



Apple trees, 1907. Detail. By Michael Archer, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Credit EUR

Status report December 2016

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	0,8%	0,0 %
Return year to date	6,9 %	-0,3 %
Return since inception (annualized)	0,6 %	-0,1 %
Current yield*	0,8 %	-0,3 %
Duration	1,1	0,25
Time to maturity	2,6	N/A
Average credit spread (OAS)**	262 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 managers' comment

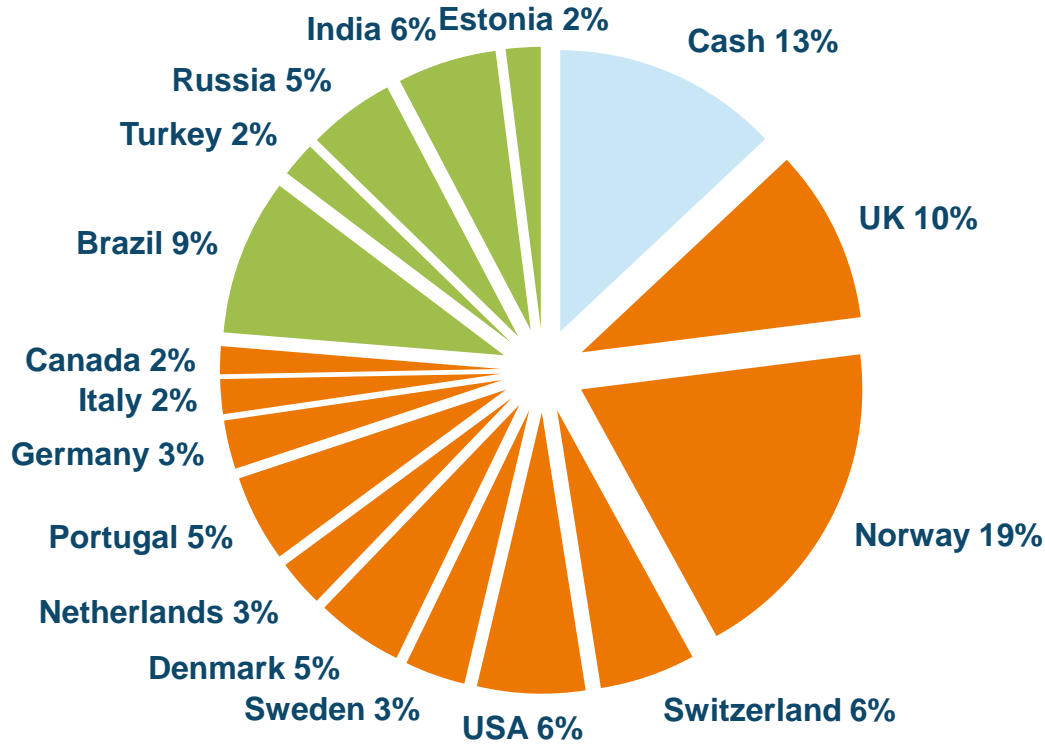
In December global credit spreads decreased, both in the High Yield segment, which consists of low rated bonds, and in the Investment Grade segment consisting of high rated bonds. Global corporate bond spreads are now below the five year average, as illustrated further on in this report. This level does not necessarily mean that one should not invest in corporate bonds, since the average level consists of several thousand of bonds, and there are very many bonds to be found at attractive prices relative the risk. With these generally lower corporate bond spreads it is even more important to pick the *right* corporate bonds, instead of just buying an index.

SKAGEN Credit had a good month, benefiting from the decrease in spreads. Several of the fund's holdings have now reached their price targets, and we have therefore sold out or reduced the size of several bonds. The proceeds from this have been placed in short bonds and certificates with low risk. These short-dated investments can, however, easily be replaced with bonds with a larger upside when the time is right.

New holdings in December: Volvo cars, Sparebank 1 Telemark, Sparebank 1 Nord-Norge, Agder Energi and Entra Eiendom

