SKAGEN Tellus A

All data in EUR as of 31.12.2017 unless otherwise stated.

Greece is back

SKAGEN Tellus ended the year substantially ahead of its benchmark index. The fund also outperformed its benchmark in the quarter. The duration in Tellus is currently 4.4 years, which is substantially lower than the index's duration of 7.8 years. We only take interest rate risk in countries where there is a solid case for a fall in the interest rate and/or the yield is very attractive.

A flatter yield curve, so what?

The long-term yields in the large advanced economies were more or less stable during the quarter. There was much focus in the market on the flattening of the US yield curve. The steepness of the yield curve is often expressed as the difference between the 10-year and 2-year interest rates. During the quarter, the difference fell by 40 basis points and ended the quarter at 40 basis points. The sharp flattening gave rise to some concerns about the yield curve inversing. This has historically often been a signal of an upcoming recession.

We are not concerned that the flattening of the treasury curve is a signal of a weaker US economy going forward. The change is due to an increased 2-year rate and not a lower 10-year rate. A lower 10-year rate is often due to expectations of lower growth and lower policy rates in the future. The 2-year rate is a good indicator of market expectations of the future policy rate. In other words, the flattening is due to the fact that the market adjusted its expectations for the policy rate upwards, which again indicates that the market expects a strong US economy going forward. As expected, there was also a rise in interest rates at the Federal Reserve meeting in December.

A swap success

At the end of October the fund reentered Greece. This was just before the government announced its intention to offer investors to swap existing government bonds with new larger issues. The intention was to establish a well-functioning yield curve and improve the liquidity in the government bond market.

The swap was a big success. The yields fell sharply when the swapping program was implemented. In December the yields on the new bonds in Tellus fell by around 130 basis points, leading to a bond price appreciation of 15 percent.

A somewhat better outlook for the economy and commitment by the government to complete and exit the bailout program in 2018 also contributed to the strong performance. Our Greek investments were the largest contributors to the fund's returns in the fourth quarter.

Another upgrade

Portugal continued to perform well in the fourth quarter. The long-term yield continued to fall on the back of strong economic and fiscal performance. In September Portugal was upgraded to investment grade by S&P and in December Fitch followed, which contributed to lowering the credit premium in the bonds.
In 2017 the yield on our Portuguese bond fell by 230 basis points, leading to a price appreciation of 16 percent and a total return of 19 percent. In the fourth quarter the yield fell by 50 basis points, leading to a price rise of 3.4 percent.

Our local bond in the Dominican Republic has also performed well. The Dominican Republic has attracted increased interest from investors due to the high local interest rates in combination with solid macro and fiscal performance.

In October the fund reentered in to Greece. Our Greek investments were the largest contributors to the fund's returns in Q4. Photo: Bloomberg

The local bond in the Dominican Republic has also performed well. Photo: Unsplash

Norway and Mexico lagging

Our Mexican investment was the worst performer in the last quarter. This was due to the uncertainty related to the NAFTA renegotiations and a corruption scandal affecting the government and potentially hurting its presidential candidate José Antonio Meade.

Our Norwegian government bond investment was also a drag on performance in the fourth quarter. The Norwegian krone depreciated sharply versus the euro (4.6 percent). The depreciation is widely explained by expectations of a continuing fall in house prices and potential ramifications for the Norwegian economy. We still believe that the krone is undervalued. The Norwegian economy is stronger and we believe growth will be higher going forward. Furthermore, our view is that the house price correction will be contained and have limited effects on the real economy. We therefore expect the NOK to appreciate going forward.

Portfolio changes

During the quarter the fund exited its position in Croatia due to the uncertainty related to the large retailer Agrokor. Furthermore, the fund took profit and sold a large part of the holding in Slovenia after solid performance since 2013. The spread between Slovenian and German 10-year bonds has decreased from 4.9 percent in late 2013 to 0.4 percent at the end December, meaning there is limited further upside for the investment.

As already mentioned we reentered Greece and added to our position in Uruguay.

Quarterly Report

SKAGEN Tellus A

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SKAGEN Tellus invests primarily in bonds and certificates issued or guaranteed by governments from around the world.

The fund is suitable for those with at least a three year investment horizon. Investors must be able to tolerate currency fluctuations.

