



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 December 2015

The art of common sense



SKAGEN Credit EUR A – Key numbers

Key numbers as of 31 December	SKAGEN Credit EUR A	Index (Euribor 3m)
Return last month	- 1,9 %	0,0 %
Return 2015	- 2,6 %	0,0 %
Return since inception (30.05.14)	- 3,2 %	0,0 %
Current yield*	4,6 %	- 0,1 %
Average maturity (WAM)	1,3	0,25
Average life time (WAL)	3,0	N/A
Average credit spread (OAS)**	580 bps	N/A

Portfolio managers' comment

2015 was a poor year for SKAGEN Credit and the credit market in general. This was the first year since the financial crisis year of 2008 in which the global bond market for corporate bonds delivered negative returns. This was due to the drop in commodity prices as well as structural problems in China and Brazil.

The uncertainty around economic growth in China led to a dramatic drop in important commodity prices. China's economic growth has resulted in substantial infrastructure investments that have turned the country into a major consumer of commodities. Commodity-related companies have therefore been punished in the market. Commodity-related investments in the fund such as mining company Glencore, commodity broker Noble Group and oil services company Seadrill therefore contributed negatively to the fund's performance in 2015.

As a result of the fall in commodity prices and several years of economic decline, the Brazilian state's credit rating has been downgraded from Investment Grade to High Yield. This means that Brazilian companies are also automatically downgraded, even if they have no direct links to the state. Companies that are doing well, delivering a profit and servicing their debt have seen the price of their bonds fall due to a poorly governed state. Our Brazilian companies such as Cosan, JBS, Banrisul and Braskem have therefore contributed negatively to the fund's performance, even though the companies have performed well.

The credit spread in the fund has never been as high as it is now. The bonds in the portfolio are much the same, but the price of the bonds has fallen. This has resulted in a negative return at the same time as the potential future return has risen.

There are two main reasons why credit spreads increase:

- Companies that have problems with earnings or high debt can encounter payment problems and the likelihood of debt negotiations or bankruptcy thereby increases. This type of risk is priced in immediately. We have a few of these examples in the fund, including Noble Group and Seadrill.
- General sales pressure on unpopular bonds causes prices to fall. This is an immediate fluctuation and does not reflect the company's real capacity to service debt. We invest in unpopular and undervalued companies and many of our investments fall into this category.

