OUTLOOK
For professional investors
January 2018

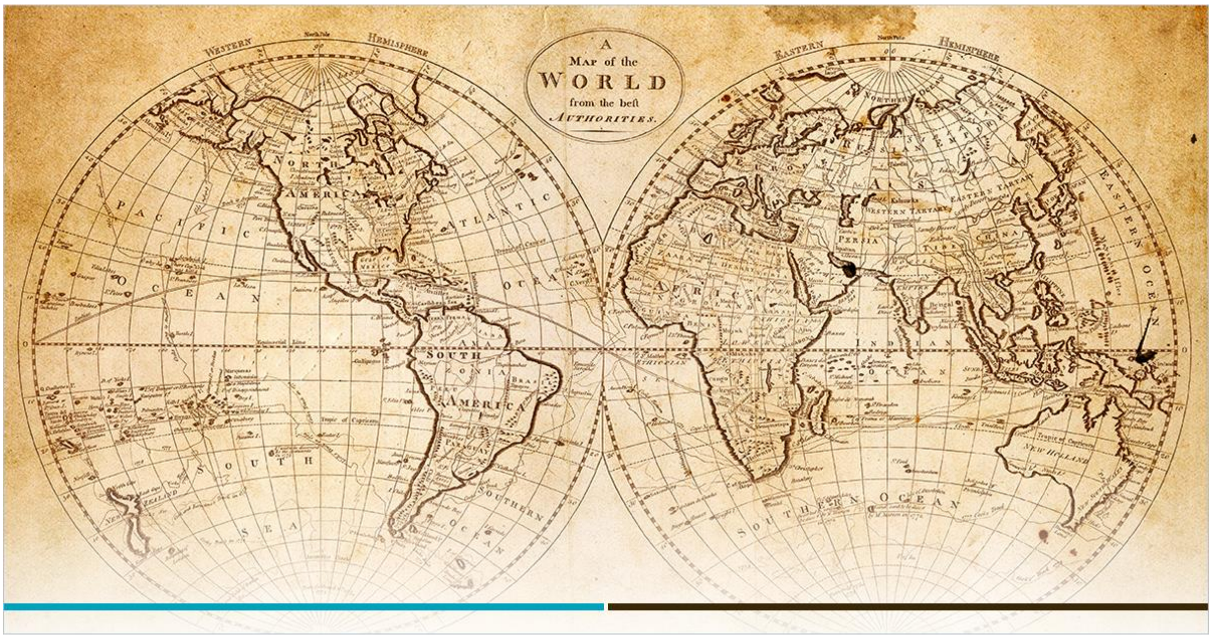
ROBECO
The Investment Engineers

Fundamental Equities Outlook Q1 2018

Goldilocks revisited

Global Fundamental Equities
Global Equity
Emerging Markets Equity
Trends Equity

- We expect equity markets to continue performing well
- We prefer Europe to the US from a valuation perspective
- Attractive macro backdrop and valuations for emerging markets
- Potential risks to our outlook: political risk and pace of tapering



Contents

Introduction

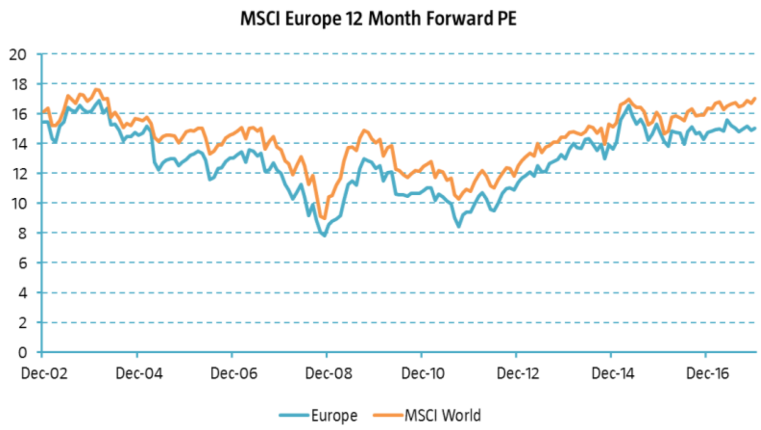
'Equity markets kept an eye on fundamentals in 2017'

2017 was the year of the dramas that did not unfold. President Trump did not stop international trade, Kim Jong-un did not start a nuclear conflict, and equity markets did not collapse following the Fed's rate hikes. What equity markets did do, was keep an eye on fundamentals, with global growth picking up and earnings improving across not only developed markets but also emerging markets.

In our Quarterly Outlook, our Fundamental Equities teams look at what lies ahead for the markets we invest in, utilizing our five-factor framework. Frankly, we expect more of the same of what happened in 2017 to happen in 2018: with sustained earnings growth and markets performing for as long as the central banks' tapering remains well flagged and proceeds in line with the pick-up in global growth. As a base case, we expect at least three rate hikes and the start of Quantitative Tapering in the US, while we believe the European Central Bank will not start tightening its ultra-loose stance before September 2018.

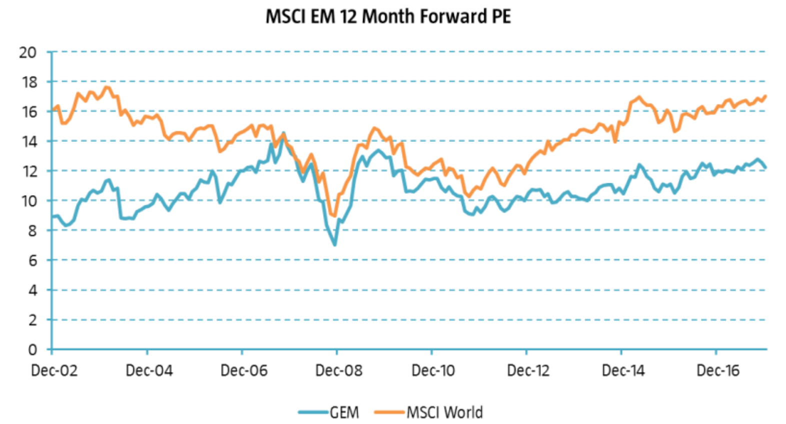
When looking at the different markets, there seem to be two main discriminants: the first one is valuations, as European equities are cheaper than their US and Japanese counterparts, and emerging market equities are cheaper than developed markets equities overall.

Figure 1 | Within developed markets, European equities are more attractively priced



Source: IBES

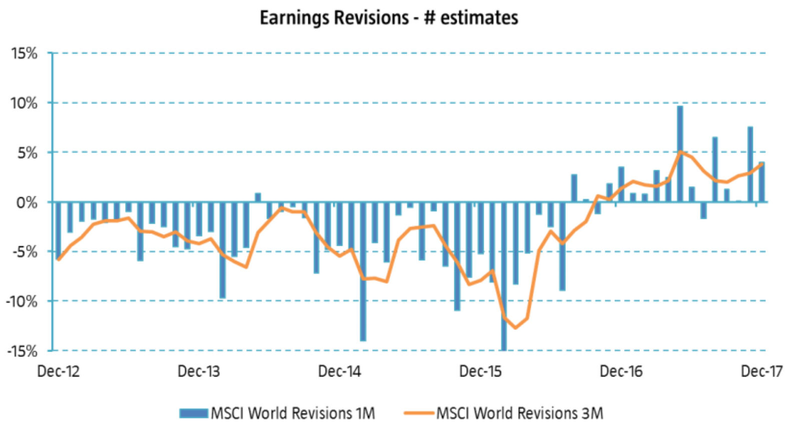
Figure 2 | Emerging markets equities trade at a discount to developed markets



Source: IBES

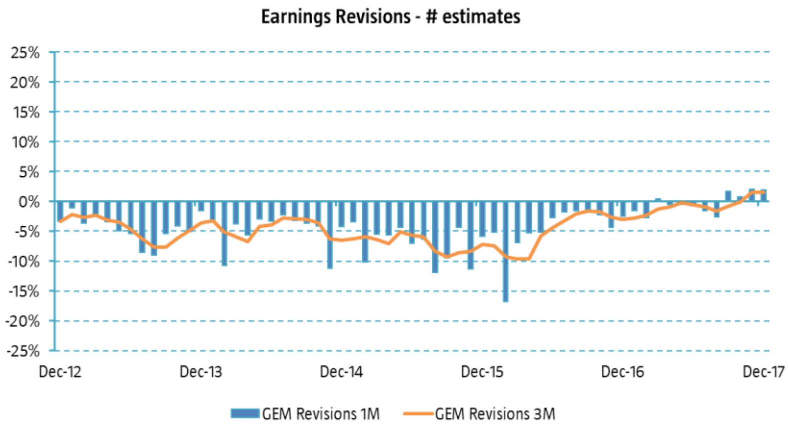
The second one is earnings revisions, which we argue might be close to a peak in 2018 for developed markets, but have just turned positive for emerging markets.

Figure 3 | Earnings revisions developed markets



Source: IBES

Figure 4 | Earnings revisions emerging markets



Source: IBES

Within developed markets, given the more reasonable valuations in Europe, and with growth helped by the accommodative interest rate environment throughout 2018, our Global Equity team finds more bottom-up opportunities in Europe than in the US and Japan, resulting in an overweight in Europe.

At the same time, the case for emerging versus developed markets is still compelling. Emerging markets show a 25% discount to developed markets (based on forward Price-Earnings) and are in a more recent stage of recovery particularly versus the US. That said, not all emerging markets are equal. While the overall growth outlook among emerging markets is improving, there are wide differences.

The outlook for Asia is healthy, even when including China, where we expect growth numbers to come down only gradually. However, in contrast to Asia, growth in Latin America has been disappointing. In Brazil, economic growth finally seems to be turning positive, but it remains low and the fiscal deficit is still very large. Mexico is showing some strength, but the outlook remains uncertain due to the North American Free Trade Agreement (NAFTA) negotiations, and this could affect future Gross Domestic Product growth. In Europe, the Middle East and Africa (EMEA), growth is improving for Poland, the Czech Republic and Hungary (the CE3 countries) and Russia, but South Africa continues to face headwinds. Credit growth and a loose monetary policy are helping growth in Turkey, but this could come at the expense of continued inflationary pressures, with the most recent CPI number at 13% yoy.

Based on the above, our Emerging Markets Equity team continues to prefer Asia to Latin America and EMEA, maintaining a negative stance on Turkey and Mexico, while cautiously keeping an eye on the political developments unfolding in South Africa and Brazil.

Looking at equity markets, many of us have been investing long enough to know that nothing ever moves in a straight line, and that we always need to keep an eye on the risks. Our investment teams see two risks that developed and emerging markets have in common. The first is political risk, whether it comes from Kim Jong-un's making good on his nuclear threats; the outcome of elections in Brazil, Mexico or Italy; or the unfolding of Brexit. The second is the pace of tapering. Although we expect to see a pick-up in the pace of monetary tightening towards the end of the year, central banks are likely to move slowly in 2018. That said, should inflation pick up above current expectations, for example due to one of the major economies overheating or due to policy measures, we could face a steeper tightening cycle rather than one that gradually responds to improvements in the global economy.

None of the risks above are part of our base case scenario at this moment, which supports our positive view on equity markets.

However, in this world where everything seems predictable – even the unpredictability of the risks – we need to look at what comes from left field. For the companies we invest in, innovation is left field.

Finally, within the Fundamental Equities team, our Global and Emerging Markets investors look at the gradual improvement in company earnings, while our Trends colleagues have their eyes set on secular changes and long-term disruptive forces. Always with a view that they should be able to monetize these long-term changes today. This translates into a more long-term growth-oriented style. Self-driving cars and the digitization of healthcare are just two of those disruptive forces, which we will discuss in this outlook.

I wish you a happy reading and please feel free to reach out to us with any comments or questions.

