ROBECO
The Investment Engineers

FIXED INCOME GLOBAL MACRO OUTLOOK

# Season finale

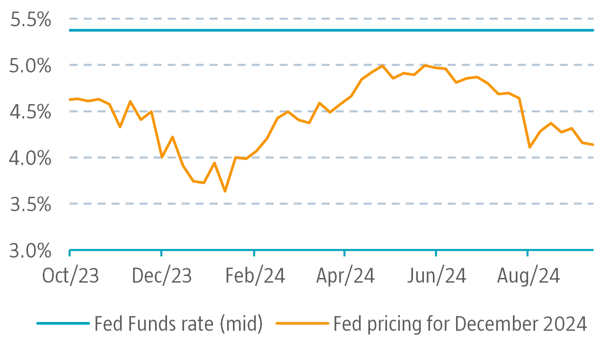
- The Fed's delay in responding to the disinflation trend has increased recession risks
- US fiscal policy is expected to loosen further
- We have increased curve steepeners and remain defensive toward credits

**The stage is set for a thrilling finale of 2024. The Fed waited for the disinflation trend to become clear, even as unemployment was picking up. In August, after the weak July employment report, Fed Chair Powell pivoted at Jackson Hole and announced that rate cuts are coming.**

US unemployment started rising a year ago. The delay in response to rising unemployment has increased concerns that tight monetary policy will have a stronger impact than initially anticipated. Just like a season finale, where every character's move is crucial to the outcome, the timing and impact of these rate cuts are being closely watched.

While a recession is not the base case, at this point it could be triggered by a single accident. Consequently, markets have quickly priced in a steep Fed cutting cycle, reflecting concerns that the Fed may be behind the curve. Despite a significant number of cuts priced in, forwards indicate that 2025 will start with Fed funds above 4%, a level still far above the so-called neutral rate, which is probably closer to 3% (see below).

Figure 1 – Fed funds rate and market pricing (%) for December 2024



Source: Bloomberg, September 2024

Hence, monetary policy is expected to remain restrictive well into next year. Notably, risk markets have effortlessly shrugged off the early August scare, boosted by the prospects of lower rates and showing little doubt that the Fed can engineer a soft landing. Bond markets are less sure. Our leading indicator for the US economy also points to increased risk of a less-soft landing.

Meanwhile, the ECB cut rates by 25 bps for the second time this year, at its September meeting, bringing the deposit facility rate to 3.50%. Similar to the Fed, the ECB is making its policy less restrictive at most. The ECB appears to be ignoring energy price weakness as well as tepid European growth, with risks tilted to the downside. In particular, the German manufacturing sector shows no signs of recovery. Still, the ECB is lowering policy with the brakes on, risking a policy mistake that could lead to larger steps next year. Now that the Fed has also turned the corner, there should be more room for central banks globally to adjust policy downward. Therefore, the environment for bonds globally is supportive.

However, fiscal risks are increasing. In our June quarterly outlook, 'Fiscal hurricane season,' we noted that these risks

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could suddenly take center stage, leading to significant market volatility. Indeed, as we approach the climax of this political season with the US presidential election on 5 November, markets will focus increasingly on the economic implications of the outcome, with fiscal policies closely monitored.

Notably, one of our speakers remarked that US fiscal policy will remain loose regardless of the outcome (also see the special topic in this outlook: 'US Elections'). We believe that a combination of rate cuts and expanding fiscal policy in an environment of lower growth should lead to much steeper curves. Hence, we have increased yield-curve steepener positions in our strategies over the past months. In addition, we have shifted some of our steepening exposure from 5-year to 2-year maturities, as front-end paper is expected to benefit most from lower rates. We continue to avoid 10-year and 30-year maturities, especially in the US, where fiscal policies imply significant asymmetrical upside risks to yields in that complex. We actually don't rule out seeing the US curve twist steepen (meaning lower front-end rates as long-dated yields rise) at some stage later this year.

