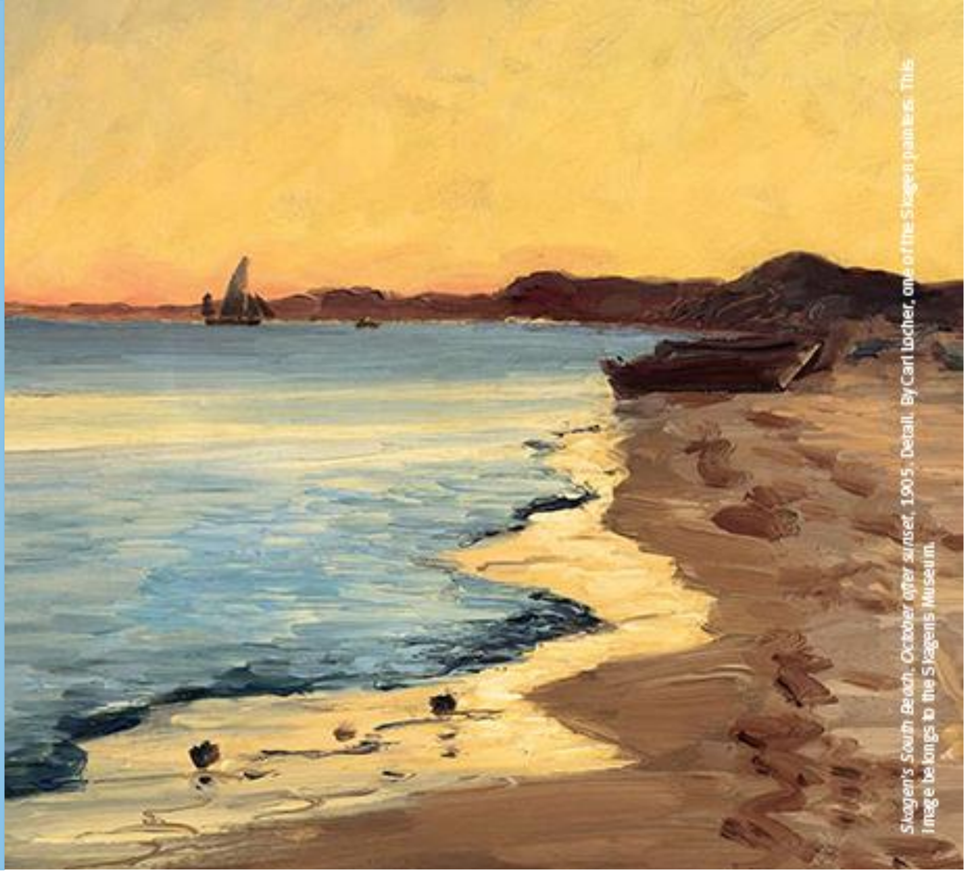
Torgeir Høien
Lead Manager

Jane Tvedt
Co-manager



Skagen's South Beach. October after sunset, 1905. Detail. By Carl Locher, one of the Skagen painters. This image belongs to the Skagens Museum.

SKAGEN Tellus

Status Report February 2016

The art of common sense

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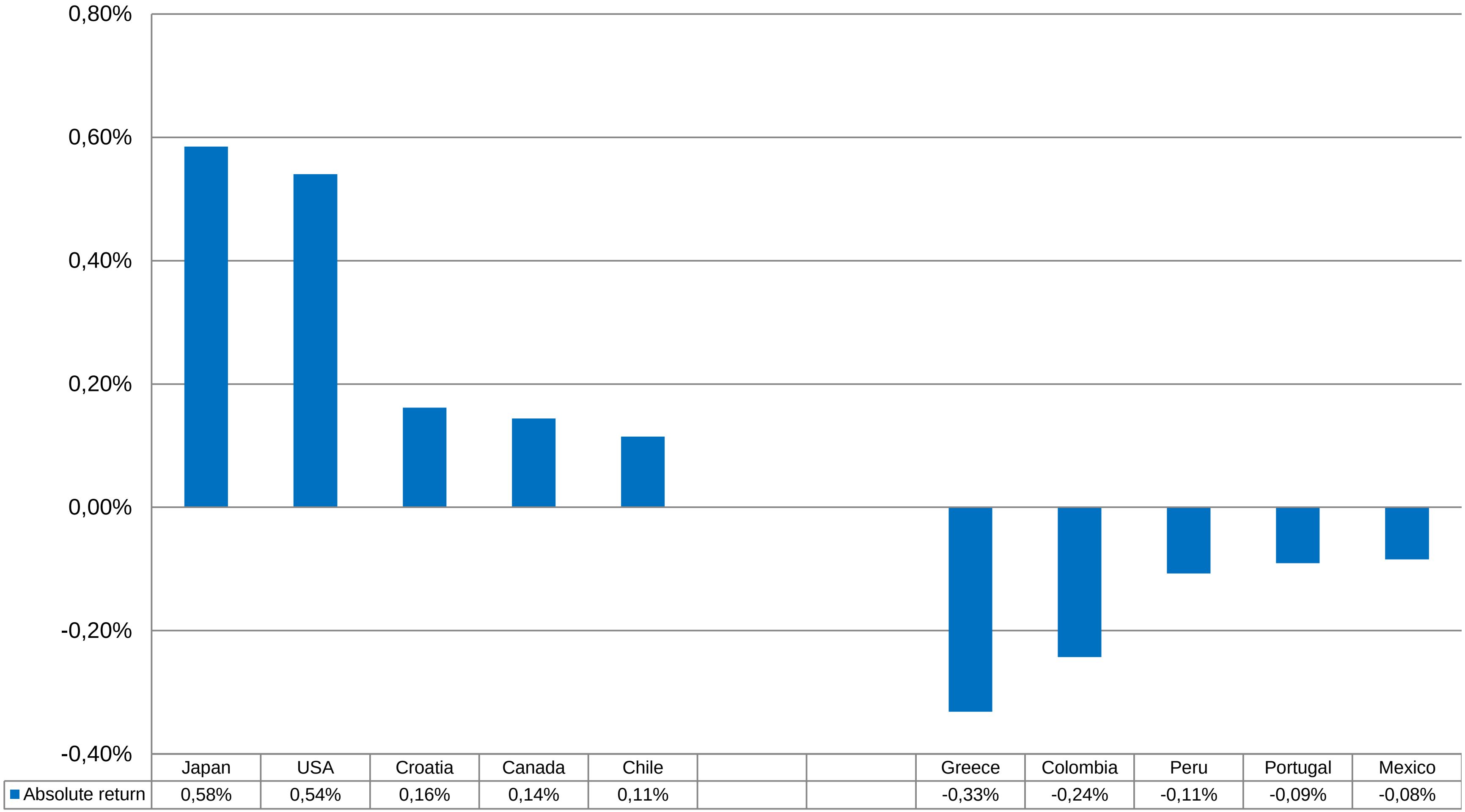
Key numbers as of 29.02.2016

- SKAGEN Tellus was up 1.0% in EUR in February. The benchmark was up 2.3%.
- Since inception the fund has had an annualised return in EUR of 5.3% versus 5.4% for the index. Over this period, 61% of the fund's return has come from interest coupons, while bond price appreciation has contributed 25% and currency movements, including the cost of currency hedging, have contributed 14%.
- Volatility as measured by standard deviation has been 7.0% since inception. The benchmark index has had a standard deviation of 8.3%.
- The fund's yield on 29.02.2016 was 1.6% and the fund's duration was 3.7 years.

	February	QTD	2015	1 Year	3 years	5 years	Since inception*
SKAGEN Tellus A	1,0%	0,9%	-0,9%	-7,6%	2,9%	4,6%	5,3%
JPM Broad GBI Unhedged	2,3%	4,1%	8,1%	5,4%	6,4%	5,3%	5,4%
Excess return	-1,3%	-3,2%	-9,0%	-13,0%	-3,4%	-0,7%	-0,1%

Inception date: 29/09/2006
Benchmark index before 01/01/2013 was Barclay's Capital Global Treasury Index 3-5 years
**Unless otherwise stated, all performance data in this report relates to class A units, measured in EUR and is net of fees.*