Fabiana Fedeli
Head of Global Fundamental Equities

Global Equity | Goldilocks revisited

- Global growth should continue to improve in 2018
- Fed will start quantitative tapering in earnest
- Macro, technical analysis and earnings revisions are supportive
- Valuation and sentiment are neutral at best

'Upbeat outlook for developed equity markets going into 2018'

Five-factor summary

Factors	Score
Macro	+
Earnings	+
Valuation	=
Technical	+
Sentiment	=
Total	+

Source: Robeco Global Equity Team

Summary

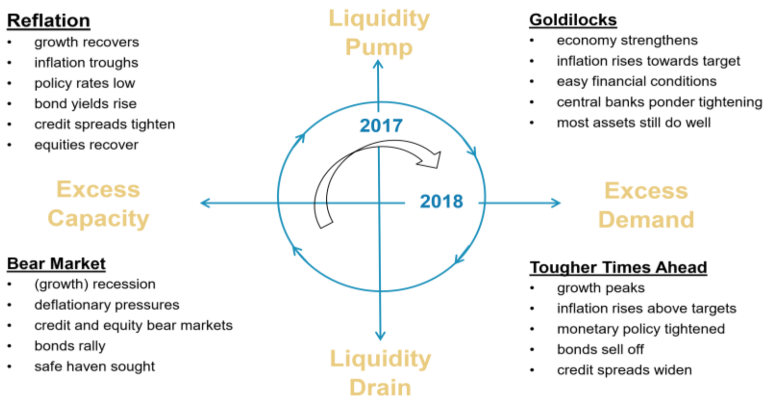
We are upbeat about the outlook for developed equity markets going into 2018. We think that economic growth in the major developed economic blocks will continue to accelerate, while inflationary pressures will remain largely under control for now. However, we expect the Fed to continue tightening its monetary policy in 2018, with at least three rate hikes and the start of quantitative tapering. Having said that, stocks can continue to perform reasonably well in an environment where the rate hikes are well flagged, and should not come as a major surprise to the market. We also think that the earnings environment will remain largely positive, as we expect the domestic US economy to remain relatively robust, and international economic growth to remain supportive as well.

Valuations seem more stretched in general in the US relative to international markets and, given the interest rate environment, we do not see much room for further multiple expansion. In Europe, we continue to see reasonable valuations, and we also think that the interest rate environment will remain more accommodative throughout 2018. We expect Europe to be slow to tighten, in the face of Brexit and the fragile positions of a number of countries in the periphery. We see continued recovery in those countries but very little fundamental reform to improve the structural growth outlook. However, we may also see the end of quantitative easing in Europe in the second half of the year, as signaled by the ECB.

Technical analysis and sentiment also still seem rather supportive. While the broader market may look overbought in the short term, the long-term profile is still quite healthy. We think that sentiment is already quite upbeat, but that we have not reached the extremes just yet.

Macroeconomic environment: +

Figure 5 | Framework for interaction between financial and business cycles



Source: Morgan Stanley Economics

Macro | The outlook for global economic growth remains upbeat

We are still upbeat about the macro-economic outlook for developed markets. We continue to see robust economic growth in the US and Europe, and even in Japan, while we do not see meaningful inflationary pressures just yet. The main caveat here is that we think that all developed economic blocks are growing at or above their long-term potential, which makes it more likely that 2018 will be a peak year in terms of economic growth.

We think that the new US tax plan may not add much to economic growth, as the US economy is already growing at or above its potential. However, it may have an (un)intended consequence in that we may be at the beginning of a deleveraging cycle in the US. Following the introduction of the tax plan – which may actually take quite some time – the after-tax cost of debt will go up and there will be a stronger incentive for companies to repatriate their offshore earnings, as they will be taxed anyway. The willingness to borrow against offshore cash positions will therefore diminish. Also, in a quantitative tapering environment, there will be an increased focus on companies' balance sheets, and especially on their debt positions relative to their cash-generating abilities.

With regard to Europe, we still consider the economic environment to be very supportive. We continue to see a very loose monetary policy, coupled with a benign inflation environment. In Europe, we think the risks are more political in that we do not yet know what the Brexit process will look like, and we also have elections in Italy. However, we think that 2018 will be a lower risk year from a political perspective than 2017. Now that we have had the French and German elections, it seems that most of the risk from a European perspective is behind us and that neither the Italian elections nor a difficult Brexit can derail the European equity story in 2018.

Japanese economic growth also looks better than it has done in a long time, and we think that Prime Minister Abe's position is secure. There are a number of things to watch closely in Japan. One, we may have a shift in monetary policy by the Bank of Japan and two, we see a significant labor shortage. So far, we have seen very little wage pressure, and therefore no inflationary pressure, due to the weak position of the labor unions in Japan. However, wages should rise, and a little more inflation would definitely be good for Japan to escape from the deflationary threat that the country has faced for decades.

Figure 6 | GDP Growth, inflation and policy rate estimates

	GDP (%)		Inflation (%)		Policy rate	
	2017	2018	2017	2018	2017	2018
US	2.3	2.6	2.1	2.1	1.4	2.1
Eurozone	2.3	2.0	1.5	1.5	-0.4	-0.4
Japan	1.7	1.3	0.5	0.8	-0.1	-0.1
China	6.8	6.5	1.6	2.3	4.3	4.6
Developed markets	2.2	2.3	1.8	1.9	1.0	1.2

Source: Consensus Economics, Morgan Stanley

Macro | Inflation and monetary policy: more aggressive US tightening ahead

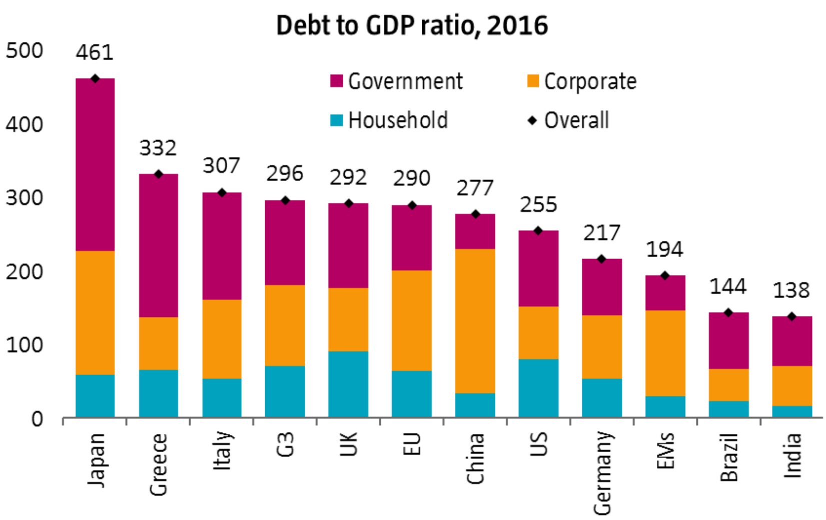
Despite the fact that inflationary pressures seem largely absent for the moment, we expect the US Fed to tighten more aggressively in 2018. We now expect at least three rate hikes during the year and quantitative tapering to start in earnest in 2018. We think that the Fed will want to continue to normalize the interest rate environment in the US, without hurting expansion too much. The crucial point here is that quantitative tapering in the US may not yet matter that much, as long as the overall global financial conditions are still relatively easy. We would highlight that the ECB and BoJ are still accommodative in terms of monetary policy and that fiscal policy also remains quite loose around the globe.

Macro | Government and corporate balance sheets remain stretched in developed world

Balance sheets in the developed world remain stretched. The main example of this is Japan, where government, corporate and household debt amount to 460% of GDP (2016). We also think that balance sheets in Europe as a whole remain stretched, even though there are significant differences between the individual countries. We think that at some point concerns about peripheral Europe will re-surface.

Balance sheets in the US seem stretched as well. Here there is more concern about overall government debt and household balance sheets than with regard to corporate debt. We think that there will be a wider distinction between cash-rich and cash-generating companies next year relative to segments of the market where balance sheets are poor. During the past decade, there has been much leverage added to US balance sheets in order to buy back shares. We think that this trend will now start to reverse. We are overweight cash rich companies, that generate a lot of free cash flow, and that benefit from the introduction of the new tax law. This law lowers the overall statutory tax rate, which benefits companies that have paid the full statutory tax rate in the US. We are cautious with regards to companies that have a lot of debt, and that lack sufficient cash generation to pay down debt over a reasonable time horizon.

Figure 7 | International debt comparison

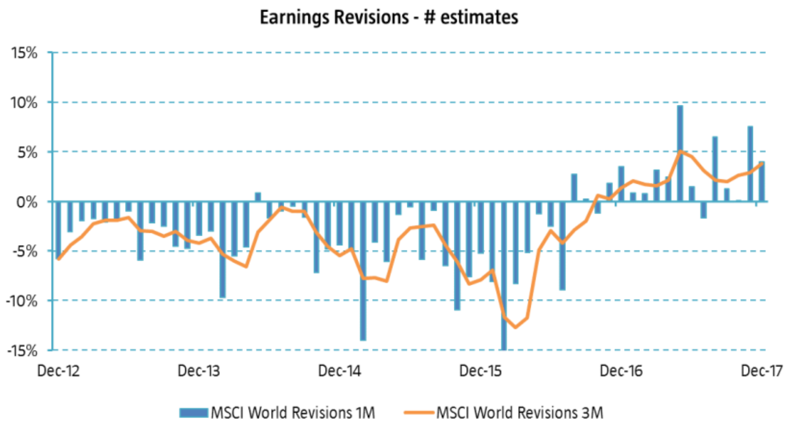


Source: CEIC Data Company Ltd., Haver, Morgan Stanley Research

Earnings expectations: +

Earnings revisions for all major developed markets continue to be positive. With better economic growth and still enough slack in the economy, we have seen both topline growth and margin expansion. However, we feel that 2018 may be a peak year here as well. Given that we are very far along a lengthy expansion period, with growth fueled by a very loose monetary policy, we will watch closely the effect of a less supportive monetary environment. We maintain our positive view on earnings.

Figure 8 | Earnings revisions for MSCI World continue to be positive

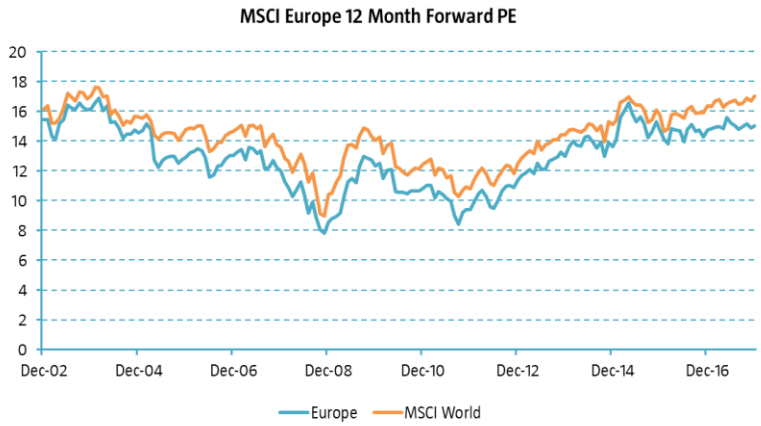


Source: IBES

Valuation: =

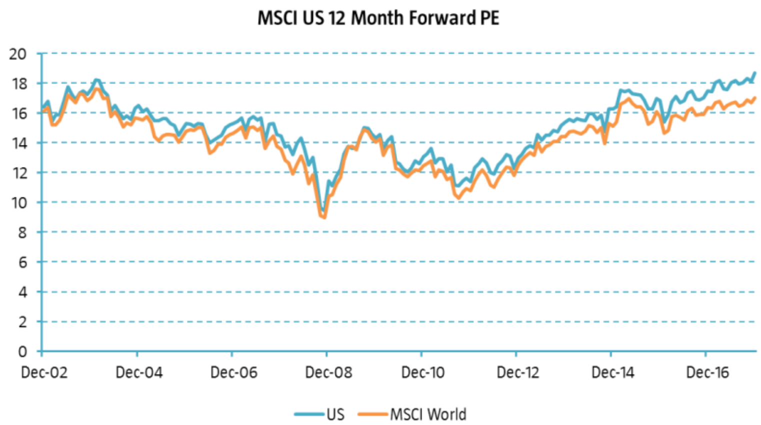
We rate the valuation factor for developed markets as neutral. We think that overall multiples are quite demanding for the broader market and that in an environment with rising interest rates there will be less potential for further multiple expansion. However, there are major differences between the various developed markets and within the different markets. We think that Europe is clearly cheaper than the US, trading at roughly 15 times 12-month forward earnings versus 18 times forward earnings for the US. Also, from a bottom-up perspective, we clearly find more opportunities in Europe than in the US and Japan. As a consequence, we have an overweight position in Europe in our portfolio, and an underweight position in the US and Japan.

