SKAGEN Tellus A

All data in EUR as of 30/06/2018 unless otherwise stated.

Hurt by Emerging Market volatility

Tellus had a weak quarter relative to the index. The fund was hit by the volatility in emerging markets, while the index gained from a sharp appreciation of the US dollar and a somewhat stronger yen.

Emerging markets volatility
Emerging economies experienced a sharp correction in interest rates and exchange rates in the second quarter. The correction is essentially a reaction to tighter US monetary policy and a stronger US dollar. The fear of the consequences of a potential trade war initiated by the United States may also have had an impact.

The countries with a large dollarization of the economy, such as Argentina and Turkey, have been hardest hit. These countries have a high share of their debt in USD as well as large current account deficits. Their economies are in trouble, so the market has good reason to put a higher risk premium on the countries' debt and a lower value on their currency. Most countries have unjustifiably experienced increased interest rates and significant currency weakness, merely because of the general negative market sentiment.

The term "emerging economies" covers a large group of countries. Growth in emerging economies is generally good and many countries are in better shape today than a few years ago. The current account balances in most countries have improved and, while debt levels are higher, issuers have used the favourable issuance conditions over the past few years to lengthen maturity profiles. This makes them less vulnerable to a market correction like the one we have experienced lately. Growth in the US is good and is an important driver for further good strong growth in emerging markets.

For active investors it is important to look at the individual countries and not at emerging markets as a group. The most vulnerable are hardest hit for a reason, but the good ones are often shot by association. At times like this it can be tempting to sell out of our emerging markets holdings and invest only in safe havens, i.e. to go with the flow. As long-term investors, we need to be able to sit through volatile periods, but be alert to developments that have an impact on the investment cases. A correction like the one we have seen can even provide exciting opportunities for the fund in emerging countries.

Uruguay hurt by Argentina
The largest laggards in the quarter were our investments in Uruguay and Mexico.

The negative sentiment in Argentina spilled over to its close neighbour Uruguay and resulted in a sharp depreciation of the Uruguayan peso and a sharp increase in interest rates. While the two countries have an economic relationship via trade, they are otherwise only geographically related. Uruguay has a strong and business-friendly economy and is often said to be the Switzerland of Latin America. We see the negative sentiment as transitory. The risk is if there is a large slowdown in growth in Argentina that will impact Uruguay through lower exports.

Our investment in Mexico also detracted from performance. The uncertainty related to the Presidential election and trade relations with the US have led to a negative market sentiment. The Mexican peso depreciated by almost 4 percent versus the euro.

Dominican Republic performs despite turbulence
Our investments in short-dated US treasuries were the largest contributors in the fund in the second quarter. The holdings benefited from the 5.2 percent appreciation of the US dollar.
Our Dominican Republic investments also contributed positively despite the turbulence in the quarter. The Dominican peso maintained its value relative to the USD and appreciated by just over 5 percent versus the euro. Furthermore, the long-term interest rate fell somewhat.

Our Dominican Republic investments also contributed positively despite the turbulence in the quarter. Photo: Unsplash

The investments in short-dated US treasuries were the largest contributors in Q2. Photo: Unsplash

Italian political noise and a Greek debt deal
The political situation in Italy led to intra-quarter volatility in the peripheral holdings in the fund, but these positions ended the quarter more or less flat.

By the end of June it was finally clear that the Eurogroup has agreed that Greece will exit its final rescue package and get a debt relief package. Part of the agreement is that Greece must accept continued monitoring and stick to its commitment to structural and institutional reforms as well as fiscal targets.

This is positive for our investment in Greece. Together with a continued gradual improvement of the economy, we believe that this will lead to a fall in Greek credit premiums in going forward.

Portfolio changes
The fund invested in a short duration Czech Republic bond. The country is growing solidly and has very low unemployment. We expect wage growth to pick up and lead to higher inflation. This will lead the Czech Central Bank to increase rates faster and ahead of the ECB, leading the Czech krona to appreciate versus the euro.

We switched the USD-denominated Dominican Republic investment in to an international DOP-denominated bond. This is based on our view that there is more upside in the local bonds than the hard currency bonds. We reduced our position in New Zealand and increased our holding of short-dated US Treasuries.

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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.

