

FIXED INCOME GLOBAL MACRO OUTLOOK

## Staying Power

- The market is adopting an 'appeal of bonds' view
- The long-term policy rate is still priced too high
- Our strategies remain positioned for steeper curves

**Some retracement after a strong rally, but longer-term perspective remains supportive for bonds.**

### Summary

In our Q4 outlook we concluded that '[it's hard not to be bullish](#)'. We argued that central banks took a risk by overtightening to win their war against inflation and concluded that this risk management approach to policy was increasing the valuation appeal of bonds. With valuations reaching a 15-year high, we believed that bonds could rally, not only in a recession scenario, which at the time seemed to be regarded by the market as a prerequisite for yields to decline, but also in a soft-landing alternative.

After all, as monetary policy starts to impact growth, inflation declines. Keeping rates on hold would cause real yields to rise and financial conditions to tighten. In this scenario central banks would have to cut rates again to avoid tightening financial conditions too much and then run the risk that the targeted soft landing could evolve into a hard landing.

After bond yields reached a peak in October, the market narrative has turned 180 degrees from extremely bearish to extremely bullish; markets seemingly were catching up on the 'appeal of bonds' view. Policy rate peaks now seem to have arrived. Downward momentum in core inflation gained traction in many developed and emerging markets, this combined with data that points to weaker growth, but not a recession, has driven both bond yields and credit spreads sharply lower.

Has this rally already gone too far? It's tempting to conclude that 'the easy part' of the rally could be over, if not for the fact that bond markets weren't really easy this year.

Nonetheless, we believe in the need for staying power to navigate volatility, as we continue to hold the view that yields have room to decline further. Figure 1 (Yield Bloomberg Global Aggregate Index) indicates that even after the recent sharp decline, the index yield is only back to where it was trading this summer. Again, much will depend on the development of fundamentals.

*“Has this rally already gone too far?*

With regard to growth, we retain our below-consensus view as the drag of past rate hikes continues to feed through. We think it seems premature to conclude that a soft landing should now be the base case for the US economy. Furthermore, the Eurozone economy could stagnate for longer than the consensus thinks. We see broad-based evidence in the corporate sector that higher policy rates are impacting the broader economy via corporate defaults and restructurings in both the private and unlisted debt markets. It is not a question of 'if' but rather one of 'when' the impact of higher interest rates on the broader economy will become apparent.

#### FIXED INCOME OUTLOOK DECEMBER 2023

Marketing material for professional investors,  
not for onward distribution

Robeco Global Macro Team

As we believe that the longer-term policy rate discounted by markets still seems too high, we remain constructive on government bonds. Any setback in yields, is likely to be used by investors to add to bond exposures. The exception to this is Japan, a country that is facing higher levels of inflation while economic growth remains relatively strong. The BoJ seems to have realized that their policy mix needs to change away from being very easy.

Figure 1 –Index yield remains elevated



Source: Bloomberg, Robeco, December 2023

Throughout 2023 we have been incrementally buying bonds as yields rose and increasing the duration position of our strategies. These duration longs are predominantly located in 2-to-5-year maturities. We added in the US and in Europe as well as in other regions including the UK and emerging markets such as Czech Republic, Brazil, Thailand and Mexico. In addition, strategies are positioned for a steeper curve and thus underweight long-dated paper. Inverted curves tend to steepen as markets start to price in central bank rate cuts.

In Japan we are running an underweight duration position, with JGB yields expected to rise as the BoJ exits its ultra-loose policy. With regard to credit, we remain cautious. Credit spreads are sharply lower as markets embraced the risk-on narrative. Risks are increasing that markets have become too complacent about a more pronounced slowdown. Hence, we continue to take a neutral approach on credit and favor the higher up in quality approach. We like Covered Bonds, SSA, swap spreads and selected hard currency bonds (Poland and Hungary in EUR) paper over investment grade corporates, and for now prefer to watch the high yield market from the sidelines.

## Macroeconomic and policy outlook

- US set to follow Europe into cyclical stagnation or worse, even if China temporary creeps out of its doldrums
- Disinflation and labor market weakness will allow DM central banks to start reversing course in H1 2024
- (Geo)political events could reinforce investor concerns about public debt sustainability

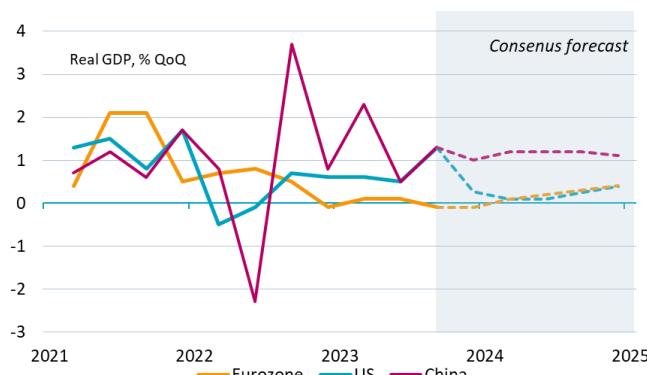
### Improved inflation outlook should open the door for rate cuts in 2024, with labor markets determining the speed.

