

# Peripheral Europe Update

Olaf Penninga, Lead Portfolio Manager Robeco Euro Government Bonds  
Bronka Rzepkowski, Portfolio Manager

- **Outperforming peripheral bonds amid a bearish bond mood**
- **"In front of the house", or who could govern the Catalan parliament?**

## Main market events

Peripheral bonds performed quite well this week despite the bond sell-off in US Treasuries and German Bunds. Neither the ongoing political uncertainties in Italy and Spain or the "hawkish" minutes of the December ECB meeting published yesterday have weighed on spreads. The ECB Governing Council showed a strong confidence in the inflation path converging toward the 2% target against a background of accelerating growth. It also mentioned the need to revise communication about QE and forward guidance as a result. Italian bonds have returned -0.07% year-to-date, Spanish bonds 0.07%, Portuguese bonds 0.36% and Irish bonds -0.41%.

## Italy

Property prices continue to decline in Italy, unlike its peers in the Eurozone. Current prices are now 23% lower than their pre-crisis level. This will continue to weigh not only on banks' corporate bad loans but also on households financial wealth. On the political front, the centre-right parties last Sunday agreed to form a coalition ahead of the elections on 4 March. They reached a broad agreement about a flat tax rate and a revision of the pension reforms. If implemented, the 15% to 20% flat rate would have negative consequences on the debt sustainability of the country in the medium term. The debt to GDP ratio (132%) remains one of the highest in the Eurozone. As the centre-right bloc continues to gain momentum in polls, their drastic economic plans could negatively impact Italian spreads in the coming months.

## Spain

The government revised upward its 2018 growth forecast from 2.3% to a level "clearly above 2.5%". This has been supported by strong PMIs and industrial production continuing to surprise on the upside – 4.2% in November against 3.4% in Q3 2017. The economic activity has not been impacted by the uncertainties surrounding the Catalan situation. That said, more stress may be expected especially if Puigdemont is elected as the Catalan Premier on 31 January. On Tuesday, he received a provisional backing of the two other pro-independence parties. But the parliament rule imposes that the new Catalan leader has to present the government programme "in front of the house". With Puigdemont being in Brussels, a legal issue is currently debated whether a remote presence via a TV screen could be acceptable or a physical presence is required. Independently of the legal issues, Madrid is likely to oppose his candidacy.

## Robeco Euro Government Bonds

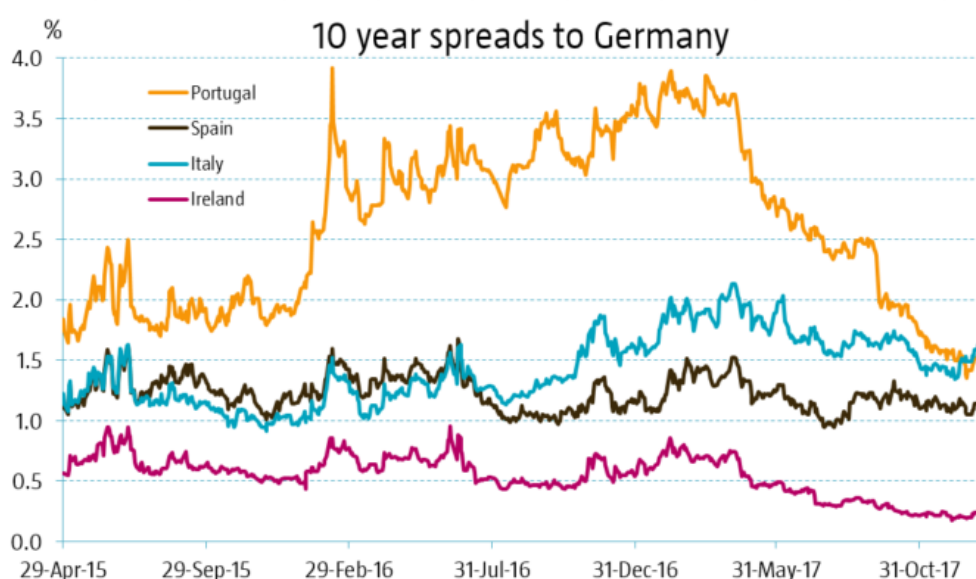
We have an overweight position in Spanish government bonds and a small underweight position in Italian bonds. We are positive on Spanish fundamentals, while we remain wary of the political risks in Italy. We hold no Irish bonds as their spreads over France do not compensate for the potential risks stemming from Brexit, international tax reform and the volatility inherent to Ireland's size. Currently the fund is 40% invested in peripheral bonds, in line with the index. Year-to-date the fund's absolute return is -0.31%\*.

