



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

SKAGEN Credit EUR

A global corporate bond fund

Status report July 2016

The art of common sense



SKAGEN Credit EUR A – Key numbers

| Key numbers per July 29 | SKAGEN Credit EUR A | Index (EURIBOR 3M) |
|-----------------------------------|---------------------|-----------------------|
| Return last month | 1,60 % | -0,02 % |
| Return year to date | 4,99 % | -0,13 % |
| Return since inception (30.05.14) | -0,12 % | -0,03 % |
| Current yield* | 3,1 % | -0,3 % |
| Average maturity (WAM) | 1,09 | 0,25 |
| Average life time (WAL) | 2,8 | N/A |
| Average credit spread (OAS)** | 435 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, 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 Manager's Comment

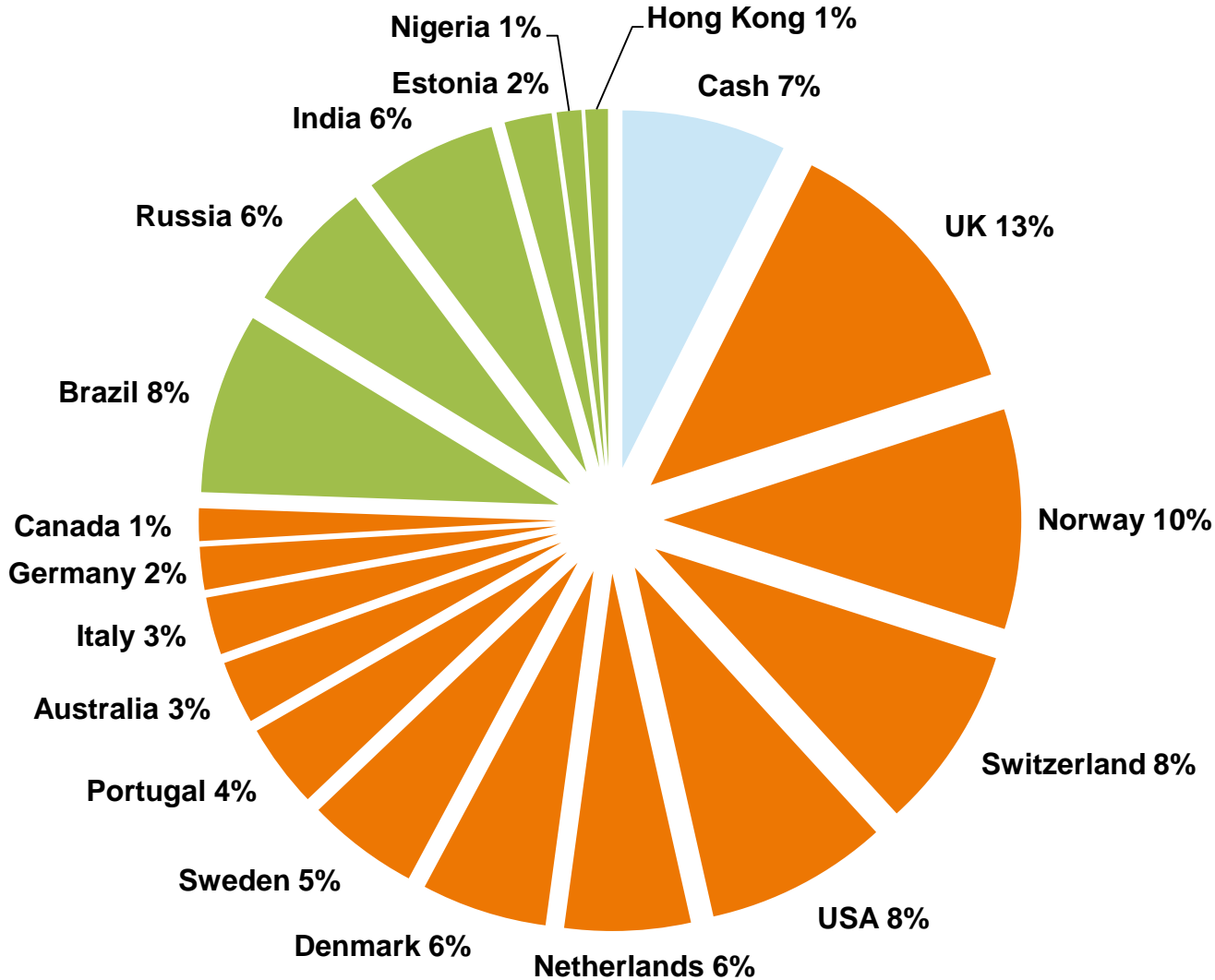
July turned out to be a very good month for SKAGEN Credit. Credit spreads on corporate bonds contracted in most markets, independent of rating. This led to an appreciation in the fund's value not only from the regular bond coupons, but also from higher bond prices.