Top 5 best and worst contributors year to date



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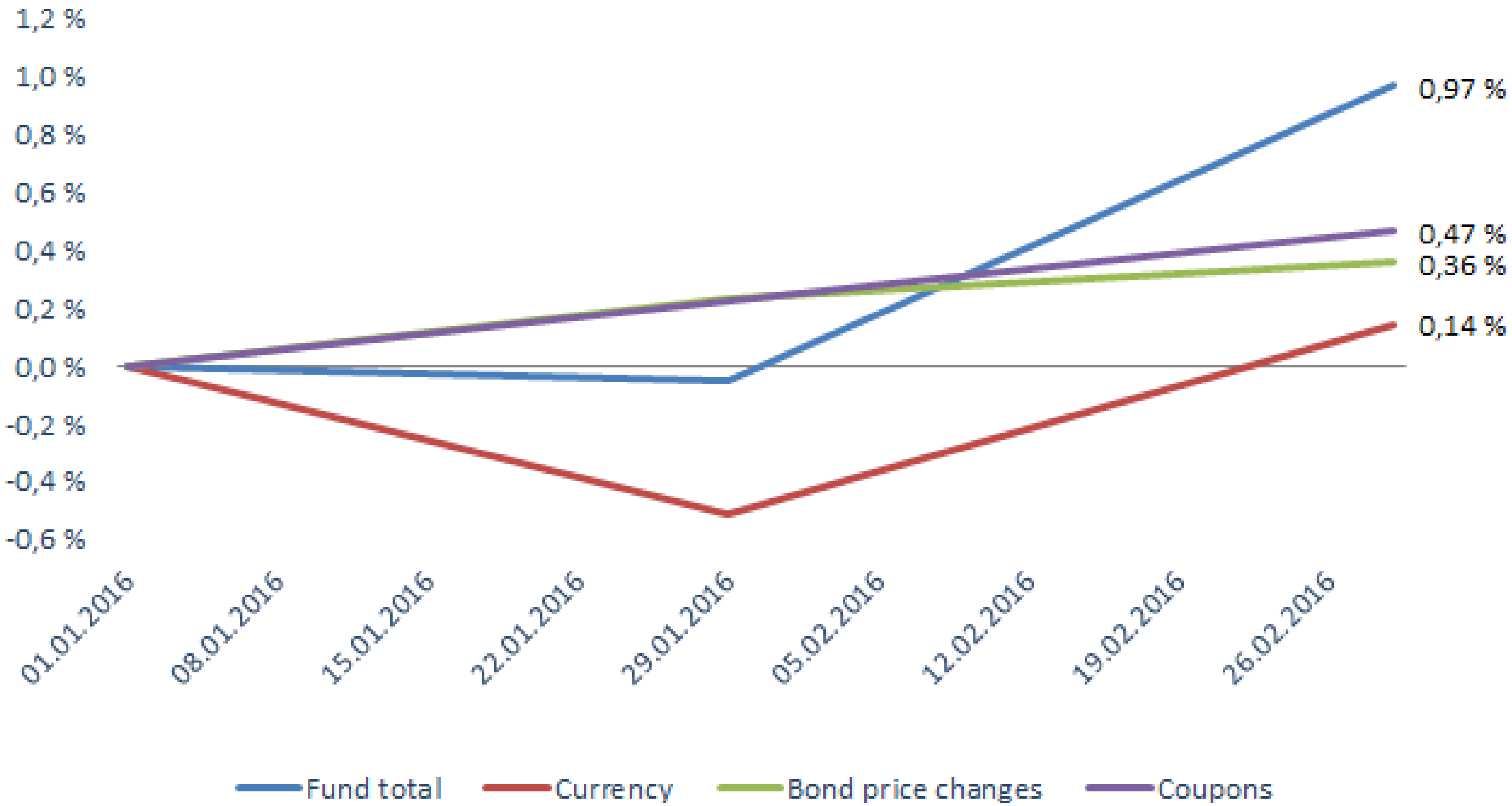
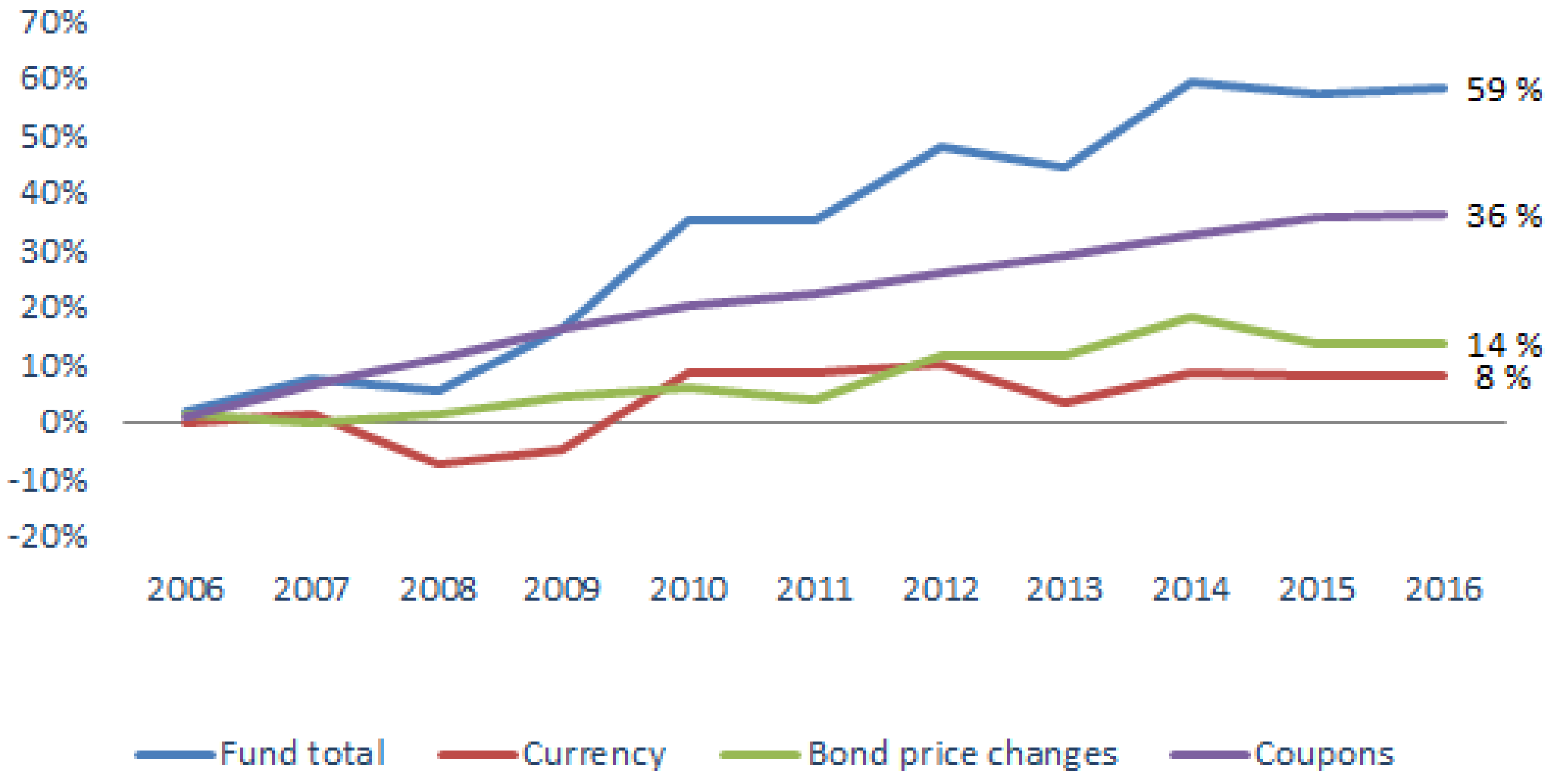
Accumulated returns year to date in EUR



Accumulated returns since inception in EUR



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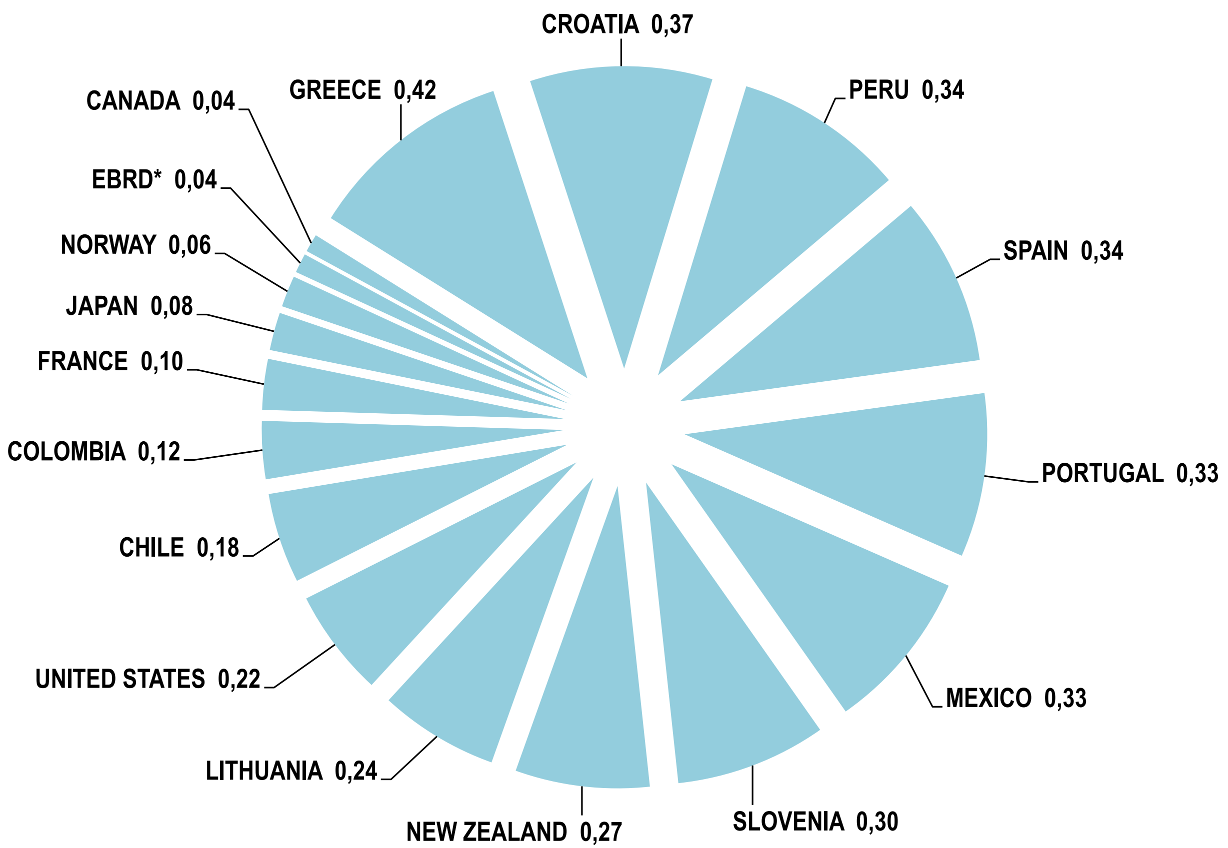
SKAGEN Tellus's portfolio 29.02.2016

Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	12 800	9,3	31.08.2016	0,5
US Government	USD	12 000	8,7	30.06.2017	0,6
US Government	USD	10 000	7,3	30.11.2016	0,9
Croatia Government International Bond	EUR	8 300	6,9	30.05.2022	3,9
Japan Government	JPY	900 000	5,9	20.06.2016	1,9
Canadian Government	CAD	10 000	5,4	01.11.2016	1,0
Norwegian Government	NOK	60 000	5,4	19.05.2017	4,3
Lithuanian Government	USD	5 500	4,9	01.02.2022	6,6
Chilean Government	CLP	4 410 000	4,8	05.08.2020	5,5
New Zealand Government	NZD	8 000	4,6	17.04.2023	5,5
Spanish Government	EUR	5 000	4,1	30.04.2025	1,6
Portugese Government	EUR	5 000	4,0	15.10.2025	2,9
Slovenia Government	EUR	3 500	3,8	30.03.2026	5,1
Hellenic Republic Government	EUR	9 000	3,8	24.02.2035	3,0
Japan Government	JPY	550 000	3,6	16.10.2017	0,1
Peruvian Government	PEN	18 000	3,4	12.08.2037	6,9
Mexican Government	MXN	60 000	3,3	20.11.2036	10,0
Colombian Government	COP	13 400 000	3,1	14.04.2021	7,8
French Government	EUR	3 000	2,4	25.05.2020	-
European Bank Recon & Dev	INR	200 000	2,2	19.03.2018	5,8

Distribution of interest rate risk exposure



EBRD* : European Bank of Reconstruction & Development

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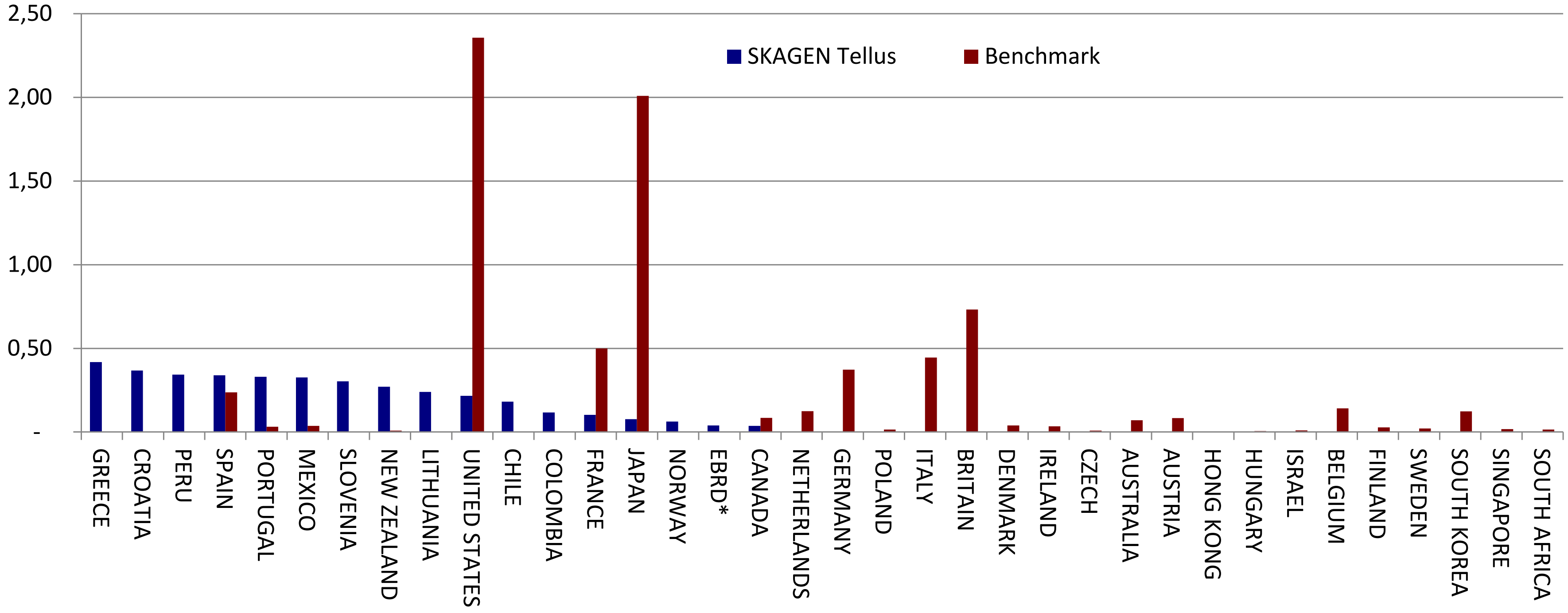
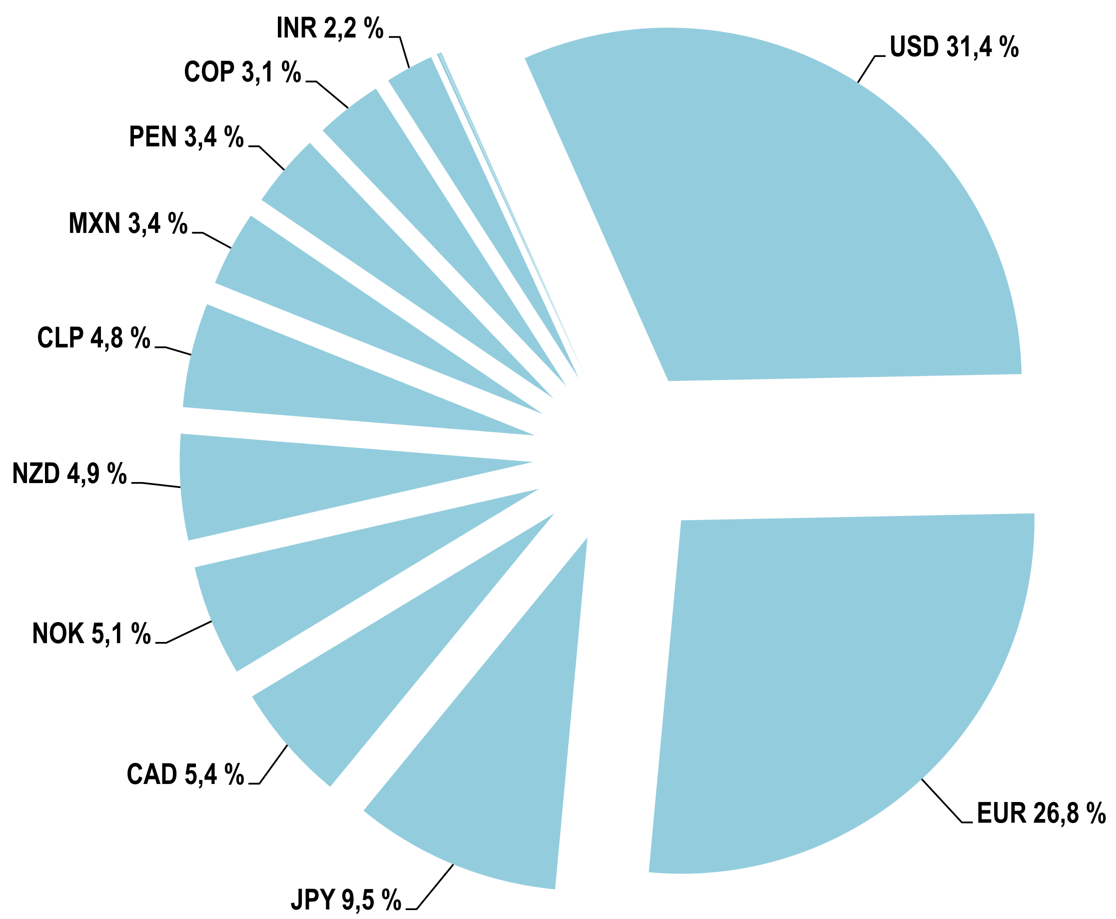
Interest rate exposure relative to benchmark