Figure 9A | PER multiples for the US and Europe



Source: IBES

Figure 9B | PER multiples for the US and Europe

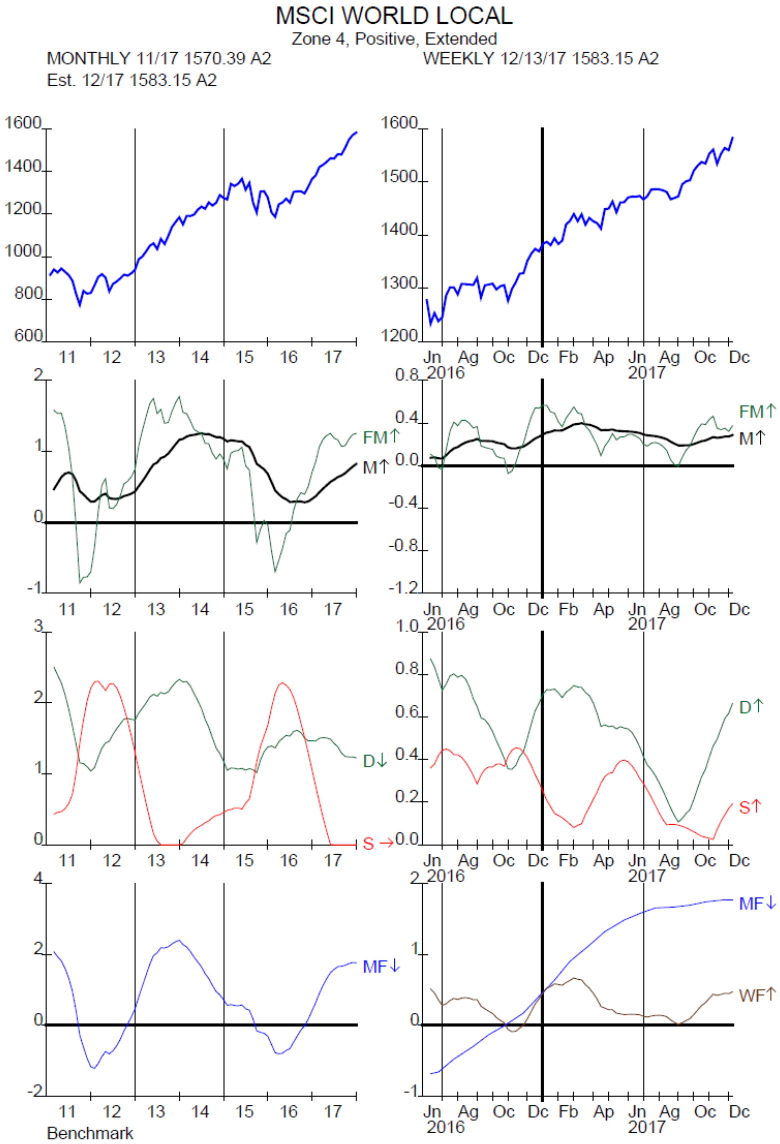


Source: IBES

Technical position: **+**

The technical profile of the Developed Market Index continues to be quite strong. We use the graph from QAS for the MSCI World Index. Both the longer momentum indicator ('M') and short-term momentum, or 'fast momentum' ('FM') graphs are still rising, with fast momentum above the momentum line, which is a bullish indicator. We also look at the demand ('D') and supply ('S') lines for both the monthly and the weekly charts. There is little supply on the monthly chart, even though demand is moving sidewise. However, on the weekly chart, demand is clearly rising, while supply is still low. Clearly, this is not a 'young' profile in QAS terms. However, we still find good support on both the monthly and the weekly charts.

Figure 10 | MSCI Global Developed Index QAS graphs



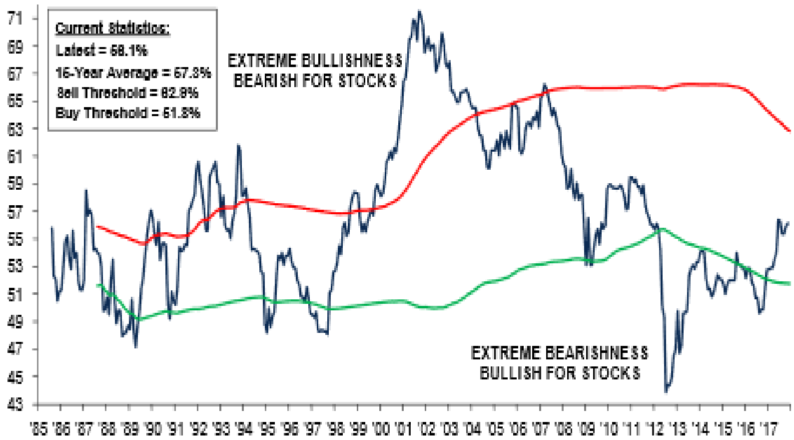
Source: QAS

Sentiment – supply/demand: =

We use the sell side indicator from the Bank of America to assess overall market sentiment. The Sell Side Indicator is based on the average recommended equity allocation of Wall Street strategists as on the last business day of each month. We have found that Wall Street's consensus equity allocation has been a reliable contrary indicator. In other words, it has historically been a bullish signal when Wall Street was extremely bearish, and vice versa.

While sentiment has clearly moved more into a neutral territory, we think overall sentiment is quite supportive without being overly bullish.

Figure 11 | Sentiment with regard to the US equity market



Source: Bank of America Merrill Lynch

Risks to our Outlook

We see a number of potential risks to our positive outlook:

1. The pace of monetary policy tightening could pick up in 2018. Although we expect to see a pick-up in the pace of monetary tightening towards the end of the year, central banks are likely to continue to move slowly in 2018. As discussed, our base case is that we will see the Fed potentially tightening three times in 2018, while the ECB should end its ultra-loose monetary policy in Europe in September 2018. However, if inflation picks up above current expectations (for example, due to one of the major economies overheating, or due to policy measures), we could face a steeper tightening cycle rather than one that gradually responds to improvements in the global economy. This is not yet priced into the markets.
2. Credit spreads are set to widen: a combination of tighter monetary policy, record spread valuations and high leverage (on US corporate balance sheets) looks set to weigh on credit markets going forward. This may have an impact on equity markets as well.
3. More volatility: a backdrop of less liquidity provision from central banks, higher interest rates and a peaking of economic and earnings growth momentum could lead to more volatility in asset classes next year. This could put downward pressure on equity valuations.

ROBECO
The Investment Engineers

Summary and conclusion

We like the outlook for Developed Market Equities. Global economic growth remains healthy, without inflation getting out of control. This is supportive for earnings growth and revisions. We have a preference for Europe over the US and Japan from a valuation perspective. Despite US Fed tightening, we see continued supportive monetary policy around the world. Sentiment and technical analysis also remain quite supportive.

1. **Macroeconomic environment:** +
   Good economic growth, low inflation, still relatively loose monetary policy
2. **Earnings expectations:** +
   Good earnings growth. Earnings revisions remain positive.
3. **Valuation:** =
   Valuations in EMs are more attractive versus DMs.
4. **Technical analysis:** +
   We think that the technical profile of the market is still quite supportive, even though we are clearly not early in the expansion.
5. **Sentiment – demand/supply** =
   We think that sentiment is balanced and not overly bullish yet.

'We have a preference for Europe over the US and Japan from a valuation perspective'

Emerging Market Equity | Solid outlook for 2018

- Outlook 2018 positive: robust earnings with attractive valuation
- Earnings continue to remain likely driver of performance in 2018
- Global environment for emerging markets supportive
- The main risk to watch out for is political

'Outlook emerging markets still solid going into 2018'

Five-factor summary

Factors	Score
Macro	+
Earnings	+
Valuation	++
Technical	+
Sentiment	+
Total	+

Source: Robeco Emerging Markets Team

Summary

Emerging markets are exhibiting relatively strong economic growth. Global growth is supportive, and emerging markets are showing strong export growth across the board. Monetary policy in both Europe and Japan is still accommodative, while the Fed is hiking interest rates only gradually. Inflation is low or coming down. In addition, the corporate and government balance sheets of emerging markets are more solid than commonly perceived.

Earnings growth for 2018 is likely to be ahead of that in the developed world. We see not only cyclical but also structural factors underpinning such improvements, as many companies have cut overcapacity and are increasing their ability to control their cost base.

Even after the recent strength in emerging equity markets, valuation levels still look very attractive from a long-term investment perspective. Forward P/E is at a 25% discount to developed markets.

Technical factors and sentiment are also favorable. Since 2016, emerging markets have outperformed developed markets. Inflows into emerging markets have improved, giving further support to this asset class. After a long period of outflows, the tide turned in 2016, and we are now seeing continued inflows into emerging markets.

Macroeconomic environment: +

	GDP		Inflation	
	2017	2018	2017	2018
EMEA	1.9	2.0	4.7	4.5
Asia	5.2	5.1	1.9	2.4
Latin America	1.4	2.5	3.9	3.7
Emerging markets	**4.3**	**4.3**	**2.6**	**2.8**
Developed markets	**2.2**	**2.3**	**1.8**	**1.9**

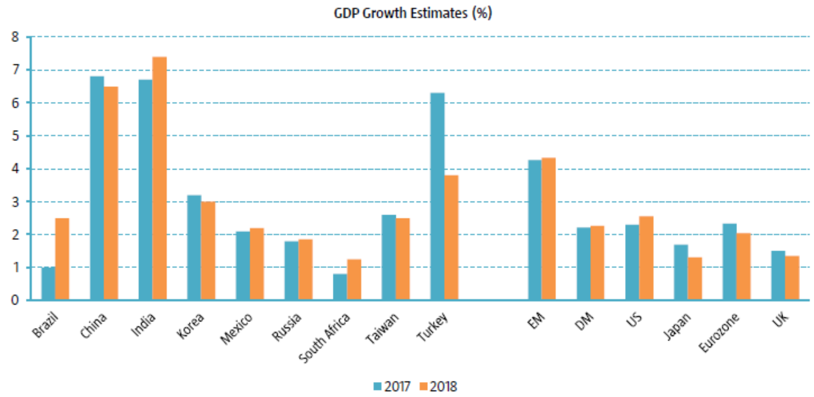
Source: Consensus Economics

Overall, we consider the global environment for emerging markets to be supportive. Global growth is doing reasonably well, and emerging markets are currently showing strong export growth across the board. Global liquidity remains supportive. Monetary policy in both Europe and Japan is still accommodative, while the Fed is hiking interest rates only gradually. Growth in emerging markets still significantly exceeds that of developed markets.

Although growth remains low for commodity exporting countries such as South Africa, Russia and Brazil, it has moved into positive territory. Inflation is stable or coming down in most countries, and Brazil and Russia are able to cut interest rates significantly, coming from a high base. Besides relatively high economic growth, other key long-term positives are on average positive current-account balances and, contrary to common perception, a financial position that is still better overall than that of many developed markets.

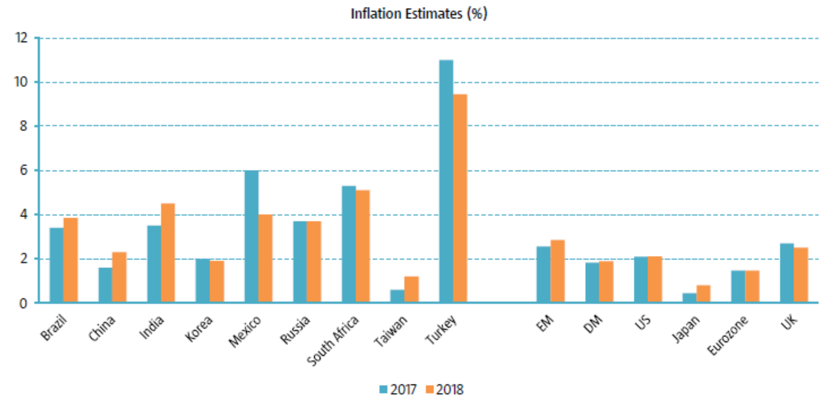
Potential risks for emerging markets are a faster-than-expected deceleration in China's growth as the country deals with the high levels of debt; a sudden need for Central Banks to tighten monetary policies on the back of unexpected increases in global inflation; and increased political risks (e.g., unfavorable election outcomes, US protectionism and the Korea conflict). None of these risks are part of our base case at this point.

