



Apple trees, 1907. By Michael Archer, one of the Skagen painters. This image belongs to the Skagens Museum.

# SKAGEN Credit EUR

## A global corporate bond fund

### Status report May 2016

The art of common sense



# SKAGEN Credit EUR A – Key numbers

Key numbers as of 31 May	SKAGEN Credit EUR A	Index (Euribor 3m)
Return last month	0,7 %	0,0 %
Return year to date	3,2 %	-0,1 %
Return since inception (30.05.14)	- 1,0 %	0,0 %
Current yield*	3,5 %	- 0,3 %
Average maturity (WAM)	1,1	0,25
Average life time (WAL)	3,0	N/A
Average credit spread (OAS)**	470 bps	N/A

\*Current yield changes from day to day and is no guarantee for future return

\*\* Average option adjusted spread on the investments, cash excluded. For bonds that trade at a significant discount and where the likelihood of recovering the entire principal, yield can be misleading as it assumes full repayment.

# The SKAGEN Credit investment universe



**SKAGEN Credit picks bonds both from the investment grade and the high yield spectrum with a high risk adjusted return potential. Minimum 50% investment grade.**

## Portfolio manager's comment

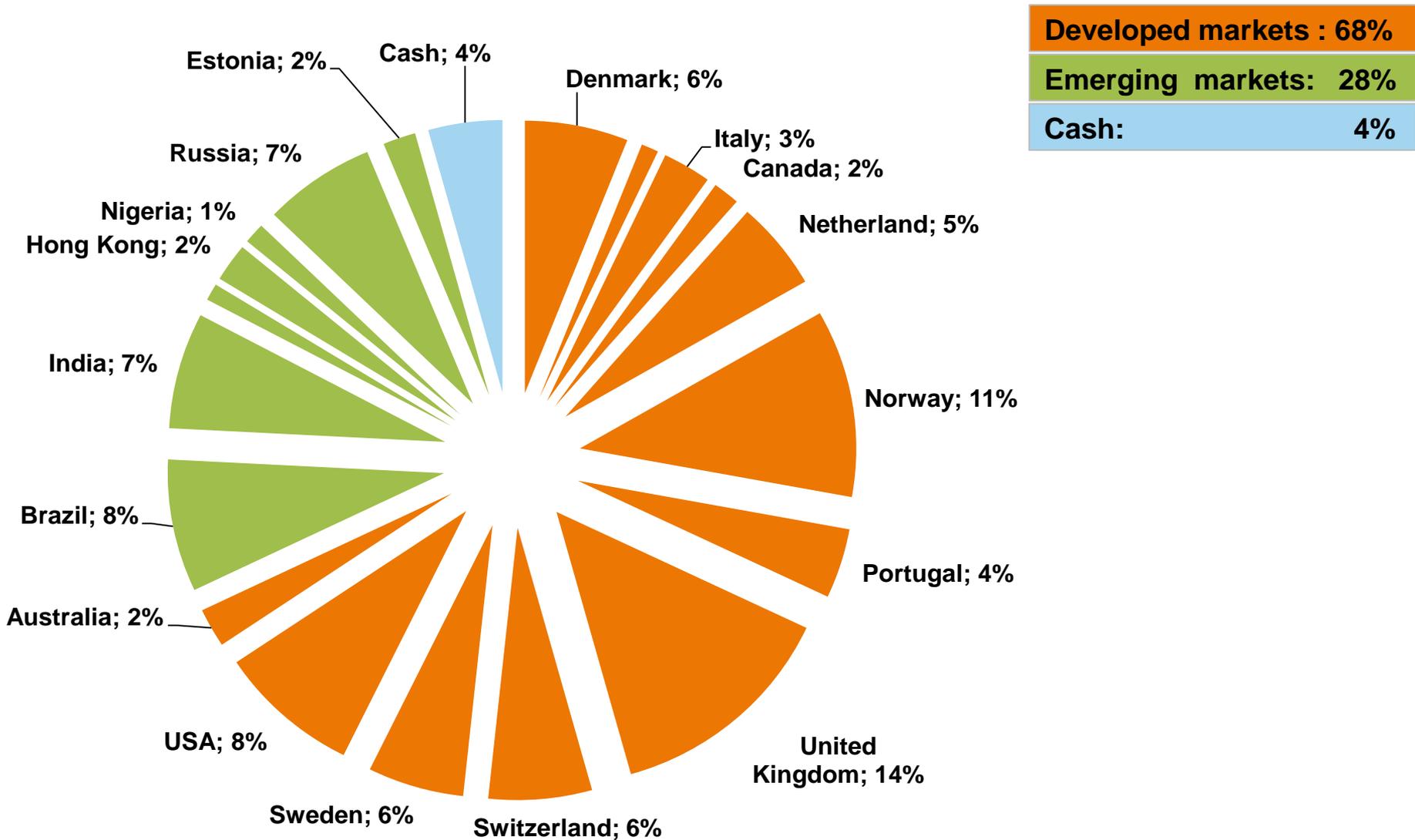
May was a good month for SKAGEN Credit and a good continuation of the trend that started in mid-February. 2016 has so far been a year of great volatility, in which the credit market almost ground to a halt in January and February only to return towards normal in the spring and early summer.

