



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 June 2016

The art of common sense



SKAGEN Credit EUR A – Key numbers

Key numbers as of 30 June	SKAGEN Credit EUR A	Index (Euribor 3m)
Return last month	0,1 %	0,0 %
Return year to date	3,3 %	-0,1 %
Return since inception (30.05.14)	- 0,9 %	0,0 %
Current yield*	4,1 %	- 0,3 %
Average maturity (WAM)	1,3	0,25
Average life time (WAL)	3,0	N/A
Average credit spread (OAS)**	486 bps	N/A

*Current yield changes from day to day and is no guarantee for future return. For bonds that trade at a significant discount and where the likelihood of recovering the entire principal is uncertain, yield can be misleading as it assumes full repayment.

** Average option adjusted spread on the investments, cash excluded

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 Managers' Comment

The month of June was dominated by uncertainty surrounding the UK's EU Referendum. The final result came as a shock to the credit market, causing spreads to widen. Both European and British markets reacted negatively, but there was limited impact on the US and in emerging markets.

SKAGEN Credit is a well-diversified global fund, both by sector and regions. Local events like the so-called Brexit vote therefore don't have a large impact on the fund's overall returns.

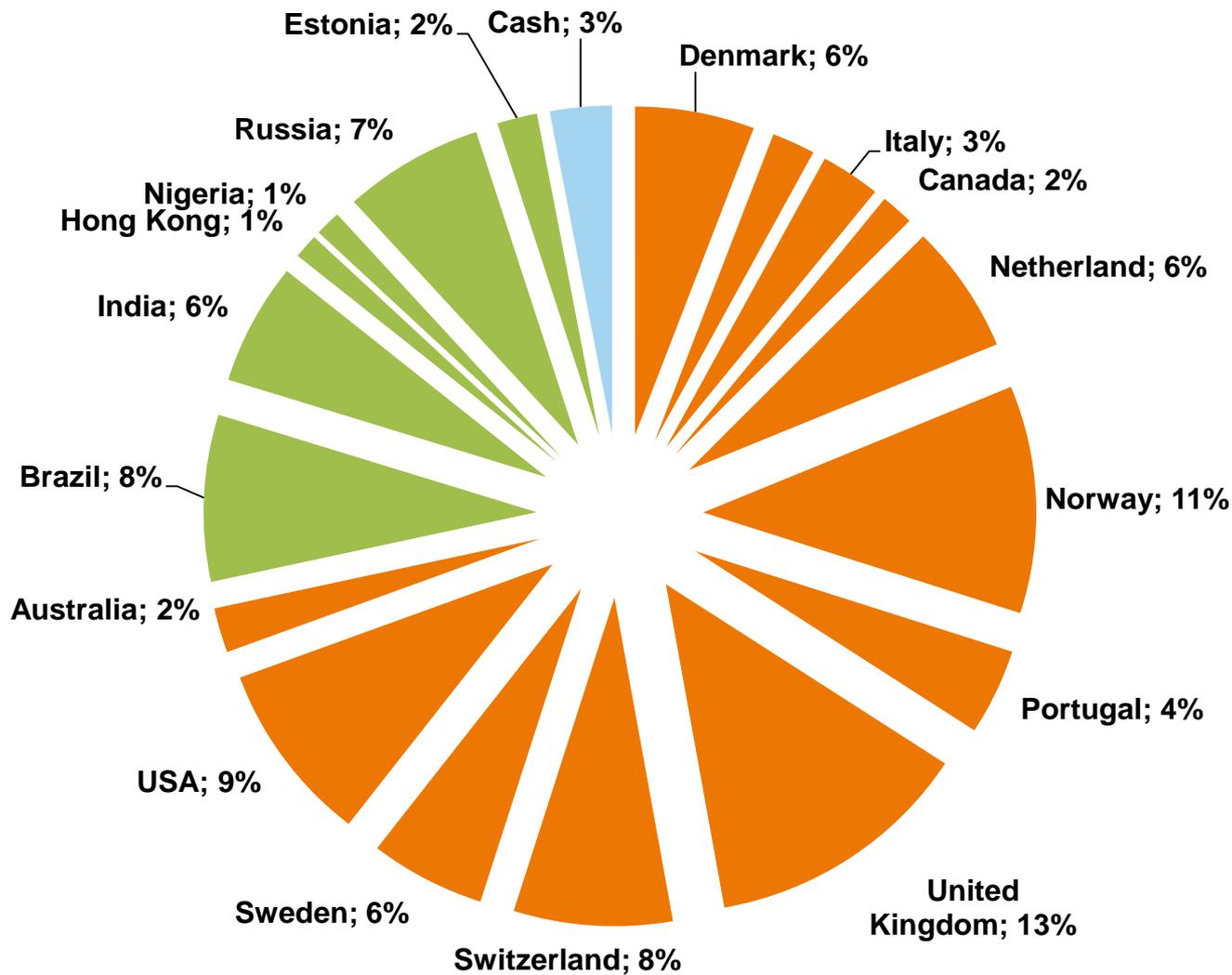
The fund's exposure to the UK stood at 13% of total portfolio value. Holdings there included Heathrow (3.5%), Amlin (2.7%), Jaguar Land Rover (2.5%), Morrison (2.2%), and Standard Chartered (2.1%). A common theme for these companies is that they are well-managed, with solid financial statements and good credit ratings. Moreover, the fund is currency-hedged, protecting it from the plunge in the British pound. Overall, the impact on returns from the UK exposure was mild.