#### Growth outlook: second-guessing a soft landing

A looser-than-expected fiscal stance and exceptional labor market resilience are key factors in the current economic scenario. Additionally, a slower-than-usual feed-through of tighter monetary policy and a lower savings rate helped explain why US consumer spending and the broader economy managed to defy the recession warnings heralded by the inverted yield curve in 2023. And in Europe a 'genuine' recession was prevented thanks to fiscal energy support and further services sector recovery – although overall growth has stagnated over the past four quarters.

Looking ahead the consensus expects US growth to hit a soft patch in H1 2024 and to recover to trend in H2 2024 – a view that is also projected for Europe. We are more cautious. Admittedly, the upturn in leading trade data out of Asia suggests that the global manufacturing sector could climb out of its abyss next year, led by China, and in the wake of a smaller drag from property and past stimulus. Moreover, consumer spending in many countries could receive meaningful support from the improvement in real wage dynamics, as inflation dips below wage growth.

Figure 2 - Consensus growth expectations



Source: Bloomberg, Robeco, December 2023

But our concern is this may not be enough to offset the drag from the further feed-through of past rate hikes, the turn to a restrictive fiscal stance, and a sharp slowdown in jobs growth. As such, we believe it is premature to conclude – as equity markets seem to be doing – that a soft landing should now be the base case for the US. We suspect that the Eurozone economy will stay in 'surplus' longer than the consensus thinks and might (still) tumble into recession. Meanwhile, (geo)political events, including the US presidential elections and more far-right election wins across Europe could adversely influence animal spirits and reinforce investor concerns about public debt sustainability.

#### Inflation outlook: cyclical downtrend intact, pace could slow

Downward momentum in core inflation gained traction in many developed markets (DM) and emerging markets (EM) in recent months, led by goods disinflation. As such, year-on-year core inflation rates caught up with the earlier energy- and food price-led retreat in headline rates. While further progress should be expected in 2024, the pace of disinflation looks set to slow near term. This is certainly the case for the Eurozone, where base effects from last year and the unwind of administered energy price cuts could temporarily push up headline rates, despite the recent relapse in oil prices to the year-to-date lows seen in Q2.

In the end, lower levels of core inflation and a further cooling of wage growth – which is still running above levels (3.5% and 3% respectively) consistent with a sustained return to at-target inflation in the US and Eurozone – will be required before central banks sound the all-clear on inflation. Encouragingly, wage growth in job postings, which has tended to presage the broader trend in wages, has continued to trend lower. This should continue if we are correct on the assumption that growth weakness will start to translate into higher unemployment in the coming quarters.

*"We suspect that the Eurozone economy will stay in 'surplus' longer than the consensus thinks*

As for regional variations, it is worth reiterating that we believe inflation has structurally returned in Japan and that it could still prove stickier in the UK and Australia.

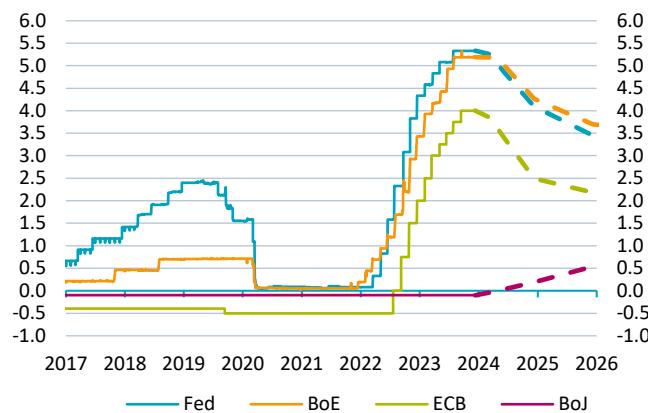
#### Fiscal policy: from boost to drag

As stated, fiscal support has helped many economies dodge recessions thus far. But the fiscal stance in many regions is poised to turn less supportive in 2024. In the Eurozone the energy support will start to get unwound, which, together with the further fading of earlier pandemic-related support

and cutbacks in Germany due to the recent Karlsruhe verdict, should more than offset the stimulus coming from NGEU recovery funds. In the US, after the decline in tax collection and increased state and local spending in 2023, policy is projected to be slightly contractionary in 2024. In China fiscal policy should be more supportive, though this could be watered down by the debt predicaments of local governments' funding vehicles.