Figure 12 | GDP Growth Estimates



Source: Consensus Economics

Figure 13 | Inflation Estimates



Source: Consensus Economics

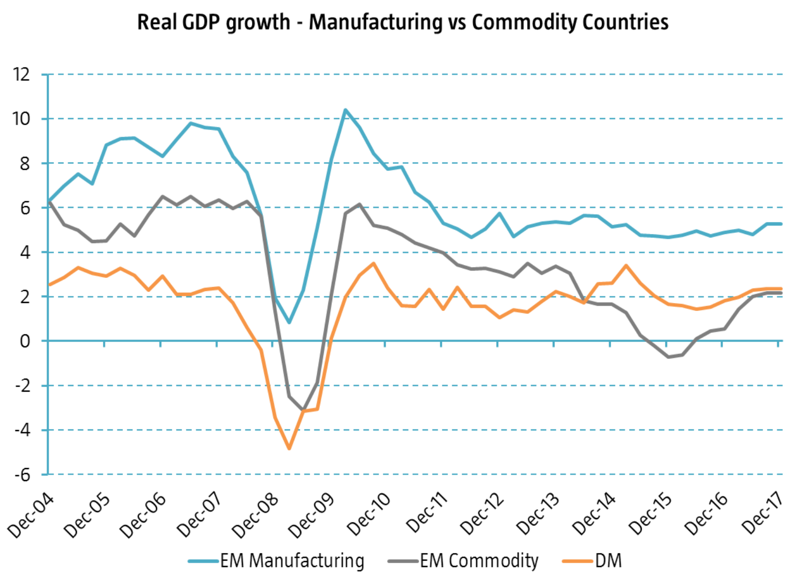
Macro | Growth: clear regional differences

Overall, the growth outlook among emerging markets is improving, but there are wide differences. The outlook for Asia is healthy, and this includes China, where we expect growth numbers to come down only gradually. Within China, industrial sectors are weak, but growth in the consumer and services sectors should remain relatively high. (For the long term, it will be important to see whether China can successfully implement reforms to rebalance its economy and deleverage the high-debt segments.)

In contrast to Asia, growth in Latin America has been disappointing. In Brazil, economic growth seems finally to be turning positive but remains low, and the fiscal deficit is still very large. Mexico is showing some strength, but the outlook remains uncertain, the most recent CPI number being 13% YoY.

On an aggregate EM level, growth in emerging markets is likely to remain relatively healthy. In general, it is important to realize that if commodities are taken out of the equation, EM GDP growth has been stable in recent years. Going forward, it will also be important to decide whether to hold commodity-dependent countries in a global EM portfolio (see chart below). At the moment we hold a lower weight in commodity-dependent countries as we do not see any meaningful supply-demand improvement across most commodities with the exception of energy and steel.

Figure 14 | Real GDP growth – Manufacturing and commodity EMs vs DMs



Source: Bloomberg

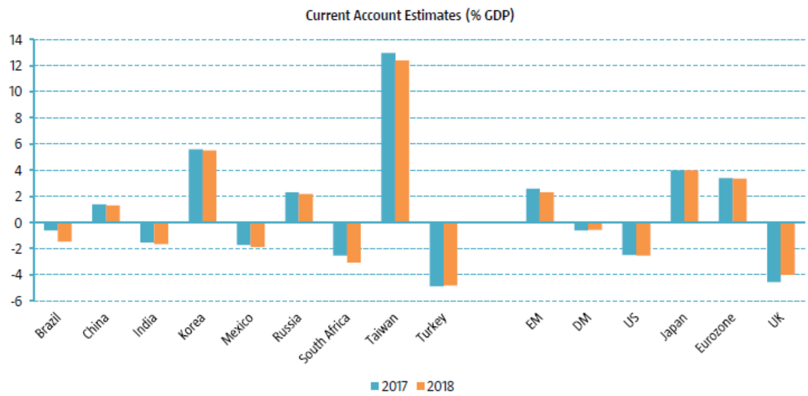
Macro | Inflation and monetary policy: stable

Inflation and monetary policy are relatively stable in emerging markets. Inflation expectations are coming down in most parts of the EM world, with Turkey and Mexico being the two exceptions. Inflation in Mexico increased on the back of the strong depreciation of the peso in 2016. As the peso strengthened in 2017, it is expected that inflation will start to decline again in 2018. Turkey's high inflation rate has a more structural character. Economic policies are excessively focused on economic growth, and President Erdogan has been pressuring the central bank not to tighten the monetary policy too much. Brazil and Russia, on the other hand, have seen a strong decline in inflation and have therefore been able to cut interest rates significantly.

Macro | External balances: surpluses in East Asia

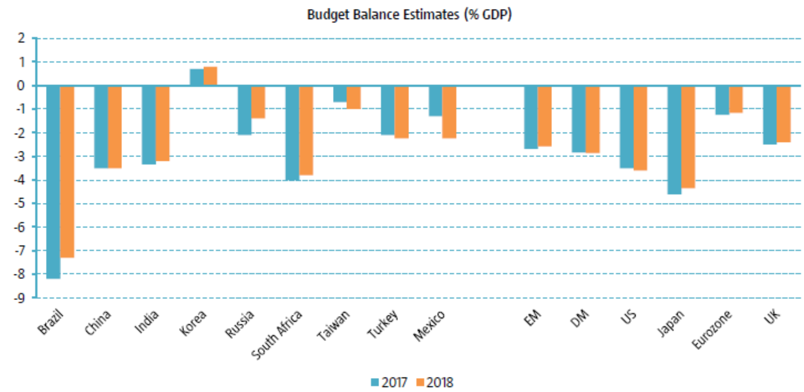
The financial position for most emerging countries is relatively sound, with high foreign-exchange reserves and low debt levels. On balance, the current accounts for emerging markets are still a positive factor, with significant surpluses in large countries such as China, Taiwan and Korea. The largest deficits are in Turkey and South Africa. India also has a current-account deficit, but this has consistently improved over the last few years and is now less than 2% of GDP.

Figure 15 | Current Account Estimates



Source: Consensus Economics, Oxford Economics

Figure 16 | Budget Balance Estimates



Source: Consensus Economics, Oxford Economics

Macro | Government and corporate balance sheets

In terms of government deficits, there are significant differences between emerging and developed countries. As a result of the financial crisis, government debt has risen significantly in the developed world. In the emerging world, government deficits are smaller, with Brazil, India and South Africa being the exceptions. With the exception of Korea and China, EM corporates are, contrary to common perception, still more conservatively financed, with lower debt-to-equity ratios.

	Corporate debt (% GDP)	Government debt (% GDP)
	2016	2016
Brazil	44	78
China	166	44
India	47	69
Korea	100	40
Mexico	28	38
Russia	53	16
South Africa	38	54
Turkey	68	28
US	72	101
Japan	101	214
Euro Area	104	103

Source: BIS, Morgan Stanley Research

Earnings expectations: +

	EPS growth		3M revisions	
	2017	2018	FY1	FY2
EMEA	11.4	11.9	4%	1%
Asia	25.4	13.3	1%	2%
Latin America	20.3	10.0	-1%	-2%
Emerging markets	**22.4**	**12.7**	**1%**	**2%**
MSCI World	**12.8**	**9.7**	**4%**	**2%**

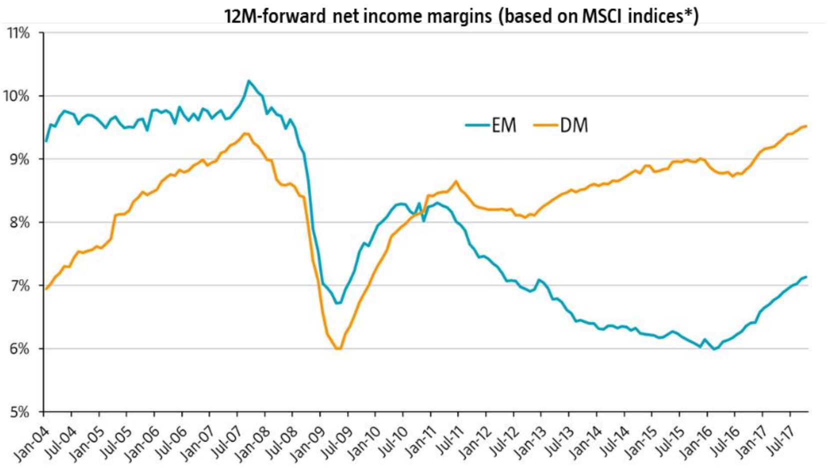
Source: IBES, Robeco

We maintain our positive view on earnings. We expect earnings growth for 2018 to remain strong, although expectedly lower than in 2017, as this was a year of rebound. Earnings revisions have also turned positive.

Importantly, we are seeing an improvement in the margins of EM corporates, as many companies have cut overcapacity and are improving their ability to control their cost base.

This, together with the further improvement expected on the demand side, should provide support to earnings growth going forward.

Figure 17 | Corporate net profit margins



Source: MSCI, IBES, Thomson Reuters Datastream, HSBC

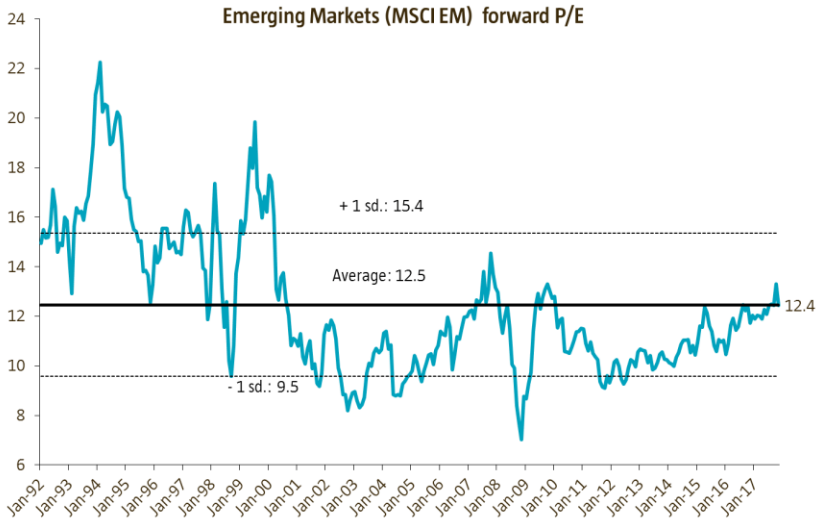
Valuation: ++

	P/E		P/CF	P/B	DY
	2017	2018	Current	Current	Current
EMEA	11.9	10.6	8.3	1.4	3.2
Asia	14.3	12.6	10.6	1.9	1.9
Latin America	14.4	13.1	9.6	1.9	2.5
Emerging markets	**13.9**	**12.4**	**10.1**	**1.8**	**2.2**
MSCI World	**18.2**	**16.6**	**12.6**	**2.4**	**2.3**

Source: IBES, Robeco

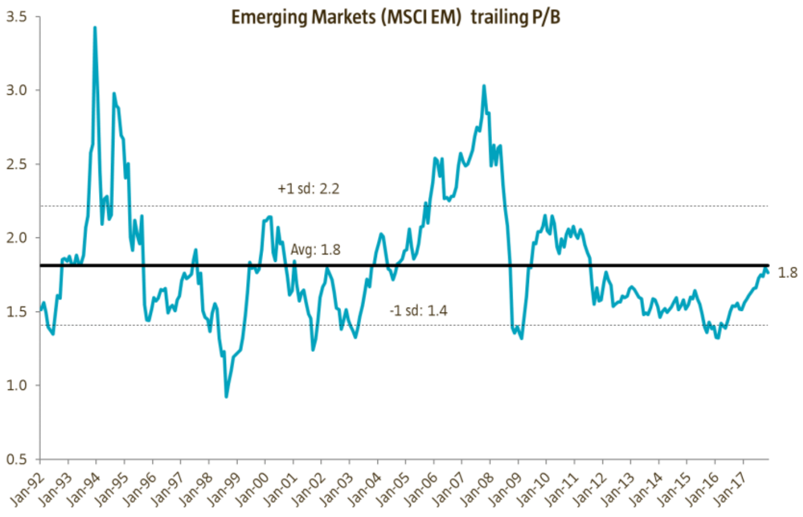
Emerging markets have seen valuations increase in recent years, although they currently still trade at their long-term average in terms of forward P/E and trailing P/B. However, forward P/E is still at a 25% discount to developed markets, and hence we maintain our very positive rating on valuation.

