

Inflation in focus

SKAGEN Tellus lagged the benchmark index slightly in the quarter. The largest positive contributors to fund performance were our investments in the US and Indonesia thanks to very strong currencies. The largest detractors were our investments in Romania and Chile driven by higher credit spreads. During the quarter we added to our US and UK exposure and reduced our Indonesian, Uruguayan and Dominican Republic exposure as they moved closer to fair value. We also added a local Chilean bond as the currency looks undervalued in the medium to long term.

Inflation and monetary policy in focus

As expected, the focus and debate around inflation continued in the third quarter and given the continued supply side pressures, this might drag on for some time. Actual consumer price increases are still high in many countries while inflation expectations have been relatively stable during the quarter. The latest increase in long-term interest rates can thus be ascribed mainly to increasing real rates reflecting expectations about central bank policy tightening. Both the European and Canadian central banks have reduced their asset purchases and the Federal Reserve has indicated intentions to reduce asset purchases soon. Several emerging market central banks have already tightened monetary policies

significantly with interest rate hikes in large parts of South America and Eastern Europe. The Norwegian central bank became the first among the industrialised countries to raise the policy rate in September and at the same time signalling several increases in the coming quarters. Given the economic backdrop this was expected, and the market currently fully price the bank's expected policy rate path.

We still agree with the general central bank view that the current high consumer price growth is mainly transitory. One can of course debate how long transitory is, but in our multi-year outlook we expect price pressures to be alleviated when supply side pressures subside. Noting the fact that central banks only control monetary variables in their policy setting, we deem current central bank actions in the US and Europe to be appropriately cautious. Current price increases are caused by a mismatch between supply and demand of real goods, hence changes in monetary variables will have little effect. We think it is appropriate to normalise policy as the reopening of the economy looks to be on track but note that when we return to something similar to a pre-pandemic monetary policy stance, it will still be highly accommodative. The European central bank has for instance indicated that it might increase its regular asset purchase program when the pandemic program ends.



Photo: Unsplash

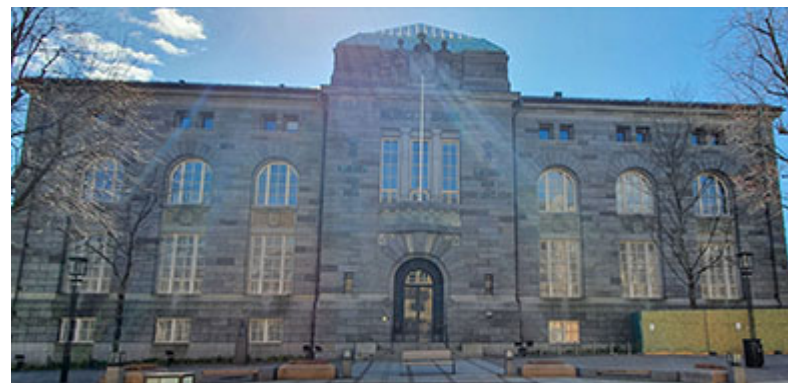


Photo: Shutterstock

Volatile politics

One political development of note this quarter is the ongoing turmoil in Romania where the prime minister is set to face a non-confidence vote in early October. This comes after several instances of disagreement among the parties in the ruling coalition and as a direct result to the prime minister's ousting of the finance minister in July. If the prime minister is forced to resign it will be the tenth PM change in as many years in Romania. The uncertainty has caused credit spreads to rise and currently they trade at quite attractive levels from a longer-term perspective. We acknowledge elevated risk due to the political noise, but we do not see it hampering the long-term economic outlook for the country significantly. It could in fact even be beneficial if it leads to an even more reform-oriented government taking the lead. In the short term there may be more noise, but we still find the fundamentals attractive relative to the pricing in Romania.

Outlook

Interest rate levels are still at historically low levels in developed markets and we still anticipate rates moving higher going forward. The latest increase has however moved rates to a more normalised level. In Norway for example the government bond yields across the curve are close to their ten-year median levels. In emerging markets, the picture is quite different. With the jump in interest rates earlier this year and the recent rise, long-term interest rates in several countries are higher than their long-term averages. The difference is due to differing growth outlooks, inflation dynamics and credit risk and this creates opportunities for an unconstrained investor such as SKAGEN Tellus.

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.