Notwithstanding next year's fiscal outlook, we think that in many economies restoring sound public finances amidst climate and ageing challenges, and nationalist populism tendencies, will prove difficult in coming years. We anticipate that DM central banks will start reversing course by mid-2024. While central banks in Latam and CEE countries have embarked on easing cycles which look set to continue in 2024, most DM counterparts still retain a tightening bias, and this is evident from the ongoing reduction of central bank bond holdings (note that we think the ECB will also start to gradually reduce holdings of bonds snapped up under PEPP by mid-2024).

Figure 3 - Market-implied path for policy rates



Source: Bloomberg, Robeco, December 2023

As for rate policies, we suspect that most DM central banks will be in rate cutting mode by mid-2024, with the exception of Japan, where the BoJ looks set to end negative policy rates while further modifying its yield curve control (YCC) policy. We agree with markets that UK and Australia will be the laggards in the upcoming easing cycle and that, based on the current economic divergence and recent pace of disinflation, the ECB might start cutting a bit sooner than the Fed.

Even though financial markets might be running a bit ahead of themselves in terms of pricing in the timing of the first DM central bank rate cuts, this misses the bigger point that there is still scope to discount a faster return to neutral territory over the next few years. Or to assign a bigger probability to the possibility that if labor market weakness indeed emerges, policy rates temporarily end up somewhat below neutral.

Separately, China's PBoC, like the BoJ, remains on its own course. Although it has been standing pat on conventional rates policy since implementing cuts in June and August, in our view the secular downtrend in policy rates looks set to resume later in 2024. Moreover, it is anticipated that the PBoC's balance sheet will expand meaningfully over the coming years, with loans to banks doing the heavy lifting.

## Rates strategy

- Turn in monetary policy cycle expected
- Valuation of long-term yields still above neutral
- Steepening expected from different drivers

### Bonds are expected to continue their rally, albeit at a more modest pace after the recent sharp fall in yields.

#### Strategies for a turn in central bank cycles

In an environment where tightening cycles seem to have concluded, and where we see room for many central banks to cut rates by mid-next year, there is cause for continuing to approach rates markets with a long bias. Some of the upside in bond performances will have been captured by the recent rally, but continued return potential remains, following the massive sell-off over the past two years.

Long-term forwards for US yields are now priced at close to 4.0%, which is at least 50 bps above where we see a long-term neutral. Differences between current market pricing and our long-term neutral estimates are even larger, exceeding 1.0% for UK SONIA yields. For euro rates this is less the case. Here we observe that the rally of the past weeks has brought long-term forwards close to the upper end of where we see neutral. Within our estimated neutral range (1.75-2.25) there is still room for yields to fall further. However, current valuation levels suggest that in global relative value trades we see Bunds as having less potential to outperform versus other rates markets.

*“Long-term forward yields have come down, but remain above our neutral rate estimate for most markets*

Trades we are currently looking into for global strategies, for instance, include a Treasury-Bunds spread tightener. Additionally, we have taken a position that profits from a tighter US-Canada spread. The 10-year yield differential, at circa 90 bps, is 60 bps away from its average since 2005.

After steepening in the August-October period, curves have flattened again since early November. We believe curve dynamics will change, and rather than the driver being funding stress or inflation uncertainty, we anticipate a more traditional response. This would involve an upcoming turn in monetary policy that first leads to a steepening from lower yields at the belly, followed by a stronger performance of the front end. Therefore, we have most of our steepening positions in 5-30, or 10-30 and have dedicated less risk to 2-10. By selecting these curve segments, the strategies are

less exposed to negative carry. This approach presumably reduces their vulnerability to any repricing, particularly in response to rather optimistic market pricing regarding the timing of the first rate cuts.

Figure 4 – US 5-30 yield curve spreads



Source: Bloomberg, Robeco, December 2023

Within global rates markets Japan remains an important exception. The BoJ is still in an early phase of its tightening cycle, which suggests there is more upside potential in yields in this market. This explains our underweight in JGBs. Any upward pressure on yields from the short end and belly of the curve will probably lead to curve flattening, as we have seen more recently in many global markets.

## Fixed income asset allocation

- Strong technicals in investment grade credit
- High yield still dominated by dispersion
- Risk allocated to assets up in quality

### Cautious approach as tight spreads meet weakening fundamentals

#### Credit markets: investment grade credit beta close to one

Since our last quarterly outlook in September we have seen some spread widening in investment grade and significant spread widening in high yield markets throughout October. This was based on the 'higher for longer' narrative that dominated rates markets. Spreads widened on EUR high yield from 415 bps to just under a spread of 500 bps. This quickly reversed in November as spreads tightened all the way back.

It's remarkable that the market narrative has shifted so much in such a short timeframe. At the time of writing spreads are at similar levels with EUR investment grade tightening 3 bps over the last quarter. We have also seen a more meaningful tightening in USD investment grade spreads of 9 bps to a spread level of 110 bps. We previously advocated for a defensive credit positioning with a credit beta of close to 1 via an up-in-quality portfolio. Broadly speaking, our view has not changed.