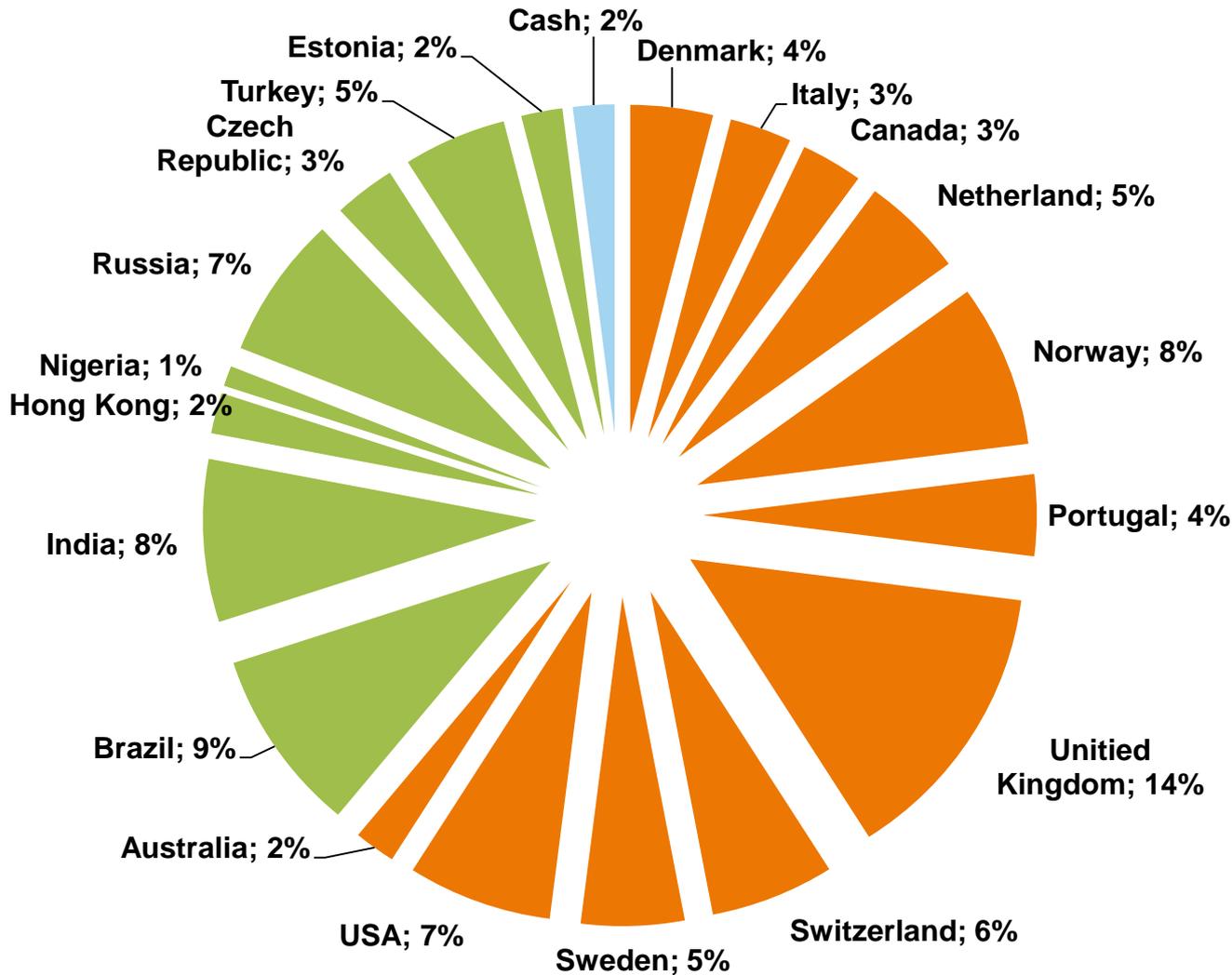
It is highly likely that 2016 will be a year when the difference between good and bad companies becomes more apparent. During the year it will become clearer which companies will survive and which will not. This will contribute to lowering overcapacity in the market and there will be winners and losers. It will therefore be even more important to invest in the right companies. We believe that we have good companies in the portfolio capable of manoeuvring safely through 2016.

