

A decent quarter

SKAGEN Tellus generated a decent performance in the quarter and full year in absolute terms but lagged the benchmark slightly for both periods. The largest positive contributors to fund performance in the quarter were our investments in the US and Mexico thanks to very strong currencies. The largest detractors were our investments in Colombia and Romania driven by higher yields. During the quarter we added some PEN and BRL exposure to the fund as both currencies look attractively valued. We also reduced our UK position on GBP strength and took down exposure to Chile ahead of the presidential election.

Inflation, monetary policies and Omicron

The main event of the fourth quarter was the arrival of the latest virus mutation, Omicron. With it came great uncertainty and market volatility as investors struggled to assess its severity. Some governments have introduced new lockdowns and analysts have had to reassess their near-term growth projections. Despite renewed virus uncertainty, however, developed market central banks continued to gradually tighten monetary policies. High consumer price growth remains a concern, and the latest lockdowns might even prolong the supply-driven price pressures.

The Norwegian central bank kicked off its hiking cycle in late Q3 and continued with another 25 basis point rate hike in December. In the UK we saw a somewhat surprising rate hike in December, while the Federal Reserve in the US increased the speed of its asset purchase tapering. The most cautious major central bank remains the ECB due to lower price pressures in the Eurozone than elsewhere, but also here we see a gradual policy tightening.

In emerging markets, central banks have been more aggressive in their monetary policy tightening as consumer price growth in general has been higher in these regions. 2022 will likely see several more rate hikes in most emerging markets but we potentially see some EM central banks closing in on their terminal policy rate levels within the next year or two.

The strong consumer price growth over the past year has mainly been driven by growth in energy prices and other commodities. Lately these prices have started to level off and to some extent fall back. This will help dampen price growth in the coming months, but high growth in the prices of other goods and services might keep total consumer price growth at a high level for some time.

Improving credit quality but still attractive credit spreads Despite continued uncertainty related to the pandemic, we have seen positive developments in the credit quality of several of our positions lately. Solid growth as economies reopen and promising reform plans have helped fuel upgrades in both credit ratings and rating outlooks. Romania, Colombia, and the Dominican Republic saw their credit outlooks revised from negative to stable from one or more rating agencies, while Serbia saw its outlook upgraded to positive by S&P in the fourth quarter. In the quarter we also saw Italy's credit rating upgraded one notch to BBB by Fitch. This was based on an improved growth outlook and belief in Mario Draghi's reform plans that should enable large inflows of Next Generation EU funds.



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Despite improved credit quality assessments, we still see upside in our credit exposures. Both Omicron and political turmoil fuelled a widening of some sovereign credit spreads in the quarter, and we took advantage of this to increase our exposure to Romania and Croatia. As we have covered in previous reports, Romania has seen a lot of political turmoil and even though the political deadlock is resolved for the time being, Romanian sovereign credit spreads are still elevated. We therefore see strong relative potential for this investment going forward.

Outlook

We expect 2022 to bring more of the same as in 2021. Long-term interest rates will likely be volatile due to continued uncertainty around the pandemic and central bank actions. We still see an upward long-term trend for developed market rates and will likely keep our duration low compared to the benchmark index. As we have stated many times before the picture in emerging markets is quite different. Interest rates are generally quite high in several emerging economies and central banks have already hiked their policy rates several times. Given this backdrop we generally find it more interesting to take on duration exposure in emerging markets rather than developed markets.

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.

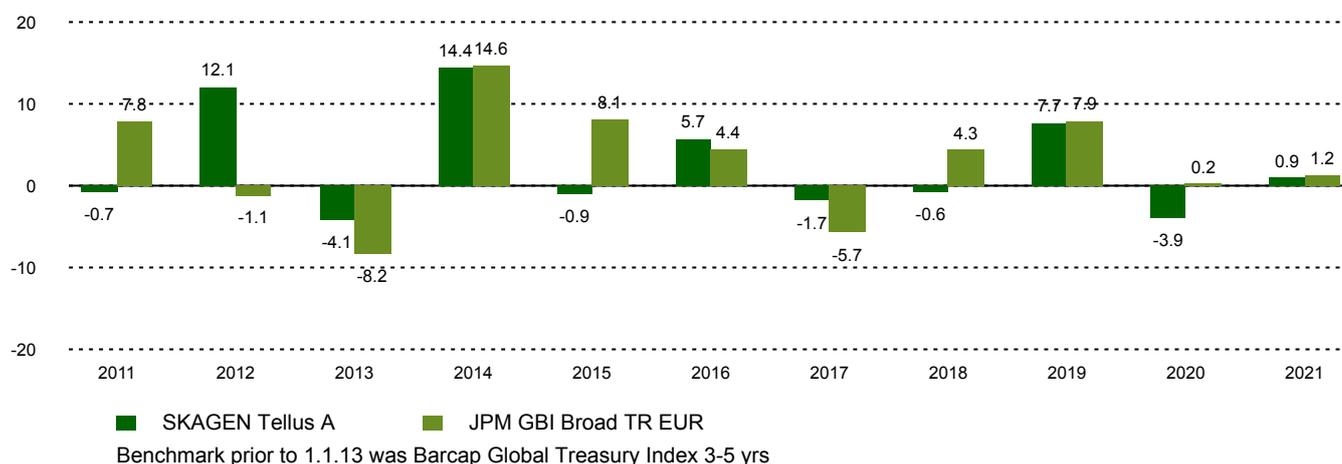
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	0.0%	-1.6%
Quarter to date	0.4%	1.1%
Year to date	0.9%	1.2%
Last year	0.9%	1.2%
Last 3 years	1.5%	3.0%
Last 5 years	0.4%	1.5%
Last 10 years	2.8%	2.4%
Since start	3.7%	3.8%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	10.37 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	43.25 EUR
Duration	3.40
WAL	4.54
Yield	3.33%
Number of holdings	16
Portfolio manager	Sondre Solvoll Bakketun

