

Safe havens back in vogue

SKAGEN Tellus has performed well in absolute terms in the quarter and year to date. This has partly been due to a general fall in long-term interest rates, tighter credit spreads for some of the fund's holdings and a stronger USD.

Weaker manufacturing – solid service

We are in a period of slower global growth, mainly driven by manufacturing. The sentiment indicators for the manufacturing sector have been weaker, especially in Europe. Germany stands out, with German manufacturing burdened by a weak car industry. The automotive industry in Germany is in a transition phase where production must adjust to stricter emissions standards. Furthermore, global car demand has fallen, especially due to lower demand from China and India.

There are still no signs of a solution to the trade war. Despite all the noise so far we believe most of the trade war implications are ahead of us. Both higher tariff rates and more goods subject to tariffs will put a brake on growth and world trade. Moreover, uncertainty about future trade conditions could put a damper on investment appetite among companies directly or indirectly affected by the trade war.

So far, there are no signs that weakness in manufacturing has affected the labour market. Unemployment is low and households optimistic, which will be an engine for further growth in consumption. This is confirmed by the Purchasing Manager Index (PMI) for the service sector, which is holding up well. The gap between the PMIs for the service sector and manufacturing is currently very wide. Future growth will be determined by whether the weak manufacturing sector eventually pulls down the labour market and service sector or whether strong households and a strong service sector will be able to boost manufacturing.

Central bank stimulus

The manufacturing weakness, trade war concerns and lower inflation expectations are worrying central banks. This has led to a complete reversal of central bank policies. In 2018, most central banks were in tightening mode, while in 2019 they have started to ease policies.

In July, the US central bank, the Federal Reserve (Fed), cut the policy rate by 25 basis points for the first time since the financial crisis. There was another 25 basis point cut at the policy meeting in September and the market expects the Fed to cut the rate by at least another 50 basis points.



Photo: Bloomberg

The rally in peripheral spreads continued in Q3 and led to strong performance of our investments in Croatia, Portugal and Greece. Growth in the peripheral economies is good, improving the fiscal outlook and reducing risk premiums.

The European Central Bank also cut its policy rate at the meeting in September, from -0.4% to -0.5%. Furthermore, they signalled the restart of quantitative easing (QE), relaunched only three quarters after it was halted. Although the monthly amounts of EUR 20 billion are somewhat lower than most people expected, the ECB stated that the purchases would be "open-ended" with no end date and should start as early as November.

Norway against the tide

Norges Bank is more or less the only central bank still in tightening mode. Norges Bank increased its policy rate at the meeting in September, keeping the door ajar for one more hike. Another hike is contingent on international conditions and whether weaker growth abroad spreads to the Norwegian economy.

Flight to safety

Weaker global growth prospects and falling inflation expectations led to a fall in long-term interest rates in Q3. The US 10-year yield fell by 35 basis points to 1.67% and the German 10-year bond yield was down 24 points, to -0.57%. Despite Norges Bank hiking the policy rate, Norwegian long-term interest rates fell in line with German interest rates.

The uncertainty around trade policy and future growth also led to a flight to safety in currency markets. Both the JPY and USD appreciated by about 4% versus EUR. Tellus is underweight both USD and JPY and these currency movements together with the underweight in duration in the large developed economies is the reason behind the relative underperformance of Tellus in Q3. The fund's duration is 3.5 years at quarter end, while the index has a duration of 8.6 years. The fund will typically underperform in times of flight to safety.

Strong performance across the Atlantic

Our investments in Mexico, Peru and the US contributed the most to fund performance in Q3. Our investments in the US are short-dated treasury bonds and their strong performance is due to the appreciation of USD versus EUR. Our Mexican and Peruvian investments both gained from falling interest rates and currency appreciation relative to EUR. The central banks of both countries have cut policy rates in line with a softer inflation outlook. They will likely continue to cut interest rates as the inflation outlook continues to ease and we expect this to lead to long-term rates falling further.



Photo: Bloomberg

Currencies put a drag on performance

Our short-dated investments in Norway and Chile were the biggest detractors in Q3. The currencies depreciated relative to EUR. A lower copper price is the main driver for a weaker CLP, while the NOK is negatively impacted by volatility and flight to safety.

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.