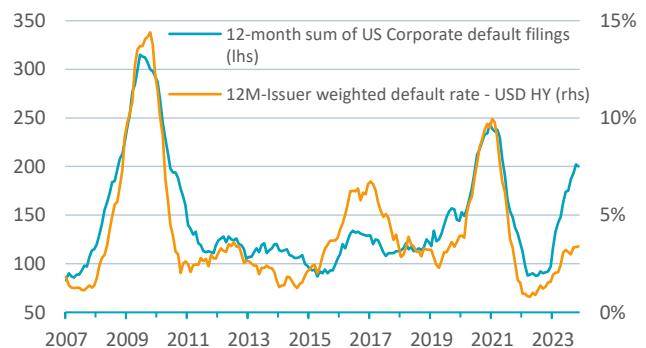
For credit spreads to tighten further we continue to believe a drop in broader interest rate volatility is required. This seems unlikely as the market has tried to price in central bank cuts multiple times, before changing focus and pricing out easing. The volatility in incoming data will make it harder for the market to stick with a single market theme for the next few quarters, keeping rates volatility elevated.

There are some strong technicals at work in the investment grade credit market. Investment grade corporates are reluctant to issue at the current expensive yields and if they do, corporates mainly issue shorter maturities. Meanwhile, with all-in yields at 4% and 5.5% in EUR and USD investment grade credit respectively (a level briefly seen during the Eurozone crisis in 2013 for EUR credit; for USD credit one has to go back to the GFC to have comparable yield levels), many institutional and buy-and-hold investors are willing to lock-in these attractive yield levels. This high demand, coupled with relatively low supply is especially visible in long-maturity credits where spreads vs government bonds tightened to levels not seen in the past 20 years.

In the case of high yield, we see that levels of dispersion are still relatively high, although average spreads are tight. This indicates that adding to any new positions in high yield would mean buying into a tight market or taking on significant idiosyncratic risk in certain distressed issuers. Defaults in high yield have been tracking at a stable pace throughout the year. We still believe that there is a high risk these will rise going forward. This is based on two observations. First, broader-based corporate default filings in the US have continued to rise and the difference between the broad economy and high yield default rates is widening (see Figure 5), a historically notable trend. In our view, the high yield market, eventually, cannot escape the developments in the broader economy. Secondly, defaults in the leveraged loan market have picked up sharply. Higher interest rates are felt more quickly in the leveraged loan market as coupons are based on floating interest rates which reset shortly after changes in central bank policy rates.

According to data collected by Moody's, the leveraged loan 12-month default rate (issuer weighted) increased to 5.4% in October. This is around the 80<sup>th</sup> percentile for data since 2000. For USD high yield the default rate is 'just' at the 50th percentile. The majority of the impact from higher coupons will only be felt when high yield companies refinance.

Figure 5 - Economy wide versus corporate bond defaults



Source: Bloomberg, Robeco, December 2023

We feel that the developments in the high yield and leveraged loan market are important for understanding the impact of higher interest rates on corporate fundamentals. This is expected to lead to a rise in defaults in the upcoming quarters. It is important to stress that the high yield default rate is increasing more slowly versus default rates observed in loan markets and the broader economy default filings. The difference can be explained by the amount of (pre)funding done by high yield companies during the pandemic, when rates were at their all-time-low due to Quantitative Easing and other stimulative measures. So far so good, but the

'savings reservoir' for these companies is nearing its due date!

As we have described in previous quarterly outlooks, there is a significant amount of refinancing required in the high yield market. This will have a large impact on fundamentals going forward. Average coupons on debt due in the next two years in EUR high yield is around 3.5%, while the current yield on 3-year maturity bonds is around 6.5%-7%. This implies that refinanced bonds will come with roughly double the interest costs, or alternatively companies will be required to significantly deleverage. This is combined with the fact that 30% of outstanding debt is due for refinancing in the next couple of years. We believe that a shorter average maturity and the larger impact of coupon resets spell double trouble. High yield default rates are thus seen to converge to levels in the loan market and broader economy default filings.

Additionally, high inflation has been a tailwind for many fundamental credit indicators as earnings have grown at a high nominal pace. With the trend in inflation coming down, coupled with our below-consensus growth expectation (see the Macroeconomic and policy outlook section), fundamentals are likely to appear weaker going forward. Hence, we feel that the right approach in our portfolios is a cautious approach to corporate bonds. Overall, we are running a neutral credit beta. We are sidelined in high yield for the reasons explained above and prefer to allocate our risk points in covered bonds, swap spreads and SSA over investment grade.