In Europe, the ECB has continued to buy corporate bonds through the CSPP-program. It has so far bought €10 billion worth of corporate bonds since it started on 8th June. The ECB's presence in the market as a potential buyer helps pull credit spreads lower, regardless of how much the central bank actually buys. On top of this, it has been a quiet summer month with relatively few new bonds being issued. This reduces the supply and helps push prices higher.

Somewhat worrying in all this is that «everything» is trading at lower credit spreads. The credit quality of individual companies seems to be of less importance in periods with large movements. This applies to markets moving both up and down, but it makes us cautious as bond pickers; we have hence been even more selective in what we buy. A combination of this and inflows during the month have led to the cash position in the fund rising from three to seven percent.

The 2019 USD bond issued by the Indian IT company Rolta, got downgraded to D by Standard & Poor's when the company didn't pay a bond coupon on time. Rolta has held back various payments lately, claiming it's because of the ongoing re-negotiation of a bank facility and delays in it being paid by its largest client (the Indian Government). The fund's investment in Rolta constitutes only 0,15 percent of the portfolio, after the decline in the bond's value.

Country diversification

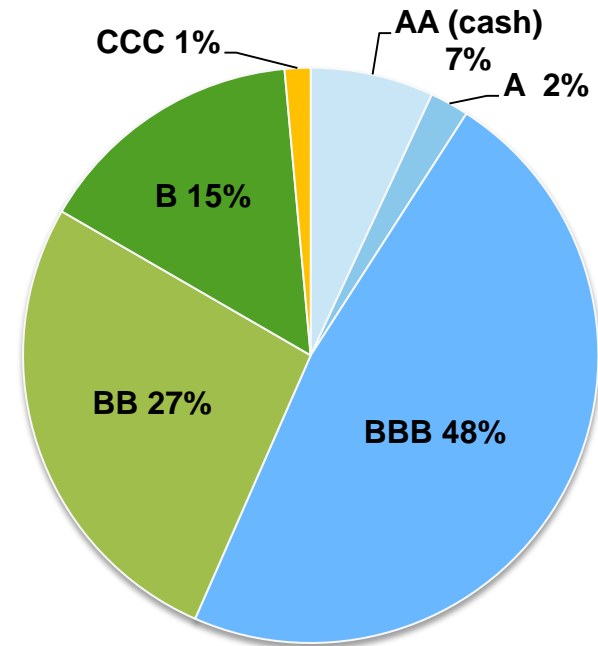
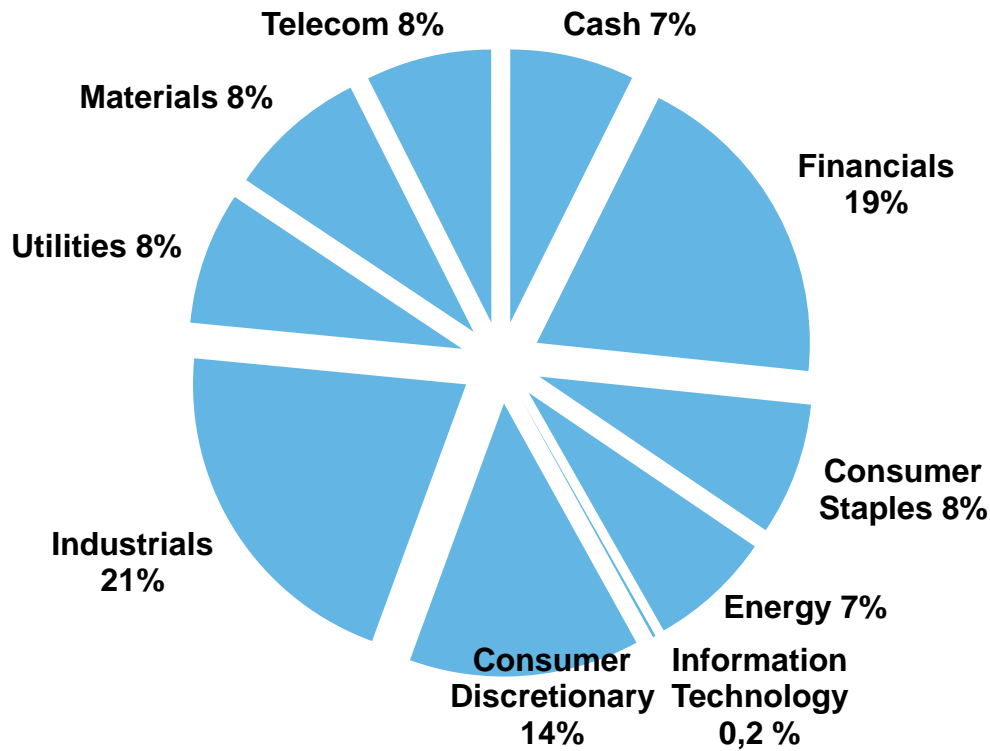