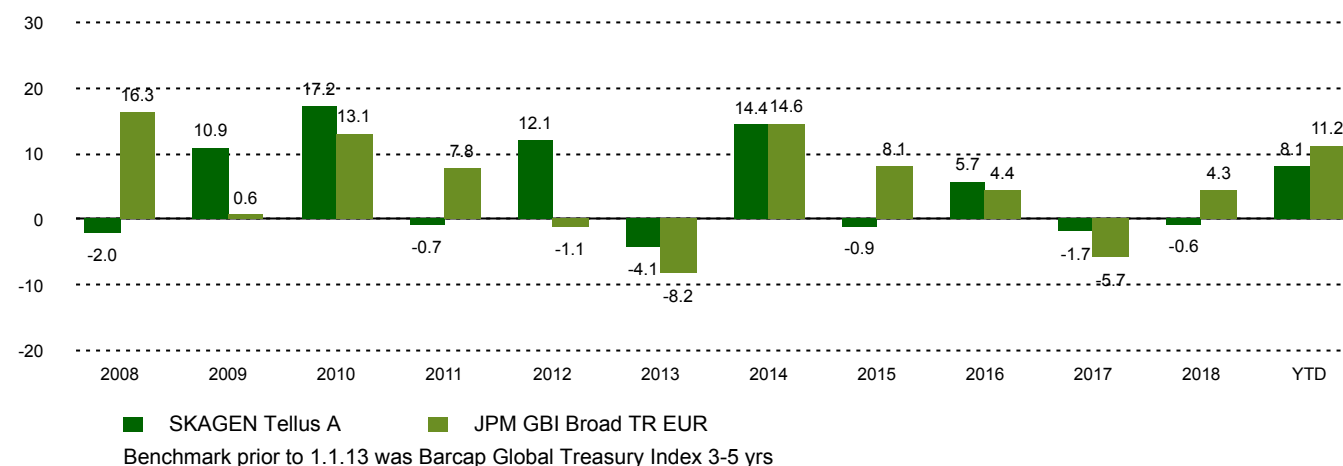
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	1.5%	-0.5%
Quarter to date	2.5%	5.2%
Year to date	8.1%	11.2%
Last year	7.9%	15.1%
Last 3 years	2.4%	2.2%
Last 5 years	2.5%	5.0%
Last 10 years	4.8%	4.6%
Since start	4.7%	4.6%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	12.44 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	65.81 EUR
Duration	3.51
WAL	4.74
Yield	4.13%
Number of holdings	14
Portfolio manager	Jane Tvedt

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
United States Treasury	20.69	0.98
Mexican Bonos	7.57	0.60
Peruvian Government	6.42	0.44
Croatia Government	7.19	0.39
Dominican Republic	4.16	0.18



Largest detractors

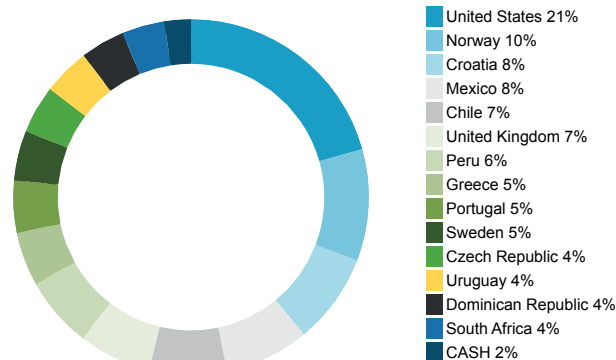
Holding	Weight (%)	Contribution (%)
Norway Government	10.32	-0.16
Chile Government	7.29	-0.11
Republic of South Africa	4.09	-0.09
Sweden Government Bond	4.63	-0.08
Czech Republic	4.50	-0.04

Absolute contribution based on NOK returns at fund level

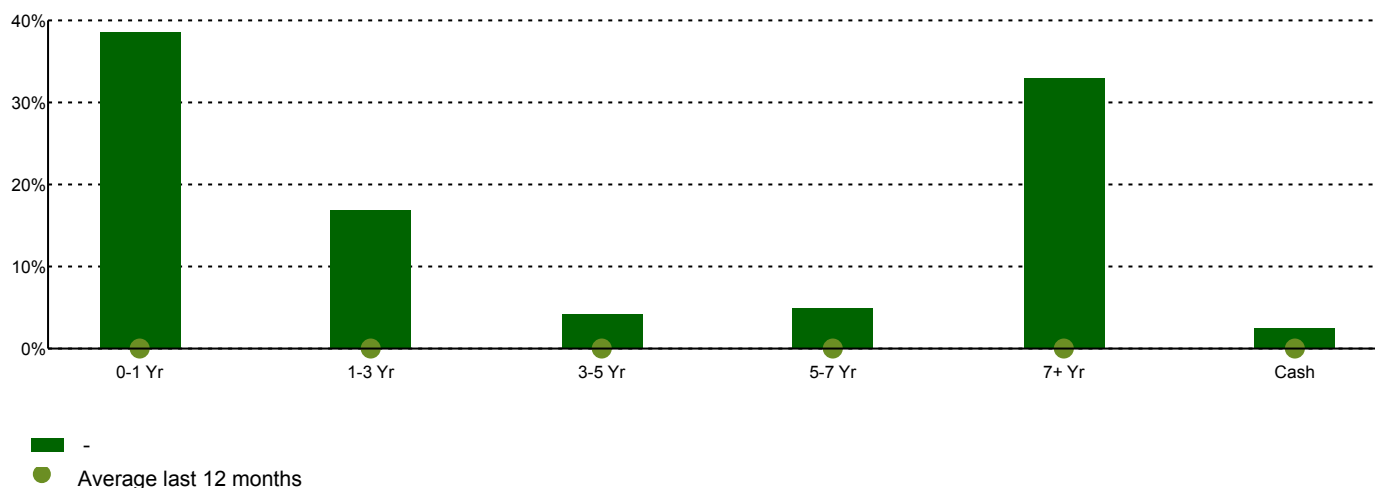
Top 10 investments

Holding	Percentage of Fund
US Government	20.6
Kongeriket Norge	10.2
Republic of Croatia	8.2
Mexico	7.7
Republic of Chile	7.0
UK Government	6.6
Republic of Peru	6.5
Hellenic Republic	4.9
Portuguese Government	4.7
Kingdom of Sweden	4.5
Total	81.1

Country exposure



Maturity structure



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Important information

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