#### Peripheral bonds: more challenges ahead?

Peripheral bond spreads rallied over the past quarter, as markets' attention towards ECB policy shifted. The focus has moved from the potential of end-of-rate hikes to setting an actual date and the impact of rate cuts next year. Lower yields help the affordability of debt from highly indebted countries like Italy, but a decline in yields also impacts structurally increasing potential growth.

Growth in Italy over the past years benefitted from the 'superbonus' tax credit, which led to a large construction boom. That boom has now passed, while the costs still need to be financed. NGEU money will support Italy up until 2026, but after that, Italy will need to find ways to improve potential growth without supportive measures from Europe. This worry was also expressed by one of our speakers, who mentioned that in the coming years Italy's debt/GDP ratio is likely to start rising again. With 10-year BTPs spreads versus Germany (+/-170 bps) at the lower end of our expected range, the country is vulnerable towards a change in risk sentiment by markets.

If the ECB announces bringing forward the end date for PEPP reinvestments from its current 'end of 2024' estimate, this could negatively impact the spread to some extent in the coming months. We continue to take a bullish stance towards Greek government bonds that we began buying last January and have gradually increased since. Now that both S&P and Fitch have upgraded the country to BBB-, Greek bonds will return to all relevant Bloomberg indices as per 1 February and this is expected to lead to forced buying of Greek government bonds by investors who follow benchmarks.

While most of the contraction is behind us, we still think the spread versus Germany will gradually squeeze tighter due to the limited free float of Greek bonds. More upgrades in 2024 are to be expected, as Greece is likely to show one of the highest growth rates in Europe next year, and debt/GDP will continue to decline rapidly.

#### *“Forced buying expected for Greek government bonds*

#### Emerging market debt: wary of complacency

A marked easing of global financial conditions over the last quarter, thanks in large part to a softer USD tone, has spurred a revival in the fortunes of EM risk assets into year-end. In our eyes, this further heightens the importance of issuer selection within emerging market debt (EMD). This is especially evident in the hard currency space.

By most valuation metrics, EM sovereign credits appear tight against treasuries, especially in Asia. While the growing sense that several troubled frontier issuers will soon complete their restructurings contributes to overall index tightening, we cannot ignore technical factors such as the impact of restrained net issuance by larger markets. A further flight to relative safety vis-à-vis China's property sector is also on the cards.

Deeper analysis of global index constituents, however, suggests markets remain wary despite the aggressive rallies in recent months. Consequently, we see space for aggregate spreads to compress further, especially if sovereigns continue to prioritize local market funding and starve credit markets. Tight 5-year CDS spreads reinforce the sense of stretched credit market valuations. The vast majority of EM sovereigns are trading close to one standard deviation below the post-2010 norm. Only those markets with well-known troubles appear elevated, alluding to potential complacency. With global growth and inflation prospects continuing to soften, dynamics in local currency debt markets remain

constructive. Brazil and Mexico continue to stand out in the EM space, with prior aggressive policy action percolating through both markets, sustaining elevated real yields and creating ample room for policy rate cuts and broad-based bond rallies.

In Asia, we remain selective, with Thailand and Indonesia our favored markets to take duration risk. Sluggish core and headline CPI momentum indicates real yields could soon become more attractive. Adding to the case, positioning analysis suggests both are consensus underweights among offshore investors, offering scope for outperformance as the trend in higher real yields materializes. Softening inflation, twinned with souring growth prospects contributes to a compelling argument for Bank of Korea to grow incrementally more dovish, driving 10-year KTB yields lower.

The contrast with Japan's macro and policy context alludes to a sustained compression in the cross market spread. We remain wary of food inflation pressures in India and the Philippines. Burgeoning weakness in the balance of payments may prod both central banks to remain hawkish and possibly even hike rates to tackle inflation.

Among CEEMEA markets, we are positioned for lower rates in Czechia and Hungary. Czechia looks well placed to embark on policy easing, driving a marked re-steepening of the curve. Hungary has been a market darling of late. We expect positive sentiment to continue on the back of an improved inflation outlook. Still, we do expect both inflation and rates in Hungary to settle at higher levels than pre-Covid. Meanwhile, we continue to think the market underappreciates South Africa's political, fiscal and macro challenges that are liable to weigh heavily on the ZAR and local rates markets.

#### FX yen remains our top of the pops

Signs of souring global growth momentum continues to emerge. This, twinned with softening inflation momentum, suggests it is only a matter of time before rate cutting cycles begin. Markets have already begun to price in such an outcome, expecting the Fed to be reasonably aggressive in its own easing cycle, triggering a substantial weakening of the trade-weighted USD in both nominal and real terms in Q4 2023. Yet, the eagerness to anticipate Fed rate cuts so far overlooks the greater-than-anticipated resilience of US consumer demand, as well as its influence on the Fed's reaction function. Consequently, risk of a resurgence in broad USD strength resulting from a return to contrasting policy cycles remains.