Figure 18 | MSCI EM forward P/E



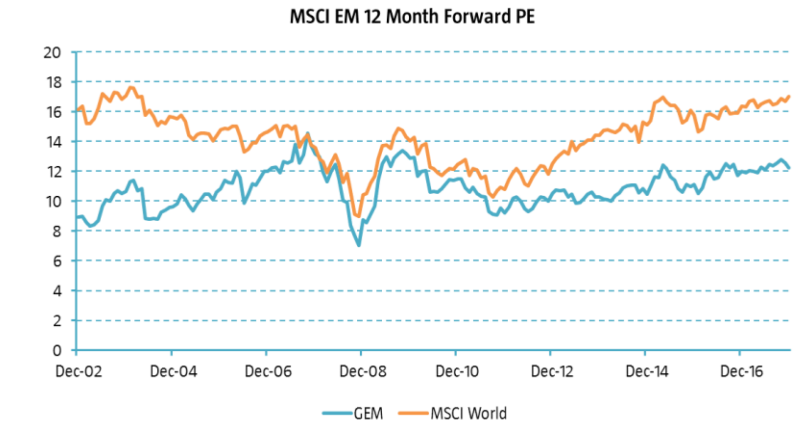
Source: Morgan Stanley

Figure 19 | MSCI EM trailing P/B



Source: Morgan Stanley

Figure 20 | Emerging markets equities trade at a discount to developed markets

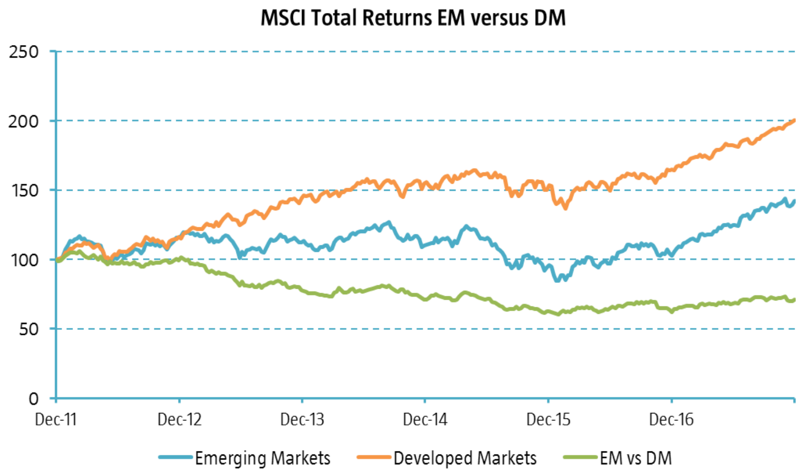


Source: IBES

Technical position: +

The multi-year downtrend in emerging markets relative to the performance of their developed peers seems to be over now. Since 2016, emerging markets have outperformed developed markets. We continue to be supportive from a technical point of view.

Figure 21 | MSCI Total returns EM versus DM

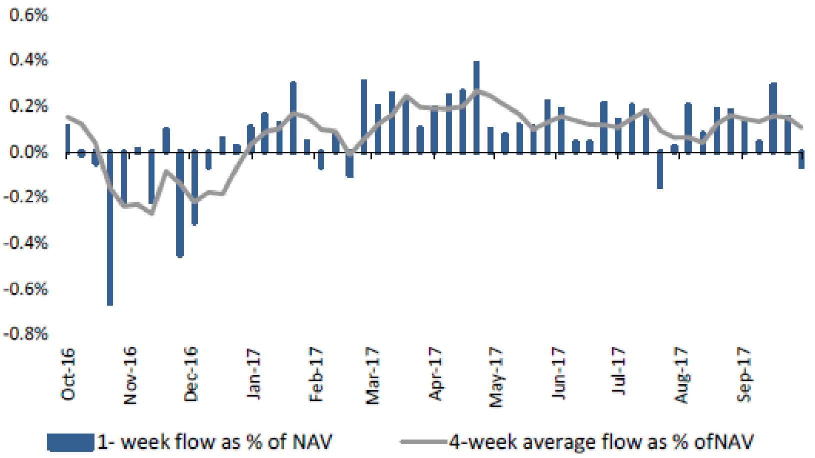


Source: MSCI

Sentiment – supply/demand: +

Inflows into emerging markets have improved, giving further support to this asset class. After a long period of outflows, the tide turned in 2016, and we are now seeing inflows into emerging markets after outflow following Trump's election.

Figure 22 | Flow into emerging market equity funds



Source: EPFR Global, Deutsche Bank

Risks to our Outlook

We see a couple of important risks to our positive outlook:

1. The pace of monetary-policy tightening by global central banks could pick up in 2018. Although we expect to see a pick-up in the pace of monetary tightening towards the end of the year, central banks are likely to continue to move slowly in 2018. That said, should inflation pick up above current expectations, for example due to one of the major economies overheating or due to policy measures, we could face a steeper tightening cycle rather than one that responds gradually to improvements in the global economy.
2. The Chinese economy could slow uncontrollably fast. Growth in China is expected to slow down, but in a controlled way. This gives policy makers time to implement the reforms that are needed to rebalance the economy. A sudden slowdown would not only be negative for China, but would have a widespread impact in emerging markets, given the strong trade relations with many other emerging countries.
3. Increased political risk: elections, particularly in Mexico and Brazil, could have unfavorable outcomes. If the elections in Mexico and Brazil give more power to parties with a populistic agenda, this could increase the perceived risk for emerging countries, which would be negative for valuations. Another source of risk is the North Korea conflict. This has not yet had much of an impact on the markets, and although the probability of

an escalation is very small, the potential impact would be large, not just for South Korea but also for the other countries involved.

4. The US increasing its protectionist policies. Up until now we have heard a lot of protectionist rhetoric coming from President Trump, with limited follow-up in actual policies. If this should change, it would have a negative impact on global trade flows and thereby on global economic growth. However, the US has much to lose from a trading war, and we believe that the progressively more moderate rhetoric from the US administration is a sign that this is clearly understood at government level. Of course, to maintain face with its electorate, President Trump will need to look for 'easy victims', with Nafta and hence Mexico being the easiest target, due to the asymmetric dependence of Mexico's exports on the US.

'Positive outlook for EM Equities based on positive macro backdrop and very attractive valuation'

Summary and conclusion

We are positive on the outlook for EM Equities based on the positive macro backdrop and very attractive valuation. Shorter-term indicators are also supportive. The sentiment factor in particular continues to give a positive signal, while the technical factor has also improved.

1. Macroeconomic environment: +
   Improved economic growth and solid overall financial balance sheets
2. Earnings expectations: +
   Earnings growth remains in the double digits, earnings revisions have turned positive
3. Valuation: ++
   Valuations in EMs are attractive and at a discount to DMs
4. Technical analysis: +
   Positive momentum and outperformance versus DMs
5. Sentiment – demand/supply +
   Recent fund flows have been very supportive, with total flows of circa USD 80 billion into EM funds

Key developments in individual emerging countries

South Korea

Geopolitical tensions have eased more recently, and the agreement between Korea and China to bring cooperation back to normal levels is positive. We think the probability of an escalation with North Korea is very small, yet the potential impact would be major, not just for South Korea, but also for the other countries involved. President Moon Jae-in is turning out to be less market-friendly than expected, implementing several measures that increase costs for business. However, other factors remain positive: stable economic growth, high

ROBECO
The Investment Engineers

current account surplus, improving earnings outlook, an attractive valuation and the gradual trend towards higher dividend pay-out. Korea is our favorite market in all emerging markets strategies.

China

President Xi Jinping has consolidated power, and his thoughts for the new era have been enshrined in the party's constitution. Having more concentrated power may lead to more effective policy implementation, yet it also increases the risk of being dependent on one man. Growth in China is stable for now, with 6.8% growth in Q3 2017. Debt ratios stabilized over the year, which is positive. Still, debt and the aggregated fiscal deficit remain high. For the long term, it will be important to see whether China can successfully implement reforms to rebalance its economy and deleverage the high-debt segments. We allocate a relatively large weight to China based on the benign macro- and earnings backdrop but pay significant attention to the quality of the balance sheets of the companies we invest in.

India

We see India as the country with the best prospects for structural reform and strong economic growth. However, in 2017 India experienced both earnings disappointments and declining expectations for economic growth, partly due to demonetization and the new Goods & Services Tax. We expect a recovery in growth and more fiscal stimulus. Despite having reduced our portfolios' weight in India during 2017 due to the earnings slowdown, we maintained a relatively large weight in the country given the favorable long-term outlook.

Brazil

President Temer has survived a vote on corruption allegations, but the outlook for important reforms, such as the pension reform, has diminished. Attention will increasingly focus on the October 2018 elections, the outcome of which is still very uncertain. Economic growth has finally turned positive, but remains low, and the fiscal deficit is still very large at more than 9% of GDP. On the positive side, inflation is coming down significantly and there is still room to cut interest rates further. We are currently keeping a cautious eye on the political developments that we expect for this year in the country.

Russia

Growth is slow but positive, while inflation has come down significantly, leaving room for further interest-rate cuts. Given the investigations in the US on Russia's influence during the elections, sanctions are unlikely to be eased. Even without a withdrawal of sanctions, as the inflation pass-through from the initial and most widespread ones has now normalized, rates can be cut further, providing stimulus to domestic demand. Within EMEA, Russia remains our favorite country.

Taiwan

For the Taiwanese equity market, the tech sector is most important. Here we see low structural growth, but also attractive valuations, high dividend pay-outs and some companies with strong market positions.

Turkey

In Turkey, economic growth has surprised positively, helped by high credit growth, which may prove unsustainable. Although valuations in Turkey are very cheap, both political and financial risk remain high. We do not have any Turkish positions.

South Africa

The ANC has elected Cyril Ramaphosa as its new party president and likely candidate for the 2019 elections. The market has reacted positively, as this may lead to less corruption, better fiscal discipline and more market-based reforms. However, there is still a lot of uncertainty, as the overall ANC leadership is divided and President Zuma still seems likely to govern until 2019. South Africa is one of our least favorite countries in the portfolios, although we are keeping a careful eye on how the political developments unfold ahead.

Mexico

Mexico started negotiations with the US and Canada in August 2017 to change the North American Free Trade Agreement (NAFTA). Although US rhetoric has eased, it remains an important risk factor. The other important event will be the parliamentary and presidential elections to be held in July 2018, which also brings uncertainty. For these reasons, we give Mexico a relatively small weight in our portfolios.

Argentina

President Macri's center-right coalition did well in the parliamentary elections in October, which is supportive for his reform program. We allocate a relatively large weight.

Elections

In 2018, elections are expected to be held in Brazil, Mexico, Colombia, Russia, Hungary, Thailand, Malaysia, Pakistan and Egypt. For the market, the Brazil and Mexico elections will be most important, as the outcome is uncertain and could have a major impact on the policy mix and growth outlook for both countries.

Trends Equity | Long-term structural trends

- Will out future car be electric and self-driving?
- The DNA of investing in DNA
- The end of the TV bundle?

Summary

The Trends Investing team is responsible for a range of trends investing strategies that aim to provide above-average returns by profiting from long-term structural trends such as demographic changes, changes in consumer behavior (also based on technology changes), the structural effects of digitization and the rise in the middle-income population in emerging markets.

Our investment horizon is therefore typically longer than that of other investment strategies. In this quarterly we discuss three topics on which we focus in our trends strategies: self-driving cars, investing in DNA and the ends of the TV bundle.

Self-driving cars

The roll-out of fully autonomous cars seems almost inevitable in our society, due to the major advantages they offer. Depending on who you listen to, this roll-out could come at the beginning or towards the end of the next decennium. It is clear that the upcoming changes to our cars will be accompanied by many changes in the car industry and the underlying business models. Our society will benefit from cleaner air, fewer traffic casualties and cheaper personal transport.

As it is hard to find structural winners in this tech rat-race, we focus on key suppliers. After all, whichever company turns out to be the winner, all cars need high-tech batteries and many sensors.

Investing in DNA

One of the biggest breakthrough technologies in healthcare is CRISPR. This digital technology can cut out certain damaged parts from a string of DNA and replace it with undamaged parts. In time, when we know more about where potential genetic disorders or diseases are hiding inside the string of DNA, CRISPR may well be able to erase genetic diseases. This is just a matter of time and using faster computers and smarter AI tools.

As a long-term investor, it is clear that we need to take these new healthcare technologies into account, as they can potentially change or jeopardize the future of many companies and industries. Today, it is hard, if not impossible, to tell who in pharma or healthcare will take the lead in the next digital phase. This is why we invest in the suppliers of healthcare test equipment, healthcare data and DNA machines.

The end of the TV bundle

The TV advertising market has probably had its best days. One of the reasons is that the business models of media conglomerates are based on the bundling of services. Content producers generate revenue by selling multiple content-filled TV channels to their distribution partners and secondly, by generating advertising income. The rise of the Internet has made it possible for new entrants to offer their services directly to the consumer. Changing consumer preferences are slowly reverberating through the media value chain. When this transition reaches a certain critical mass, the entire value chain – from media companies to advertisers, distributors and consumers – will change dramatically.

We invest in the companies we believe are positioned best and are expected to come out on top when the dust settles.

Topic 1 | Will our future car be electric and self-driving?