The SKAGEN Credit investment universe



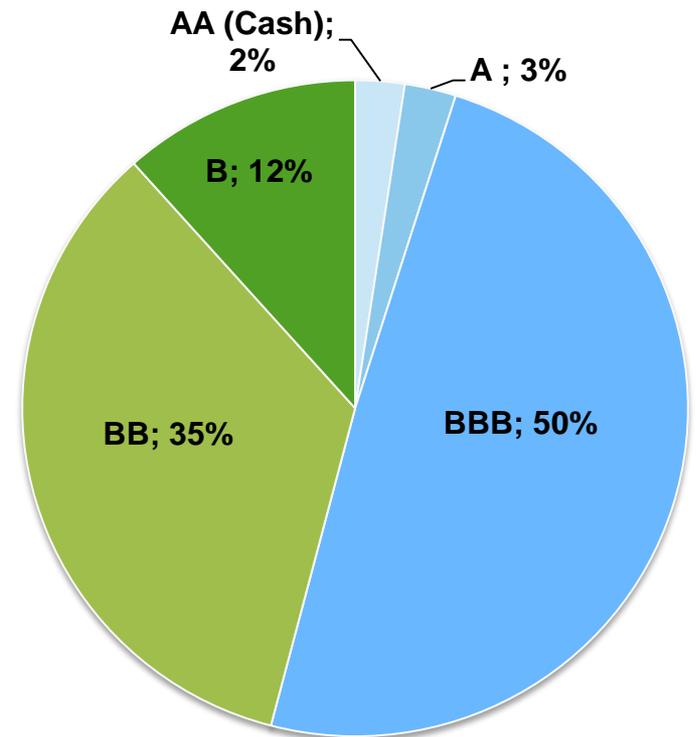
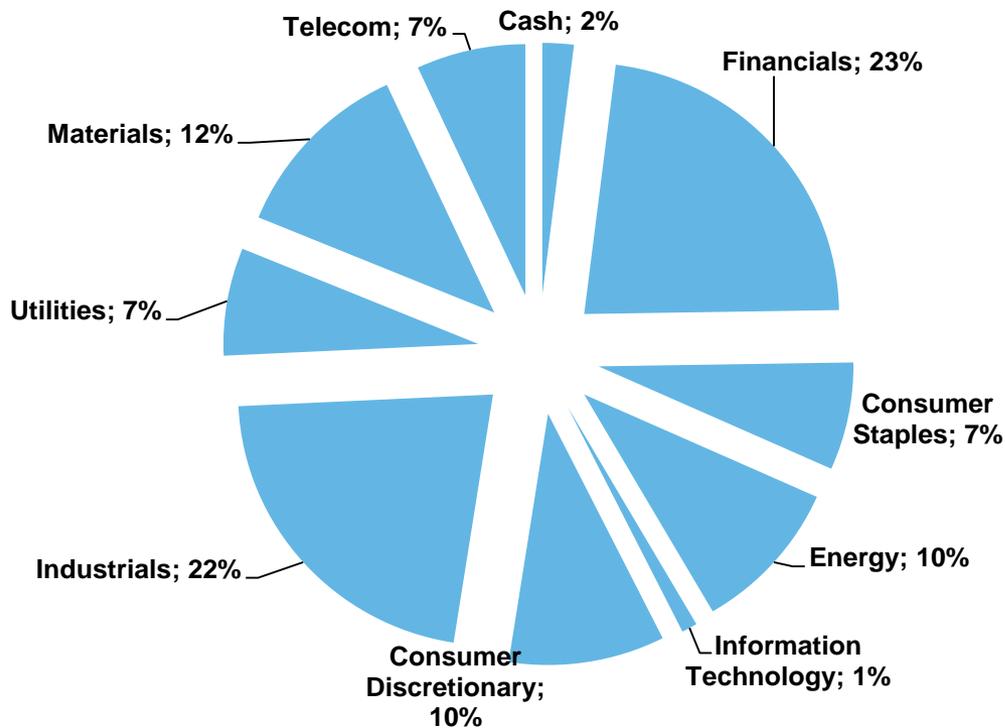
SKAGEN Credit picks bonds both from the investment grade and the high yield spectrum with a high risk adjusted return potential. Minimum 50% investment grade.

Country diversification



Developed markets	: 61%
Emerging markets	: 37%
Cash	: 2%

Sector and rating distribution



Investment grade: 54 %

High Yield: 46 %

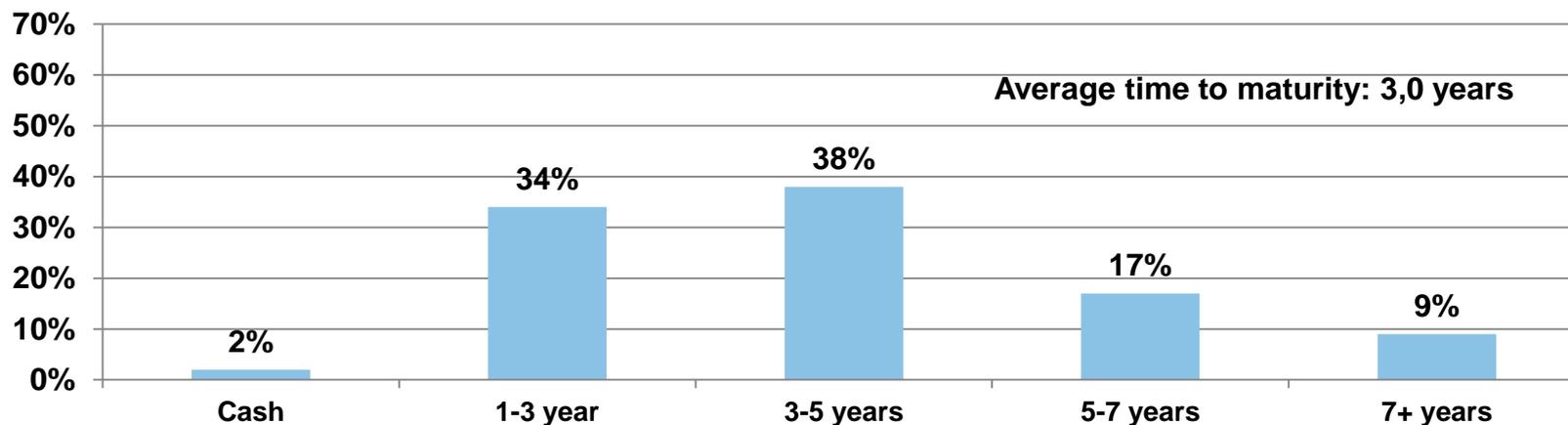
Average rating: BB+

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	44%	1,2 year
EUR	23%	1,7 year
GBP	25%	1,6 year
NOK	8%	0,1 year
Sum Fund	100%	1,3 year