\* Robeco Euro Government Bonds, gross of fees, based on Net Asset Value, January 11, 2018.  
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	-0.59	0.06									
2	-0.56	0.13	0.25	0.19	-0.05	0.10	0.07	2.07	0.10	0.03	0.30
3	-0.46	0.23	0.49	0.47	-0.01	0.11	0.10		0.02	0.09	0.37
4	-0.29	0.24	0.56	0.36	-0.02	0.07	0.06		0.23	0.03	0.41
5	-0.11	0.21	0.80	0.50	-0.07	0.05	0.08	3.35	0.21	0.07	0.59
6	0.08	0.15	0.80	0.53	-0.03	0.08	0.05		0.23	0.07	0.74
7	0.21	0.19	1.04	0.65	-0.01	0.12	0.06		0.28	0.01	0.75
8	0.31	0.23	1.24	0.83	0.03	0.11	0.10			0.09	1.10
9	0.45	0.25	1.33	0.87	0.02	0.12	0.12			-0.12	1.18
10	0.58	0.27	1.42	0.95	0.03	0.14	0.09	3.32	0.42	0.10	1.24
15	0.74	0.36	1.87	1.44		0.35	0.39	3.55	0.40	0.23	1.53
20	1.01	0.39	1.73			0.17	0.18	3.33			1.70
30	1.32	0.45	1.83	1.45	-0.01	0.40	0.22			0.08	1.69

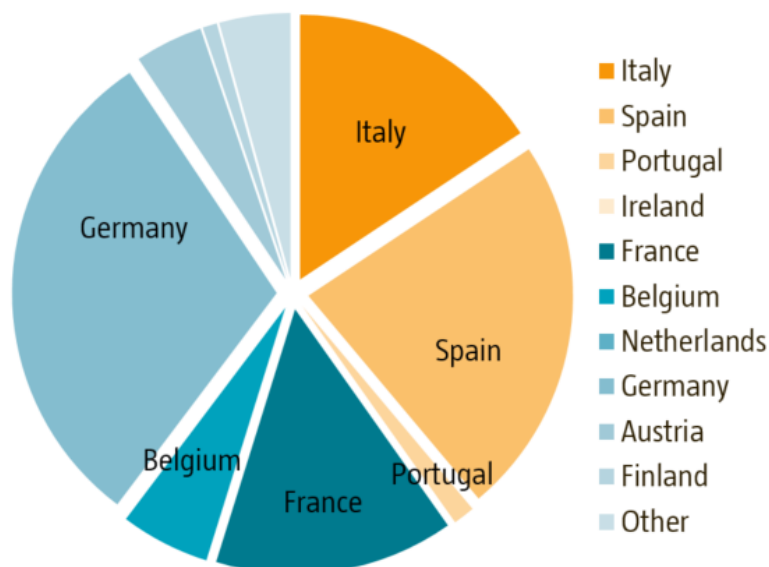
Source: Bloomberg



Source: Bloomberg

Note: the spike in Irish yield is due to the issuance of a new 10-year bond.

### Country allocation Robeco Euro Government Bonds (January 11, 2018)



Source: Robeco

## 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 August 2010. 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](http://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 ('FMC'). 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** Investment returns not denominated in HKD/USD are exposed to exchange rate fluctuations. Investors should refer to the Hong Kong prospectus before making any investment decision. This Fund may use derivatives as part of its investment strategy and such investments are inherently volatile and this Fund could potentially be exposed to additional risk and cost should the market move against it. Investors should note that the investment strategy and risks inherent to the Fund are not typically encountered in traditional equity long only Funds. In extreme market conditions, the Fund may be faced with theoretically unlimited losses. The contents of this document have not been reviewed by the Securities and Futures Commission ("SFC") in Hong Kong. This document has been distributed by Robeco Hong Kong Limited ('Robeco'). Robeco is regulated by the SFC in Hong Kong. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

**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) (d) of Consob Regulation No. 16190). 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.

**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.

**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 such terms are defined under 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 head office of the Swiss representative Robeco Switzerland AG, Josefstrasse 218, CH-8005 Zurich. The prospectuses are available at the company's offices or via the [www.robeco.ch](http://www.robeco.ch) website.

**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.