We were satisfied to see the fund yield a positive return in the turbulent month of June. The same can be said for the first half year in total – despite significant volatility, the fund has delivered solid returns for its unit holders.

Credit spreads (see graph) remain high, so there is plenty of room for higher returns in the latter half of the year. The portfolio is comprised of solid companies from a range of industries and countries, which lends to robustness, but as we've witnessed the past two years, this does not entirely make it immune to large market shocks.

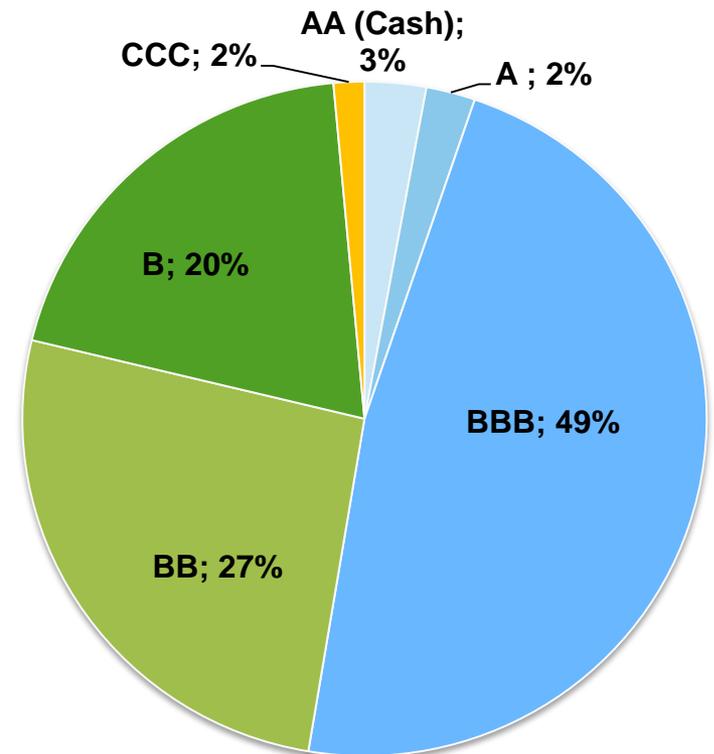
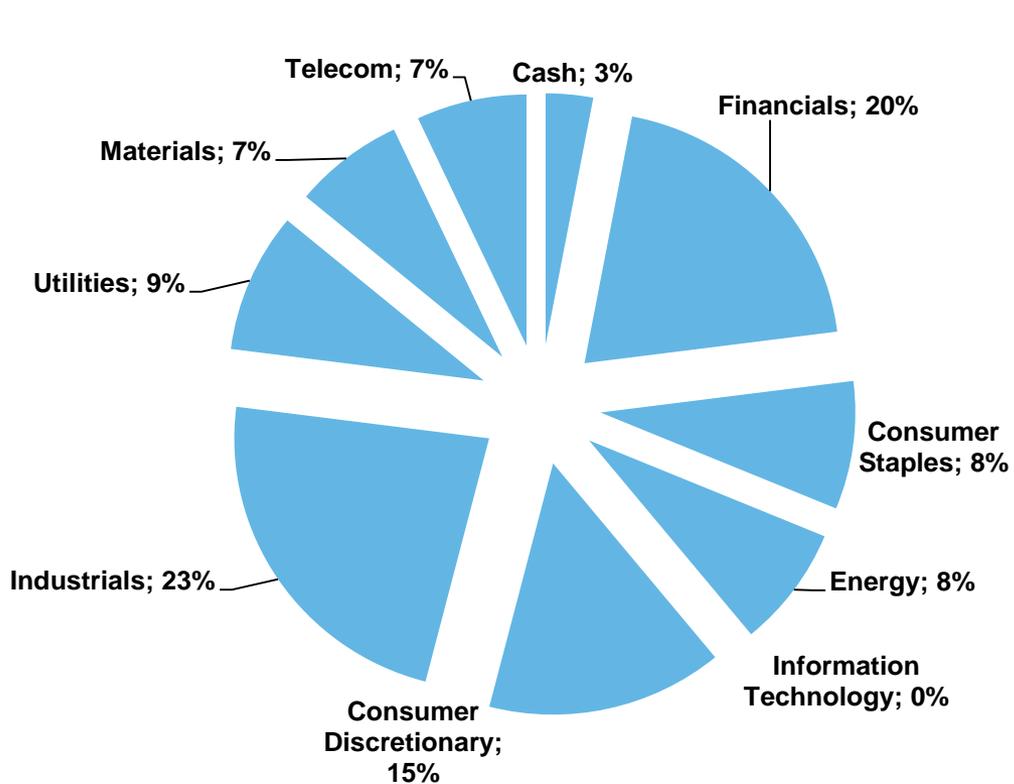
Credit spreads shown represent the spread companies pay to borrow money in corporate debt markets. Higher credit spreads represent higher risk, but also the potential for higher returns. We therefore place emphasis on balancing the fund's reward's potential to the risk it takes. In volatile markets, credit spreads rise, leading to negative returns, and vice versa when credit spreads fall.

