Quarterly Report

SKAGEN Tellus A

All data in EUR as of 30/06/2022 unless otherwise stated.

Extraordinarily weak global government bonds

The recent trend of rising interest rates continued in the second quarter. Interest rates on 10-year government bonds rose between 50 and 150 basis points in most countries during the quarter and credit spreads rose further. The extremely weak performance year to date is quite extraordinary and the last 12 months have been the weakest for global government bonds in decades and among the weakest ever.

SKAGEN Tellus was not immune to the poor market performance and generated a negative return during the second quarter, which was more or less in line with the benchmark index.

The largest positive contributors to fund performance in the quarter were our investments in the US and Uruguay, both driven by very strong currencies. The largest detractors were our investments in Romania and Chile driven by higher credit spreads. During the quarter we added some long duration exposure in low credit risk areas such as Germany, France, and the US. We reduced our exposure to Uruguay after a strong run for the currency and exited our Colombian investment ahead of the final round of presidential elections.

Weak growth outlook and high consumer price growth

The horrific war in Ukraine is still ongoing and looks set to be long-lasting. This is contributing to continued upward price pressure on commodities, although we have seen some prices falling back lately. At the same time, the Covid-19 related lockdowns in China have prolonged the supply chain tightness experienced over the past year. This has put further upward pressure on prices and central banks globally are under significant pressure to act to ease inflation.
The outlook of higher interest rates, high price growth and higher uncertainty in general is weakening sentiment among consumers and businesses. We are therefore seeing growth forecasts being adjusted downwards and increased fear of recession. Central banks are faced with a challenging task as they try to reduce inflation without choking the economy. Thus far they have prioritised lowering inflation expectations and have surprised with increasingly tight monetary policy and forward guidance lately. Judging by market prices for inflation-protected securities, the more aggressive tone has so far been successful as long-term real rates have risen and long-term inflation expectations have fallen. The 10-year inflation expectations in the US have fallen from around 3% at the beginning of the second quarter to well below 2.5% at the end of the quarter. This is still above the goal of 2% inflation, but the market has certainly taken the latest moves by central banks seriously.

Credit spreads moving higher

A weaker economic outlook and general uncertainty has pulled up credit spreads and the current levels are fairly high in a historical context. Unsurprisingly, the eastern parts of Europe are one of the worst hit regions as the proximity to the war in Ukraine has added extra pressure on credit spreads.

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In Latin America, Colombia has seen some of the largest moves in credit spreads as the presidential elections concluded with the victory of Gustavo Petro who became the first ever left-wing president. His rather radical political agenda involving more protectionism and practically an end to the important oil industry has rattled markets. Given the fragmented congress, the likelihood of the most radical policy suggestions being implemented is probably small, but the uncertainty this introduces to the investment landscape is certainly something investors dislike strongly. We sold our Colombian exposure ahead of the election.

Outlook

Central banks in tightening mode, high consumer price growth and geopolitical uncertainty are all contributing to weak economic prospects. The big question is if, and/or when, the weak economic outlook will drag down long-term interest rates. We do not think we can time the market and call the precise top for long-term rates, but do think it is worth increasing the allocation to low credit risk long-term government bonds. Assuming the economic environment further deteriorates in the next year, we could see a significant fall in long-term rates as investors seek safe havens and central banks postpone or call off rate hikes. In addition, the protection you now get from a higher yield on long-term bonds means that interest rates can increase quite substantially before you get a negative return. To illustrate this, imagine a 5-year bond with a 5% coupon. If the yield increases from 2% to 3% over a one-year period, this bond will return around -1.5%. If the same bond moves from a yield of 4% to 5%, you still get a positive return on your investment. The case for bonds in general and longer-term bonds in particular is improving.

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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. The fund is suitable for those with at least a five year investment horizon. Subscriptions are made in fund units and not directly in stocks or other securities. The fund has risk profile 4. The benchmark reflects the fund's investment mandate. Since the fund is actively managed, the portfolio will deviate from the composition of the benchmark.