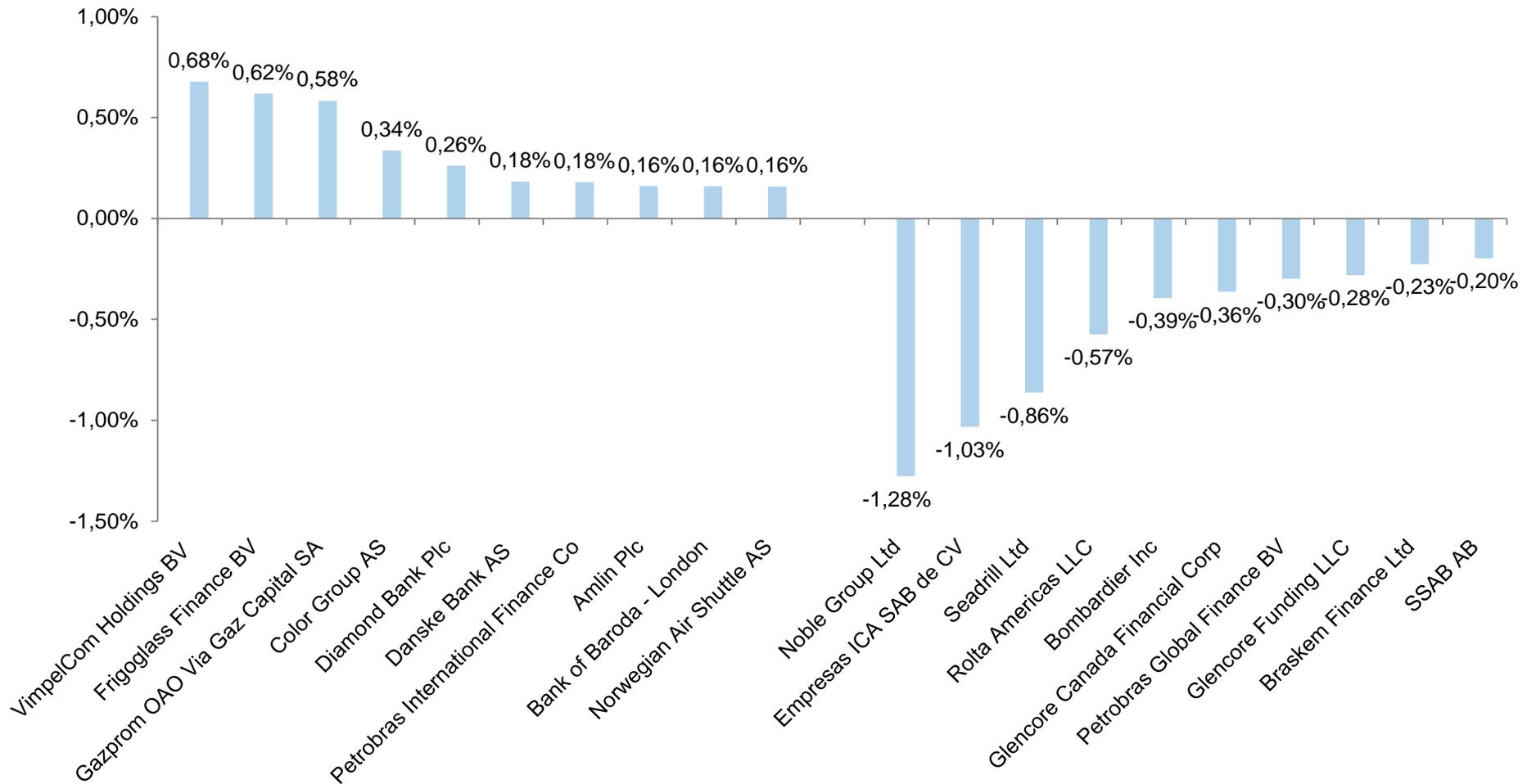
Credit exposure - time to maturity profile on bonds