Against this backdrop, we continue to see the Japanese yen as the only clear value case in the FX space. Japanese core

inflation pressure has sustained, while momentum indicators show the potential for CPI gauges to persist near levels not seen since the 1980s. Not only has this prompted the Bank of Japan (BoJ) to relax its Yield Curve Control policy, but discussion of policy rate hikes has begun to emerge.

Further wage hikes are anticipated in forthcoming labor negotiation rounds. This has the potential to add greater inflation pressure and cause the BoJ to tighten by more than the 35 bps which is currently priced in by the market over the coming year. Calculations also suggest markets have priced the 10-year JGB to be around 1% by end-2024, offering scope for still greater compression in yield differentials with US Treasuries to drive yen outperformance. The greater relative allure of JGB yields for local investors that discourages JPY-hedged flows into offshore government bonds and corporate credit further adds to the case.

Given the uncertainty surrounding the USD backdrop, we prefer a more neutral stance in EM FX. Singapore's highly open economy and sluggish 2024 growth prospects should discourage further policy tightening, while the Singapore dollar's elevated position in the Nominal Effective Exchange Rate band indicates it is likely to underperform its peers. Yet, with few clear and imminent catalysts, we see limited value in maintaining the position at this juncture.

Table 1 - Asset class preferences

	Constructive	Neutral	Cautious
<b>Bunds</b>	✓		
<b>US Treasuries</b>	✓		
<b>JGBs</b>		✓	
<b>Euro periphery</b>		✓	
<b>EM local</b>	✓		
<b>IG credit</b>		✓	
<b>HY credit</b>			✓
<b>SSA</b>	✓		
<b>Swap spreads</b>	✓		

Source: Bloomberg, Robeco, December 2023

We wish to thank Lorenzo Codogno (LC Macro Advisors), Jonathan Goulden (JP Morgan), and Bhanu Baweja (UBS) for contributing to our quarterly outlook meetings.

## 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 marketing document is intended solely for professional investors, defined as investors qualifying as professional clients, who have requested to be treated as professional clients or are authorized to receive such information under any applicable laws. Robeco Institutional Asset Management B.V. and/or its related, affiliated and subsidiary companies, ("Robeco"), will not be liable for any damages arising out of the use of this document. Users of this information who provide investment services in the European Union have their own responsibility to assess whether they are allowed to receive the information in accordance with MiFID II regulations. To the extent this information qualifies as a reasonable and appropriate minor non-monetary benefit under MiFID II, users that provide investment services in the European Union are responsible for complying with applicable recordkeeping and disclosure requirements. The content of this document is based upon sources of information believed to be reliable and comes without warranties of any kind. Without further explanation this document cannot be considered complete. Any opinions, estimates or forecasts may be changed at any time without prior warning. If in doubt, please seek independent advice. This document is intended to provide the professional investor with general information about Robeco's specific capabilities but has not been prepared by Robeco as investment research and does not constitute an investment recommendation or advice to buy or sell certain securities or investment products or to adopt any investment strategy or legal, accounting or tax 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 shared with the public. No part of this document may be reproduced or published in any form or by any means without Robeco's prior written permission. Investment involves risks. Before investing, please note the initial capital is not guaranteed. Investors should ensure they fully understand the risk associated with any Robeco product or service offered in their country of domicile. Investors should also consider their own investment objective and risk tolerance level. Historical returns are provided for illustrative purposes only. The price of units may go down as well as up and past performance is no guarantee of future results. 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 when trading securities in client portfolios or for the issue and redemption of units. Unless otherwise stated, performances are i) net of fees based on transaction prices and ii) with dividends reinvested. 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 are the ones 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 for 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, document, availability or use would be contrary to law or regulation or which would subject any Fund or Robeco Institutional Asset Management B.V. to any registration or licensing requirement within such jurisdiction. Any decision to subscribe for interests in a Fund offered in a particular jurisdiction 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. Prospective applicants for shares should inform themselves as to legal requirements which may also apply and any applicable exchange control regulations and taxes in the countries of their respective citizenship, residence or domicile. The Fund information, if any, 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. The prospectus and the Key Information Document (PRIIP) for the Robeco Funds can all be obtained free of charge from Robeco's websites.

## Additional information for US investors

Robeco is considered "participating affiliate" and some of their employees are "associated persons" of Robeco Institutional Asset Management US Inc. ("RIAM US") as per relevant SEC no-action guidance. Employees identified as associated persons of RIAM US perform activities directly or indirectly related to the investment advisory services provided by RIAM US. In those situations these individuals are deemed to be acting on behalf of RIAM US, a US SEC registered investment adviser. SEC regulations are applicable only to clients, prospects and investors of RIAM US. RIAM US is a wholly owned subsidiary of ORIX Corporation Europe N.V. and offers investment advisory services to institutional clients in the US.