Distribution of currency exposure



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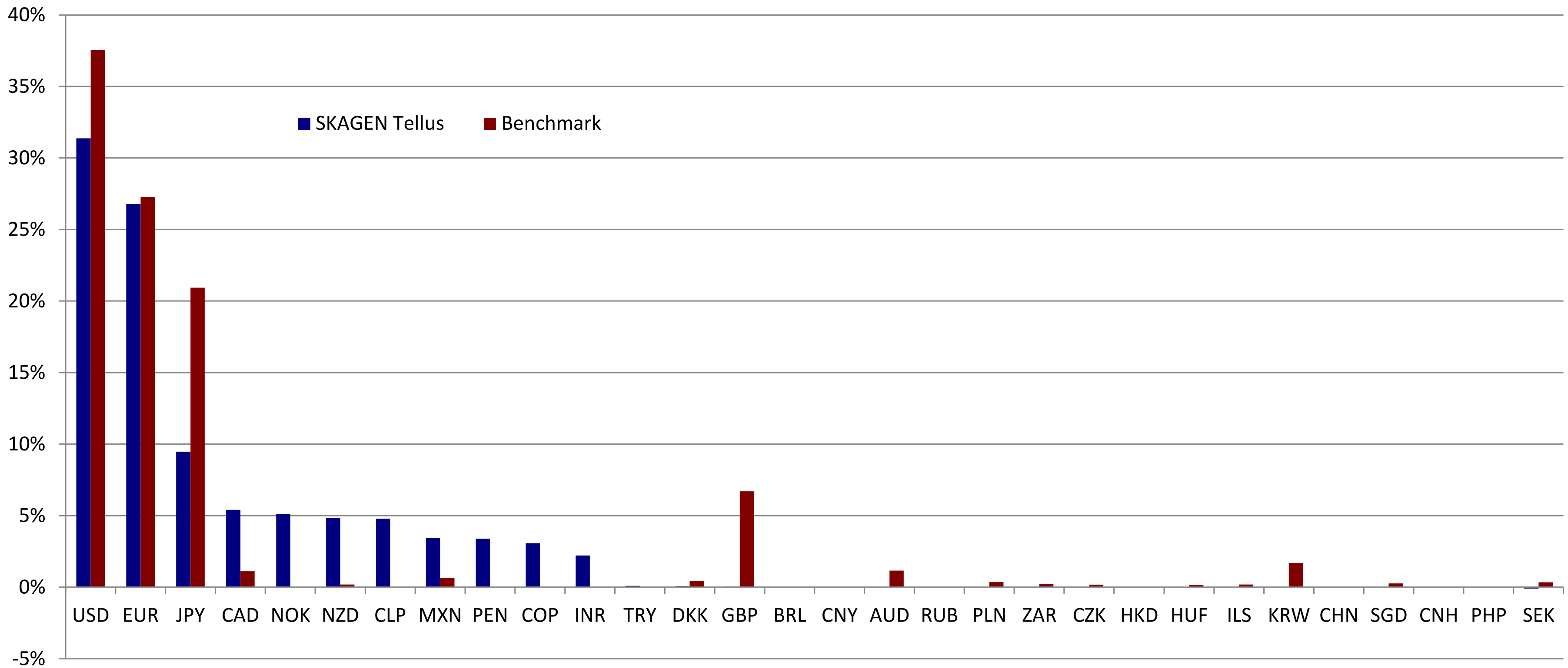
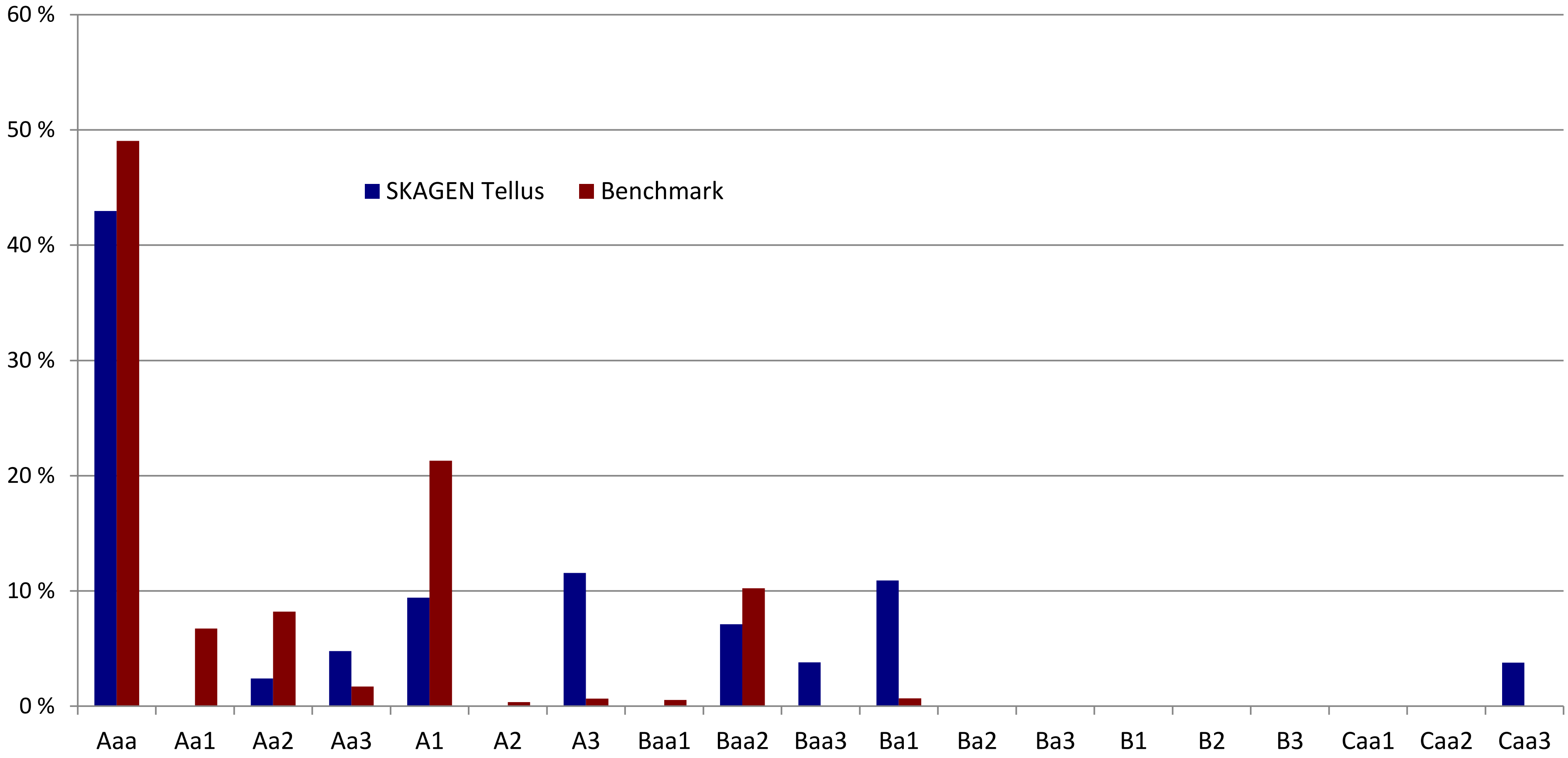
Currency exposure relative to benchmark



Moody's rating on Tellus' portfolio relative to benchmark



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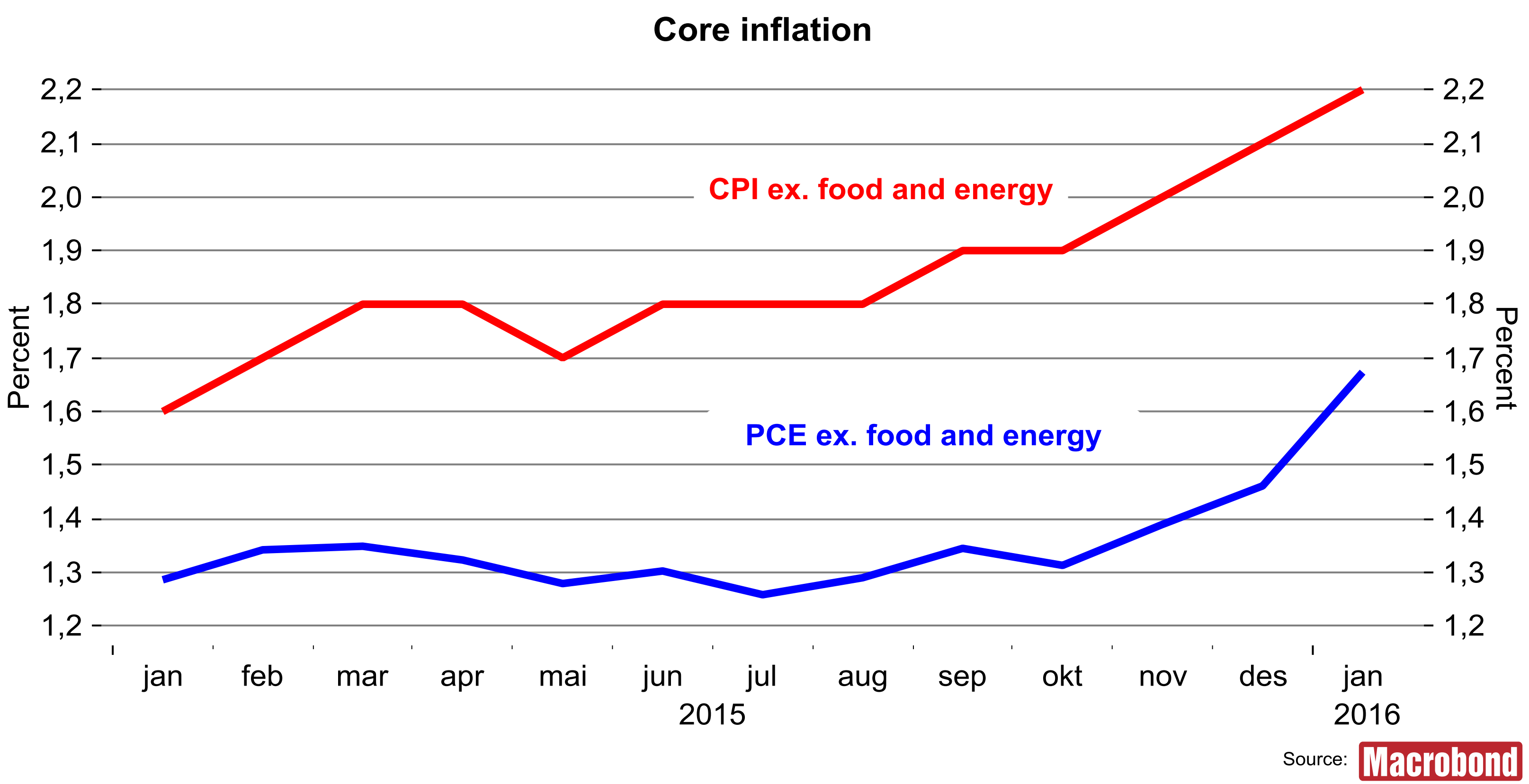
Macro and interest rate outlook

- See the status report for January for our view about recent developments in Japan.
- In the following pages we articulate our views about the macro outlook and the path of monetary policy in the US and the Eurozone, and explain how the fund is positioned for what we see as the most likely scenarios.
- Our emerging market positions will be the focus of the next status report.

