

Peripheral Europe Update

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- **Greece: pressure is mounting for a deal to be negotiated**
- **ECB raising emergency liquidity assistance for Greek banks**

Main market events

Greek negotiations overshadowed all other news last week, as markets were thrown back and forth on progression in the discussions for a program extension. Other peripheral markets could not completely keep up with Bunds, but the spread widening was only limited. The yield on Greek 2-year bonds rose to above 21% during the week, but declined back to below 15% on Friday, after conciliatory words from Ms. Merkel on Thursday night. Italian bonds have returned 2.3% this year, Spanish bonds 0.7% and Irish bonds 0.8% (all until Thursday close).

ECB

The ECB has raised the cap on the Emergency Liquidity Assistance (ELA) for Greek banks by EUR 5bn to EUR 65bn in an intra-meeting conference call. This probably signals further deposit outflows from Greek banks. The positive aspect is that the ECB is flexible to keep Greek banks afloat with ELA, as long as the Greek government is willing to discuss a program.

Italy

Italian fourth quarter GDP growth came out at 0%, which is still the best number in 14 quarters. We prefer Spain (0.7% growth in Q4) to Italy because of its stronger economy. Portugal also showed decent growth (0.5%), while Greek GDP (-0.2%) was one of the laggards.

Greece

Greek Finance Minister Varoufakis discussed an extension of the bailout program with the Eurogroup on Wednesday. The parties failed to agree on a joint statement. Prime Minister Tsipras met with European heads of state on Thursday. After this meeting, Ms. Merkel mentioned Germany was open for compromise. Technocrats from the Eurogroup will work with their Greek counterparts this weekend in Athens on concrete measures. These should form the basis for an extension of the bailout program, to be discussed on Monday at the next Eurogroup meeting.

Robeco Euro Government Bonds

We remain positive on peripheral bond markets as fundamentals are improving and the ECB has clearly shown its determination to do 'whatever it takes'. The ECB's QE program pushes German bond yields to even lower levels, further spurring the search for yield. Peripheral bonds remain attractive in this environment. The fund has a preference for longer-dated bonds as these bonds offer higher spreads and are likely to benefit more from the ECB buying. Greek negotiations do lead to volatility in the markets, but in the end we expect a positive outcome.

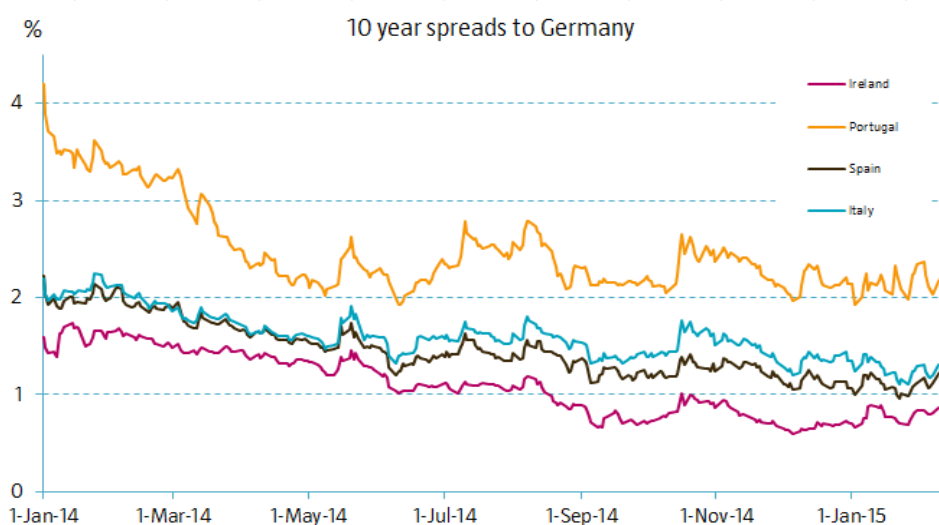
Peripheral bonds make up 59% of the fund, with overweight positions in Ireland, Spain, Italy and Portugal. Year-to-date the fund's absolute performance is 2.25%*.

* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, YTD February 12, 2015. The value of your investments may fluctuate. Past results are no guarantee of future performance.

Current spreads and the movement over time

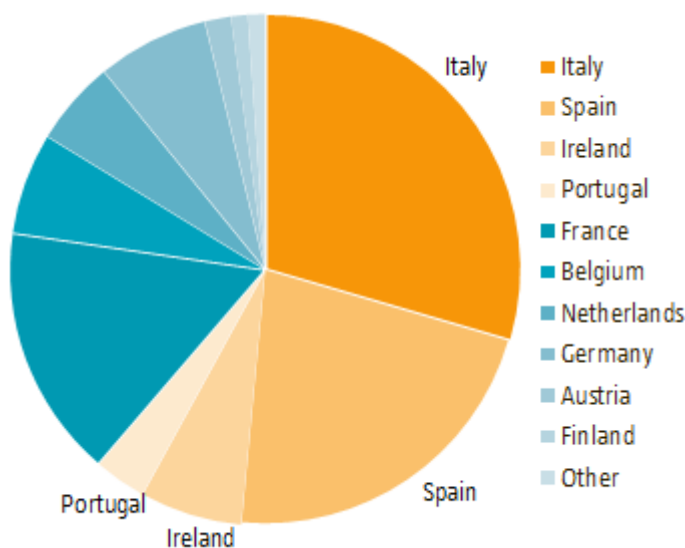
maturity	German yields	Spreads									
		France	Italy	Spain	Netherlands	Belgium	Austria	Greece	Ireland	Finland	Portugal
1	-0.19	0.08									
2	-0.21	0.11	0.52	0.46	0.08	0.12	0.08		0.28	0.07	0.45
3	-0.18	0.09	0.63	0.63	0.09	0.13	0.06	15.2	0.28	0.08	0.88
4	-0.16	0.13	0.74	0.75	0.10	0.18	0.10		0.35	0.12	1.33
5	-0.06	0.11	0.79	0.87	0.05	0.14	0.06	12.5	0.52	0.08	1.40
6	-0.02	0.20	0.94	0.95	0.06	0.19	0.08		0.54	0.06	1.65
7	0.06	0.23	1.13	1.07	0.06	0.25	0.08		0.65	0.06	1.84
8	0.15	0.28	1.17	1.16	0.09	0.28	0.11			0.13	
9	0.25	0.28	1.16	1.16	0.08	0.29	0.09		0.76	0.07	1.91
10	0.34	0.30	1.23	1.17	0.07	0.30	0.09	8.72	0.83	0.06	1.97
15	0.54	0.42	1.52	1.41		0.25	-0.02	8.91	1.00	0.13	2.30
20	0.72	0.40	1.63			0.38	0.11	7.98			
30	0.92	0.42	1.66	1.61	0.05	0.39	0.05	6.97		-0.02	

Source: Bloomberg



Source: Bloomberg

Country allocation Robeco Euro Government Bonds (February 13, 2015)



Source: Robeco

Important information

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