Country diversification



Developed markets	72%
Emerging markets	25%
Cash	3%

Sector and rating distribution



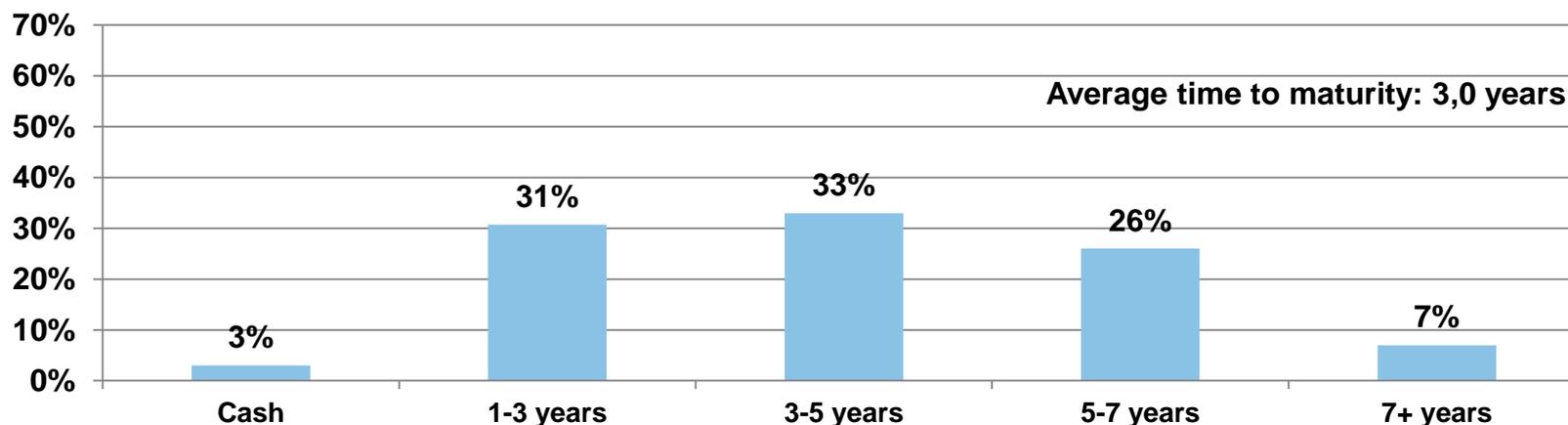
Investment grade:	54 %
High Yield:	46 %
Average rating:	BB

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%	1,3 year
EUR	21%	1,7 year
GBP	21%	1,2 year
NOK	10%	0,1 year
DKK	2 %	0,1 year
SEK	3 %	0,1 year
Sum Fund	100%	1,3 year