## Additional information for US Offshore investors – Reg S

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. In the United States, this material may be distributed only to a person who is a "distributor", or who is not a "US person", as defined by Regulation S under the U.S. Securities Act of 1933 (as amended).

## Additional information for investors with residence or seat in Australia and New Zealand

This document is distributed in Australia by Robeco Hong Kong Limited (ARBN 156 512 659) ("RIAM BV"), 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 intended 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 intended 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 has it 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 may they be 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 Brunei

The Prospectus relates to a private collective investment scheme which is not subject to any form of domestic regulations by the Autoriti Monetari Brunei Darussalam ("Authority"). The Prospectus is intended for distribution only to specific classes of investors as specified in section 20 of the Securities Market Order, 2013, and must not, therefore, be delivered to, or relied on by, a retail client. The Authority is not responsible for reviewing or verifying any prospectus or other documents in connection with this collective investment scheme. The Authority has not approved the Prospectus or any other associated documents nor taken any steps to verify the information set out in the Prospectus and has no responsibility for it. The units to which the Prospectus relates may be illiquid or subject to restrictions on their resale. Prospective purchasers of the units offered should conduct their own due diligence on the units.

## Additional information for investors with residence or seat in Canada

No securities commission or similar authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein, and any representation to the contrary is an offence. Robeco Institutional Asset Management B.V. relies on the international dealer and international adviser exemption in Quebec and has appointed McCarthy Tétrault LLP as its agent for service in Quebec.

## Additional information for investors with residence or seat in the Republic of Chile

Neither Robeco nor the Funds have been registered with the *Comisión para el Mercado Financiero* pursuant to Law no. 18.045, the *Ley de Mercado de Valores* and regulations thereunder. This document does not constitute an offer of or an invitation to subscribe for or purchase shares of the Funds in the Republic of Chile, other than to the specific person who individually requested this information on their own initiative. This may therefore be treated as a "private offering" within the meaning of Article 4 of the *Ley de Mercado de Valores* (an offer that is not addressed to the public at large or to a certain sector or specific group of the public).

## 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 Prospectus and the offering of Shares may be restricted in certain jurisdictions. The information contained in this Prospectus is for general guidance only, and it is the responsibility of any person or persons in possession of this Prospectus 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 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 distributed by Robeco Institutional Asset Management B.V. (DIFC Branch) 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. (DIFC Branch) 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 Institutional Asset Management B.V. is at liberty to provide services in France. Robeco France is a subsidiary of Robeco whose business is based on the promotion and distribution of the group's funds to professional investors in France.

## 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 there is any doubt about any of the contents of this document, independent professional advice should be obtained. 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 Indonesia

The Prospectus does not constitute an offer to sell nor a solicitation to buy securities in Indonesia.

#### **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 cannot and should not be the basis for making any investment decisions.

#### **Additional information for investors with residence or seat in Japan**

This document is considered for use solely by qualified investors and is distributed by Robeco Japan Company Limited, registered in Japan as a Financial Instruments Business Operator, [registered No. the Director of Kanto Local Financial Bureau (Financial Instruments Business Operator), No.2780, Member of Japan Investment Advisors Association].

#### **Additional information for investors with residence or seat in South Korea**

The Management Company is not making any representation with respect to the eligibility of any recipients of the Prospectus to acquire the Shares therein under the laws of South Korea, including but not limited to the Foreign Exchange Transaction Act and Regulations thereunder. The Shares have not been registered under the Financial Investment Services and Capital Markets Act of Korea, and none of the Shares may be offered, sold or delivered, or offered or sold to any person for re-offering or resale, directly or indirectly, in South Korea or to any resident of South Korea except pursuant to applicable laws and regulations of South Korea.

#### **Additional information for investors with residence or seat in Liechtenstein**

This document is exclusively distributed to Liechtenstein-based, duly licensed financial intermediaries (such as banks, discretionary portfolio managers, insurance companies, fund of funds) which do not intend to invest on their own account into Fund(s) displayed in the document. This material is distributed by Robeco Switzerland Ltd, postal address: Josefstrasse 218, 8005 Zurich, Switzerland. LGT Bank Ltd., Herrengasse 12, FL-9490 Vaduz, Liechtenstein acts as the representative and paying agent in Liechtenstein. The prospectus, the Key Information Documents (PRIIP) the articles of association, the annual and semi-annual reports of the Fund(s) may be obtained from the representative or via the website.

