SKAGEN Tellus A

All data in EUR as of 30/06/2020 unless otherwise stated.

Macro divergence in the markets

After a very turbulent first quarter, the second quarter was characterised by strong markets, while at the same time Covid-19 continued to spread at high speed, large parts of the global economy were shut down and the macro picture weakened. SKAGEN Tellus had a good second quarter both in absolute (EUR) and relative terms.

Global shutdown and a deep recession

In March, the spread of Covid-19 exploded and resulted in the broad-based shutdown of societies to limit the spread of the virus. Many developed and emerging economies closed large portions of their economy such as service companies, schools etc. This resulted in the largest economic crisis since the Great Depression.

Today's economic crisis is unlike most other crises in that it is truly global. Past crises, as deep and severe as they were, remained confined to smaller segments of the world, from Latin America during the 1980s to Asia in the 1990s. Even the global financial crisis ten years ago had a more modest impact on global output. For the first time since the Great Depression, both advanced and emerging market economies will be in recession in 2020.

Moreover, in most recessions it is the industrial sector that is hardest hit due to a reduction in investments while the service sector is less exposed. This time, the service sector is at the centre of the downturn.

In its latest June update, the IMF estimated that the world economy would fall by 4.9 percent in 2020, with a decline of 8 percent for developed countries and a fall of 3 percent for emerging economies. The Purchasing Managers Index (PMI), which is widely used as temperature gauge for the economy, nosedived in March. The PMI has improved somewhat since then but is far from indicating a strong recovery. From talking about a V-shaped or U-shaped recovery as an illustration of the Corona-recovery, many people are now talking about a "Nike-swoosh recovery". In other words, it will take a long time for the economy to recover.

The market versus the real economy

In order to prevent the collapse of economies, in March the central banks and the authorities initiated the largest stimulus packages ever implemented. The Federal Reserve announced unlimited QE in mid-March. That is, they announced that they will do as much quantitative easing as needed for as long as they think is necessary. This is the Federal Reserve's version of "we will do whatever it takes" to save the US economy, which echoes Draghi's words about the euro back in 2012. The Fed's big bazooka caused the market to turn.

Since the Fed's mega package in mid-March, the markets have strengthened. Equity markets have recouped most of their losses since before the crisis, and both corporate credit spreads and emerging sovereign spreads have fallen. Exchange rates for emerging economies, small economies and commodity countries have also appreciated somewhat.

Stable interest rate environment

Long-term interest rates in the large developed economies were more or less stable in the second quarter. Interest rates are low and will remain low for the foreseeable future both due to low policy rates and QE. On the contrary, long-term interest rates fell in many emerging economies due to both lower policy rates and lower credit spreads.

The large currencies depreciated relative to EUR in Q2. JPY depreciated by 2.1 percent and USD by 1.8 percent. Both emerging market currencies and smaller, less liquid currencies, like the Norwegian krone, appreciated versus EUR.

The combination of the USD and JPY depreciation versus EUR, the appreciation of EM currencies and the fall in EM interest rates contributed to SKAGEN Tellus outperforming the index by 3.6 percentage points in Q2.

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Photo: Unsplash

Comeback currencies

The best performers in the second quarter were our investments in Norway, Uruguay and Indonesia. These delivered both the best return and contributed the most. Our investment in Norway gained both from the sharp appreciation of NOK versus EUR and a lower long-term interest rate. The NOK appreciated by 6 percent in Q2. Our investment in Uruguay benefited from a sharp fall in interest rates (the interest rate on two bonds in the fund fell by more than 300 basis points). Our investment in Indonesia gained from a sharp appreciation of the currency. The IDR appreciated by just over 10 percent versus EUR in the second quarter.

The laggards were our investments in the US and the Dominican Republic. Our US investments lagged due to the depreciation of USD versus EUR, while our investment in the Dominican Republic suffered due to a weaker currency and higher long-term interest rates.

Portfolio activity

We increased the duration in the Czech Republic. We sold a bond maturing in the autumn of 2020 and replaced it with a bond maturing in 2031. We expect long-term interest rates to fall due to more stimulus from the central bank.

We reduced the duration in Norway after the long-term interest rate fell along with the latest interest rate cut by the central bank. We sold out of a bond maturing in 2030 and bought a bond maturing in 2021.

We added to our position in Serbia.

Quarterly Report

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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.

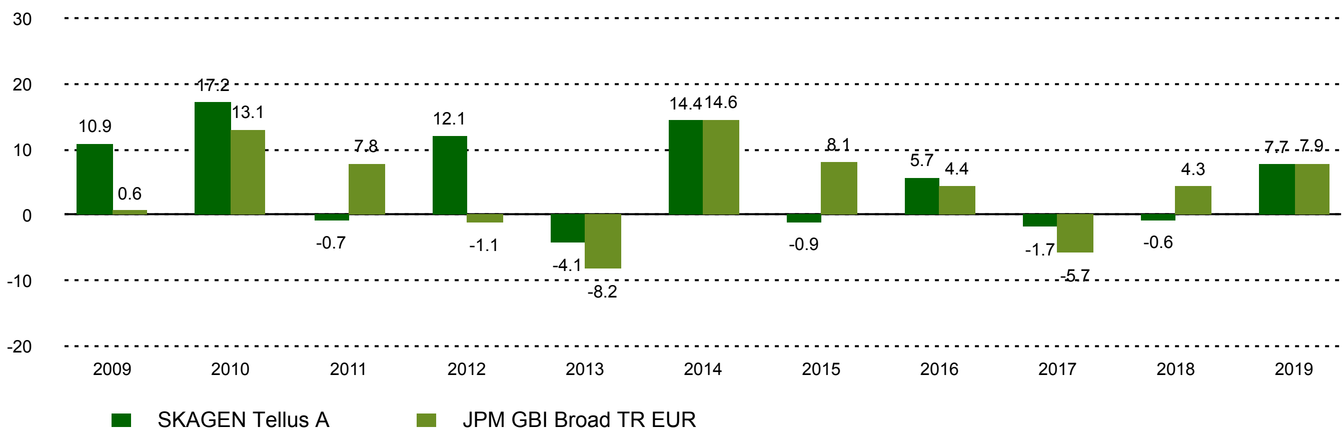
Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	11.11 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	42.00 EUR
Duration	4.93
WAL	5.77
Yield	2.58%
Number of holdings	12
Portfolio manager	Jane Tvedt

Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	-0.5%	-0.4%
Quarter to date	3.1%	-0.7%
Year to date	-4.3%	4.2%
Last year	-2.3%	6.4%
Last 3 years	0.7%	4.6%
Last 5 years	0.8%	3.6%
Last 10 years	2.6%	3.2%
Since start	4.0%	4.5%

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 (%)
Norway Government Bond	7.20	0.87
Uruguay Government	5.78	0.79
European Bank for Recon & Dev	4.81	0.55
Croatia Government	6.47	0.47
Mexican Bonos	4.35	0.39

Largest detractors

Holding	Weight (%)	Contribution (%)
United States Bond	24.44	-0.40
Dominican Republic	3.66	-0.14
United Kingdom Gilt	9.93	-0.08
Peruvian Government	7.57	0.08
Chile Government	7.30	0.14

Absolute contribution based on NOK returns at fund level

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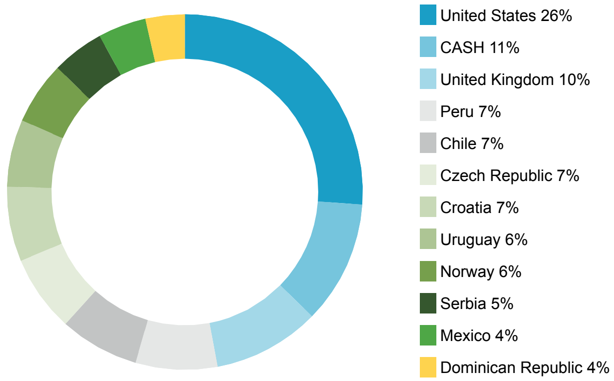
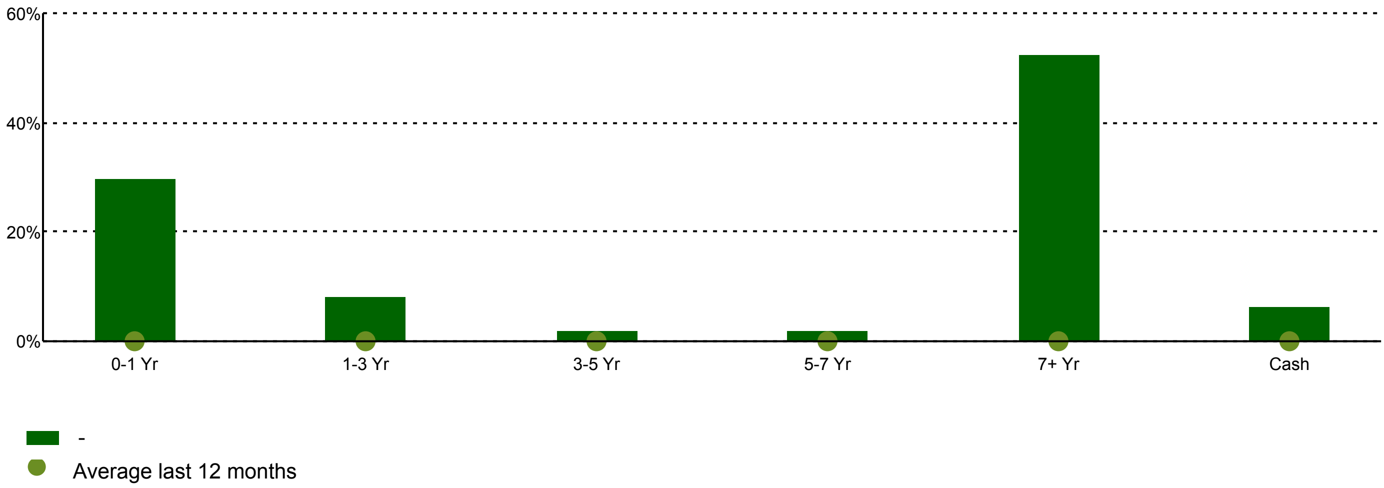
Top 10 investments

Holding	Percentage of Fund
US Government	26.1
UK Government	9.7
Republic of Peru	7.4
Republic of Chile	7.2
Czech Republic Government	7.0
Republic of Croatia	6.8
Oriental Republic of Uruguay	6.1
Kongeriket Norge	5.7
European Bank for Reconstruction & Development	5.0
Republic of Serbia	4.7
Total	85.9

Country exposure



Maturity structure



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Important information

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