no candidate gathers the required majority by the final round on December 29, parliament will be dissolved and general elections will take place late January.

Markets reacted negatively to the possibility of near-term elections as the Syriza party is currently heading the polls. This party wants to restructure the Greek government debt again. It also vows to undo several of the reforms and austerity measures implemented under the Troika program. Greek bonds plunged, with the yield on 3-year Greek bonds spiking to nearly 11%.

S&P

S&P downgraded Italy's sovereign rating from BBB to BBB-, the lowest investment grade rating, but with a stable outlook. S&P at the same time upgraded Ireland by one notch from A- to A.

Robeco Euro Government Bonds

We remain positive on peripheral bond markets as fundamentals are improving and the ECB's policy remains very supportive. Peripheral bonds remain attractive amidst the search for yield.

We increased our overweight in Irish debt as Ireland has the best fundamentals of the peripheral countries. We maintained our overweight positions in Spanish and shorter-dated Portuguese bonds. We prefer Spain to Italy at similar spread levels based on better economic fundamentals. We reduced exposure to the periphery in November in anticipation of wider spreads, so we use the recent market movements as an opportunity to gradually add to our periphery exposure.

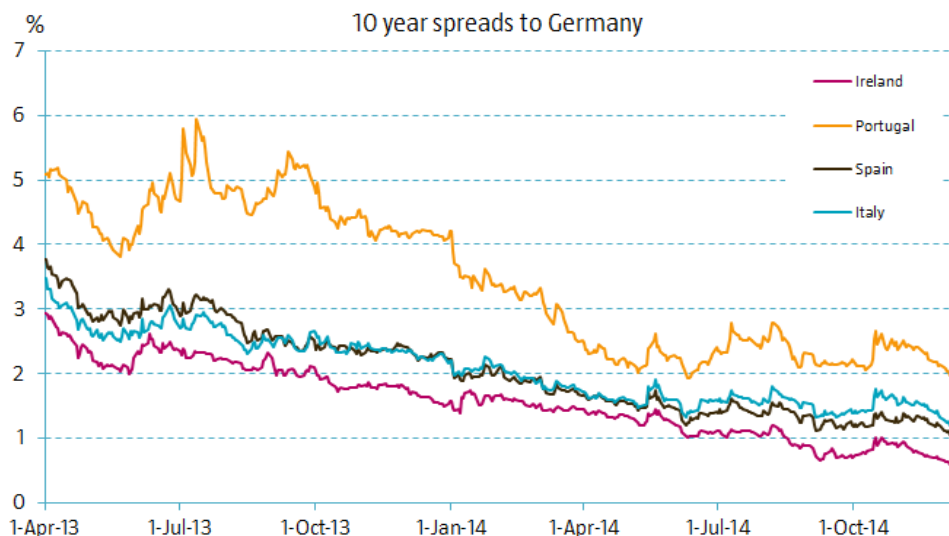
Peripheral bonds make up 51% of the fund, half of which Italian. Year-to-date the fund's absolute performance is 12.75%*, helped by the strong performance of periphery bonds.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD December 11, 2014.
The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

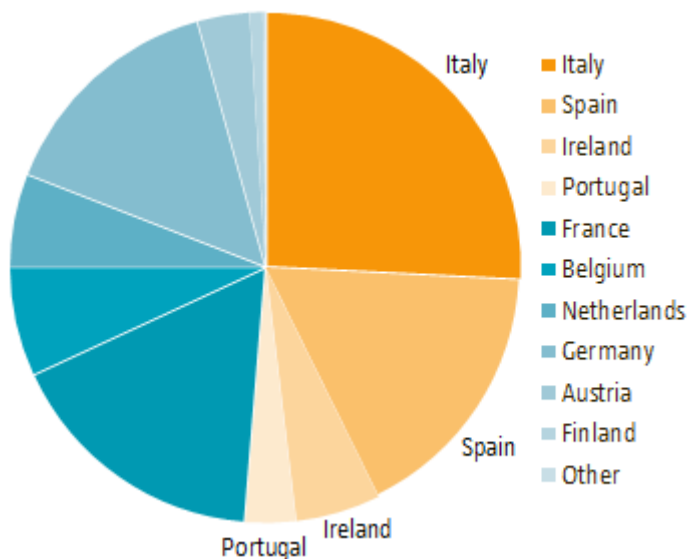
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.07	0.06									
2	-0.04	0.04	0.67	0.59	0.03	0.03	0.04		0.08	0.04	0.65
3	-0.03	0.05	0.85	0.77	0.03	0.04	0.02	10.89	0.27	0.02	1.18
4	-0.01	0.13	1.01	0.89	0.09	0.08	0.06		0.33	0.06	1.40
5	0.08	0.16	1.04	1.03	0.11	0.12	0.10	9.56	0.31	0.05	1.62
6	0.14	0.19	1.15	1.07	0.10	0.16	0.11		0.41	0.08	1.84
7	0.23	0.21	1.34	1.16	0.13	0.18	0.12		0.31	0.12	2.03
8	0.36	0.23	1.36	1.23	0.13	0.23	0.17			0.18	
9	0.47	0.23	1.35	1.22	0.16	0.24	0.17		0.64	0.12	2.39
10	0.63	0.27	1.41	1.24	0.13	0.25	0.16	8.51	0.66	0.10	2.33
15	0.99	0.45	1.79	1.50		0.25	-0.03	8.50		0.13	
20	1.23	0.40	1.83			0.41	0.13	7.95			
30	1.45	0.47	1.95	1.75	0.06	0.47	0.10	7.04			

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (December 12, 2014)



Source: Robeco

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Important information

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