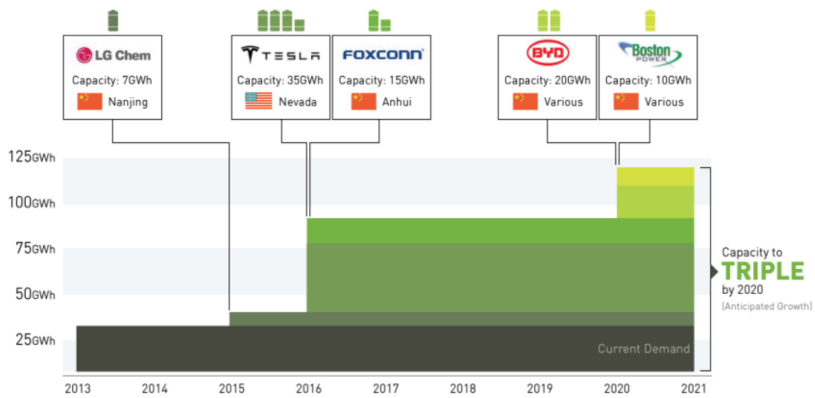
By Henk Grootveld, Head of Trends Investing and Fund Manager Rolinco/ Robeco Global Growth Trends Equities and Robeco Global Industrial Innovation Equities

We agree with Volkswagen CEO Müller who said: "The car industry is going to change more deeply in the coming ten years than in the 100 years before." At the beginning of the 20th century, the newly introduced car was able to replace the horse in less than 20 years. There were three key reasons for this fast changeover: cars were cheaper to use and produced less polluting waste than horses, but, above all, governments stimulated the switch.

Switch to electric cars by 2020

The electrical car (EV) ticks two of these three boxes. It does not produce smog and if producing the electricity used to power the EV does not emit pollution either, the EVs' environmental profile is much better than that of internal combustion engines. Also, the governments of China and Europe are backing the switch to EVs with regulations, subsidies and zero-emission city centers. The only thing holding back EVs' wide-scale adoption is their price. While maintenance and fueling costs are much lower, their purchasing price is higher. This is due mainly to the cost and weight of the battery pack. A lithium-ion battery pack (the most frequently used battery technology), is roughly USD 200 per kWh. Experts from Nissan and Mercedes estimate this has to be USD 100 per kWh to become price-competitive.

Figure 23 | Manufacturing capacity of batteries will triple by 2020



Source: Benchmarking Mineral Intelligence

In the past, the price of batteries halved on average every five years. The major driver behind these declines was the new technology, together with the increased manufacturing scale of batteries. However, current manufacturing capacity is so large that the usual five years to halve the price of batteries could very well become two or three years, making mainstream EVs price-competitive with gasoline-powered cars by the year 2020-21. Experts of LG Chem

'The car industry will change more deeply in the coming ten years than in the 100 years before' and Samsung SDI mention the same time-frame the for the introduction of a new chemistry for batteries that would reduce refueling time to a couple of minutes and expand the driving range to 500 km and beyond.

Two paths towards self-driving cars

The next step in personal transportation will come with the introduction of self-driving cars. Here, none of the above principles can hold back their massive adoption. It is the technology that isn't ready yet. The introduction of robot taxis will provide transport services that are instantly available using our smart phones. According to investment bank UBS, such taxis will be 80% cheaper than Uber and Lyft services. On top of that, governments will favor self-driving cars, as they erase traffic casualties and could improve labor productivity. More than 90% of all traffic casualties are caused by human error.

A self-driving car will be comparable to a luxury train that is able to take you from door to door instead of from station to station. This means that you can start working the moment you step on board. This improvement in economic productivity will be further enhanced by the introduction of self-driving trucks. These will be able to run 24/7, except for refueling stops, whereas today this would require at least three drivers.

Technology-wise, there are two potential paths that lead to the introduction of autonomous vehicles. The first path is a five-step approach used mainly by existing car manufactures such as BMW and Mercedes. New cars today, with some form of parking assistance, have reached the second step towards self-driving (level 2 Automatic Driving Assistance Systems (ADAS). There are therefore still three levels to go before the steering wheel can be removed.

Figure 24 | Mercedes F015, concept self-driving car

Source: Mercedes-benz.com

The second path is single-step autonomy, mainly followed by the newcomers to the industry such as Tesla, Waymo and Uber in the US; Baidu in China; and Robot Taxi in Japan. Waymo, owned by Google, is already running road trials with fully self-driving cars in Phoenix, Arizona. The Japanese government has kick-started the company Robot Taxi, which aims to transport all visitors to and from the Tokyo Olympic Games in 2020 in self-driving cars.

The roll-out of fully autonomous cars seems almost inevitable in our society, due to the major advantages they offer versus our present cars. Depending on who you listen to – the incumbent car manufacturers or the newcomers from the technology sector – this roll-out could come at the beginning or towards the end of the next decennium.

The impact of EVs and self-driving cars

While EVs are changing the rules in the car industry, self-driving cars will change society. In essence, an EV is no more than a large number of batteries with one, two or four electric motors, a steering wheel and a large tablet with software. This modular build-up substantially increases speed to market and lowers the barriers to entry for new entrants. Today the internal combustion engine is the proprietary part of the car, the only part designed and manufactured by the car company itself. Electric motors, however, are commoditized and used in many other industrial applications. There is no competitive edge for a car manufacturer in supplying differentiating electric motors or batteries, leaving the car companies only to differentiate in design, software functionality and platform.

Self-driving cars will be accompanied by all sorts of transport-as-a-service business models or robot taxis. This will make the use of personal cars far more efficient and cheaper. Private ownership will diminish and car insurance and repair shops will become obsolete, due to the absence of car crashes. Although the total miles driven will increase, the number of cars on the road will drop, potentially ending traffic jams. Robot taxis will not need the average 2.5 parking spaces currently available for our cars. Gas stations will need to accommodate high-speed electrical charging and can probably stop running shops.

What does this mean for investors?

It is clear that the upcoming changes to our cars will be accompanied by many changes in the car industry and the underlying business models. Our society will benefit from cleaner air, fewer traffic casualties and cheaper personal transport. It is however hard to find structural winners in this tech rat-race. A focus on key suppliers seems a safer alternative, as all these cars need high-tech batteries and many sensors.[1]

[1] This is an extract from the white paper "Will our future car be electrical and self-driving?". If you would like a copy, please contact your Robeco sales representative.

ROBECO
The Investment Engineers

Topic 2 | The DNA of investing in DNA

By Henk Grootveld, Head of Trends Investing and Fund Manager Rolinco/ Robeco Global Growth Trends Equities and Robeco Global Industrial Innovation Equities

Many of the digital innovations in this century were aimed at the consumer and are therefore familiar and visible in our society. Smart phones, social media or even augmented-reality games like Pokémon Go: most millennials embraced them from the start and the rest of us followed smoothly. Today we have arrived at a new stage in the digital revolution: the stage where the production side of our economy will grab the benefits from new digital technologies like AI, robots and automation. Do you know, for instance, where your running shoes are made these days? I recently found out that mine were no longer man-made in Asia but were being manufactured by robot arms and 3D printers in Germany.

'We have arrived at a new stage in the digital revolution: where the producer will stand to benefit'

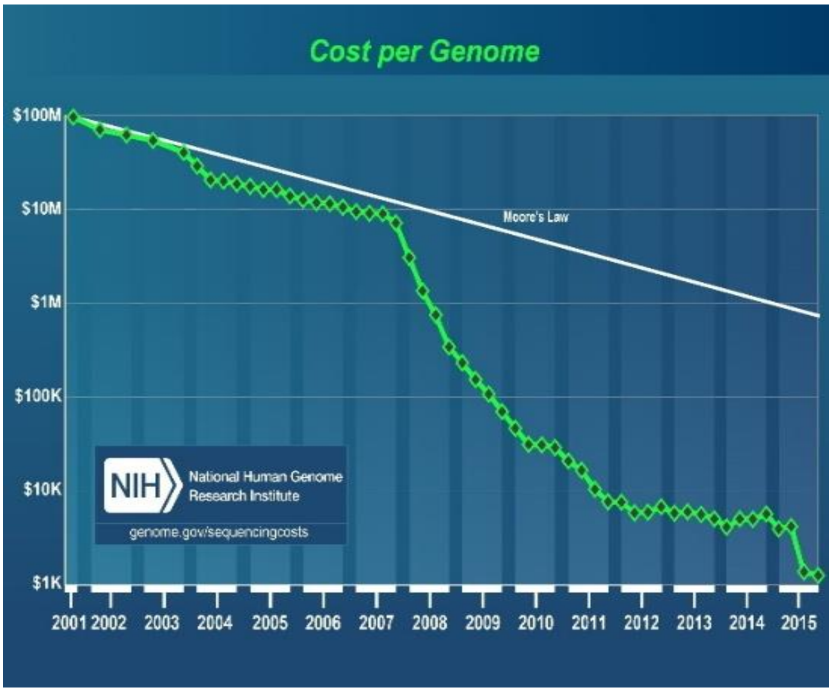
Digital revolution in healthcare

Despite its conservative nature, even the healthcare sector has entered the digital world. What this could potentially mean for our future health has, so far, been hidden well in expensive labs in the US or China. One of the biggest breakthrough technologies that new digital technologies brought us is called CRISPR, or CRISPR-CAS to be more precise. I have been told that CRISPR is a kind of magic combination of scissors and glue, able to work on DNA. CRISPR can cut out certain damaged parts from a string of DNA and replace it with undamaged parts. Our DNA can be best described as the memory chip of our body, the chip that contains all our psychical and mental properties in specific DNA code. Theoretically, it would be possible to rebuild yourself or any other living being with just one string of DNA.

Human Genome Project

It took scientists over 15 years and almost USD 3 billion to store the entire human DNA on a computer. This project was called the Human Genome Project and was finalized at the start of this century. Today, 15 years later, storing your DNA costs less than USD 1,000 and only takes a couple of hours. The upcoming Illumina DNA machines indicate that the price of digitizing your DNA will soon drop below USD 100. Such price deflation is amazing, even in terms of Moore's Law.

Figure 25 | Human Genome Project – Cost per genome



Source: National Human Genome Research Institute

Back to CRISPR, which we simply copied from bacteria: it is quite easy to potentially erase all genetic diseases using this technology. At this point in time, we have decoded only 3-4% of our DNA. We therefore do not know yet where all the potential genetic disorders or diseases are hiding inside the string of DNA. But this is just a matter of time and using faster computers and smarter AI tools.

Moral concerns

It is already possible today to test in-vitro embryos for a limited amount of known lethal genetic disorders and to insert only the potentially healthy embryo into the mother's womb. Although there are many ethical and religious objections in our society against such procedures, there are also many wannabe parents who are in favor. The question that needs to be answered by all of us is: where will this end? If we can analyze the entire DNA of unborn children, it is also possible, for instance, to erase all future eye problems in these children. This would make all spectacles and lenses pointless and kill an entire industry. Or we could select the mother and father's optimal combination of DNA only to give us the best athletes. A form of DNA doping, if you like. This may sound like science fiction, but is precisely what the Chinese government has been doing for years. Previously, a couple of Chinese Olympic athletes were brought together and strongly encouraged to start a family, with free housing and other subsidies as an incentive. Nowadays, China simply keeps DNA samples of most of its citizens.

Next step in human evolution

And this is just the beginning. Once science has discovered the genetic key to aging, Botox clinics will be replaced by DNA repair shops. Wrinkles and gray hair will become a rarity, or even worse, a sign of poverty. Even combining human with non-human DNA using CRISPR can simply not be excluded in the future. It may take a few years, but in due time it will be possible for people to have a sense of smell equivalent to a dog's and to have the eye-sight of an eagle. Yet, who would want to be able to smell what everybody else is having for dinner, or see how many ants are traversing the lawn? Perhaps you would like your kids to glow in the dark, like jellyfish, so that they can be seen in traffic. Ridiculous you might say, but with the birth of the first light-emitting cat as the unwanted side-effect of a research project to cure AIDS among cats by combining parts of jellyfish DNA with feline DNA, this was accomplished years ago.[2]

Who knows, laboratory tests involving the most bizarre combinations might currently be taking place. It is clear that with the discovery of CRISPR, we have entered a fast-forward step in human evolution. Whether we like it or not, the first DNA treatments are already scheduled to be launched on the market.

What does this mean for investors?

As a long-term investor, it is clear that we need to take these new healthcare technologies into account, as they can potentially change or jeopardize the future of many companies and industries. Today, it is hard, if not impossible, to tell who in pharma or healthcare will take the lead in the next digital phase. It feels something like the gold rush of the 19th century, when everybody was eager to find gold. The safest way for investors during such a gold rush is not to bet on who will find the most gold, but to focus on the suppliers, who all need picks and shovels. That is why our investment capability Rolinco/Global Growth Trends is focused on investing in the suppliers of healthcare test equipment, healthcare data and DNA machines.

