Quarterly Report

SKAGEN Tellus A

All data in EUR as of 31.03.2018 unless otherwise stated.

A slow start to the year

SKAGEN Tellus had a weak first quarter and underperformed its benchmark index slightly.

The duration in Tellus is currently 4.3 years, which is substantially lower than the index's duration of 7.9 years. The portfolio consists of bonds that we expect to deliver solid return going forward. The portfolio is constructed from the bottom up. We have low duration in countries where we deem the currency to be undervalued versus the EUR. We have higher duration in countries where the yields are attractive and or we see clear triggers for lower yields going forward.

Higher yields and market volatility

Long-term rates in the large advanced economies increased sharply at the beginning of the quarter. At their highest point, the 10-year interest rates in the US were up by about 50 points and German 10-year rates by about 30 points since the turn of the year. The increase in interest rates is mainly due to continued strong growth and expectations of tighter monetary policy going forward.

The aggressive tone from Trump around tariffs and trade policy has been met with turmoil in the financial markets. This has led to long-term interest rates falling somewhat again. At the end of the quarter, the American 10-year rate was 2.7%, while the German one was 0.5%.

In future, we expect long-term interest rates to increase further in developed economies as the major central banks reduce bond purchases and reinvestments and increase policy rates. The US is in the lead, but both the Euro area and Japan are expected to follow. We therefore only have duration in countries where we think it is possible that interest rates may fall even in a climate of rising interest rates. Furthermore, it is important to note that long-term drivers of low long-term interest rates, such as demographics and low productivity growth, are still in place. We do not expect interest rates to return to the high levels of the 1980s and 1990s, but we have to be prepared for long-term rates of at least 100 basis points higher than we have today.

Portfolio changes

The fund sold out of Slovenia. After years of solid performance there is limited further upside. We reduced our USD-denominated holdings in Canada, Peru and the Dominican Republic.

Our Mexican investment was the best performer in Q1. Photo: Unsplash

Portugal is experiencing strong growth and several rating agencies have lately upgraded the country to investment grade. Photo: Unsplash

Relative positioning

Compared with the index, we are heavily underweight duration in countries with high debt in absolute terms; US, Japan, UK, Germany, Italy and France. We are also underweight JPY as the index has a 19 percentage exposure and the fund currently has zero exposure. Furthermore, the fund is directly underweight USD, but if we include currencies with close links to the USD, the exposure is more or less neutral.

The fund's underperformance in Q1 can largely be explained by the strong performance of the JPY. The yen appreciated by 3.2% versus the EUR, lifting the return of the index.

Mexican comeback

Our Mexican investment was the best performer in Q1. Increased hopes of an agreement on NAFTA led to lower yields and an appreciation of the currency at the end of the quarter.

Portugal continued its solid performance. The country is experiencing strong growth and several rating agencies have lately upgraded the country to investment grade. The interest rate on our bonds fell by 30 basis points, which resulted in a price increase of almost 2%. Our Spanish and Norwegian investments were also among the best performers. The fund gained from the NOK appreciating by 2% versus the EUR.

Uruguay and the Dominican Republic lag behind

The largest laggards were our investments in Uruguay and the Dominican Republic. The return on the local Dominican Republic bond suffered from both higher interest rates and a sharp depreciation of the currency over the quarter. This can largely be explained by technical factors; partly a reversal of the rally in the bond in Q4 and a new international local currency bond issue. In a small and illiquid market like the Dominican bond market, reallocation connected to new issues can create corrections in the yield. The Dominican Republic economy is robust and inflation is contained. We expect the yield to fall going forward and the currency to be more or less stable versus the USD.

The yields on our Uruguayan investments have increased along with higher inflation. Yields are currently 9.4 and 9.7% on our two bonds, which we find very attractive. We expect inflation to stay at the current level for some months before easing again, which will consequently lead to a lower yield. The currency has performed relatively well, appreciating against the USD.

In addition, our investments in the US and Canada contributed negatively due to a depreciation of the currency versus EUR. Our Indian investment fell both due to higher interest rates and a depreciation of the currency versus the EUR. Finally, our Greek investment delivered a negative return due to higher yields.

SKAGEN Tellus A

All data in EUR as of 31.03.2018 unless otherwise stated.

SKAGEN Tellus invests primarily in bonds and certificates issued or guaranteed by governments from around the world.

The fund is suitable for those with at least a three year investment horizon. Investors must be able to tolerate currency fluctuations.