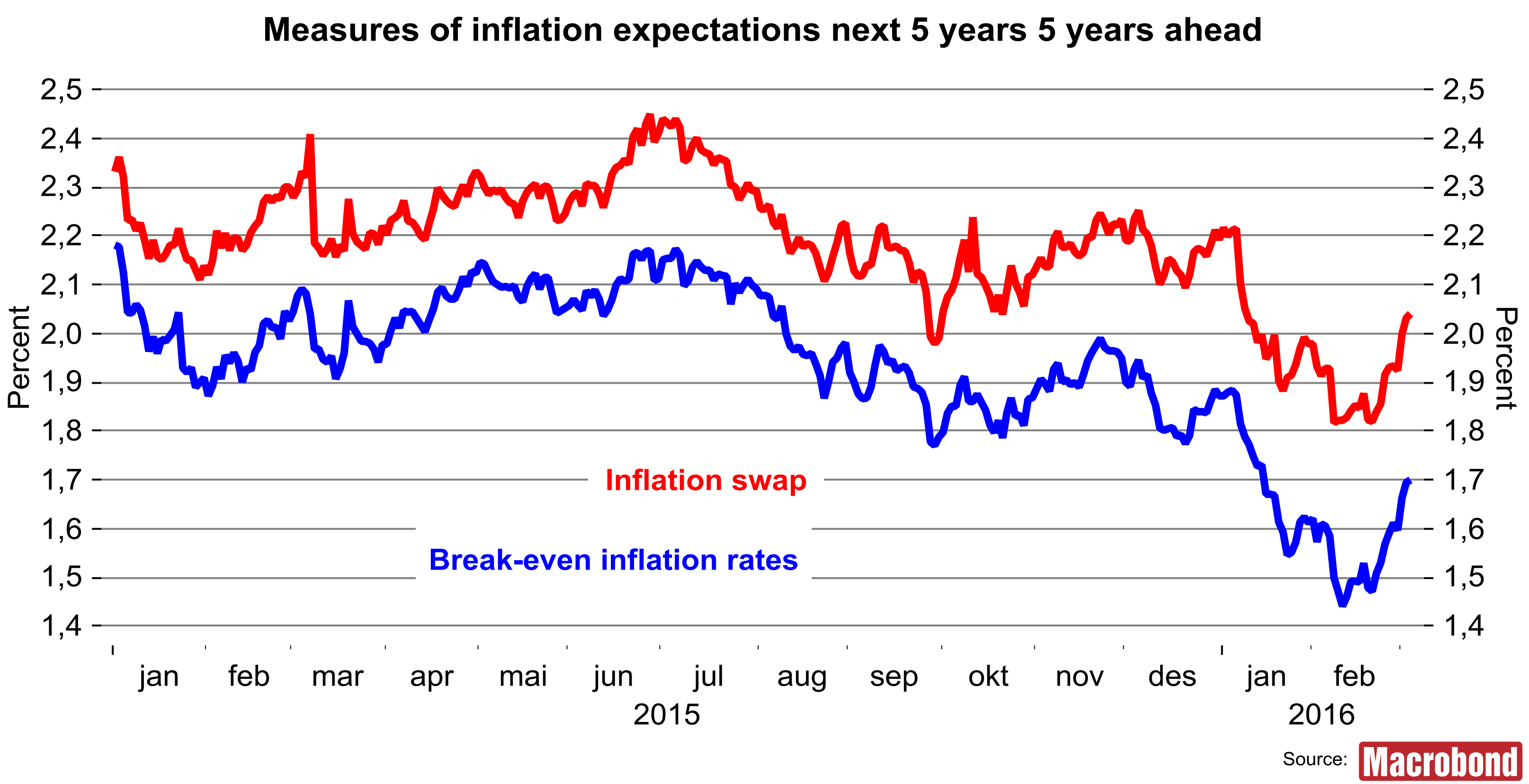
Increased chance of higher interest rates in the US

- We sold our investment in a long-dated US Treasury bond in February. Currently all our US positions are in short-dated bonds, i.e. securities where the price has a low interest rate sensitivity. We decided to maintain the same currency exposure to the US dollar.
- Despite the Federal Reserve's interest rate hike in December, the US core consumer price level has finally begun to grow at a faster rate. Using the Fed's preferred measure, core inflation was 1.7% in January. That is up from 1.3% in October.
- Expected inflation increased during February, and expected long-term annual inflation is now close to the Fed's 2% target.
- The US real economy seems to be growing at a decent pace. The employment numbers have been solid, with the unemployment rate now below 5%. Most other indicators also signal that the economy is on a solid footing. An exception is the PMI-numbers.
- While the Fed might have been concerned about the financial market turmoil in January and most of February, we think that the central bank, due to higher inflation and a strong domestic economy, is going to lift its policy rates further this year. The federal funds rate, which is an overnight interbank interest rate determined by the Fed's two policy rates, is currently about 0.4%. We expect the Fed to push the federal funds rate up to about 0.9% at the end of the year. This is slightly higher than what the market expects.
- A higher federal funds rate, and higher actual and expected inflation, will probably lift long-term US interest rates and strengthen the US dollar. Hence while we have exposure to the USD, we currently have no long-dated US bonds in the portfolio.

US core inflation is finally increasing



Long-term inflation expectations increased in February



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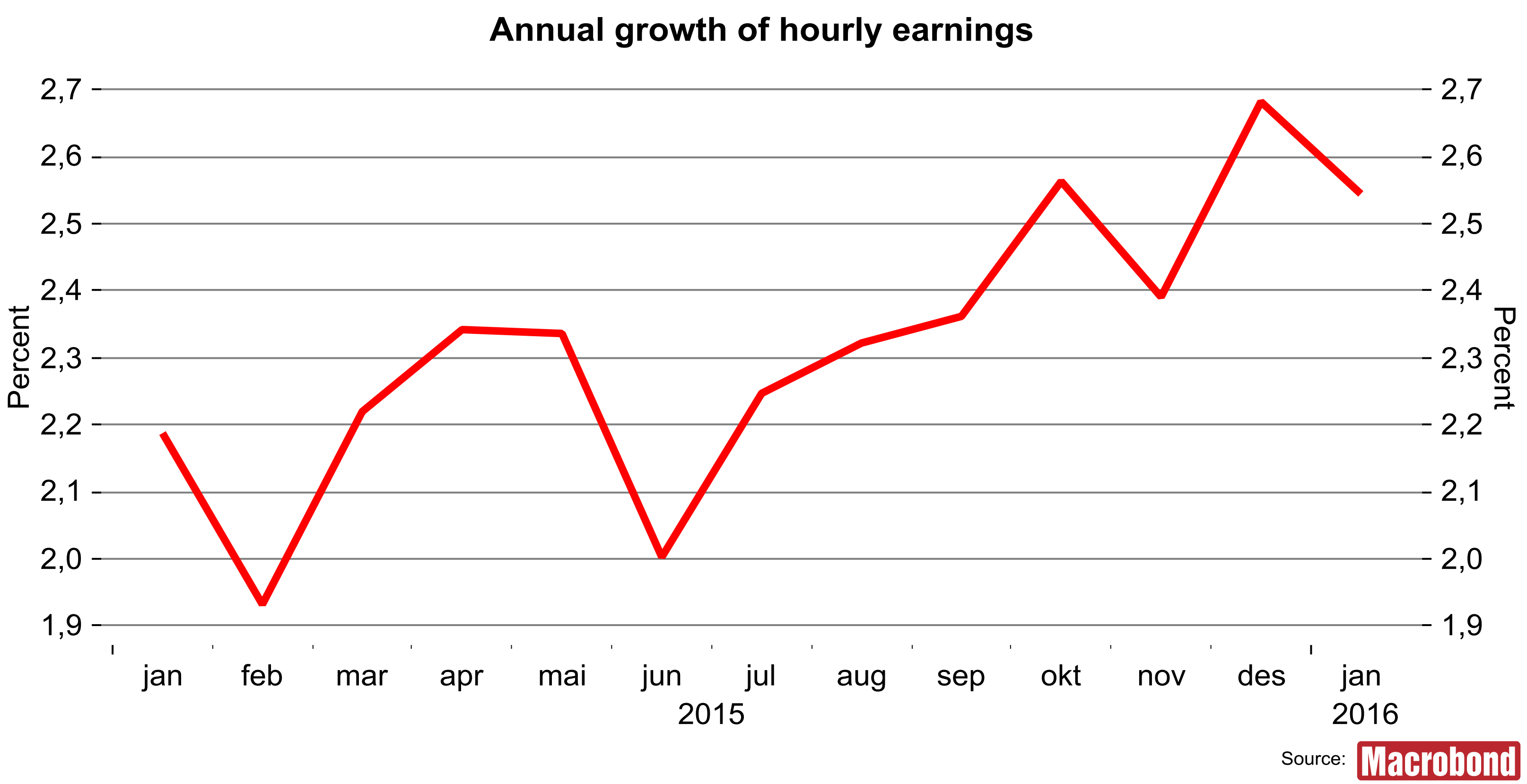
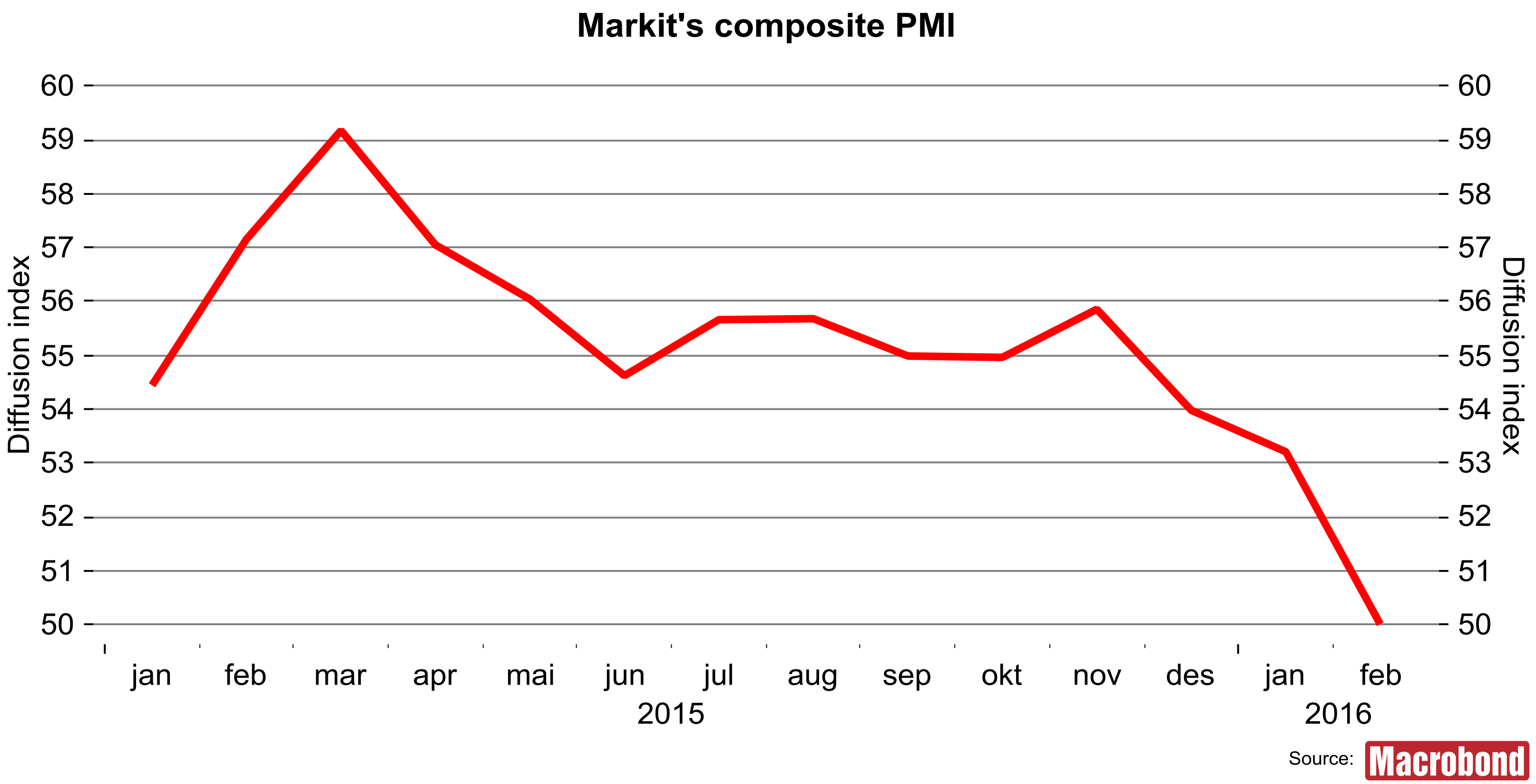
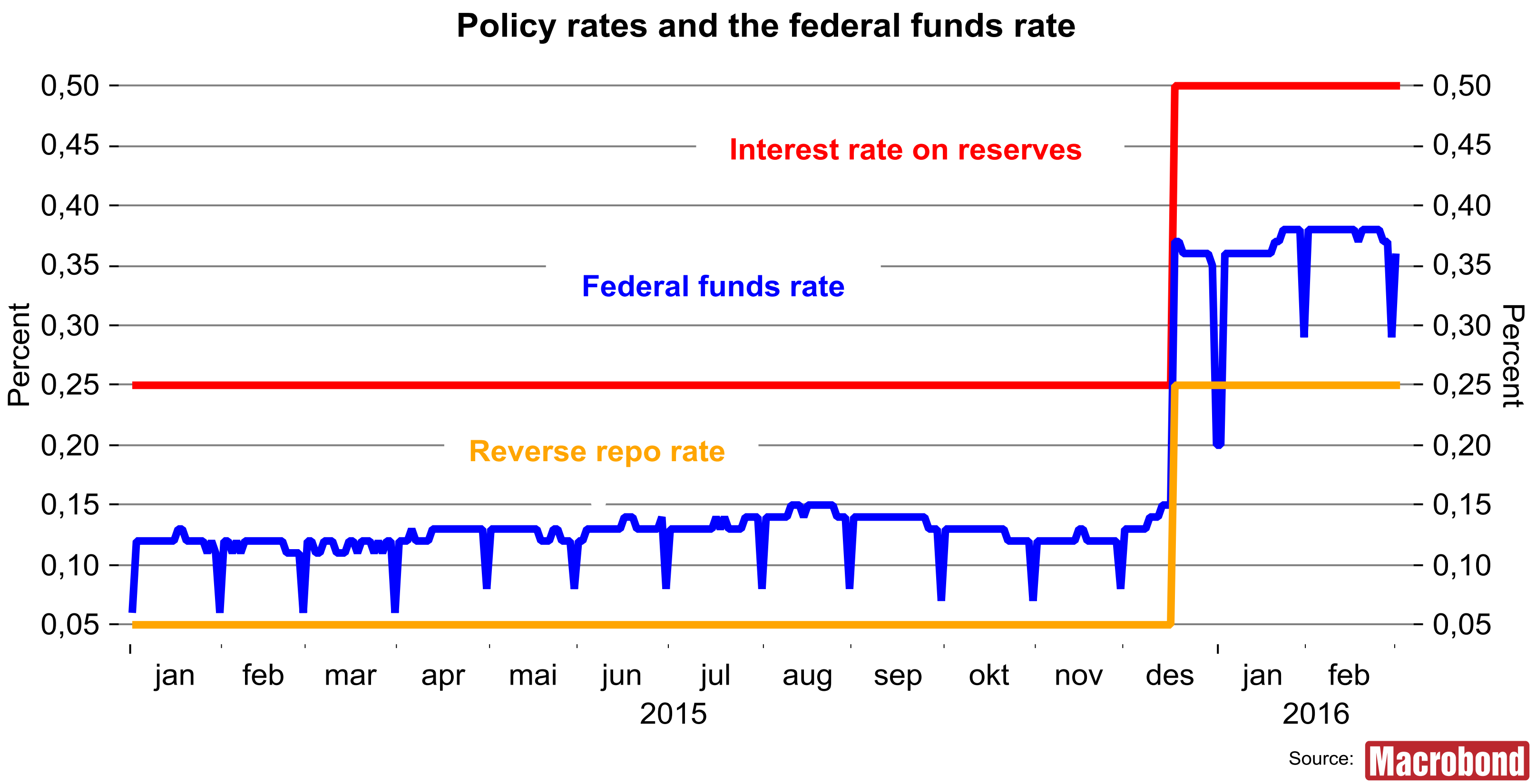
Wage growth has accelerated slightly