In terms of valuations, the strategies have trimmed the duration overweight positions in EUR and USD rates, or they have been redirected to other markets after the sizeable rally since June. We do like UK Gilts where we added to exposure as the Gilt curve has been lagging Europe and the US. The exception for us remains Japan, where we continue to be underweight. Japan is experiencing higher inflation and wage growth. Consequently, we anticipate further actions from the BoJ, including some additional rate hikes.

In the credit complex, given the still rich valuations in the different credit spread sectors and the potential for further spread widening risk, we are neutral IG and EMD beta, as we continue to see more value in the base rate (risk-free rate) and less in the spread component. Therefore we favor more defensive sectors such as SSAs and covered bonds. With regard to Europe we believe that France will continue to dominate the headlines as difficult budget decisions need to be made. We can see France and Spain trading places, hence, we have used the upheaval in country spreads this summer to increase allocations to Spanish government bonds.

## Macroeconomic and policy outlook

- Slowing growth and disinflation pressure central banks to ease policy
- Risk markets (too) confident on soft landing scenario
- Outlook for public finances is concerning and vulnerable to economic slowdown

### Growth outlook: Not so soft patch

Although headline GDP growth in Q2 and the latest nowcasts for Q3 are still consistent with above-trend growth in the US, signs of a slowdown have emerged beneath the surface. This is most evident in the labor market, where the pace of private sector hiring has decelerated significantly over the past six months. Admittedly, the pace of job shedding has remained subdued. But slower jobs and wage growth imply less support for consumer spending going forward. If one also factors in that excess consumer savings are largely depleted and new consumer borrowing has contracted sharply, it becomes clear that the risk of consumption fatigue should not be disregarded. While risk markets seem to have little doubt that the Fed can engineer a soft landing, bond markets are less sure. Our leading indicator for the US economy points to increased risk of a less-soft landing.

Meanwhile in the Eurozone, growth is modestly positive thanks to expansion in the service sector. But the manufacturing sector still struggles to grow, which should not be a complete surprise given the slowdown in Japan and the predicaments of China – two important export destinations of the EU. As for the Chinese economy, we are awaiting signs of life in the property market. But so far, policy stimulus seems to have failed to meaningfully revive demand for homes. Looking ahead, we agree with ECB President Lagarde's recent assessment that Eurozone growth risks are tilted to the downside. We note that policy proposals by the Republican US presidential candidate could also weigh on the Eurozone growth outlook (see box on US elections) and reinforce pressure on many European governments to avoid a further deterioration in public finances.

In any case, both in the US and the Eurozone resilient labor markets have helped shield their economies from a genuine recession in 2022. In our view, this cannot be counted on if a fresh confidence shock were to hit over the next 6-9 months.

### Special topic: US Elections

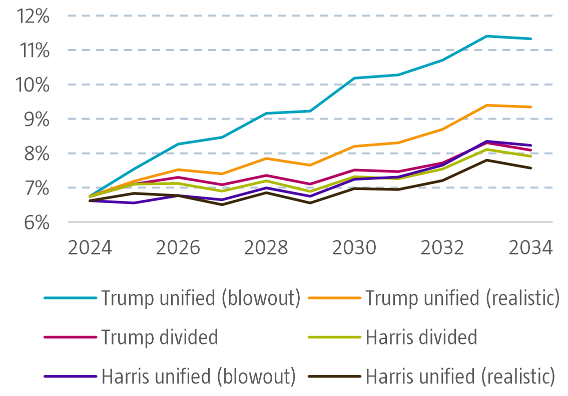
Kamala Harris has gained momentum in the polls following Joe Biden's departure from the race, now leading Donald Trump by 1.7 points in the national polling averages. The outcome will hinge on seven key swing states — Michigan, Pennsylvania, Wisconsin, Arizona, North Carolina, Nevada, and Georgia. Recent polls suggest that more than half of these states are leaning toward Harris, but the polling differentials remain within the typical margin of error.

