

Volatile end to a volatile year

The fourth quarter saw a continuation of the volatile markets evident during the rest of the year. The markets were driven by the lack of resolution around trade policies, the sharp fall in oil price, Brexit and uncertainty related to the Italian budget.

SKAGEN Tellus had a weak quarter, in both absolute and relative terms. At the end of the year the long-term rates fell sharply in advanced economies. From mid-November until year end, the yield on the US 10-year government bond fell by 60 basis points. The fall was caused by lower growth and inflation expectations.

The increased volatility led to a flight to safety. The duration of the index is much higher than for the fund (7.93 years versus 2.67 years), which partly explains the fund's underperformance. Furthermore, the JPY appreciated 4.6% versus EUR during the quarter. The index has an 18% weight in Japan, while the fund has zero exposure.

Is the Fed close to the top?

Global growth is still strong, with the US as the main driver. Many central banks in the advanced economies and some in the emerging economies are tightening their monetary policies. However, uncertainty about future growth and inflation has increased and market participants have adjusted their expectations of further policy rate increases downwards in the course of the quarter.

Since the start of this hiking cycle, the US central bank has increased the federal funds rate by a total of 225 basis points since end of 2015 to its last meeting in December. However, the market's expectations of further rate hikes fell significantly during the quarter. This is due, among other things, to Jerome Powell, the Chair of the Federal Reserve stating that the federal fund rate is now close to the neutral interest rate. After pricing in three interest rate hikes in 2019 at the beginning of the quarter, the



Mexico's new president Andres Manuel Lopez Obrador. Photo: Bloomberg

Mexico's central bank has increased interest rates from 3% at the end of 2015 to 8.25% in December 2018. Core inflation is now within the target range, and we believe the policy rate has reached its peak and may be cut going forward. Moreover, the Central Bank of Mexico often follows the Federal Reserve's lead. A break in the Fed's interest rate hike cycle will also make it easier for the Mexican central bank to keep interest rates unchanged, or cut. This will be positive for our investment.

market now expects no further hikes during 2019.

Quantitative tightening is underway. The Fed is likely to continue to cut its balance sheet at a rate of USD 50 billion a month in 2019, at the same time as the European Central Bank (ECB) finished QE (Quantitative Easing) at the turn of the year.

Benefitting from the oil price drop

Our investments in India, the US and Uruguay were the main contributors in the fourth quarter. India was the best performer. This was to a large extent due to the fall in the oil price. Brent fell by 37% from the 2018 peak at the beginning of October to the end of the year. India is a major oil importer and a lower oil price is good for the Indian economy, the budget balance and the current account deficit. Headline inflation has started to fall. The performance came both from the currency and lower interest rate. The Indian rupee appreciated by 4.5% versus the EUR and the bond price appreciated by 1.6%.

Our investments in the US gained from a stronger USD versus the EUR. Our investments in Uruguay gained from a strong appreciation of the peso versus the euro (3.8%) while higher inflation led to higher interest rates which partly offset the gain from the currency appreciation. Our investments in peripheral Europe rose after Italy decided to accommodate Brussels and cut the budget deficit.

Weak Mexico

Our weakest investment in Q4 was Mexico. Interest rates increased sharply after the new president Andres Manuel Lopez Obrador (AMLO) decided to halt the construction of a new airport following a referendum. The market feared this was a warning of AMLO's future policy. We believe that this was an overreaction. The interest rates fell in December. The market regained some of its confidence after AMLO promised to conduct a market-friendly policy and presented a responsible budget for 2019.



Jerome Powell, Chair of the Federal Reserve. Photo: Bloomberg

Norwegian krone depreciation

Our Norwegian investment suffered from the depreciation of the Norwegian krone, which fell by 4.8 percent. The drop in oil price together with low liquidity and a risk off sentiment in markets towards the turn of the year contributed to the weakening. We still see a strong case for the NOK in 2019 based on the fundamentals of the Norwegian economy. The fund increased its holdings of short-dated US treasuries during the quarter.

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.

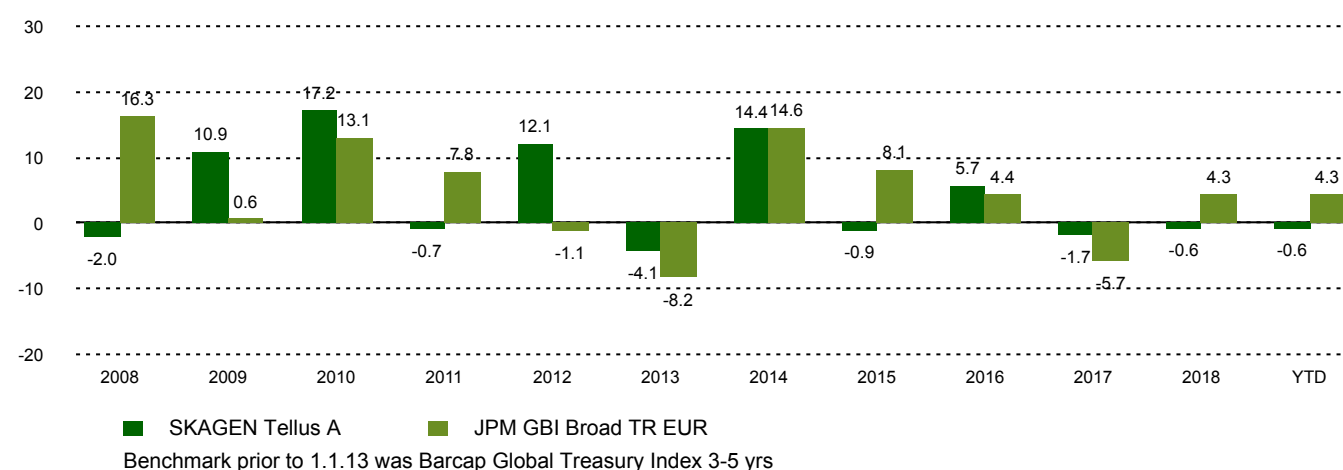
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	-0.4%	1.5%
Quarter to date	-0.2%	3.5%
Year to date	-0.6%	4.3%
Last year	-0.6%	4.3%
Last 3 years	1.1%	0.9%
Last 5 years	3.2%	4.9%
Last 10 years	5.0%	3.6%
Since start	4.3%	4.0%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	11.51 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	68.01 EUR
Duration	2.67
WAL	3.76
Yield	2.87%
Number of holdings	13
Portfolio manager	Jane Tvedt