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
United States TNote	31.27	0.32
International Finance Corp	4.69	0.23
European Bank for Recon & Dev	3.69	0.16
United Kingdom Gilt	8.09	0.11
Peruvian Government	2.91	0.10



Largest detractors

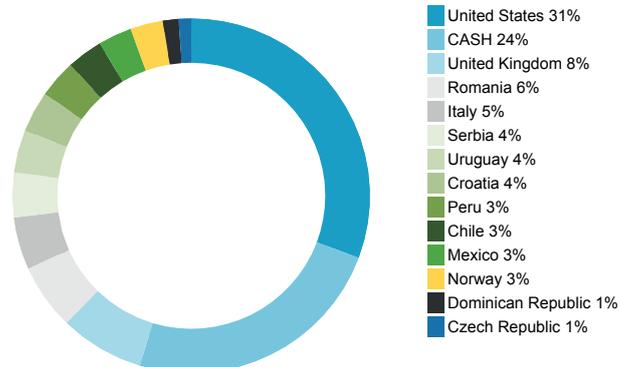
Holding	Weight (%)	Contribution (%)
Romanian Government	5.82	-0.29
Colombia Government	3.29	-0.24
Croatia Government	3.53	-0.17
Uruguay Government	3.81	-0.14
Serbia Government	3.92	-0.10

Absolute contribution based on NOK returns at fund level

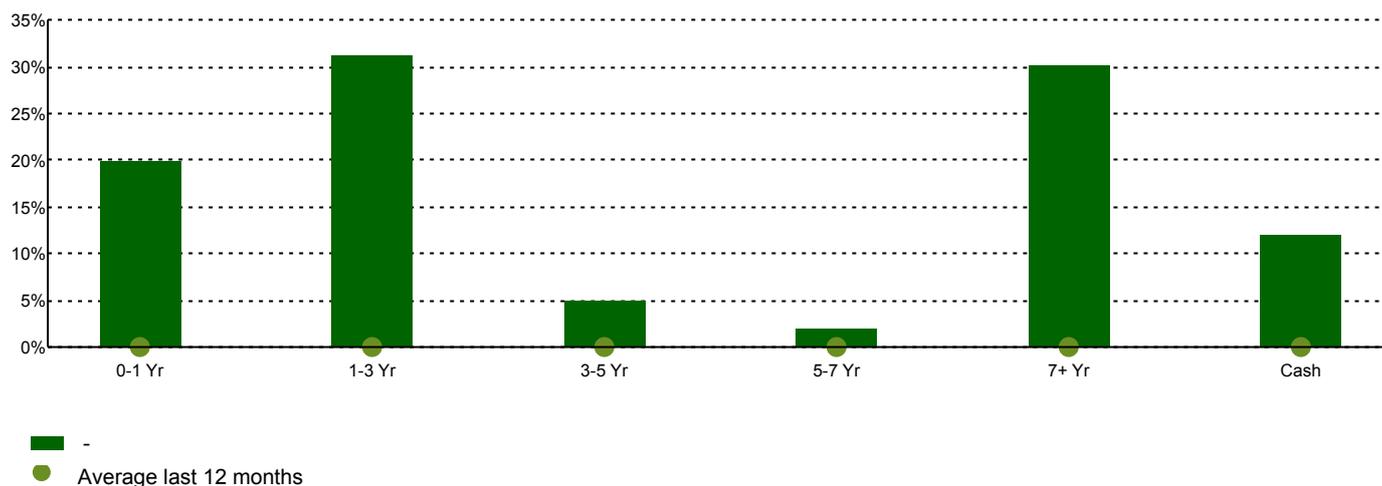
Top 10 investments

Holding	Percentage of Fund
US Government	30.7
UK Government	7.6
International Finance Corp	7.1
Romanian Government	6.0
Italian Government	4.7
Republic of Serbia	4.1
European Bank for Reconstruction & Development	3.9
Oriental Republic of Uruguay	3.9
Republic of Croatia	3.8
Republic of Peru	3.5
Total	75.3

Country exposure



Maturity structure



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Important information

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