Prediction markets currently foresee a Republican sweep or a divided Congress under Harris as the most likely scenarios, with Republicans expected to secure a majority in the Senate. Control of the House remains uncertain and could align with the party that wins the presidency. Harris and Trump have distinct economic agendas that reflect their differing approaches to governance. Trump's agenda focuses on tax cuts, deregulation, and "America first" trade policies aimed at boosting growth. Meanwhile, Harris's policy plan emphasizes targeted investment in green energy, infrastructure and social plans, a more selective approach to tariffs, along with tax reforms aimed at higher earners and corporations.

Regardless of the election outcome, the US fiscal deficit and debt levels are expected to stay elevated, with Congress' control being decisive for major fiscal changes like taxes and spending. While Trump's policies may suggest a higher potential GDP than Harris', they might not offset the fiscal side effects of his agenda. A study by UPenn Wharton indicates that Trump's economic plans would likely result in the largest increase in the US fiscal deficit beyond the Congressional Budget Office's baseline projections.

In terms of the broader market impact, a Republican sweep could lead to the extension of tax cuts partially offset by spending cuts and tariff revenues, potentially boosting growth, inflation, equity markets, the US dollar and steepening the US yield curve. Conversely, a Harris presidency with a divided Congress would likely result in policy continuity, with legislative gridlock limiting major fiscal changes, favoring US duration and a weaker dollar due to reduced fiscal risk.

Figure 2 – US federal budget deficit projection as % of GDP



Source: Jon Lieber Eurasia group, September 2024

## Inflation outlook: Renewed retreat

Inflation has continued to retreat across developed markets, led by (even) lower contributions from energy and goods prices. Services inflation has remained more pronounced, including in the US, where the re-acceleration in Q1, in the end, proved to be temporary. As we have argued previously, cooling wage growth in the US should help push services inflation down further. This also applies to the Eurozone, where wage growth has proved to be a bit more sticky (thanks to the lagged feed-through from past inflation into wage demands).

However, forward-looking metrics based on recent wage deals and job postings are also pointing to slower Eurozone pay growth. It is also worth reiterating that we believe service inflation could still prove higher for longer in some markets like Australia and the UK. Yet, the recent drop in oil prices and other commodities should help steer headline inflation rates closer to, or even below, central bank targets across many economies in the coming quarters. Certainly, as stated in the section on US elections, upside inflation risks, especially in late 2025, have not disappeared.

## Monetary policy outlook: Back to neutral or beyond

Given the recent deceleration of inflation and the cooling of US labor markets, a much quicker pace of monetary easing has been priced in compared to three months ago. Indeed, the debate has shifted from the timing of the first Fed cut, to the pace and extent of easing back restrictive policy.

At first glance, the circa 200/225 bps of Fed rate cuts priced in for the next 12 months – on top of the either 25 or 50 bps that will be delivered in September – looks aggressive. But if one assumes that the long-run neutral rate is in the 3-3.5% area and agrees with rates markets (as we do) that risks of a less-soft economic landing have increased, a return to the 2.75-3% area for the Fed funds rate does not look so outrageous. As for the September meeting, we expect either a dovish 25 bps or a hawkish 50 bps cut, as we suspect the Fed – given the uncertainty about where neutrality is in the short term and the remaining inflation risks – is reluctant to signal that a series of 50 bps steps is imminent. The ECB, meanwhile, looks intent on sticking to a quarterly pace of 25 bps of easing – though we agree with markets that an acceleration toward the 2% area for the depo rate is likely by mid-2025.

Outside the above two regions, easing is most advanced or expected to go faster in the G10 markets where unemployment has noticeably risen (e.g. in Sweden and Canada). At the same time, the BoJ remains on a course of its own and is expected to deliver a further hike later this year, although the odds of a series of additional hikes from here has been significantly reduced – given the slowdown of the Japanese economy and policy easing elsewhere.

Finally, across EM, in markets like Czech, in our view more than sufficient central bank easing is now discounted. We do see scope for markets to price in more easing (or less tightening) in Brazil and Poland. Finally, in China where the central bank has continued to face inflation undershoot risks, a further 10 bps cut to fresh historic lows is on the cards by year-end.