May has been a month in which there have been many new bonds in the market. This means that companies issue new bonds in the market that make their way to investors. There are two reasons why the activity level has been so high. First, activity was very low in winter due to uncertainties. This deficit is being recouped and in addition companies wish to secure the necessary financing before the summer holiday starts and activity levels decrease. An active market with many new issues is usually a positive sign of a well-functioning credit market.

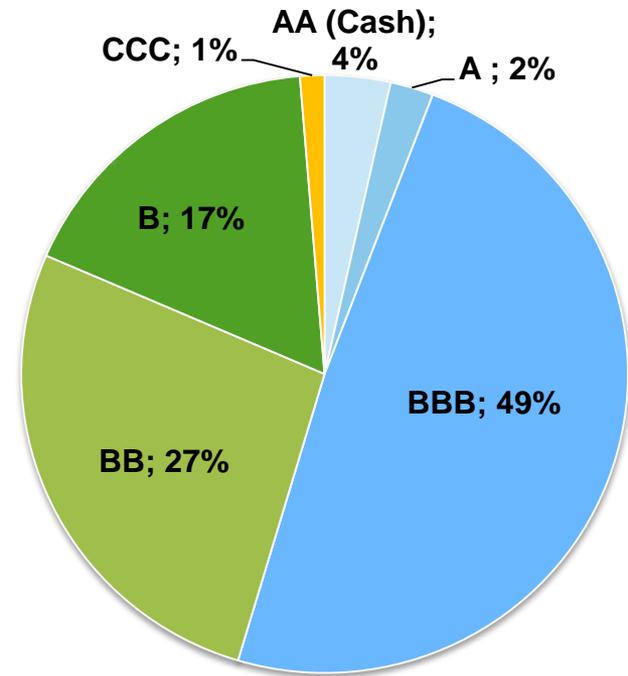
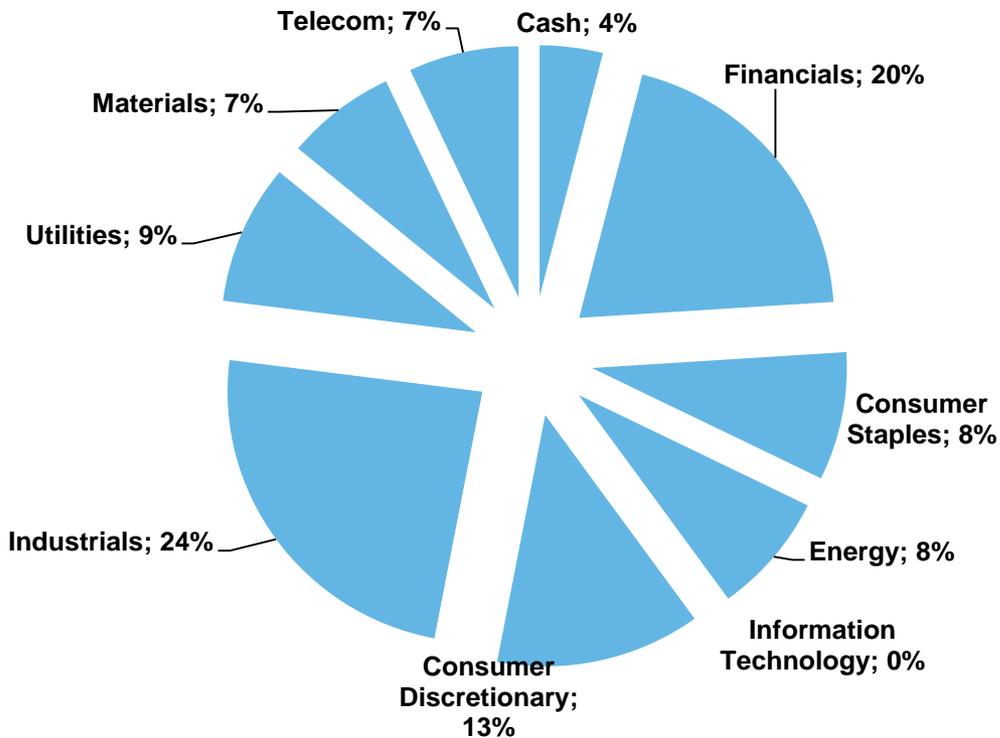
There are currently many important events affecting the credit market. The ECB is starting its bond buying program on 8 June (CSPP), whereby they will buy Investment Grade corporate bonds with the main aim of pushing down loan costs for European companies, which will in turn increase the appetite to invest and thus create growth. In the middle of the month the US central bank, the Fed, will announce whether they will hike rates as expected by many. As the world's largest economy, the USD rate is important globally. Last but not least, the Brits will have a referendum regarding EU membership and this will have a big impact on the British economy and the pound.

When it comes to company news, almost all our investments have recovered strongly after the winter unrest. Within particularly exposed sectors such as energy and commodities, commodity companies such as Glencore and Noble Group have announced the sale of assets and debt reduction in response to lower prices. The rig company Seadrill is currently working on a restructuring plan which we expect in the second half of 2016. Indian Rolta surprised everyone by skipping a coupon payment at month end, and the market reacted very negatively. The company states that they will pay in June, but we are unsure whether the problems are bigger than they admit. We will monitor the company closely this summer.