Developed markets : 68%

Emerging markets: 25%

Cash: 7%

Sector and rating distribution



Investment grade: 54 %

High Yield: 46 %

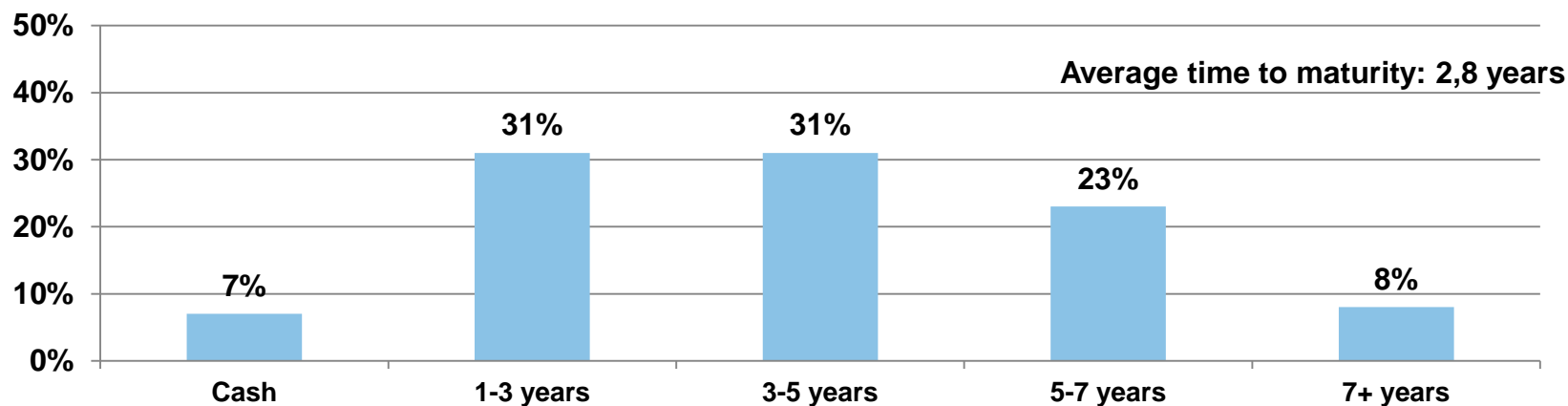
Average rating: BB+

Interest rate duration and time to maturity

Interest rate exposure and denominated currency (before currency hedge)

| Currency | Bond denominated | Interest rate duration |
|----------|------------------|------------------------|
| USD | 43% | 1,2 year |
| EUR | 21% | 1,3 year |
| GBP | 21% | 1,3 year |
| NOK | 10% | 0,1 year |
| DKK | 2 % | 0,1 year |
| SEK | 3 % | 0,1 year |
| Sum Fund | 100% | 1,1 year |