## Rates strategy

- Yield levels closer to lower end of ranges after rally
- Actively trading steepener positions
- UK Gilts have lagged in the recent rally

### Gilts are catching up

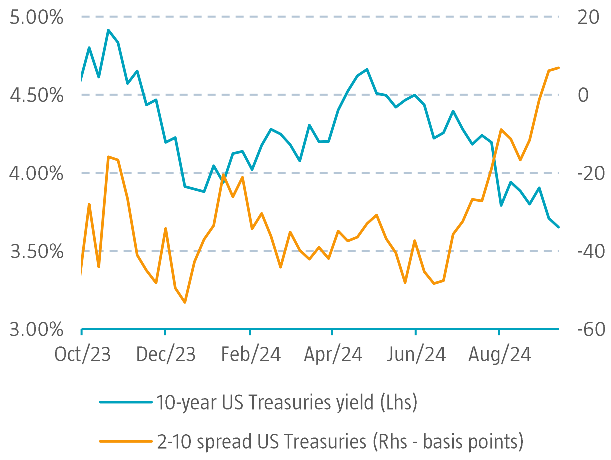
Yield curve steepeners have remained our largest positions in rates, and these positions have been held across a variety of markets and maturities. The main arguments in favor of steepeners are: historical valuation, expectations of monetary policy easing and rising term premia. Over the past weeks, yield curves have steepened and more rate cuts have been priced in, but we would argue the three reasons above justify holding on to these positions. While maintaining this overarching view, we have been actively trading curve positions and have made some changes in exposure between markets (e.g. more South Korea) and maturities (more front end). In our quarterly outlook discussion, curves have been an active part of the debate. Other issues discussed include the fiscal outlook in the aftermath of the US presidential election outcome, as this could influence the term premium via the expected supply of new issuance. None of the fiscal scenarios discussed was really comforting in terms of expecting any fiscal discipline.

While maintaining steepeners, the duration overweight positions in EUR and USD rates in our strategies have been trimmed or redirected to other markets. This results from less attractive valuation levels, after the sizeable rally that took place after June. Below we outline where we see remaining potential and which markets are already quite rich, based on the fundamental views discussed in this outlook.

Market pricing for short-term interest rates in two to three years' time can be helpful in determining valuation of rates in the belly of the curve. For the US, a short-term yield level of circa 2.7% is now priced for two years out. This suggests a Fed policy in which rates are reduced to slightly below long-run 'neutral', which is plausible, but ambitious. Using these forward rates, as well as the current Fed funds rate, as input for modeling 10-year US Treasury rates gives a range of 3.4-4.0%, versus a current level of 3.65% (16 September). This range seems fair to us as we expect higher-term premiums to weigh against a further strong rally in longer-dated US Treasuries.

For euro rates, the forwards for short-term interest rates point to circa 2% in two years' time. This suggests the ECB would cut to just below neutral, which the ECB's Klaas Knot currently pitches at 2.25%. Pricing forward rates at, or just below neutral seems to fit with this phase of the cycle. Therefore, ECB pricing looks realistic. Using this input in a similar modeling framework for 10-year Bunds gives a range of 2.0-2.6%, versus a current level of 2.15%. This suggests that absent of any new shocks in thinking about ECB policy, further downside potential for Bund yields seems modest. Indeed, we have trimmed duration overweight positions in both EUR and USD rates after the sizeable rally.

**Figure 3** – 10-year US Treasuries yield and curve (%)



**Source:** Bloomberg, September 2024

Having trimmed some exposure we see continued potential in markets that lagged in this easing cycle. The duration of our strategies remains at, or above index level. Our largest overweight positions are in the UK and Norway. For the UK we think the forwards for short-term interest rates are still above neutral. In our opinion these can go down at least another 40 bps before neutral is fully priced.

Taking this into consideration and using a similar modelling approach as above, we see potential for 10-year Gilts to rally to 3.0%, versus 3.75% currently, hence the overweight position. Norges Bank has also lagged in the global easing cycle, with their policy stance remaining rather hawkish because of the weak krone. Within Europe, the Swedish Riksbank has been among the leaders in the easing cycle. The divergence in policy with Norway has been reflected in a yield spread that has widened to 150 bps in the short end of the curve. We see this divergence as a temporary phenomenon and are positioned for a tightening of the spread.