# Country diversification



# Sector and rating distribution



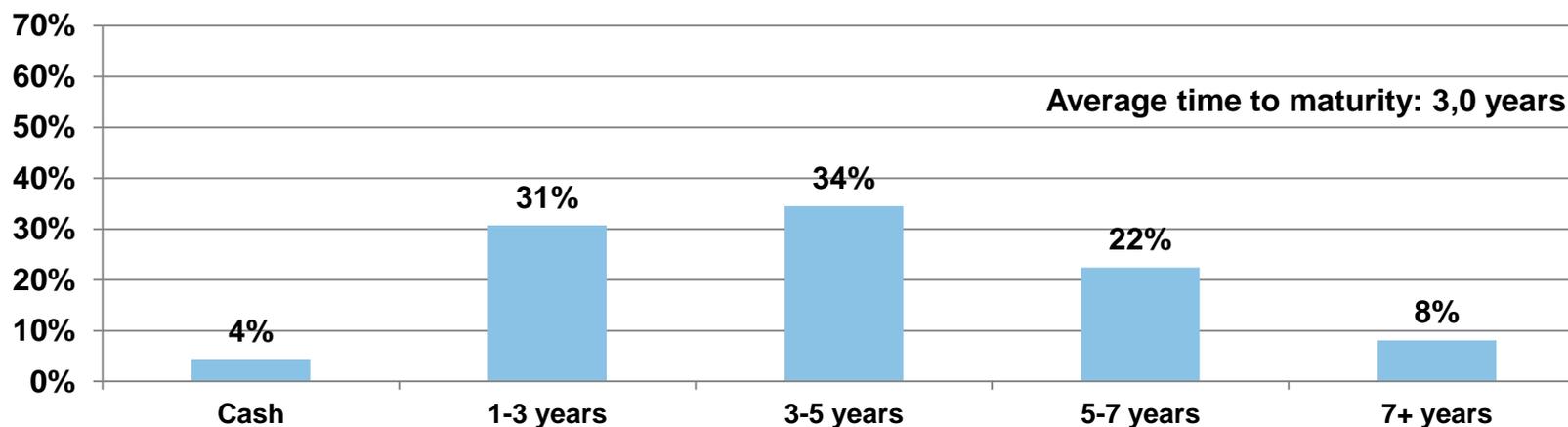
Investment grade:	55 %
High Yield:	45 %
Average rating:	BB+

# Interest rate duration and time to maturity

Interest rate exposure and denominated currency of bonds (before currency hedge)