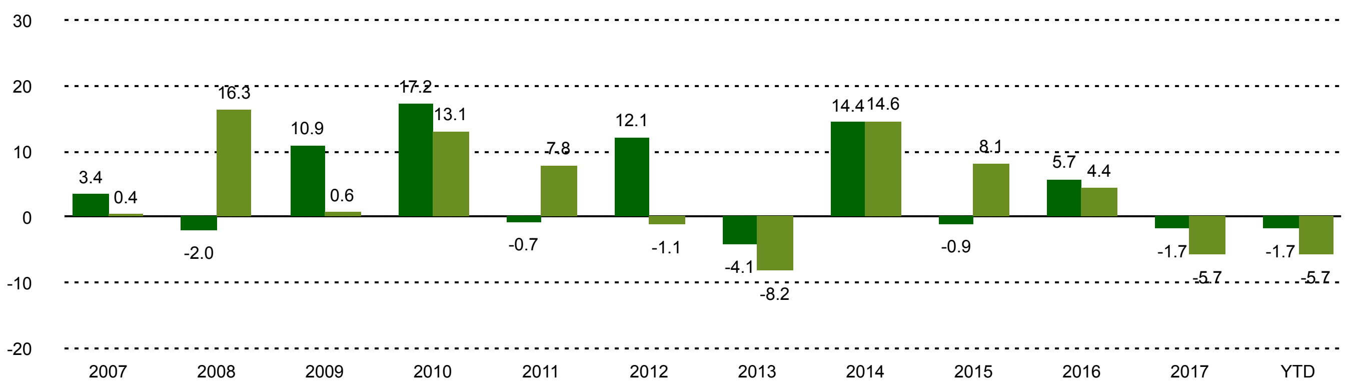
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last Month	0.7%	-0.5%
Quarter to date	-0.1%	-0.5%
Year to date	-1.7%	-5.7%
Last year	-1.7%	-5.7%
Last 3 years	1.0%	2.1%
Last 5 years	2.5%	2.3%
Last 10 years	4.8%	4.7%
Since start	4.7%	4.0%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	12.12 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR
AUM (mill.)	90.07 EUR
Duration	4.41
WAL	5.96
Yield	3.50%
Number of holdings	15
Lead manager	Jane Tvedt

Performance last ten years



SKAGEN Tellus A   JPM GBI Broad TR   Benchmark prior to 1.1.13 was Barcap Global Treasury Index 3-5 yrs

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Hellenic Republic	3.50	1.01
Portugese Government	8.39	0.35
Dominican Republic	7.39	0.21
Republic of Chile	5.83	0.10
Spanish Government	6.93	0.07

Largest detractors

Holding	Weight (%)	Contribution (%)
Mexican Government	6.61	-0.83
Norwegian Government	10.63	-0.49
US Government	9.42	-0.20
Canadian Government	5.88	-0.12
Republic of Uruguay	6.54	-0.07

Absolute contribution based on NOK returns at fund level

Quarterly Report

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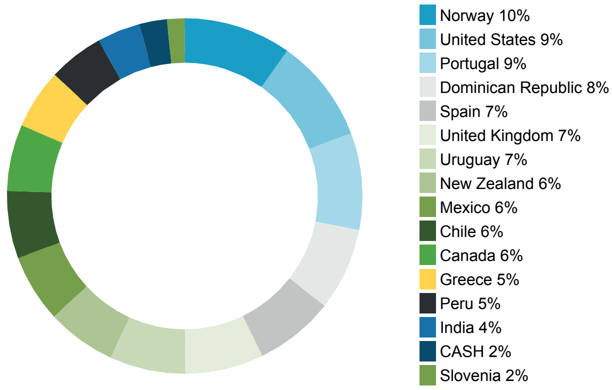
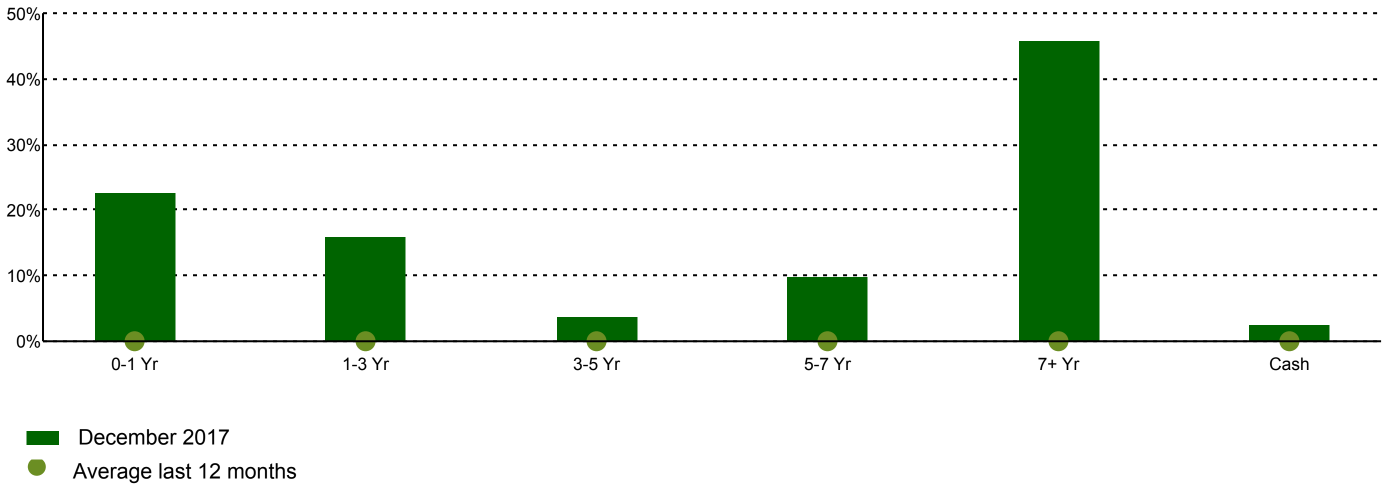
Top 10 investments

Holding	Percentage of Fund
Norwegian Government	9.8
US Treasury N/B	9.5
Portugese Government	8.8
Dominican Republic	7.5
Spanish Government	7.2
UK Government	7.2
Uruguay Government	6.9
NEW ZEALAND GOVERNMENT	6.3
Mexican Government	6.2
REPUBLIC OF CHILE	6.1
Total	75.5

Country exposure



Maturity structure



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Important information