Japanese government bonds remain our largest underweight globally. The BoJ is in a different policy cycle vis-à-vis other DM central banks. Their tightening policy is expected to continue driving up rates from the front end.

## Fixed income asset allocation

- Market jitters over growth and supply
- Technicals taking a backseat
- Spreads priced for a soft landing

### Credit markets: No summer of carry

Typically spreads remain rangebound over summer, as primary market activity drops and less credit is traded in general. That didn't materialize this year and since our last quarterly outlook, credit spreads have widened, over what turned out to be a volatile summer. Spreads reacted sharply to the uptick in the US unemployment rate at the start of August and have since had to digest a significant amount of corporate bond supply over the first half of September leaving spreads higher.

What has not changed is how skewed spread markets trade. Non-distressed[1] credit spreads are still close to cycle tights, yet the portion of the market that is distressed, remains elevated. As we have concluded in previous quarterly outlooks, without a drop in the portion of the market trading at wide spreads, any meaningful drop in the default rate is unlikely going forward.

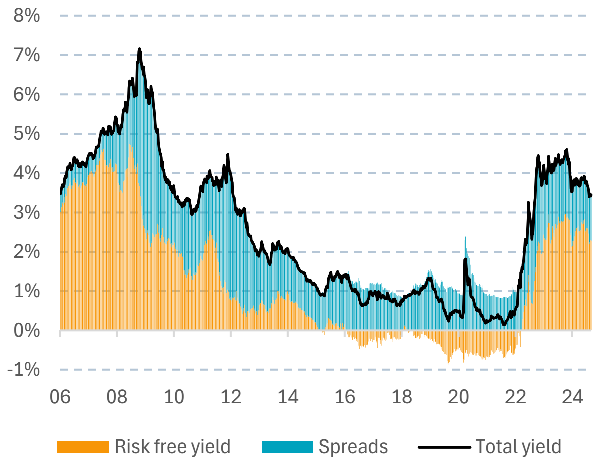
So far, the rally in rates markets has been taken as a positive for risk assets. Yet front-end rates are assigning a decent probability that central banks will have to reduce rates to (or even below) neutral level at a significant speed (see the monetary policy outlook section). We believe that this risk is not discounted by spread markets and that any further rally in rates could well be accompanied by a deterioration in risk sentiment.

While technical factors have been in the driver seat for credit over multiple quarters now, we are seeing some signs that they are becoming less supportive.

Firstly, the all-in level of yields has declined materially over the past quarters. USD IG yields peaked at 6.45% and are currently 4.70%. The same holds true with EUR IG, which has declined from 4.65% to 3.30%. With both a decline in risk-free yields and spread compression contributing to returns over the past quarters (see Figure 4). Going forward, the decline in total yields, should limit the demand of yield sensitive buyers and spreads are likely to become driven by fundamentals once again.

Secondly, positive momentum[2] is a strong supportive technical for credit returns. This is why our colleagues from the quant department use it as a factor. Over the summer most momentum indicators have weakened considerably, this leaves credit markets, a weaker place to be.

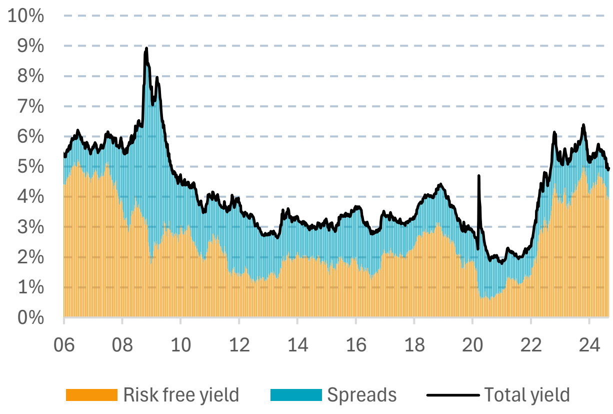
Figure 4 – EUR investment grade yield



**Source:** ICE BofA, September 2024

Although valuations have improved somewhat, spreads are still expensive from an historical perspective, and we continue to see more value in the base rate (risk-free rate) and less in the spread component. Therefore, our positioning in corporate credit exposure is close to home and we have scaled down some of the overweighs in SSAs and covered bonds over summer as spreads there have also started to screen on the more expensive side.