Currency	Bond denominated	Interest rate duration
USD	43%	1,1 year
EUR	19%	1,8 year
GBP	23%	1,0 year
NOK	10%	0,1 year
DKK	2 %	0,1 year
SEK	3 %	0,1 year
Sum Fund	100%	1,1 year

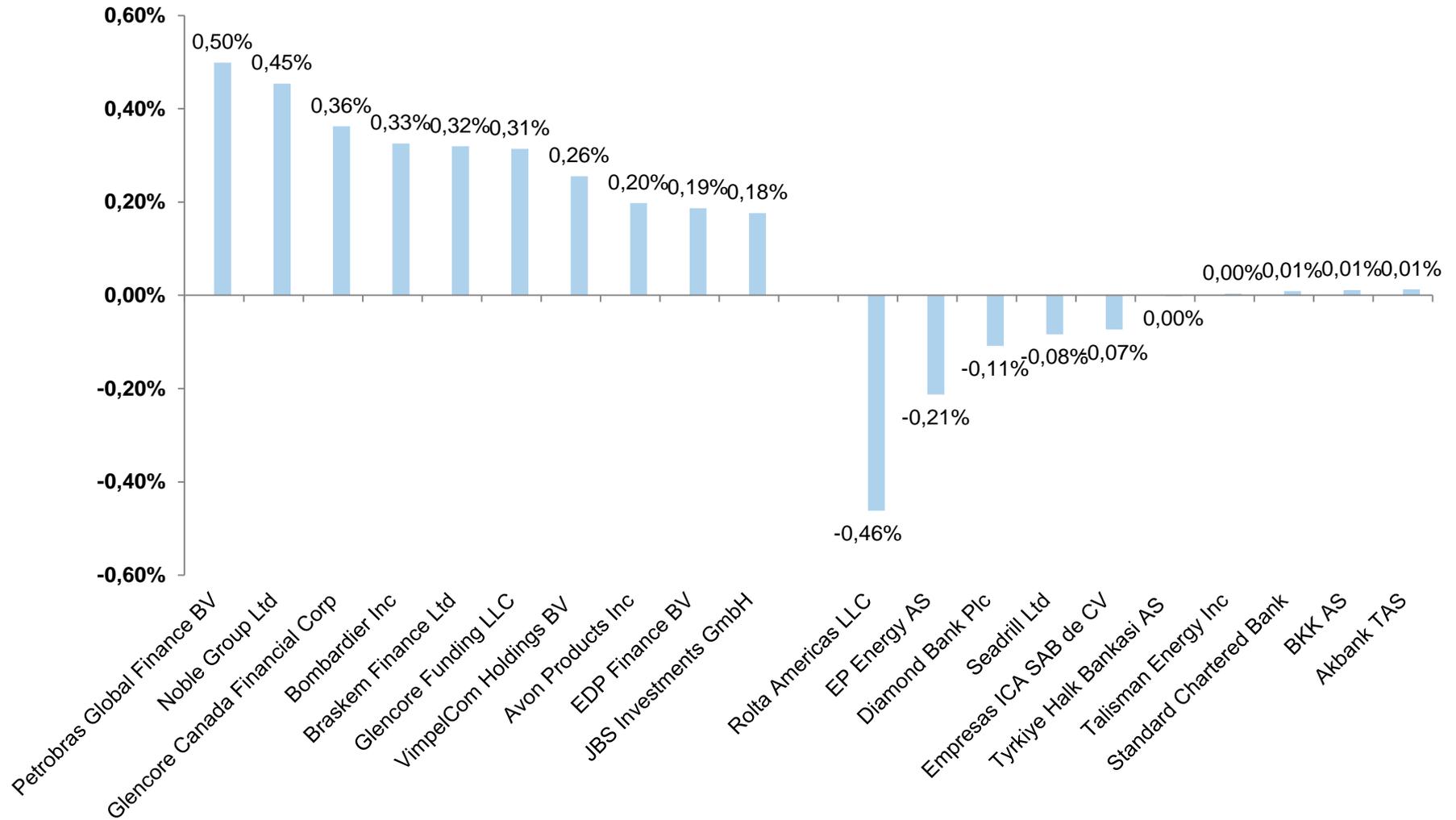
Credit exposure - time to maturity profile on bonds