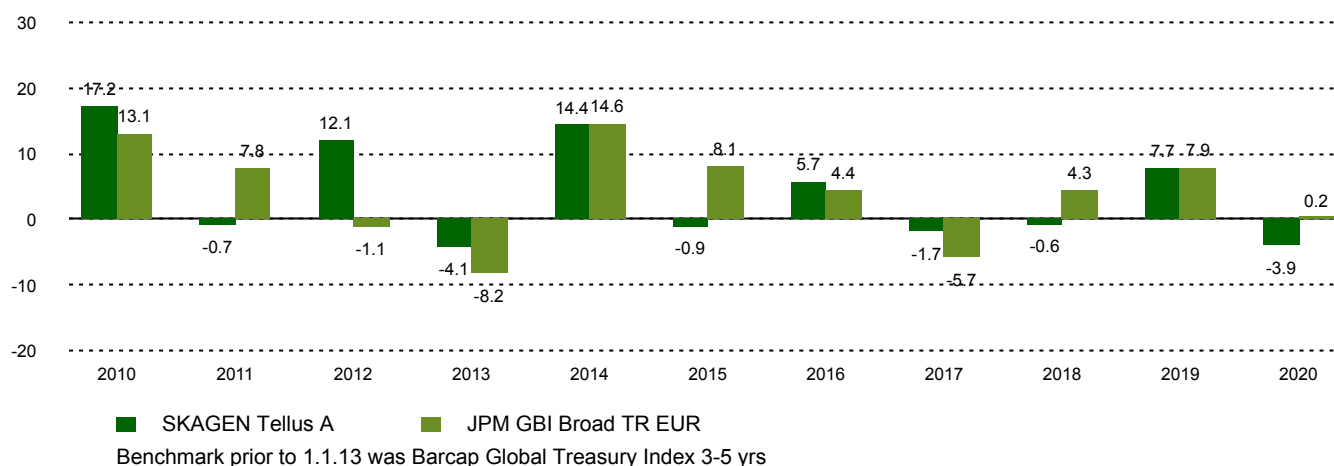
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	-0.1%	-0.3%
Quarter to date	1.0%	1.2%
Year to date	0.5%	0.1%
Last year	1.6%	-2.2%
Last 3 years	1.3%	3.9%
Last 5 years	0.7%	0.8%
Last 10 years	3.0%	2.6%
Since start	3.8%	3.8%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	10.33 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	45.36 EUR
Duration	3.51
WAL	4.44
Yield	2.51%
Number of holdings	14
Portfolio manager	Sondre Solvoll Bakketun

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
United States Treasury	29.18	0.43
Uruguay Government	5.12	0.26
European Bank for Recon & Dev	6.30	0.25
Dominican Republic	2.52	0.24
Republic of Italy	2.97	0.05



Largest detractors

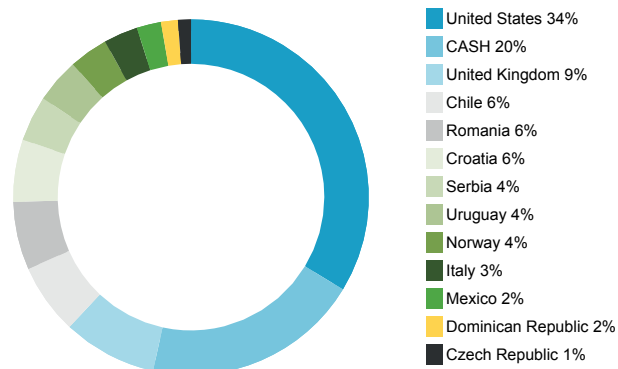
Holding	Weight (%)	Contribution (%)
Romanian Government	6.04	-0.26
Chile Government	6.17	-0.14
Serbia International	4.00	-0.10
United Kingdom	6.41	-0.08
Czech Republic	3.65	-0.06

Absolute contribution based on NOK returns at fund level

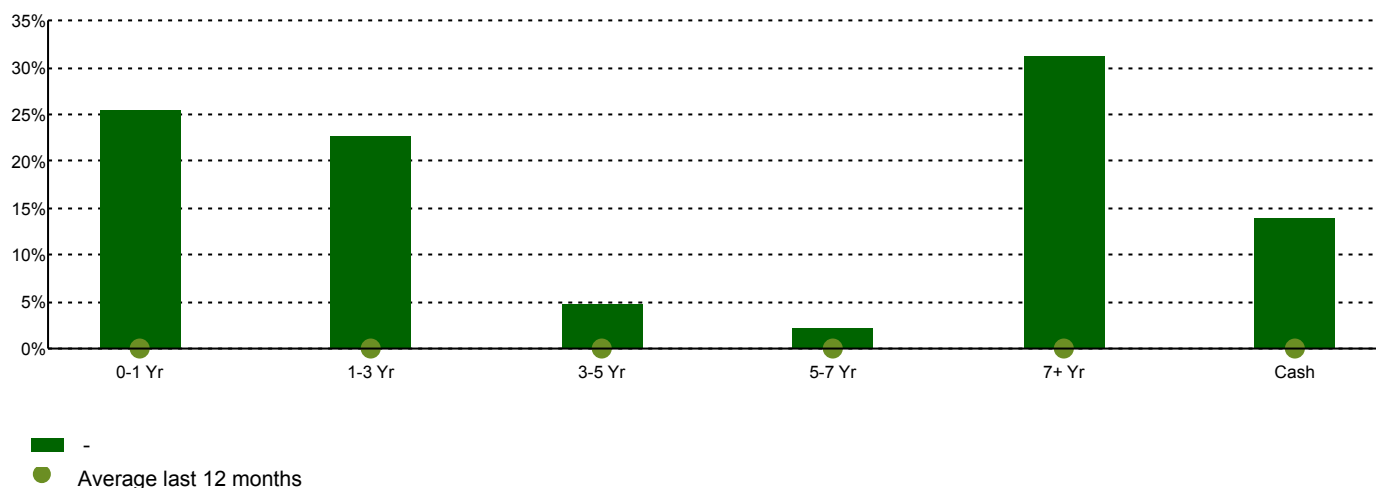
Top 10 investments

Holding	Percentage of Fund
US Government	33.7
UK Government	8.6
Republic of Chile	6.4
Romanian Government	6.2
Republic of Croatia	5.7
International Finance Corp	5.0
Republic of Serbia	4.1
Oriental Republic of Uruguay	4.1
Kongeriket Norge	3.5
Italian Government	3.1
Total	80.3

Country exposure



Maturity structure



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Important information

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