Top 10 investments

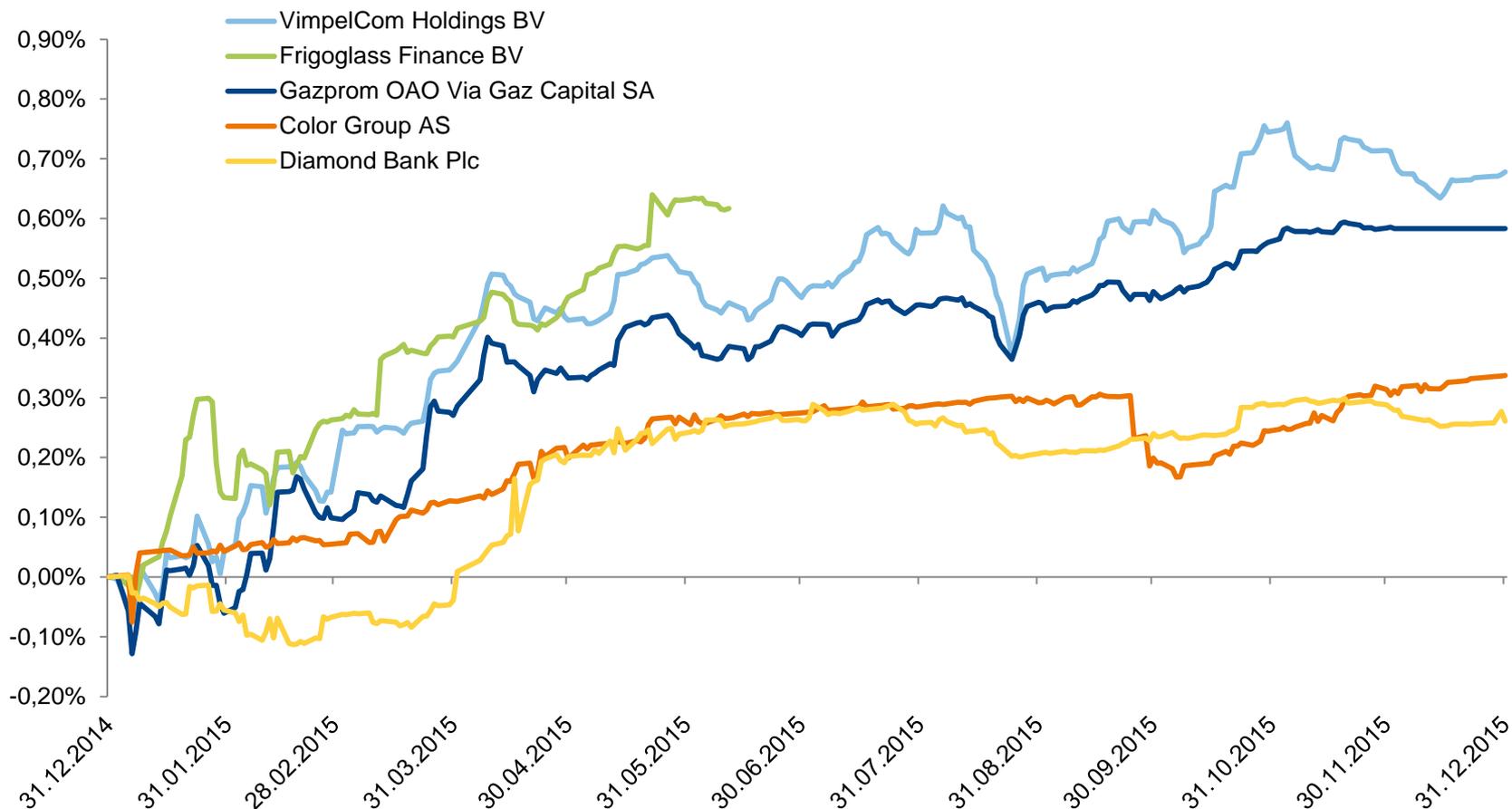
Company	Country of risk	Credit rating*	Percent of fund
Danske Bank	Denmark	BBB	4,0 %
Energias de Portugal	Portugal	BBB-	3,7 %
Norwegian Air Shuttle	Norway	B	3,7 %
Gazprom	Russia	BB+	3,7 %
Glencore	Switzerland	BBB	3,5 %
EP energy	Czech Republic	BBB-	3,4 %
SSAB	Sweden	BB-	3,4 %
Bharti Airtel	India	BBB-	3,4 %
Bank of Baroda	India	BBB-	3,3 %
Color Group	Norway	B+	3,3 %
Sum top 10			35,4 %