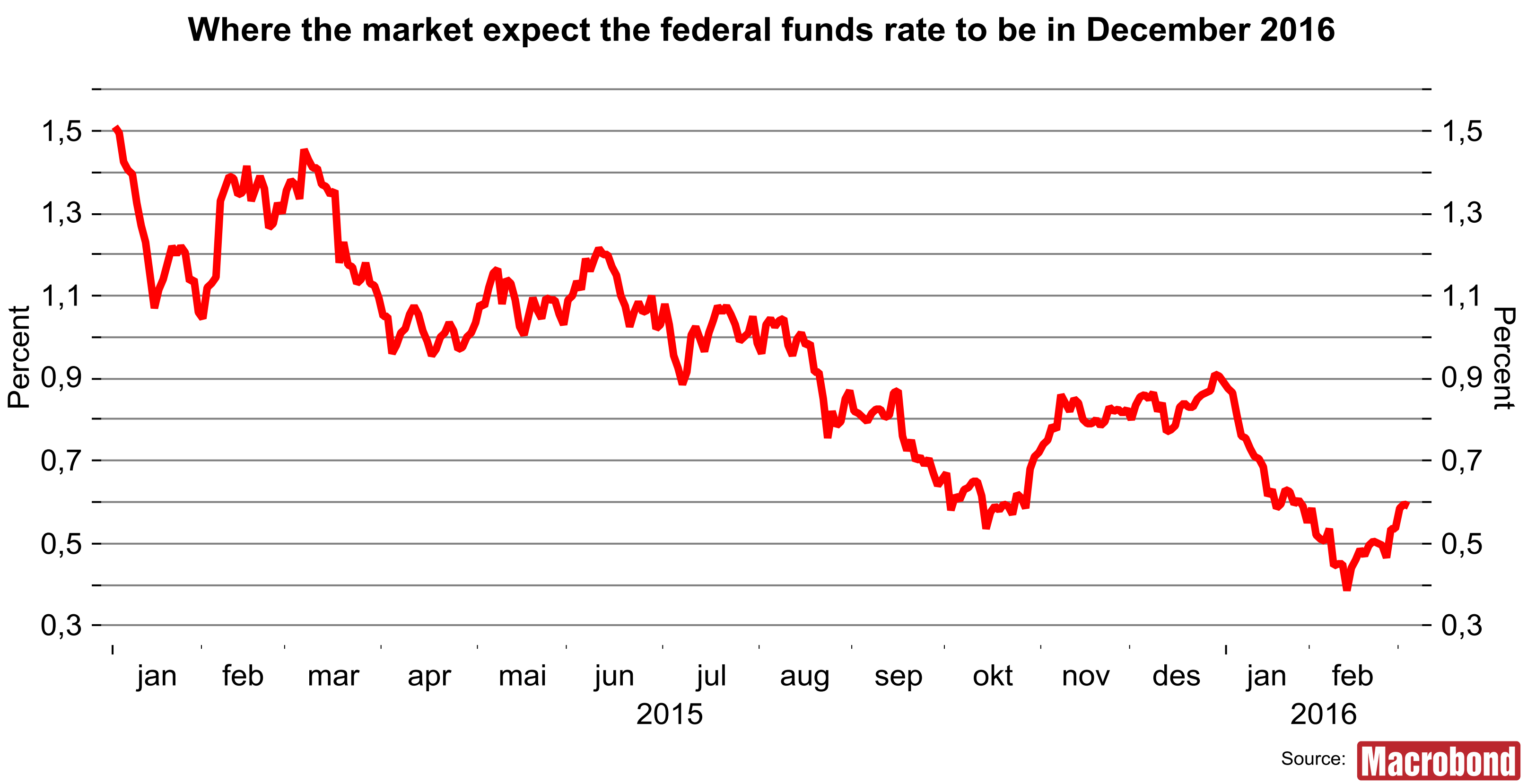
Nevertheless, Markit's composite PMI has dropped