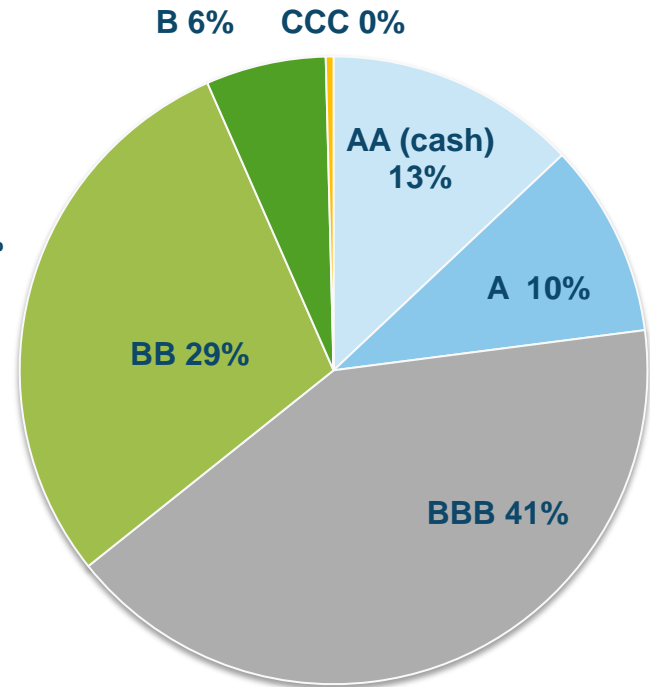
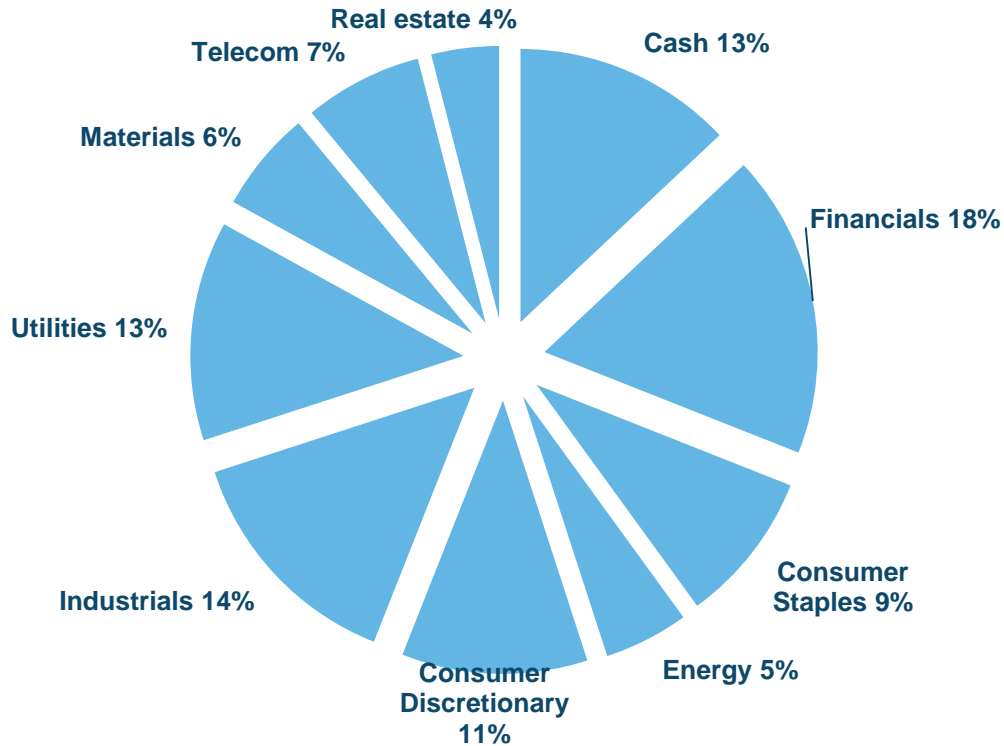
Holdings sold out in December: Stena, Norwegian Air, Ineos, Amlin and Insurance Australia Group

Country diversification



Developed markets:	63 %
Emerging Markets:	24 %
Cash:	13 %

Sector and credit rating



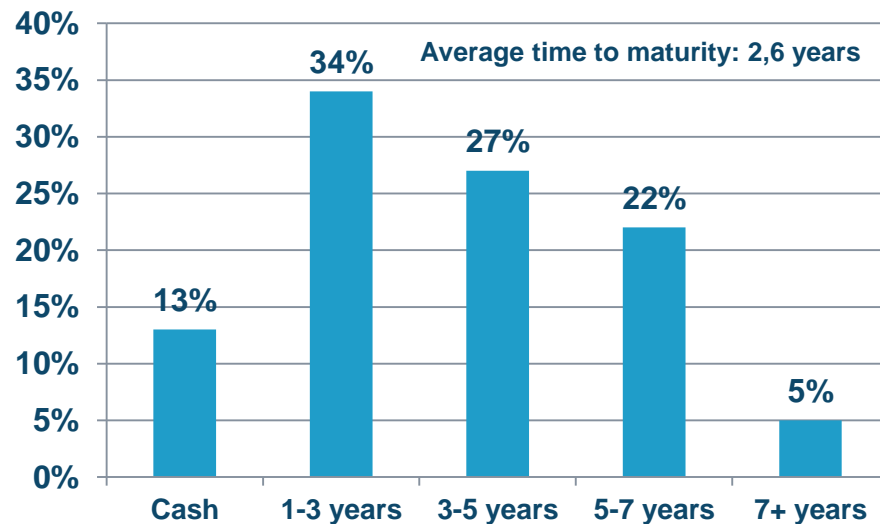
Investment grade:	64 %
High Yield:	36 %
Average rating:	BBB