# Top 10 investments

Company	Country of risk	Credit rating*	Percent of fund
Glencore**	Switzerland	BBB-	4,7 %
BKK	Norway	BBB	4,5 %
Energias de Portugal	Portugal	BBB-	4,1 %
Heathrow	UK	BBB	3,8 %
Danske Bank	Denmark	BBB	3,6 %
Gazprom	Russia	BB+	3,4 %
Norwegian	Norway	B	3,3 %
Bharti Airtel	India	BBB-	3,3 %
Color Group	Norway	B+	3,2 %
Petrobras	Brasil	B+	3,1 %
<b>Sum top 10</b>			<b>37 %</b>

# 10 best and worst contributors YTD



# Global Corporate High Yield spread - last 5 years



- Global High yield spreads are on their way back to average after a dramatic winter
- Lines indicate average credit spread last 5 years at ca 540 bps and  $\pm$  one standard deviation

# The portfolio managers

The portfolio managers draw on their expertise in the fixed income markets, as well as SKAGEN's equity fund managers' long experience of successful stock-picking. They have long-standing and complementary experience ranging from fixed income management to company analysis, risk management and trading.

## Ola Sjöstrand

Ola Sjöstrand has worked in SKAGEN since 2006 as portfolio manager of SKAGEN's fixed income funds. He launched and has been responsible for running the SKAGEN Krona fund amongst others. Before joining SKAGEN Ola worked as portfolio manager at the Swedish Soya Group. A combination of strong analytical skills and investment experience applying SKAGEN's investment philosophy puts Ola in a strong position to find good investment cases for the fund. Ola holds a BSc in Business Administration and Economics.

## Tomas Nordbø Middelthon

Tomas Nordbø Middelthon has worked in SKAGEN since 2010, both as a risk manager and more recently as portfolio manager of SKAGEN's fixed income funds. Before that Tomas worked within financial services in Statoil implementing financial risk management tools worldwide. Tomas holds an MBA within Finance and is a Certified Financial Analyst. He has strong analytical skills and a background from financial risk management. The combination of risk management and technical expertise is valuable in the screening and analysis of corporate bonds and portfolio construction.



## For more information please visit:

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Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

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 subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and prospectuses for all funds can be found on our website.

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