Figure 5 – USD investment grade yield



**Source:** ICE BofA, September 2024

[1] Credit with an OAS below 1000
[2] With momentum we mean the tendency of past positive returns to persist into the next period

### Peripheral bonds: France and Spain trading places?

Upcoming events in France will likely be the dominant driver for country spreads in Europe over the coming months. The electoral outcome was as difficult as expected. The spread of French bonds over Germany has remained quite elevated after the election in June and is still at a higher level than the peak of the Covid crisis in March 2020. However, one positive aspect was the appointment of the new Prime Minister, Michael Barnier, also known as 'Mr. Brexit'. As he is both fiscally conservative and pro-Europe, this was the best candidate financial markets could hope for. Still, now it is up to him to get the 2025 budget (which currently shows a deficit of 5.5%) approved by both the different parties in France and the European Commission. A difficult task, as tough decisions will need to be made either to cut government spending in sensitive areas (like pensions) or increase taxes.

While tactically we could see some investors return to the French market as current spread levels have become more attractive, we think a new round of widening can occur when budget negotiations take place. French government debt to GDP now amounts to around 110%, similar to that of Spain. As French debt is on an upward trajectory Spain seems to be heading to a small budget surplus, additionally, Spanish growth has recently been revised upwards. We have therefore used the upheaval in country spreads in June to increase allocations to Spanish government bonds, as we think these can trade at a tighter level than French bonds in the coming years. In France we have almost fully closed our underweight to lock in gains but remain cautious for now, while waiting for better levels to further add.

We continue to like Greek government bonds, as spread volatility is much lower than for example in Italy, while the scarcity of bonds outstanding means a continuous and gradual push to tighter spreads. With debt declining rapidly, we think it is a matter of time before more rating upgrades arrive and subsequently more investors step into the Greek bond market. While all other government bond markets in Europe will be negatively impacted by the reduction and upcoming ending of reinvestments by the ECB, Greek bonds were hardly bought by the PEPP purchase program. This means supply dynamics remain very favorable for Greek bonds.

### EM debt: Déjà vu all over again

Short of a global financial contagion, Emerging Market (EM) hard currency debt spreads appear likely to continue tightening. A return to prudent and orthodox policy among some large high yield EM sovereign issuers plays a meaningful role in this compression. Resolution of a number of distressed debt cases, reflected in continued IMF support, should also play a role. However, risks almost certainly remain given the low level of US Treasury yields, there is the potential for markets to underestimate prospective exit yields.

Nonetheless, pockets of value continue to emerge, especially if the more forgiving global liquidity environment envisaged by rates markets does manifest.

Amid continued wariness of mainland Chinese issuers, investment grade sovereign spreads remain beholden to technical factors. Notably, the more than USD 1.7 tln of excess foreign currency deposits sitting in Asian banking system, possibly reflecting a reticence to recycle USD to mainland Chinese borrowers, remains a critical support for persistent tightening in that region's credit spreads. Continuing current account surpluses in the Eurozone, producing a net USD 2.5 tln improvement in its net external debt position since 2012, further re-enforce this trend and, if anything, allow it to become a global phenomenon. As long as these technicals persist in the EM complex, it remains difficult to see a broad-based re-pricing of risk premia, either in hard currency spreads or credit default swaps (CDS).

Similarly, local currency debt markets also stand to benefit from this more accommodative liquidity environment, offering a tailwind to duration positions in higher yielding markets. Inverted curves, market exuberance and punitive carry costs dampen the appeal of markets like South Africa and Turkey beyond the extreme front-end. Rather, we see the abnormally elevated real yields on offer in Indonesia and Brazil as better expressions to benefit from Fed policy easing.