Interest rate duration and time to maturity

Interest rate exposure and denominated currency (before currency hedge)

Currency	Bond denominated	Interest rate duration
USD	48%	1,2 year
EUR	6%	0,9 year
GBP	19%	1,4 year
NOK	21%	0,1 year
SEK	3 %	0,1 year
DEK	3 %	0,1 year
Sum Fund	100%	1,1 year

Credit exposure - time to maturity profile



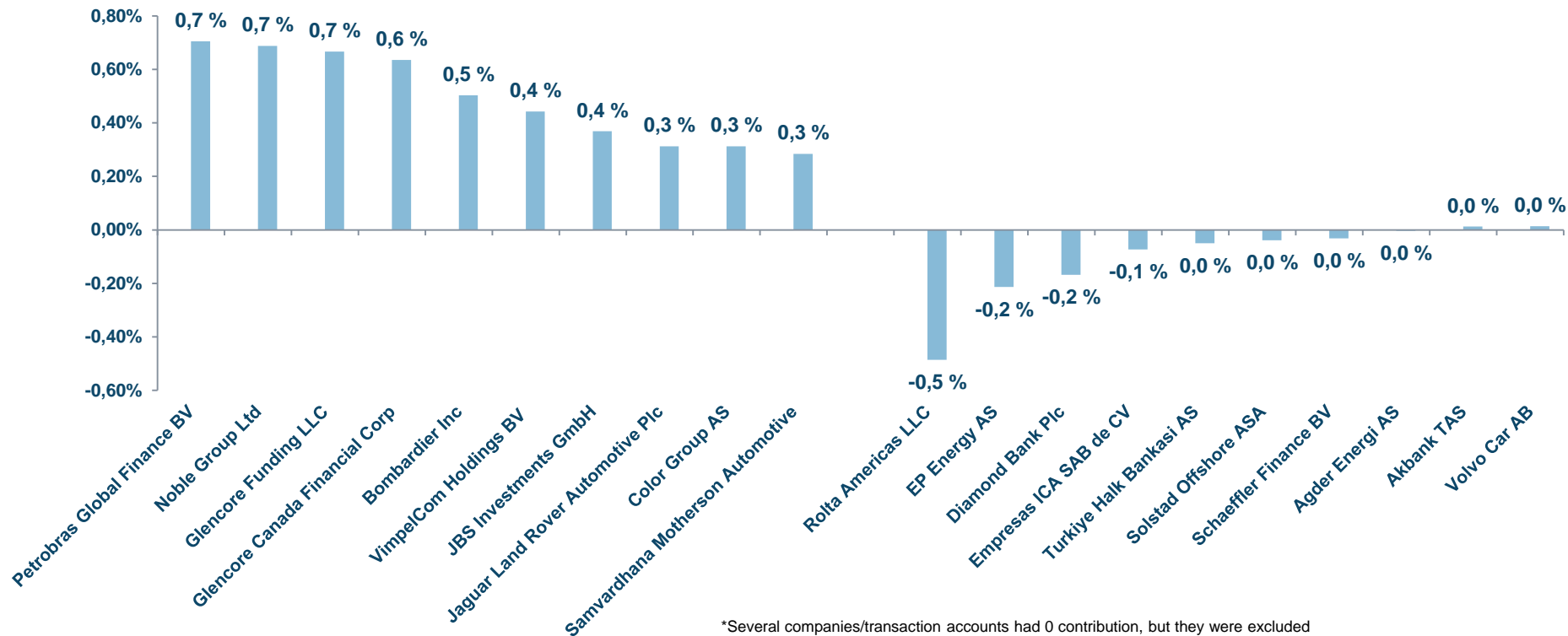
Top 10 investments

Company	Country of risk	Credit rating*	Percent of fund
Glencore**	Switzerland	BBB-	5,5 %
BKK	Norway	BBB	4,8 %
Sparebanken Telemark	Norway	A	4,5 %
Energias de Portugal	Portugal	BBB-	4,4 %
Jaguar/Land Rover	United Kingdom	BB+	3,3 %
JBS	Brazil	BB	3,1 %
Agder Energi	Norway	BBB	3,0 %
Entra	Norway	A-	3,0 %
Cosan	Brazil	BB	3,0 %
DSV	Denmark	BBB+	3,0 %
Sum top 10			37,6 %