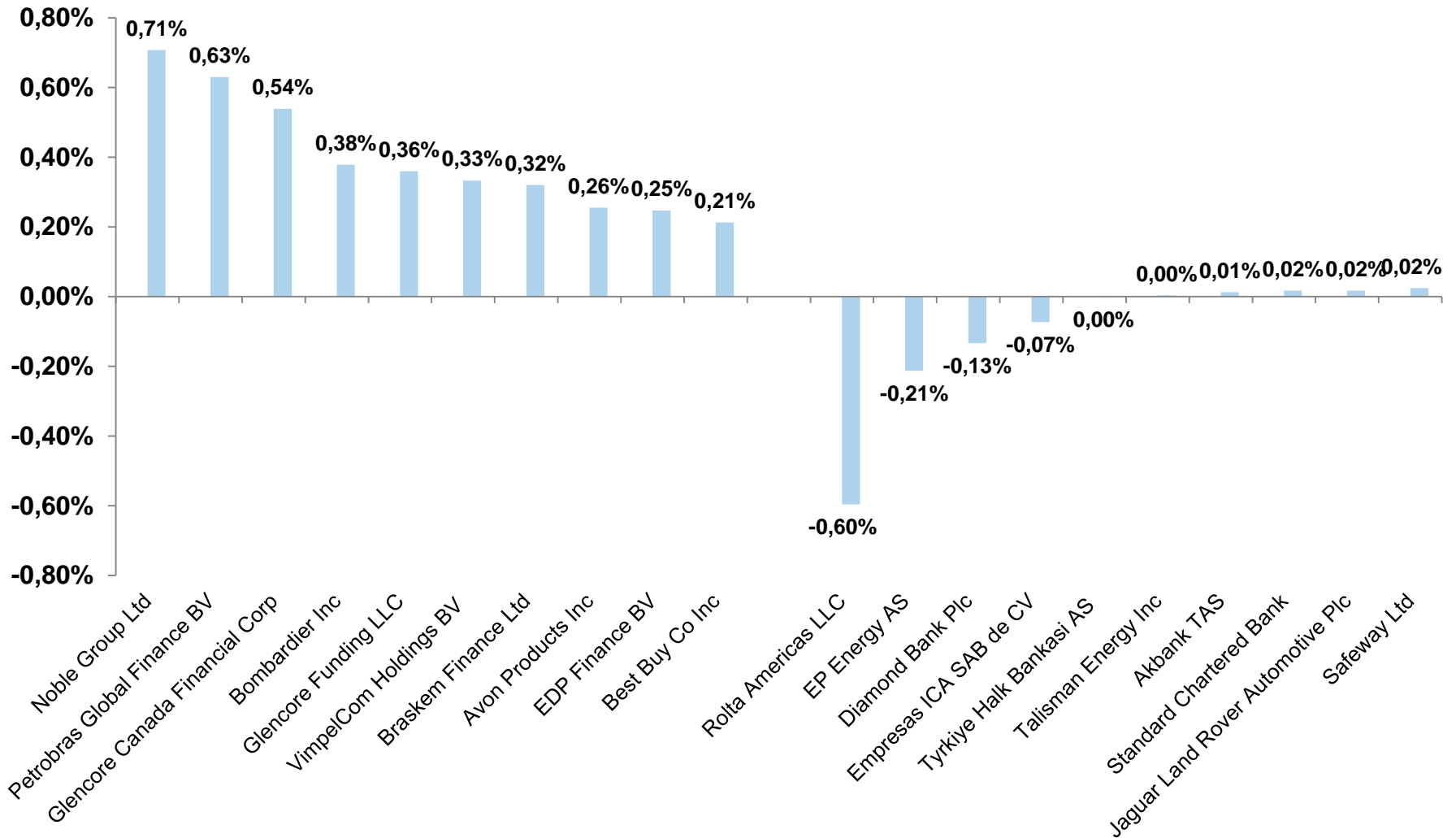
Credit exposure - time to maturity profile