#### **Additional information for investors with residence or seat in Malaysia**

Generally, no offer or sale of the Shares is permitted in Malaysia unless where a Recognition Exemption or the Prospectus Exemption applies: NO ACTION HAS BEEN, OR WILL BE, TAKEN TO COMPLY WITH MALAYSIAN LAWS FOR MAKING AVAILABLE, OFFERING FOR SUBSCRIPTION OR PURCHASE, OR ISSUING ANY INVITATION TO SUBSCRIBE FOR OR PURCHASE OR SALE OF THE SHARES IN MALAYSIA OR TO PERSONS IN MALAYSIA AS THE SHARES ARE NOT INTENDED BY THE ISSUER TO BE MADE AVAILABLE, OR MADE THE SUBJECT OF ANY OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE, IN MALAYSIA. NEITHER THIS DOCUMENT NOR ANY DOCUMENT OR OTHER MATERIAL IN CONNECTION WITH THE SHARES SHOULD BE DISTRIBUTED, CAUSED TO BE DISTRIBUTED OR CIRCULATED IN MALAYSIA. NO PERSON SHOULD MAKE AVAILABLE OR MAKE ANY INVITATION OR OFFER OR INVITATION TO SELL OR PURCHASE THE SHARES IN MALAYSIA UNLESS SUCH PERSON TAKES THE NECESSARY ACTION TO COMPLY WITH MALAYSIAN LAWS.

#### **Additional information for investors with residence or seat in Mexico**

The funds have not been and will not be registered with the National Registry of Securities or maintained by the Mexican National Banking and Securities Commission and, as a result, may not be offered or sold publicly in Mexico. Robeco and any underwriter or purchaser may offer and sell the funds in Mexico on a private placement basis to Institutional and Accredited Investors, pursuant to Article 8 of the Mexican Securities Market Law.

#### **Additional information for investors with residence or seat in Peru**

The Superintendencia del Mercado de Valores (SMV) does not exercise any supervision over this Fund and therefore the management of it. The information the Fund provides to its investors and the other services it provides to them are the sole responsibility of the Administrator. This Prospectus is not for public distribution.

#### **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. 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. Investors should consult their 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. 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 invoke 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 MAS 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 does 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. Robeco Singapore Private Limited holds a capital markets services license for fund management issued by the MAS and is subject to certain clientele restrictions under such license.

#### **Additional information for investors with residence or seat in Spain**

Robeco Institutional Asset Management B.V., Sucursal en Espana with identification number W0032687F and having its registered office in Madrid at Calle Serrano 47-14º, is registered with the Spanish Commercial Registry in Madrid, in volume 19.957, page 190, section 8, sheet M-351927 and with the National Securities Market Commission (CNMV) in the Official Register of branches of European investment services companies, under number 24. The investment funds or SICAV mentioned in this document are regulated by the corresponding authorities of their country of origin and are registered in the Special Registry of the CNMV of Foreign Collective Investment Institutions marketed in Spain.

#### **Additional information for investors with residence or seat in South Africa**

Robeco Institutional Asset Management B.V. is registered and regulated by the Financial Sector Conduct Authority in South Africa.

#### **Additional information for investors with residence or seat in Switzerland**

The Fund(s) are domiciled in Luxembourg. This document is exclusively distributed in Switzerland to qualified investors as defined in the Swiss Collective Investment Schemes Act (CISA). This material is distributed by Robeco Switzerland Ltd, postal address: Josefstrasse 218, 8005 Zurich. ACOLIN Fund Services AG, postal address: Leutschenbachstrasse 50, 8050 Zürich, acts as the Swiss representative of the Fund(s). UBS Switzerland AG, Bahnhofstrasse 45, 8001 Zurich, postal address: Europastrasse 2, P.O. Box, CH-8152 Opfikon, acts as the Swiss paying agent. The prospectus, the Key Information Documents (PRIIP), 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 ACOLIN Fund Services AG. The prospectuses are also available via the website.

#### **Additional information relating to RobecoSAM-branded funds/services**

Robeco Switzerland Ltd, postal address Josefstrasse 218, 8005 Zurich, Switzerland has a license as asset manager of collective assets from the Swiss Financial Market Supervisory Authority FINMA. The RobecoSAM brand is a registered trademark of Robeco Holding B.V. The brand RobecoSAM is used to market services and products which entail Robeco's expertise on Sustainable Investing (SI). The brand RobecoSAM is not to be considered as a separate legal entity.

#### **Additional information for investors with residence or seat in Taiwan**

The contents of this document have not been reviewed by any regulatory authority 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 Securities and Futures Commission in Hong Kong.

#### **Additional information for investors with residence or seat in Thailand**

The Prospectus has not been approved by the Securities and Exchange Commission which takes no responsibility for its contents. No offer to the public to purchase the Shares will be made in Thailand and the Prospectus is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

#### **Additional information for investors with residence or seat in the 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 deemed authorized and regulated by the Financial Conduct Authority.

#### **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 under 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 27 September 1996, as amended.