Performance last ten years



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Asian Development Bank	4.52	0.38
US Government	20.01	0.37
Uruguay Republic	6.41	0.35
Portuguese Government	6.95	0.15
Peruvian Government	5.49	0.11

Largest detractors

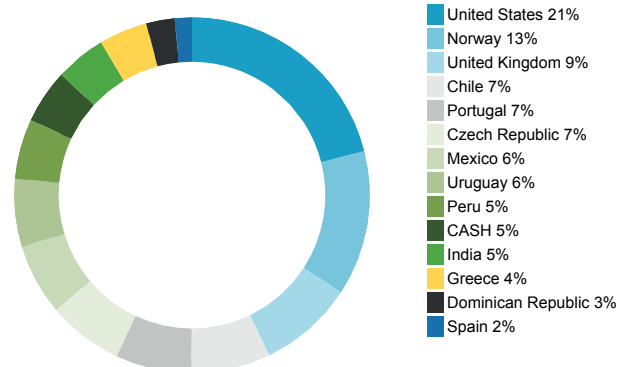
Holding	Weight (%)	Contribution (%)
Norwegian Government	13.80	-0.60
Mexican Republic	6.76	-0.50
Republic of Chile	7.52	-0.19
Hellenic Republic	4.45	-0.05
UK Government	8.95	-0.04

All data in EUR as of 31/12/2018 unless otherwise stated.

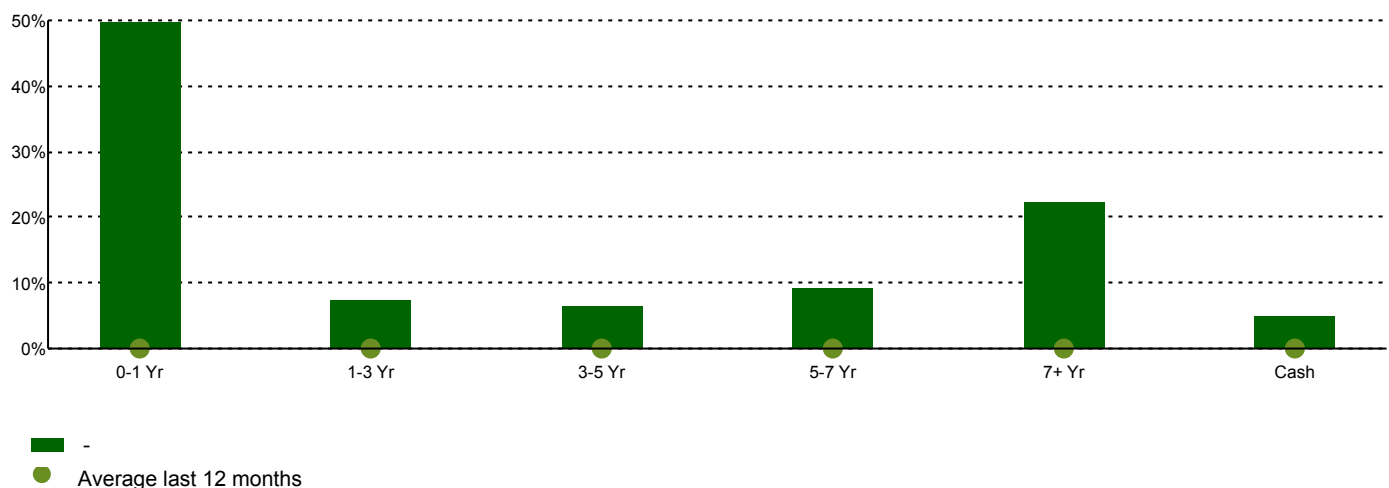
Top 10 investments

Holding	Percentage of Fund
US TREASURY N/B	21.0
Norwegian Government	13.2
UK Government	8.7
REPUBLIC OF CHILE	7.2
Portugese Government	6.9
CZECH REPUBLIC	6.9
Mexican Government	6.5
Uruguay Government	6.2
REPUBLIC OF PERU	5.5
Asian Development Bank	4.6
Total	86.6

Country exposure



Maturity structure



Contact



+47 51 80 37 09



contact@skagenfunds.com



SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

Important information

This report is intended for investment professionals only. The content is not to be viewed by or used with retail investors. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.