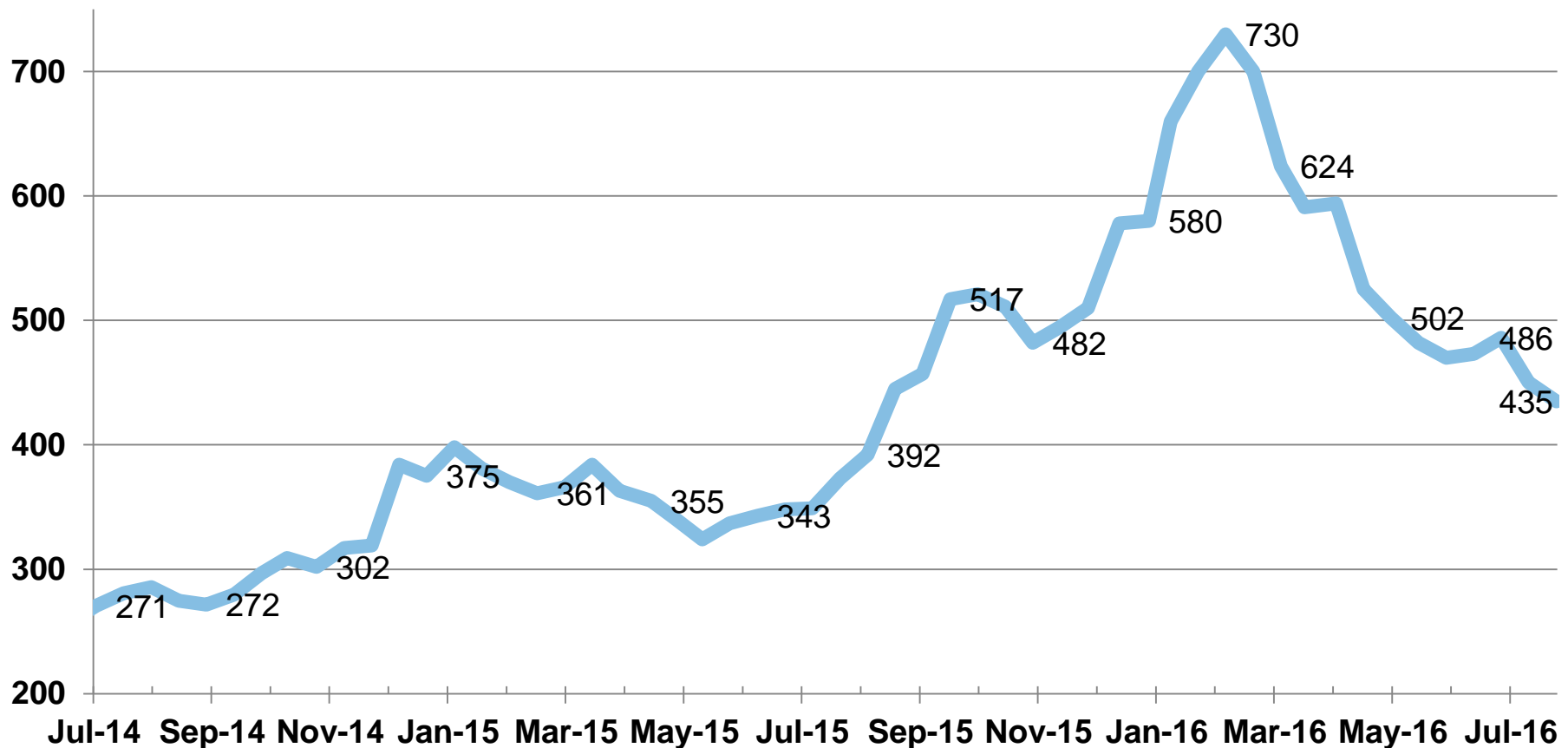
Top 10 investments

| Company | Country of risk | Credit rating* | Percent of fund |
|--------------------------|-----------------|----------------|-----------------|
| Glencore** | Switzerland | BBB- | 5,9 % |
| BKK | Norway | BBB | 4,1 % |
| Energias de Portugal | Portugal | BBB- | 3,8 % |
| Samvardhana Motherson | Netherlands | BB+ | 3,5 % |
| Heathrow | UK | BBB | 3,2 % |
| Gazprom | Russia | BB+ | 3,1 % |
| Best Buy | USA | BBB- | 3,1 % |
| Danske Bank | Denmark | BBB | 3,0 % |
| Color Group | Norway | B+ | 3,0 % |
| Bharti Airtel | India | BBB- | 3,0 % |
| Sum top 10 | | | 35,7 % |

Best and worst contributors year to date



Average credit spread in SKAGEN Credit



- This graph shows the difference in yield between the bonds and the reference rates (interest rate swaps) of the same maturity
- SKAGEN credit has since inception had a portfolio with rather consistent credit quality, and the changes in the credit spread are therefore mostly related to market events

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 for SKAGEN since 2006, managing a range 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 a portfolio manager at the Swedish Soya Group. A combination of strong analytical skills and investment experience applying SKAGEN's investment philosophy has primed Ola in finding good investment cases for the fund. Ola holds a BSc in Business Administration and Economics.

Tomas Nordbø Middelthon

Tomas Nordbø Middelthon has worked for 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 in Finance and is an Authorised Financial Analyst. He has strong analytical skills and a background from financial risk management. His combined 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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