The federal funds rate is trading slightly below 0.4%



The market expects just a modest tightening this year



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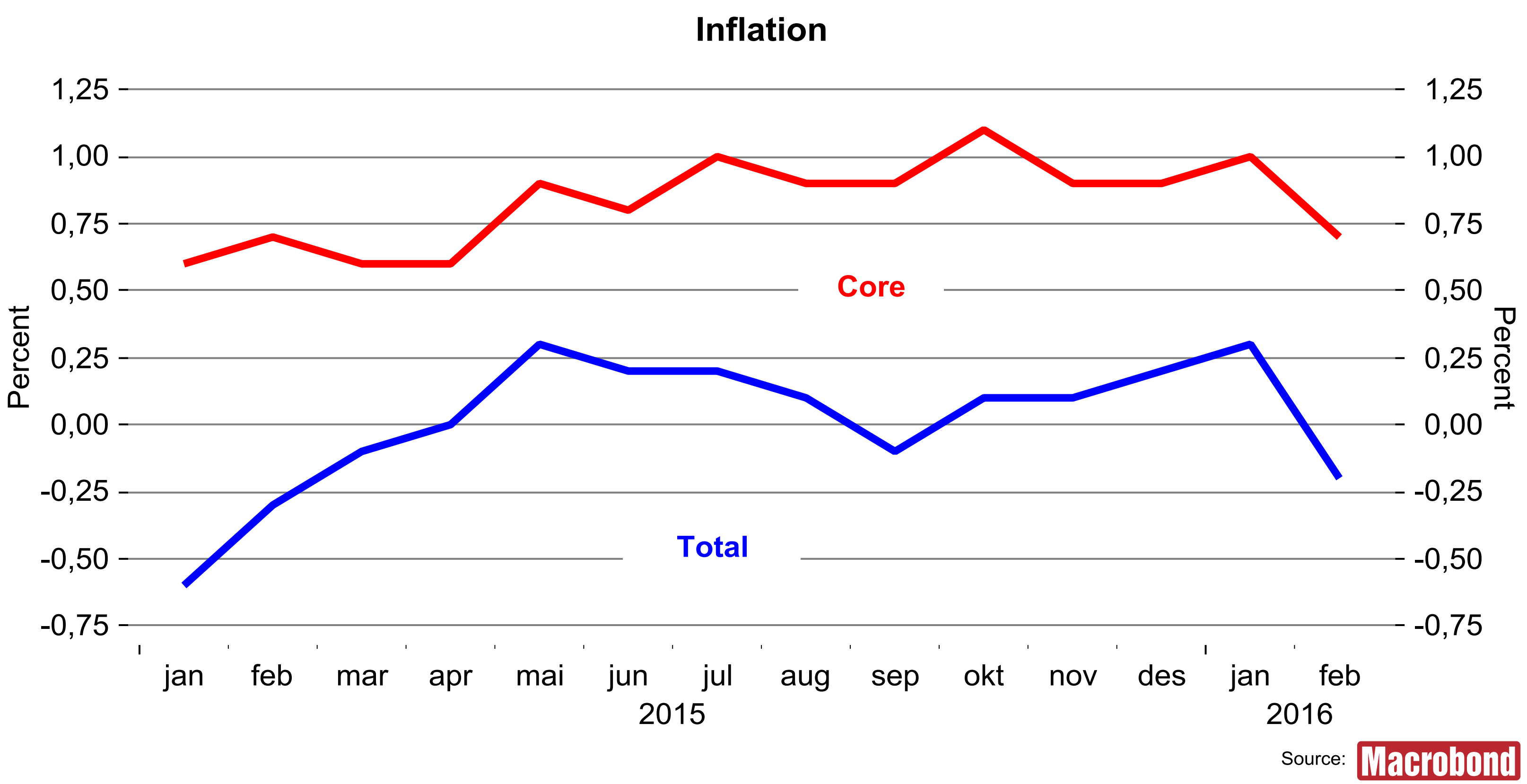
The ECB is likely to cut its policy rates further

- Inflation is declining in the Eurozone. In February the year-over-year growth in the consumer price index was negative. What is probably more important though, is that core inflation has also dropped, and was 0.7% last month.
- Although long-term inflation expectations have risen slightly since the end of February, they are still way below the ECB's 2% target. Currently markets expect that inflation will average a bit below 1.5% per year from 2021 to 2026.
- Most indicators show that growth in the Eurozone is softening somewhat. The annual growth rate of broad monetary aggregates, usually a leading indicator of growth, is decreasing. Also, activity barometers indicate less GDP growth. There are some green shoots, however, and retail sales have increased rather substantially lately.
- The ECB is concerned about low inflation and low expected inflation, and signalled at its last meeting that its policy rates might be cut further in March. We expect the deposit rate, which anchors the money market yield curve, to be cut from -0.3% to -0.5% in March, and think that the deposit rate might be cut further down to -1% during this year.
- The ECB is also likely to further increase its monthly purchases of securities, mostly bonds issued by Eurozone governments.
- The fund is positioned for the impact these expected policies will have on bonds issued in the Eurozone's periphery.