Best and worst contributors in 2015



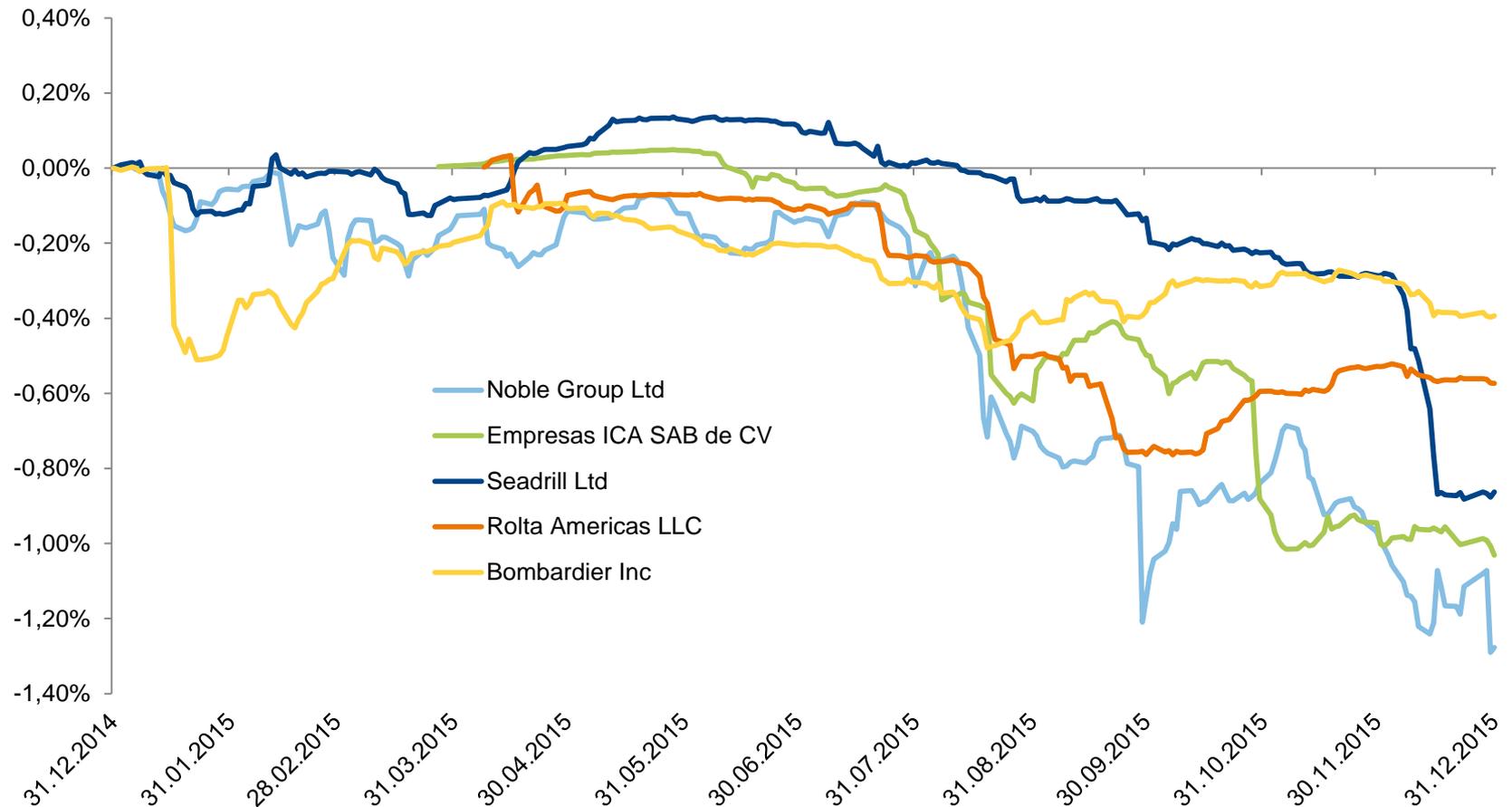
The graph shows the contribution of individual investments to the fund's total return in percentage terms year to date.