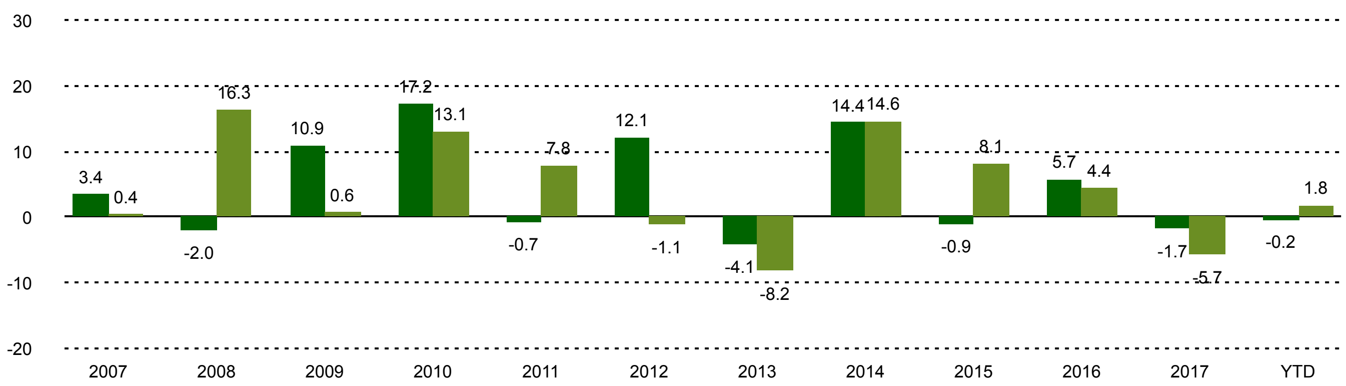
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	0.0%	-0.3%
Quarter to date	0.7%	2.4%
Year to date	-0.2%	1.8%
Last year	-0.6%	-0.6%
Last 3 years	0.4%	1.1%
Last 5 years	2.3%	3.6%
Last 10 years	5.3%	5.1%
Since start	4.5%	4.0%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	12.09 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR
AUM (mill.)	72.88 EUR
Duration	3.90
WAL	5.35
Yield	4.10%
Number of holdings	14
Lead manager	Jane Tvedt

Performance last ten years



Benchmark prior to 1.1.13 was Barcap Global Treasury Index 3-5 yrs

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
US Government	10.43	0.30
New Zealand Government	6.39	0.20
Dominican Republic	5.68	0.17
Norwegian Government	9.80	0.16
Republic of Chile	6.85	0.05

Largest detractors

Holding	Weight (%)	Contribution (%)
Republic of Uruguay	7.22	-0.59
Republic of Mexico	7.37	-0.30
Republic of Greece	6.08	-0.26
Portugese Government	8.77	-0.15
Spanish Government	6.63	-0.08

Absolute contribution based on NOK returns at fund level

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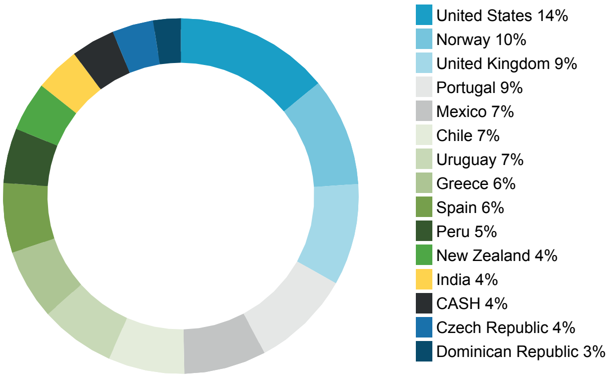
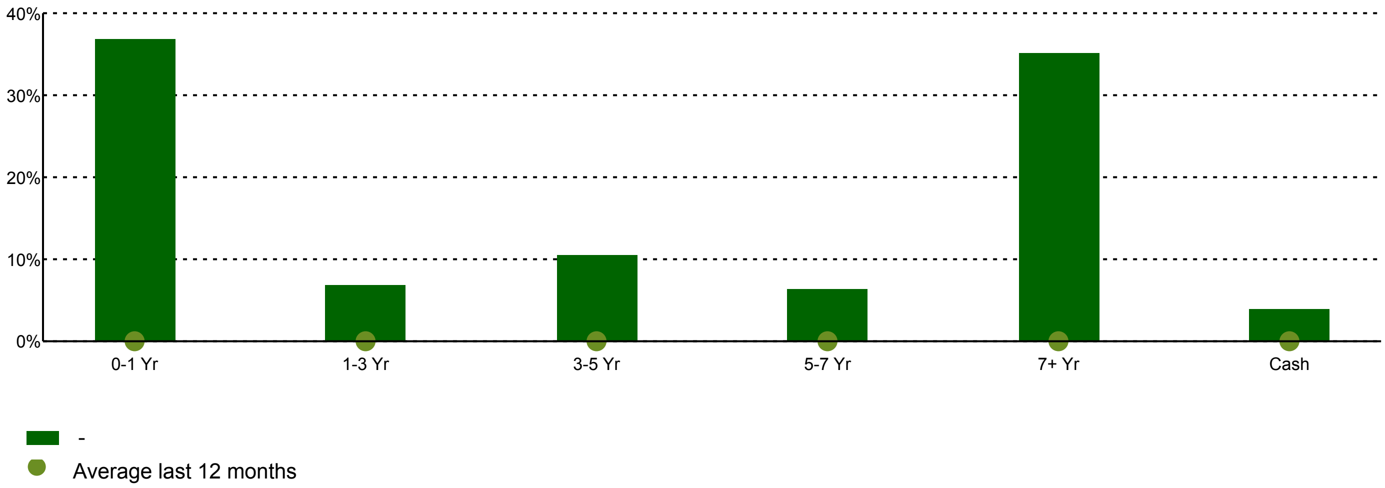
Top 10 investments

Holding	Percentage of Fund
US TREASURY N/B	14.1
Norwegian Government	9.9
UK Government	9.2
Portugese Government	9.0
Mexican Government	7.5
REPUBLIC OF CHILE	6.9
Uruguay Government	6.8
HELLENIC REPUBLIC	6.4
Spanish Government	6.3
REPUBLIC OF PERU	5.0
Total	81.2

Country exposure



Maturity structure



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Important information