[2] http://healthland.time.com/2011/09/12/glow-in-the-dark-cats-may-help-shed-light-on-aids/

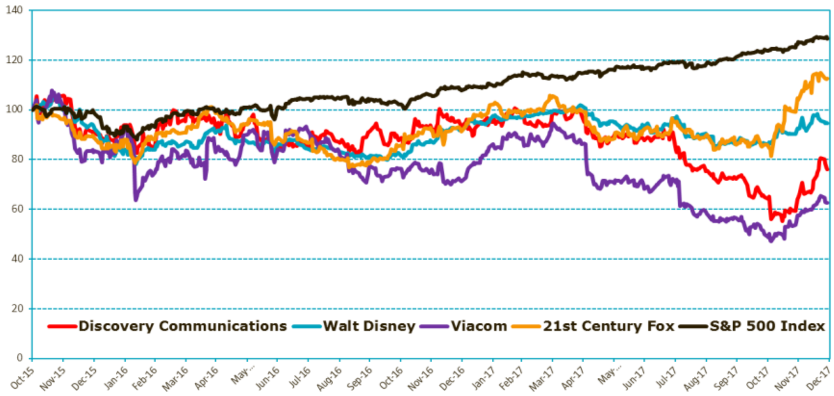
Topic 3 | The end of the TV bundle?

By Jack Neele, Fund Manager Robeco Global Consumer Trends Equities

‘The best days for the TV advertising market are probably behind it’

The TV advertising market has probably had its best days. A lot has happened over the past two years, such as the planned take-over of media powerhouse Time Warner by telecom giant AT&T and the purchase of parts of Rupert Murdoch’s Twenty-First Century Fox by Walt Disney. Despite all the corporate action, the share prices of major global media companies have lagged. Over the last two years, their stock prices have dropped (except Twenty-First Century Fox, which rallied after the bid), while the broader market has reached new highs.

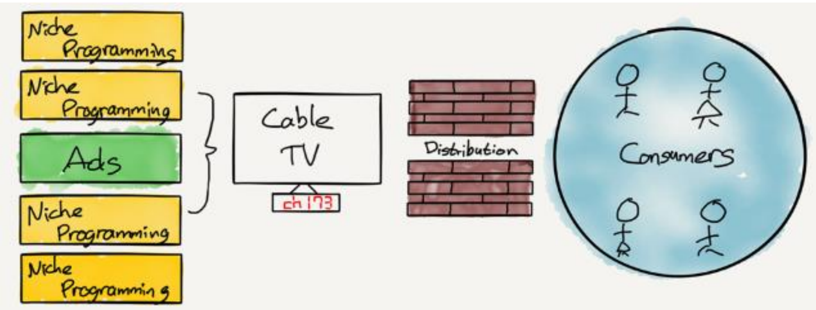
Figure 26 | The share price performance of Big Media versus the S&P 500



Source: Robeco, Bloomberg. Data from November 2015 through December 2017

One of the reasons is that the business models of the media conglomerates are based on the bundling of services. For example, in Holland, the default programming bundle consists of the national news network, commercial TV channels and well-known specialized channels such as National Geographic, The Disney Channel and Eurosport. To better understand the pressures on the ecosystem, we will first look at the current value chain.

Figure 27 | The value chain in the media industry



Source: Stratechery

The value chain in the media industry consists of content producers (Big Media), distributors (cable and telecom companies) and end consumers (TV viewers). The content producers generate revenue by selling multiple content-filled TV channels to their distribution partners (e.g. Discovery Communications offers Discovery Channel, Animal Planet, Eurosport and TLC), and secondly, by generating advertising income. The distributors then package those channels into the well-known programming bundle and additional packages. The default programming bundle is put together in a way that makes it attractive to almost all viewers.

How the bundle works

To simplify matters, we take a fictitious example of a bundle consisting of just two channels. The table below shows the willingness to pay of two distinct TV viewers: the sports fan and the entertainment lover. Our sports fan is prepared to pay a maximum of EUR 7.50 a month to have access to Eurosport.

	Disney Channel	Eurosport
Entertainment lover	EUR 7.50	EUR 2.50
Sports fan	EUR 2.50	EUR 7.50

What is the optimal price for both of our TV viewers and the cable company? Let's assume the offered monthly rates are 10% below the maximum willingness to pay to make the offer attractive to our viewers. If Disney Channel and Eurosport were sold separately, the optimal rate would be EUR 6.75, i.e. EUR 7.50 -/- 10% discount. The sports fan would buy Eurosport and our entertainment lover would buy Disney Channel. The cable company generates EUR 13.50 a month in revenue. By offering a bundle, the cable company can charge EUR 9.00 (EUR 10.00 - 10%) for a total turnover of EUR 18.00.

The savings for the consumer in the first example total up to EUR 1.50 (2 x EUR 7.50 - EUR 13.50) and amount to EUR 2.00 (2 x EUR 10.00 - EUR 18.00) in the bundle. Both the cable company and the TV viewers benefit from bundling channels.

What's changed?

The rise of the Internet has made it possible for new entrants to offer their services directly to the consumer. Effectively, distribution costs now amount to zero. A prime example is of course Netflix, which has succeeded in routing around the traditional distribution partners (cable and telecom) and selling subscriptions directly to consumers.

The cable bundle is not the only bundle that's under pressure. One of the first bundles to succumb to the power of the Internet is the good old newspaper. A newspaper bundles articles (news, sports, finance, etc.) and advertising in the same way the cable companies bundle programming channels and commercials. The growth of the Internet led to the wide availability of free news on the Internet, which led to the demise of many publishers.

In the music industry, another well-known bundle, the compact disc (CD) has all but disappeared. First, the traditional album was unbundled into individual songs via iTunes and other offerings. More recently, new services like Spotify have offered a subscription service, where for EUR 10 a month, consumers obtain access to a new bundle. However, the size of this bundle is huge. It consists of both recently released music and the entire back catalogue of older songs. This means that in the music industry, traditional distributors (record shops) have been replaced by new forms of distribution such as iTunes and Spotify.

Finally, to add to the confusion, many distributors are themselves also offering bundled services. Besides TV programming, many of them also offer telephony and broadband services to customers. The consumers benefit from subscribing to a so-called triple play bundle compared to individual subscriptions. However, this bundle is also under pressure, as more and more consumers no longer need fixed line telephony and a smaller group, consisting of mostly millennials, chooses to forgo a television subscription as well.

What does this mean for investors?

Despite the fact that the bundle offers added value to consumers (in the form of savings), consumer preferences are clearly changing. Video-on-demand offerings are the most popular video services. Cable companies rely mostly on their broadband offerings, and for telephony, most consumers have a (mobile) subscription from a third party.

The crumbling of the cable bundle doesn't improve the medium-term prospects for Big Media. And not everyone has chosen the same strategic course. Some media companies have chosen to sell up (e.g., Time Warner and Twenty-First Century Fox), and others have chosen to start developing their own direct-to-consumer service to more effectively compete with Netflix. The cable companies are focusing entirely on their lucrative broadband services, even though they seem to be mulling over mobile subscription offerings.

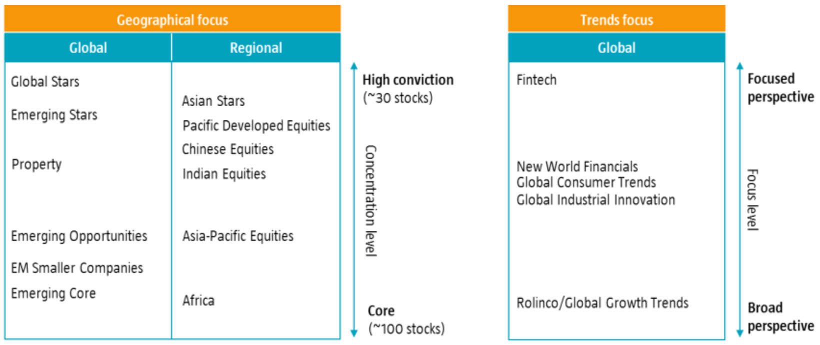
Changing consumer preferences are slowly reverberating through the media value chain. When this transition reaches a certain critical mass, the entire value chain – from media companies to advertisers, distributors and consumers – will change dramatically. Investors have multiple options. The first and most defensive option is to watch this battle evolve from the side-lines and forgo the potential spoils. The second is to invest in the players who seem to be positioned best and are expected to come out on top when the dust settles. This is the option we have chosen.

ROBECO
The Investment Engineers

Robeco Fundamental Equities investment strategies

Overview investment strategies

Figure 28 | Robeco Fundamental Equities investment strategies



Source: Robeco

Performance investment strategies

Track record – Robeco Global Equities (Excess return)

	1 year (ann.)	3 year (ann.)	5 year (ann.)	10 year (ann.)
Robeco Global Stars*	3.71%	1.08%	1.26%	
Robeco Property Equities**	2.82%	1.20%	-0.10%	0.85%

Source: Robeco. D-share, gross of fees, based on net asset value, all figures in EUR. In reality costs (such as management fees, transaction- and other costs) are charged. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future. *versus MSCI World Index; **versus S&P Developed Property Index. Data as of 31 December 2017.

Track record – Robeco Emerging Markets Equities (Excess return)

	1 year (ann.)	3 year (ann.)	5 year (ann.)	10 year (ann.)
Robeco Emerging Markets Equities*	3.24%	3.33%	2.28%	1.29%
Robeco Emerging Stars*	-0.87%	1.72%	3.11%	2.71%
Robeco Africa**	3.54%	0.24%	0.22%	
Robeco EM Smaller Companies***	-4.39%	1.14%	4.45%	
Robeco Emerging Opportunities*	1.50%			

Source: Robeco. D-share, gross of fees, based on net asset value, all figures in EUR. In reality costs (such as management fees, transaction- and other costs) are charged. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future. *versus MSCI EM Index; ** Robeco Afrika Fonds A-share, versus customized index: MSCI EFM Africa ex South Africa 50%, MSCI South Africa 50%; ***versus MSCI EM Mid Cap Index. Data as of 31 December 2017.

ROBECO
The Investment Engineers

Track record – Robeco Asia-Pacific Equities (Excess return)

	1 year (ann.)	3 year (ann.)	5 year (ann.)	10 year (ann.)
Robeco Asia-Pacific Equities*	-1.30%	1.71%	2.77%	2.92%
Robeco Asian Stars**	-2.76%	0.03%	2.13%	
Robeco Chinese Equities***	-0.84%	-0.09%	2.65%	2.56%
Robeco Indian Equities[1]	-0.81%	1.45%	3.41%	-0.81%
Robeco China A-share Equities[2]				

Source: Robeco. D-share, gross of fees, based on net asset value, all figures in EUR. In reality costs (such as management fees, transaction- and other costs) are charged. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future. *versus MSCI All Country Asia Pacific; **versus MSCI All Country Asia ex Japan; ***versus MSCI China; [1]versus MSCI India Index; [2]Inception date: February 2017. Data as of 31 December 2017.

Track record – Robeco Trends Equities (Excess return)

	1 year (ann.)	3 year (ann.)	5 year (ann.)	10 year (ann.)
Robeco Global Consumer Trends*	14.43%	4.06%	5.09%	6.63%
Robeco New World Financials**	11.20%	1.89%	1.95%	1.45%
Rolinco***	12.43%	2.65%	2.76%	-0.42%
Robeco Hollands Bezit[1]	-4.66%	0.77%	1.52%	1.19%
Robeco Global Growth Trends*	12.32%	3.39%		
Robeco Global Industrial Innovation[2]				
Robeco Global Fintech[3]				

Source: Robeco. D-share, gross of fees, based on net asset value, all figures in EUR. In reality costs (such as management fees, transaction- and other costs) are charged. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future. *versus MSCI All Country World Index; **MSCI All Country World Financials Index; ***Rolinco A-share, versus MSCI All Country World Index; [1]Robeco Hollands Bezit A-Share, versus customized index: 50% AEX index / 50% AMX index; [2]Inception date: May 2017; [3]Inception date: November 2017. Data as of 31 December 2017.

Important Information

Robeco Institutional Asset Management B.V. has a license as manager of Undertakings for Collective Investment in Transferable Securities (UCITS) and Alternative Investment Funds (AIFs) ("Fund(s)") from the Netherlands Authority for the Financial Markets in Amsterdam. This document is solely intended for professional investors, defined as investors which qualify as professional clients, have requested to be treated as professional clients or are authorized to receive such information under any applicable laws. Therefore, the information set forth herein is not addressed and must not be made available, in whole or in part, to other parties, such as retail clients. Robeco Institutional Asset Management B.V and/or its related, affiliated and subsidiary companies, ("Robeco"), will not be liable for any direct, indirect, special, incidental or consequential damages arising out of the use of any opinion or information expressly or implicitly contained in this publication.The content of this document is based upon sources of information believed to be reliable. Without further explanation this document cannot be considered complete. It is intended to provide the professional investor with general information on Robeco's specific capabilities, but does not constitute a recommendation or an advice to buy or sell certain securities or investment products and/or to adopt any investment strategy. Nothing in this material constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. Any opinions, estimates or forecasts may be changed at any time without prior warning. If in doubt, please seek independent advice. All rights relating to the information in this document are and will remain the property of Robeco. This material may not be copied or used with the public. No part of this document may be reproduced, saved in an automated data file or published in any form or by any means, either electronically, mechanically, by photocopy, recording or in any other way, without Robeco's prior written permission.