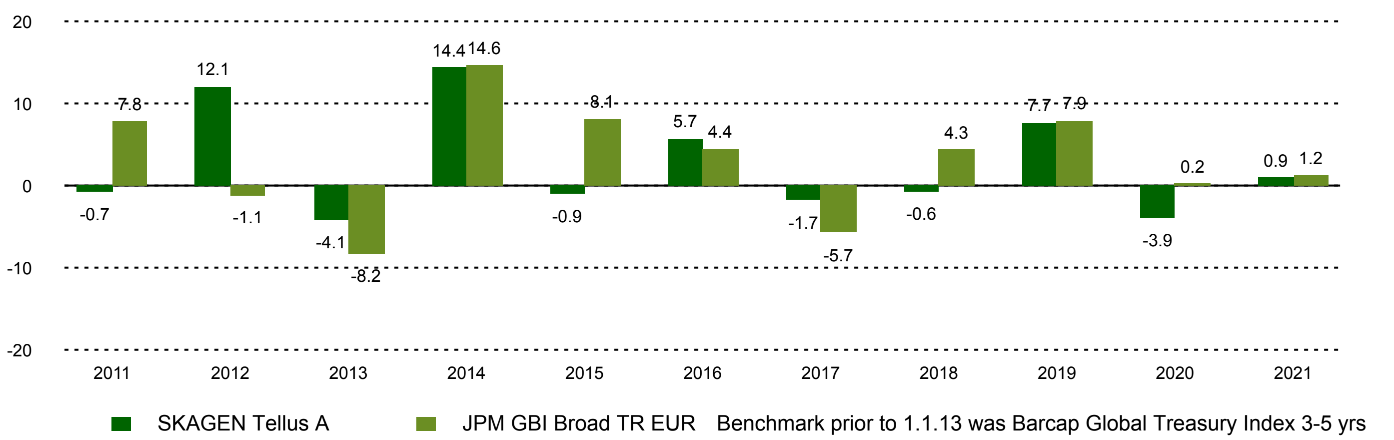
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	-1.4%	-0.7%
Quarter to date	-2.7%	-2.5%
Year to date	-2.9%	-6.4%
Last 12 months	-1.6%	-4.2%
Last 3 years	-1.3%	-1.0%
Last 5 years	0.1%	0.9%
Last 10 years	1.8%	1.5%
Since start	3.4%	3.3%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	10.07 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	40.11 EUR
Duration	5.19
WAL	7.15
Yield	4.30%
Number of holdings	19
Portfolio manager	Sondre Solvoll Bakketun

Performance last ten years



Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and management fees. The return may become negative as a result of negative price developments. There is a risk associated with investing in the fund due to market movements, currency developments, interest rate levels, economic, sector and company-specific conditions.

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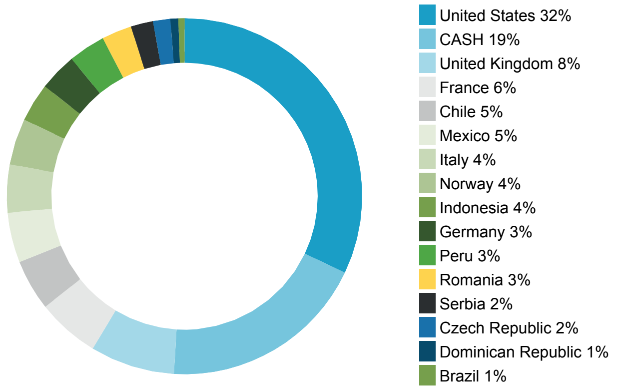
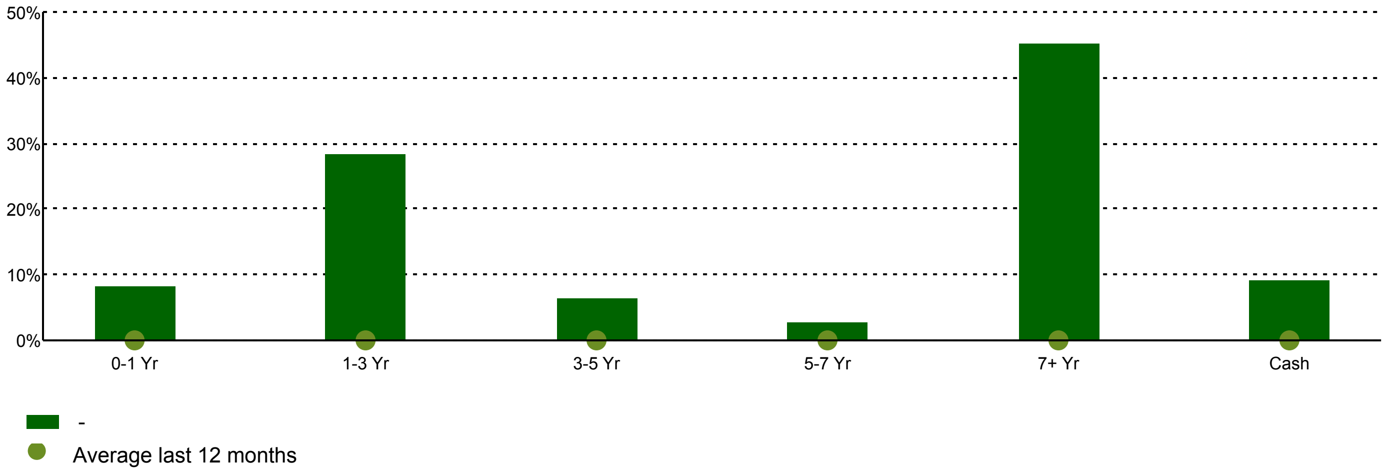
Top 10 investments

Holding	Percentage of Fund
US Government	32.1
French Government	5.7
UK Government	5.2
International Finance Corp	4.7
European Bank for Reconstruction & Development	4.7
Republic of Chile	4.6
Mexico	4.5
Italian Government	4.4
Kongeriket Norge	4.2
Indonesia Government International Bond	3.5
Total	73.6

Country exposure



Maturity structure



Important information

This report is intended for investment professionals only. All information is based on the most up-to-date data available. Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as per the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. 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.

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