Among lower-yielding EM local currency markets, policy divergence remains a critical theme, presenting both outright and cross market opportunities. The pricing of potential Fed easing over the next year, while clearly beneficial if delivered, appears extreme. This, coupled with a lingering paradigm that EM central banks must follow the Fed, especially in Asia, suggests greater rates and FX volatility may lie in store. On a fundamental level, monetary and fiscal policy easing is needed, notably in South Korea, Thailand and China. Delivery of such accommodation, for a variety of domestic reasons, appears unlikely. Helpfully, large domestic investor bases offer a substantial cushion, allowing these yield curves to grind lower still.

In CEEMEA, the persistence of hawkish Polish monetary policy caused it to lag the aggressive steepening of Hungarian and Czechia curves. We see limited scope for the latter two curves to steepen much further. In Poland, the current lagged easing cycle should eventually offer scope for it to follow the ECB, albeit with renewed rate cuts only expected to start in 2025.

### FX: That one day in November

Unlike most years, discussion of FX outlooks of late have consistently come with a caveat that time-horizons are "until 5 November" rather than the usual year-end. Interestingly, this shows no signs of coming to fruition based on the likely fiscal outlook linked to the winner, but rather on how the stock market may react. From our perspective, this does not add up.

Trade policy under either of the US Presidential candidates is expected to become incrementally more protectionist, with differences likely only in the severity of tariffs imposed. It is a similar story with the fiscal position, where discussion is entirely over the pace at which it will deteriorate.

Rather, monetary policy expectations and cyclical dynamics, in particular real rate and inflation differentials, are critical. In G10, US rates seem priced for a pseudo-crisis Fed policy response, while pricing in European markets look like more measured and realistic responses to the region's relatively weaker cyclical outlook. In the US, markets appear "data point dependent" with a strong dovish skew, intimating the balance of risks may favor a stronger USD even once the Fed begins to cut rates. The Japanese yen and Australian dollar appear best placed among the G10 to withstand such an environment as inflation dynamics in both may inhibit their respective central bank's ability to ease policy.

Emerging market currencies were among the biggest beneficiaries from the extreme amount of Fed policy accommodation priced. Arguably, this has masked the idiosyncratic stories playing through the complex. For some, such as Turkey and South Africa, FX gains look underpinned by a compression of risk premia thanks to a return of policy orthodoxy and credibility that has injected a modicum of macro stabilization. Yet, with both yield curves heavily inverted, they may also prove some of the most vulnerable to a turn in global sentiment.

In contrast, Latin American FX faces challenges that should drive underperformance. Among the larger markets, the Brazil real faces weakening domestic growth prospects, brought on by fiscal constraints, already high real yields and poor harvests for several key crops. Offshore investor decisions to reduce positions, in what was a resounding consensus overweight, only compound pressure. Meanwhile, the Mexican peso faces headwinds from proposed judicial reform that may harm investor rights, as well as an increasingly dovish Banxico.

Asian and Central European FX markets may be relatively more resilient in this environment. Easing cycles in CEEMEA are nearing their end, favoring outperformance against the euro and offering some support in the face of a stronger US dollar. As for Asia, the more limited outperformance during prior bouts of USD weakness, along with weaker overall global commodity prices, suggest a more favorable terms-of-trade setting amid a potentially more supportive regional policy backdrop.

**Table 1** – Asset class preferences

| | Constructive | Neutral | Cautious |
|---|---|---|---|
| Bunds | ✓ | | |
| US Treasuries | ✓ | | |
| JGBs | | | ✓ |
| Euro periphery | | | ✓ |
| EM local | | ✓ | |
| IG credit | | | ✓ |
| HY credit | | | ✓ |
| SSA | ✓ | | |
| Swap spreads | ✓ | | |

**Source:** Robeco, September 2024

*We wish to thank Ralf Preusser and Ruben Segura (Bofa), Bhanu Baweja (UBS) and Jon Lieber (Eurasia) for contributing to our quarterly outlook meetings.*

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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
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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
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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.

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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 España 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 for investors with residence or seat in Taiwan
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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 Institutional Asset Management B.V (FRN: 977582) is authorised 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.

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