The material and information in this document are provided "as is" and without warranties of any kind, either expressed or implied. Robeco and its related, affiliated and subsidiary companies disclaim all warranties, expressed or implied, including, but not limited to, implied warranties of merchantability and fitness for a particular purpose.

Investment involves risks. Before investing, please note the initial capital is not guaranteed. The value of the investments may fluctuate. Past performance is no guarantee of future results. Investors should ensure that they fully understand the risk associated with the Fund. Investors should also consider their own investment objective and risk tolerance level. The information in this material may contain projections or other forward-looking statements regarding future events, targets, management discipline or other expectations which involve assumptions, risks, and uncertainties and is only as current as of the date indicated. Based on this, there is no assurance that such events will occur, and may be significantly different than that shown here, and Robeco cannot guarantee that these statistics and the assumptions derived from the statistics will reflect the market conditions that may be encountered or future performances. Historical returns are provided for illustrative purposes only. The price of units may go down as well as up and the past performance is not indicative of future performance. If the currency in which the past performance is displayed differs from the currency of the country in which you reside, then you should be aware that due to exchange rate fluctuations the performance shown may increase or decrease if converted into your local currency. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units.

The prices used for the performance figures of the Luxembourg-based Funds are the end-of-month transaction prices net of fees up to 4 August2010. From 4 August 2010, the transaction prices net of fees will be those of the first business day of the month. Return figures versus the benchmark show the investment management result before management and/or performance fees; the Fund returns are with dividends reinvested and based on net asset values with prices and exchange rates of the valuation moment of the benchmark. Please refer to the prospectus of the Funds for further details. Performance is quoted net of investment management fees. The ongoing charges mentioned in this document is the one stated in the Fund's latest annual report at closing date of the last calendar year.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, such as US Persons, where such distribution, document, availability or use would be contrary to law or regulation or which would subject the Fund and its investment manager to any registration or licensing requirement within such jurisdiction.

Any decision to subscribe for interests in the Fund must be made solely on the basis of information contained in the prospectus which information may be different from the information contained in this document. The information contained in this document is qualified in its entirety by reference to the prospectus, and this document should, at all times, be read in conjunction with the prospectus. The prospectus and the Key Investor Information Document for the Robeco Funds can all be obtained free of charge at www.robeco.com.

Additional Information for US offshore investors

The Robeco Capital Growth Funds have not been registered under the United States Investment Company Act of 1940, as amended, nor the United States Securities Act of 1933, as amended. None of the shares may be offered or sold, directly or indirectly in the United States or to any US Person. A US Person is defined as (a) any individual who is a citizen or resident of the United States for federal income tax purposes; (b) a corporation, partnership or other entity created or organized under the laws of or existing in the United States; (c) an estate or trust the income of which is subject to United States federal income tax regardless of whether such income is effectively connected with a United States trade or business.

Additional Information for investors with residence or seat in Australia

This document is distributed in Australia by Robeco Hong Kong Limited (ARBN 156 512 659) ('Robeco') which is exempt from the requirement to hold an Australian financial services license under the Corporations Act 2001 (Cth) pursuant to ASIC Class Order 03/1103. Robeco is regulated by the Securities and Futures Commission under the laws of Hong Kong and those laws may differ from Australian laws. This document is distributed only to "wholesale clients" as that term is defined under the Corporations Act 2001 (Cth). This document is not for distribution or dissemination, directly or indirectly, to any other class of persons. In New Zealand, this document is only available to wholesale investors within the meaning of clause 3(2) of Schedule 1 of the Financial Markets Conduct Act 2013 ('FMCA'). This document is not for public distribution in Australia and New Zealand.

Additional Information for investors with residence or seat in Austria

This information is solely intended for professional investors or eligible counterparties in the meaning of the Austrian Securities Oversight Act.

Additional Information for investors with residence or seat in Brazil

The Fund may not be offered or sold to the public in Brazil. Accordingly, the Fund has not been nor will be registered with the Brazilian Securities Commission - CVM nor have they been submitted to the foregoing agency for approval. Documents relating to the Fund, as well as the information contained therein, may not be supplied to the public in Brazil, as the offering of the Fund is not a public offering of securities in Brazil, nor used in connection with any offer for subscription or sale of securities to the public in Brazil.

Additional Information for investors with residence or seat in Colombia

This document does not constitute a public offer in the Republic of Colombia. The offer of the Fund is addressed to less than one hundred specifically identified investors. The Fund may not be promoted or marketed in Colombia or to Colombian residents, unless such promotion and marketing is made in compliance with Decree 2555 of 2010 and other applicable rules and regulations related to the promotion of foreign Funds in Colombia. The distribution of this document and the offering of shares may be restricted in certain jurisdictions. Prospective applicants for the Fund should inform themselves of any applicable legal requirements, exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Additional Information for investors with residence or seat in the Dubai International Financial Centre (DIFC), United Arab Emirates

This material is being distributed by Robeco Institutional Asset Management B.V. (Dubai Office) located at Office 209, Level 2, Gate Village Building 7, Dubai International Financial Centre, Dubai, PO Box 482060, UAE. Robeco Institutional Asset Management B.V. (Dubai office) is regulated by the Dubai Financial Services Authority ("DFSA") and only deals with Professional Clients or Market Counterparties and does not deal with Retail Clients as defined by the DFSA.

Additional Information for investors with residence or seat in France

Robeco is having the freedom to provide services in France. Robeco France (only authorized to offer investment advice service to professional investors) has been approved under registry number 10683 by the French prudential control and resolution authority (formerly ACP, now the ACPR) as an investment firm since 28 September 2012.

Additional Information for investors with residence or seat in Germany

This information is solely intended for professional investors or eligible counterparties in the meaning of the German Securities Trading Act.

Additional Information for investors with residence or seat in Hong Kong

The contents of this document have not been reviewed by the Securities and Futures Commission ("SFC") in Hong Kong. . If you are in any doubt about any of the contents of this document, you should obtain independent professional advice. This document has been distributed by Robeco Hong Kong Limited ('Robeco'). Robeco is regulated by the SFC in Hong Kong.

Additional Information for investors with residence or seat in Italy

This document is considered for use solely by qualified investors and private professional clients (as defined in Article 26 (1) (b) and (d) of Consob Regulation No. 16190 dated 29 October 2007). If made available to Distributors and individuals authorized by Distributors to conduct promotion and marketing activity, it may only be used for the purpose for which it was conceived.

The data and information contained in this document may not be used for communications with Supervisory Authorities. This document does not include any information to determine, in concrete terms, the investment inclination and, therefore, this document can not and should not be the basis for making any investment decisions.

Additional Information for investors with residence or seat in Panama

The distribution of this Fund and the offering of shares may be restricted in certain jurisdictions. The above information is for general guidance only, and it is the responsibility of any person or persons in possession of the prospectus of the Fund and wishing to make application for shares to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for shares should inform themselves as to legal requirements also applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Additional Information for investors with residence or seat in Peru

The Fund has not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is only for the exclusive use of institutional investors in Peru and is not for public distribution.

Additional Information for investors with residence or seat in Shanghai

This material is prepared by Robeco Investment Management Advisory (Shanghai) Limited Company ('Robeco Shanghai') and is only provided to the specific objects under the premise of confidentiality. This material must not be wholly or partially reproduced, distributed, circulated, disseminated, published or disclosed, in any form and for any purpose, to any third party without prior approval from Robeco Shanghai. The information contained herein may not reflect the latest information on account of the changes and Robeco Shanghai is not responsible for the updating of the material or the correction of inaccurate or missing information contained in the material. Robeco Shanghai has not yet been registered as the private fund manager with the Asset Management Association of China. Robeco Shanghai is a wholly foreign-owned enterprise established in accordance with the PRC laws, which enjoys independent civil rights and civil obligations. The statements of the shareholders or affiliates in the material shall not be deemed to a promise or guarantee of the shareholders or affiliates of Robeco Shanghai, or be deemed to any obligations or liabilities imposed to the shareholders or affiliates of Robeco Shanghai.

Additional Information for investors with residence or seat in Singapore

This document has not been registered with the Monetary Authority of Singapore ("MAS"). Accordingly, this document may not be circulated or distributed directly or indirectly to persons in Singapore other than (i) to an institutional investor under Section 304 of the SFA, (ii) to a relevant person pursuant to Section 305(1), or any person pursuant to Section 305(2), and in accordance with the conditions specified in Section 305, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. The contents of this document have not been reviewed by the MAS. This document is not intended as a recommendation or for the purpose of soliciting any action in relation to Robeco Capital Growth Funds or other Robeco Funds and should not be construed as an offer to sell shares of the Fund ("Shares") or solicitation by anyone in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer and solicitation. Any decision to subscribe for interests in the Fund must be made solely on the basis of information contained in the prospectus ("Prospectus"), which information may be different from the information contained in this document, and with independent analyses of your investment and financial situation and objectives. The information contained in this document is qualified in its entirety by reference to the Prospectus, and this document should, at all times, be read in conjunction with the Prospectus. Detailed information on the Fund and associated risks is contained in the Prospectus. Any decision to participate in the Fund should be made only after reviewing the sections regarding investment considerations, conflicts of interest, risk factors and the relevant Singapore selling restrictions (as described in the section entitled "Important Information for Singapore Investors") contained in the Prospectus. You should consult your professional adviser if you are in doubt about the stringent restrictions applicable to the use of this document, regulatory status of the Fund, applicable regulatory protection, associated risks and suitability of the Fund to your objectives. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject the Fund and its investment manager to any registration or licensing requirement within such jurisdiction. Investors should note that only the sub-funds listed in the appendix to the section entitled "Important Information for Singapore Investors" of the Prospectus ("Sub-Funds") are available to Singapore investors. The Sub-Funds are notified as restricted foreign schemes under the Securities and Futures Act, Chapter 289 of Singapore ("SFA") and are invoking the exemptions from compliance with prospectus registration requirements pursuant to the exemptions under Section 304 and Section 305 of the SFA. The Sub-Funds are not authorized or recognized by the Monetary Authority of Singapore and Shares in the Sub-Funds are not allowed to be offered to the retail public in Singapore. The Prospectus of the Fund is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses would not apply. The Sub-Funds may only be promoted exclusively to persons who are sufficiently experienced and sophisticated to understand the risks involved in investing in such schemes, and who satisfy certain other criteria provided under Section 304, Section 305 or any other applicable provision of the SFA and the subsidiary legislation enacted thereunder. You should consider carefully whether the investment is suitable for you. Singapore Private Limited holds a capital markets services licence for fund management issued by the MAS and is subject to certain clientele restrictions under such licence. An investment will involve a high degree of risk, and you should consider carefully whether an investment is suitable for you.

Additional Information for investors with residence or seat in Spain

The Spanish branch Robeco Institutional Asset Management BV, Sucursal en España, having its registered office at Paseo de la Castellana 42, 28046 Madrid, is registered with the Spanish Authority for the Financial Markets (CNMV) in Spain under registry number 24.

Additional Information for investors with residence or seat in Switzerland

This document is exclusively distributed in Switzerland to qualified investors as defined in the Swiss Collective Investment Schemes Act (CISA) by Robeco Switzerland AG which is authorized by the Swiss Financial Market Supervisory Authority FINMA as Swiss representative of foreign collective investment schemes, and UBS Switzerland AG, Bahnhofstrasse 45, 8001 Zurich, postal address: Europastrasse 2, P.O. Box, CH-8152 Opfikon, as Swiss paying agent. The prospectus, the key investor information documents (KIIDs), the articles of association, the annual and semi-annual reports of the Fund(s), as well as the list of the purchases and sales which the Fund(s) has undertaken during the financial year, may be obtained, on simple request and free of charge, at the office of the Swiss representative Robeco Switzerland AG, Josefstrasse 218, CH-8005 Zurich. The prospectuses are also available via the website www.robeco.ch.

Additional Information for investors with residence or seat in United Arab Emirates

Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority (the Authority). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

Additional Information for investors with residence or seat in the United Kingdom

Robeco is subject to limited regulation in the UK by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.

Additional Information for investors with residence or seat in Uruguay

The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment Funds that are not investment Funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.