Top 5 contributors in 2015



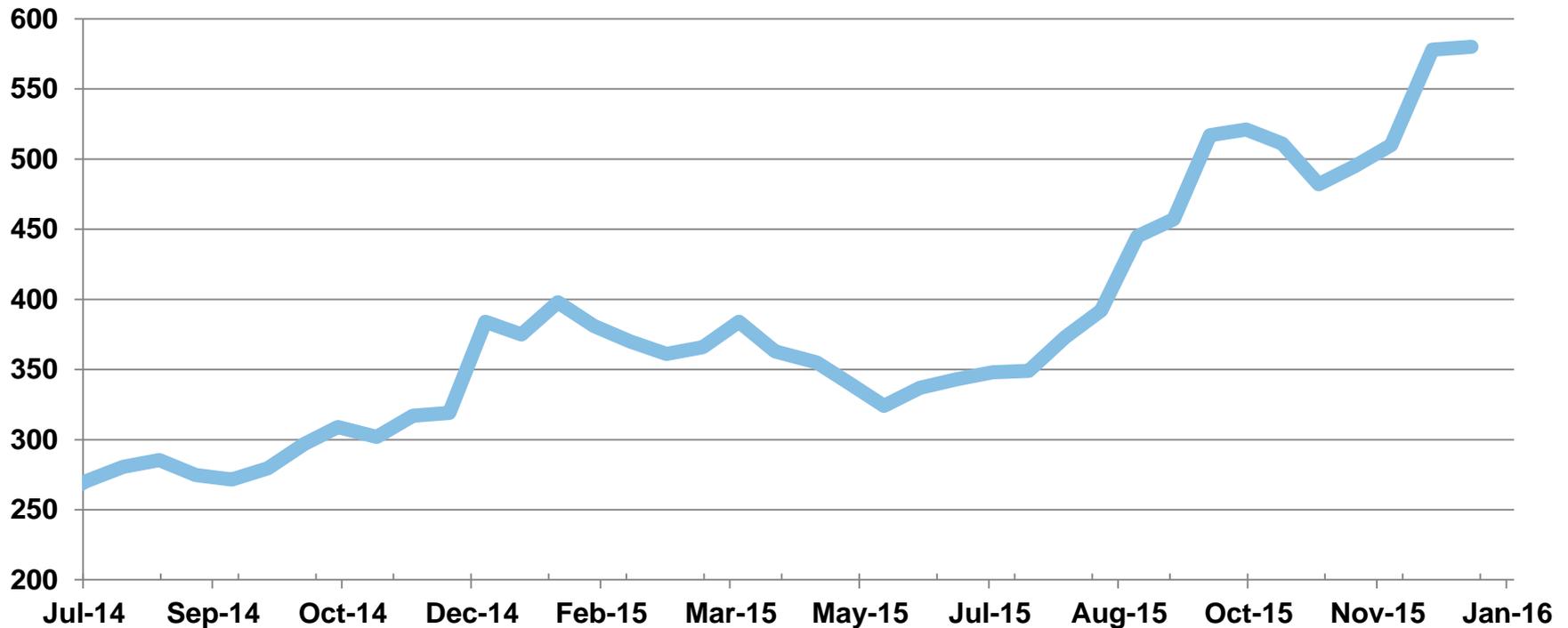
The graph shows the contribution of individual investments to the fund's total return in percentage terms year to date.

Worst 5 contributors in 2015



The graph shows the contribution of individual investments to the fund's total return in percentage terms year to date.

Development credit spread (OAS) in SKAGEN Credit



The credit spread expresses the spread a company has to pay to finance above the risk-free rate. The graph shows the average credit spread in SKAGEN Credit since start. Bonds in the portfolio have largely been the same in the period, but the credit spread has increased. The credit spread expresses both potential return but also inherent risk.

The development of the credit spread in the fund has resulted in negative returns at the same time as the potential for future returns has increased. On the basis of the current portfolio, a reduction in the credit spread of 100 basis points would provide a return of around 3% return in the fund and vice versa if it increased.

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.

SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. Statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the 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 the fund's portfolio.