Eurozone inflation is faltering



Long-term inflation expectations are below the target

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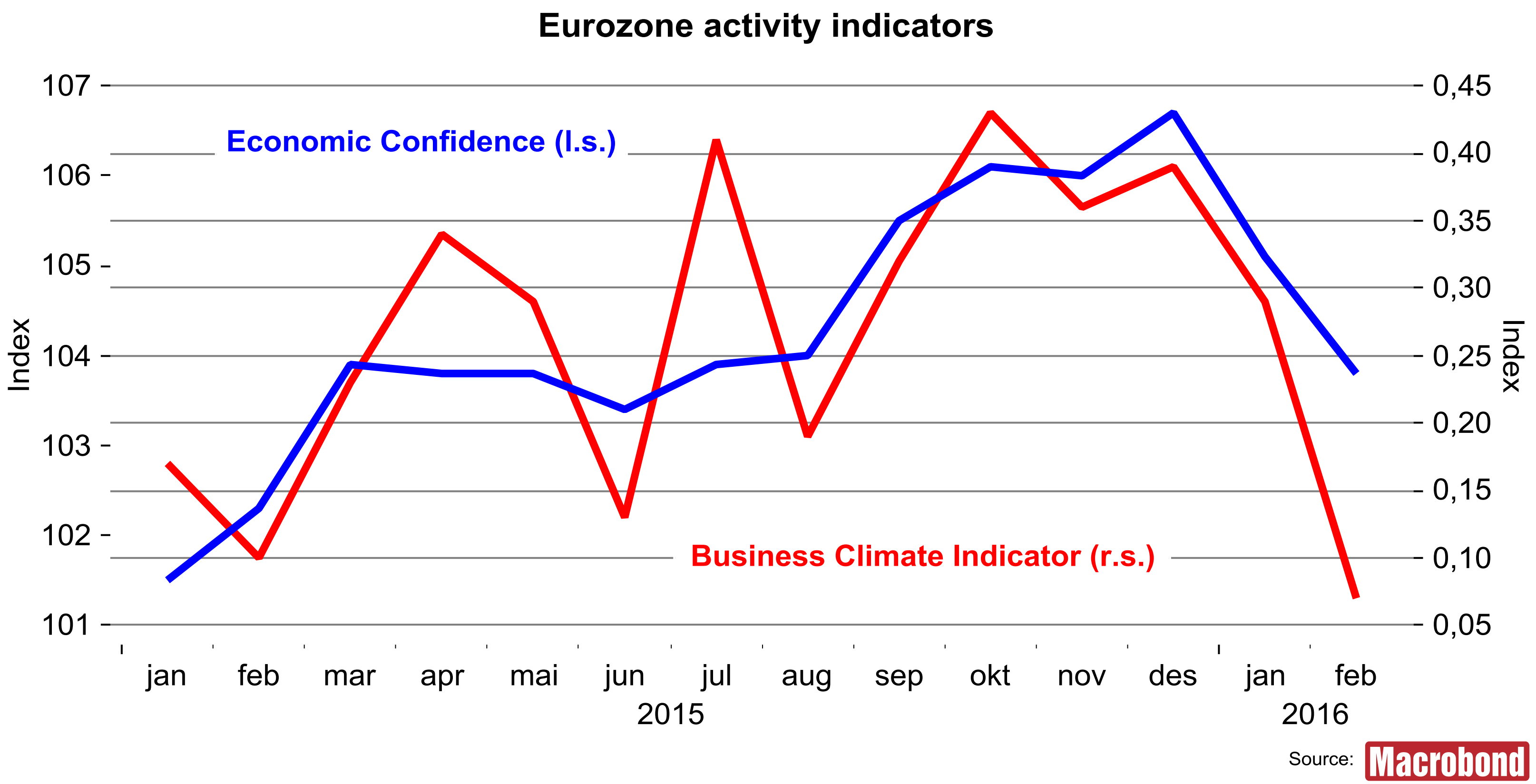
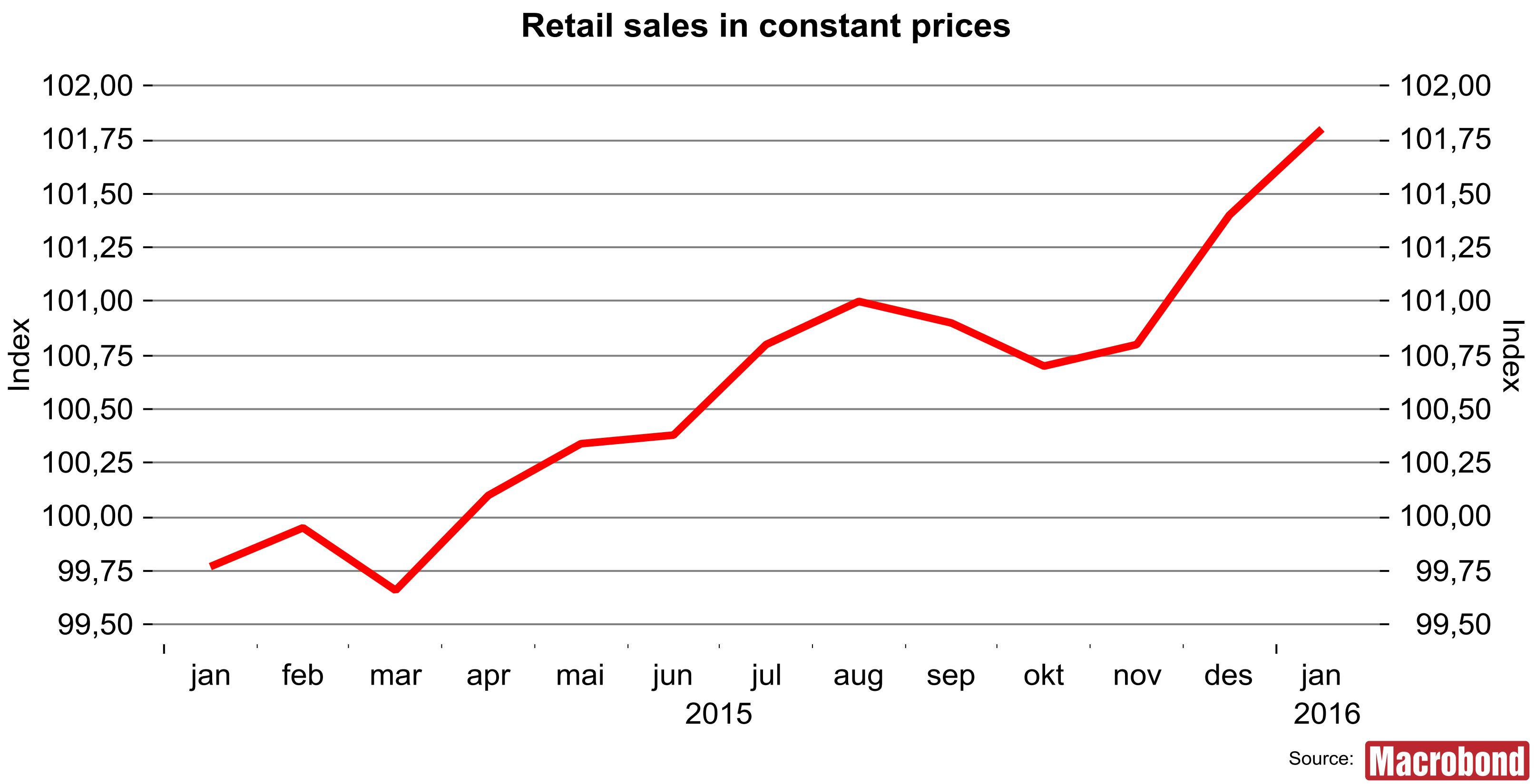
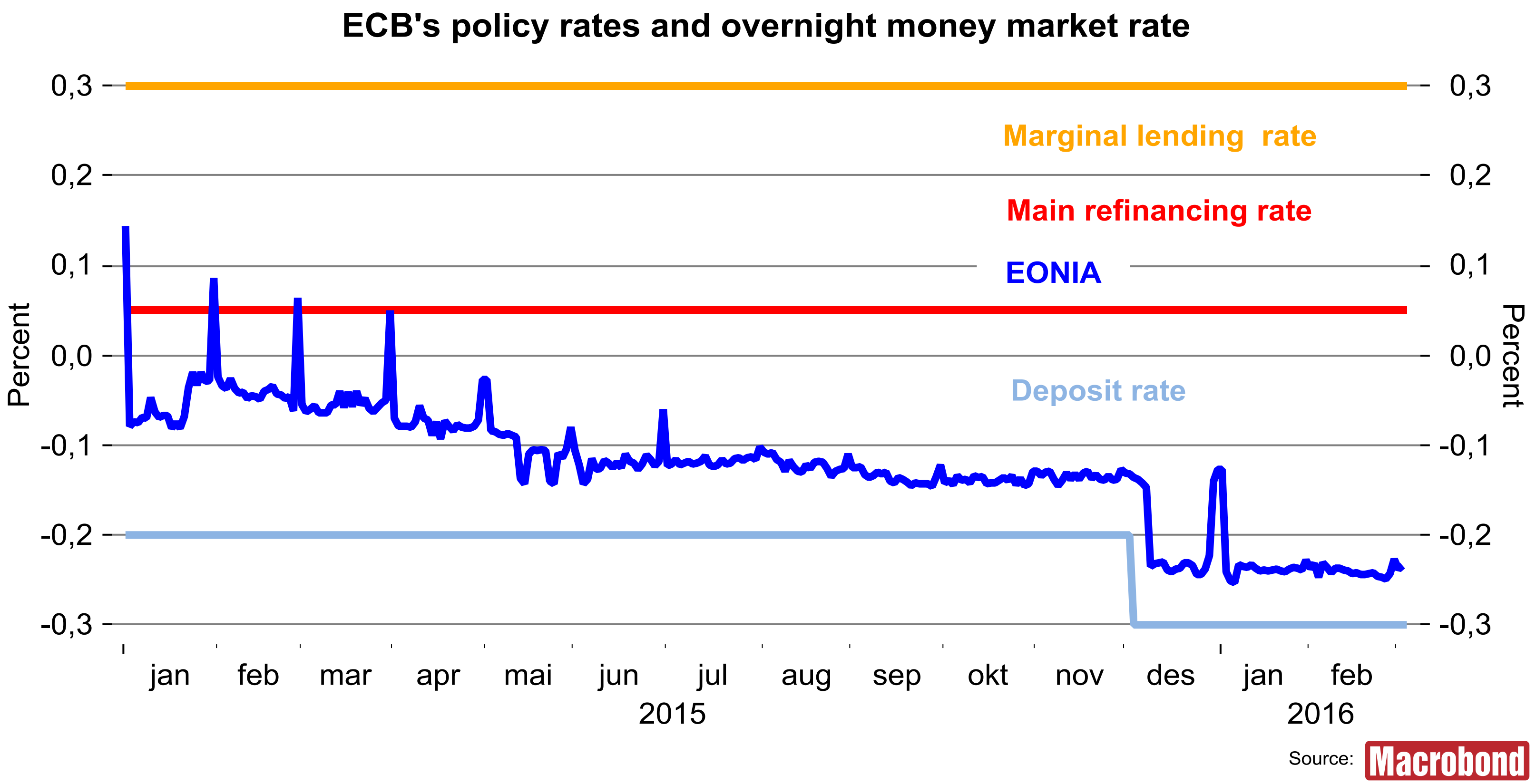
Activity indicators have fallen since December



But retail sales have increased quite rapidly lately



Policy rates and the overnight interest rate



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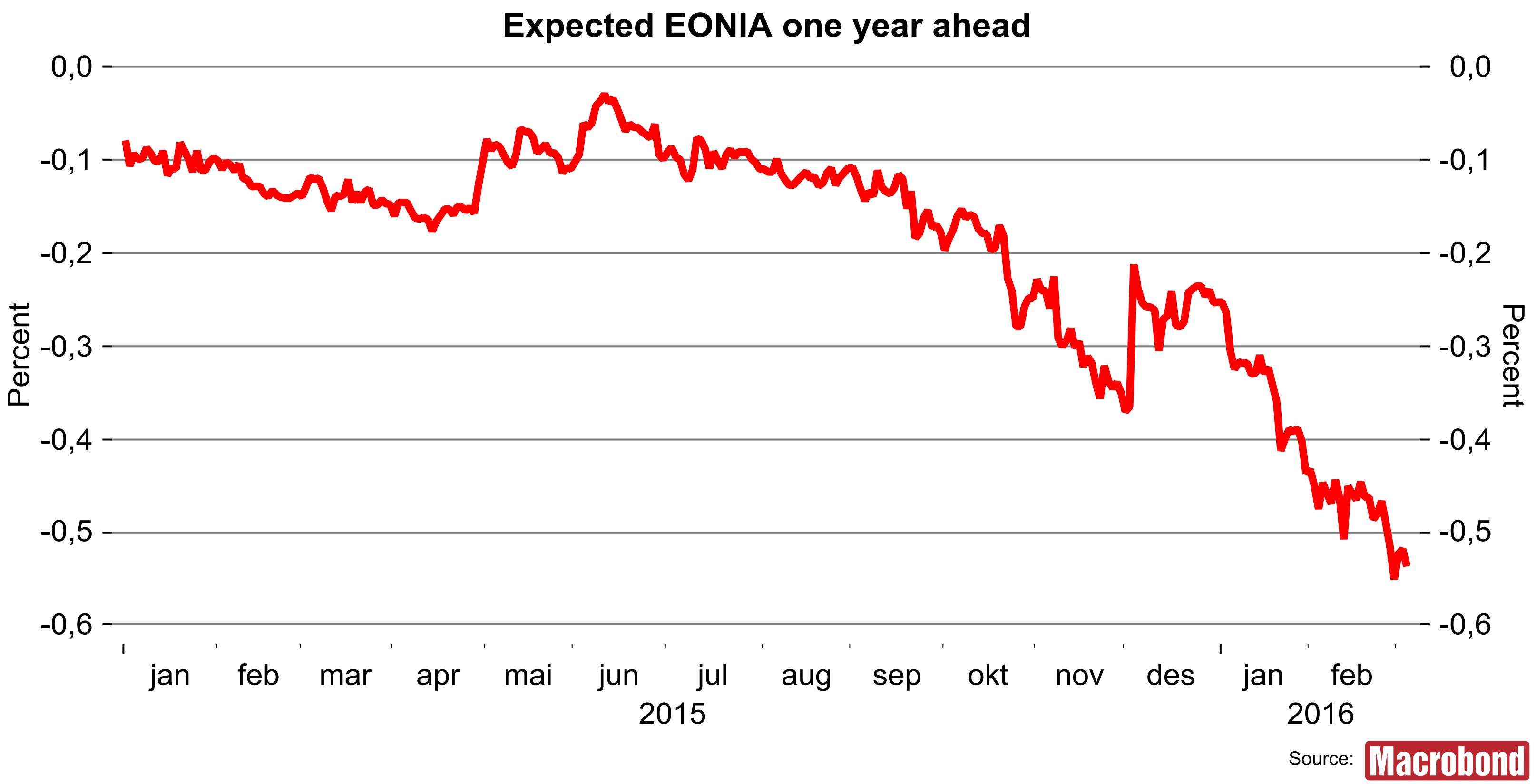
The market expects further cuts in the ECB's deposit rate



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For more information please see:

SKAGEN Tellus A on our web pages
SKAGEN's Market report
Latest comments by Torgeir Høien

The art of common sense

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