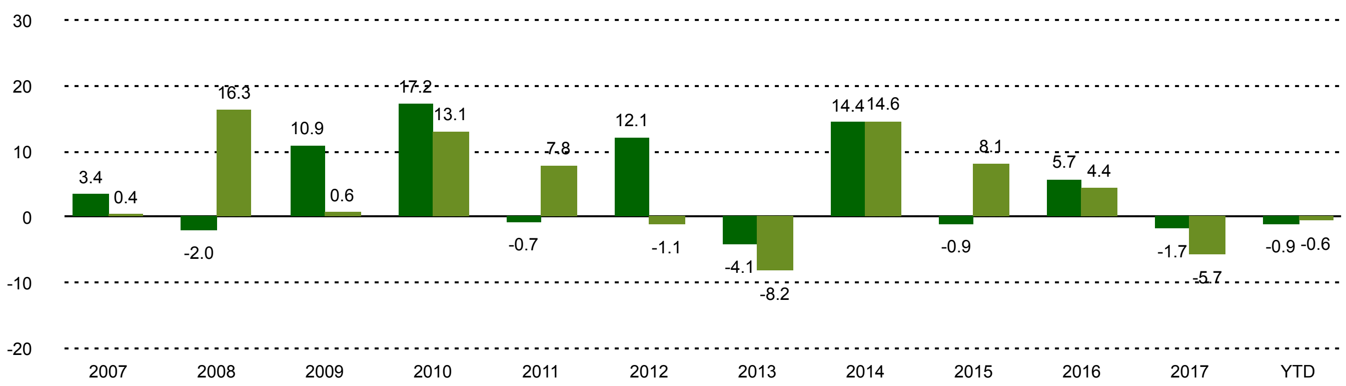
Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	12.00 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR
AUM (mill.)	78.79 EUR
Duration	4.30
WAL	5.87
Yield	3.78%
Number of holdings	14
Lead manager	Jane Tvedt

Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	-0.4%	0.4%
Quarter to date	-0.9%	-0.6%
Year to date	-0.9%	-0.6%
Last year	-3.3%	-6.5%
Last 3 years	-2.6%	-1.4%
Last 5 years	1.8%	2.2%
Last 10 years	5.3%	4.5%
Since start	4.5%	3.8%

Performance last ten years



SKAGEN Tellus A   JPM GBI Broad TR   Benchmark prior to 1.1.13 was Barcap Global Treasury Index 3-5 yrs

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Mexican Government	6.94	0.46
Portugese Government	8.71	0.20
Norwegian Government	9.92	0.15
Spanish Government	6.98	0.12
Peruvian Government	5.05	0.08

Largest detractors

Holding	Weight (%)	Contribution (%)
Dominican Republic	6.45	-0.46
Republic of Uruguay	7.16	-0.37
US Government	10.05	-0.26
Asian Development Bank	4.13	-0.25
Canadian Government	4.22	-0.17

Absolute contribution based on NOK returns at fund level

Quarterly Report

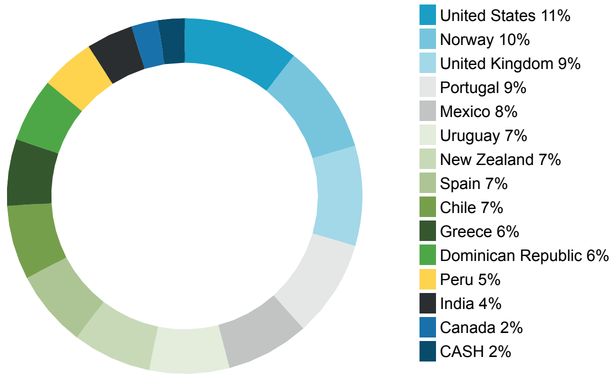
SKAGEN Tellus A

All data in EUR as of 31.03.2018 unless otherwise stated.

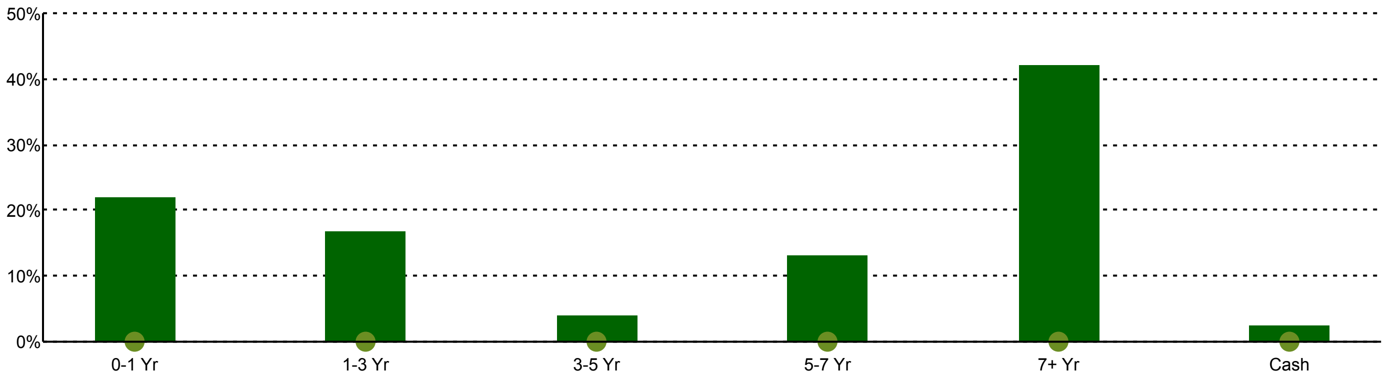
Top 10 investments

Holding	Percentage of Fund
US Treasury N/B	10.5
Norwegian Government	9.9
UK Government	9.1
Portugese Government	8.9
Mexican Government	7.6
Uruguay Government	7.3
NEW ZEALAND GOVERNMENT	7.2
Spanish Government	7.0
REPUBLIC OF CHILE	6.8
HELLENIC REPUBLIC	6.0
Total	80.2

Country exposure



Maturity structure



Contact

+47 51 80 37 09

contact@skagenfunds.com

SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

Important information