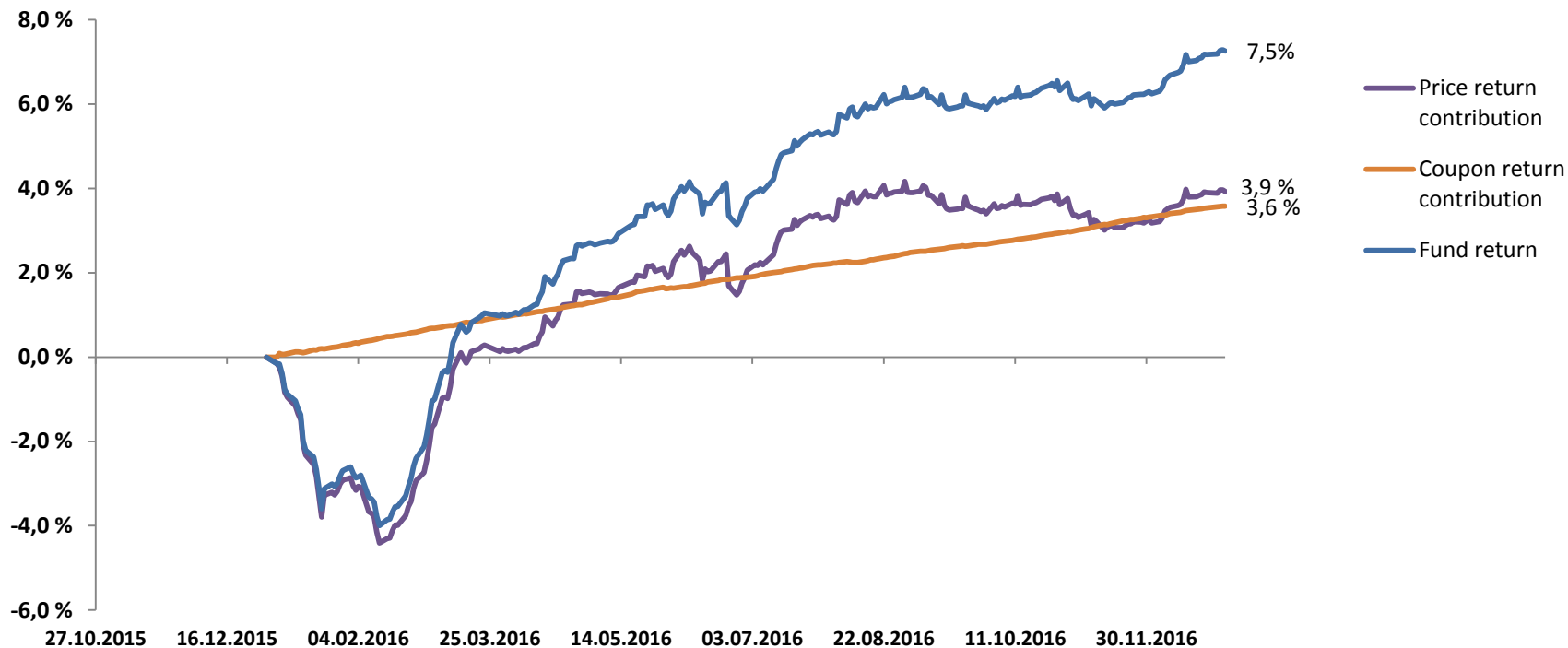
Average bond rating.

*** Represent bonds from several legal units within the Glencore group*

Best and worst contributors 2016



SKAGEN Credit NOK contribution from price and coupons



Global credit spreads (OAS), last five years



- The graph shows global corporate credit spreads, meaning the average global corporate funding cost in basis points above the risk free interest rate
- The lines show the average credit spread and +/- one standard deviation
- As of now credit spreads are close to the lower 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** (pictured right) 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** (pictured left) 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.

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.

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.