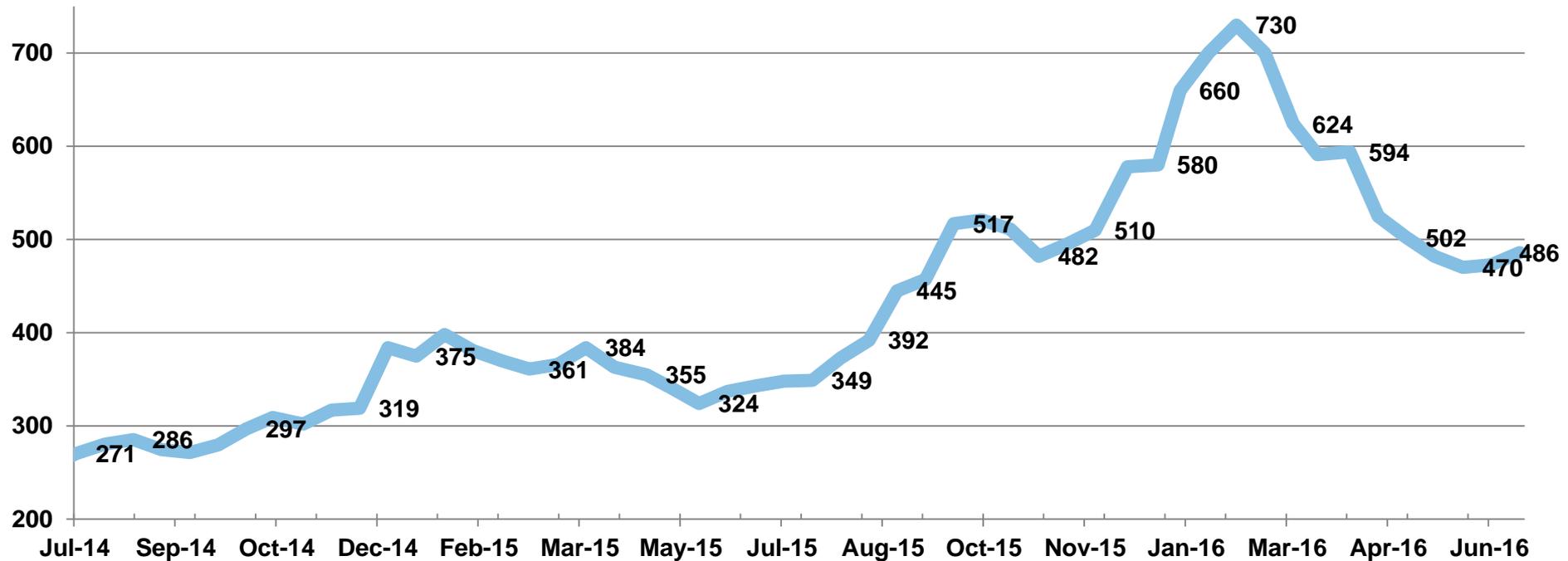
Credit exposure - time to maturity profile on bonds



Top 10 investments

Company	Country of risk	Credit rating*	Percent of fund
Glencore**	Switzerland	BBB-	5,6 %
BKK	Norway	BBB	4,6 %
Energias de Portugal	Portugal	BBB-	4,2 %
Samvardhana Motherson	Netherland	BB+	3,8 %
Heathrow	UK	BBB	3,6 %
Gazprom	Russia	BB+	3,5 %
Danske Bank	Denmark	BBB	3,4 %
Best Buy	USA	BBB-	3,4 %
Color Group	Norway	B+	3,4 %
Bharti Airtel	India	BBB-	3,3 %
Sum top 10			39 %

Average credit spread in SKAGEN Credit since inception (May 2014- June 2016)



- Credit spread is the difference in yield between a corporate bond and a government bond (or a interest rate swap) of the same maturity.
- The fund creates return above effective yield when spreads are declining and lags return to effective yield when spreads are rising
- Credit spread vary in time since different market events and market outlook will change risk perspective.
- SKAGEN credit has had a rater stable portfolio since inception, so changes in credit spreads are mostly related to market events and not portfolio changes.

Global Corporate High Yield spread - last 5 years



- Global High yield spreads has returned close to average after a dramatic winter.
- Brexit effect can be seen the last week.
- Lines indicates average credit spread last 5 years at ca 540 bps and +/- 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.



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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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