SKAGEN Tellus A

All data in EUR as of 31/03/2019 unless otherwise stated.

Softer growth and solid markets

SKAGEN Tellus enjoyed a solid start to the year, both in absolute and relative terms. The good return was partly due to a general fall in long-term interest rates, tighter credit spreads for some of the fund's holdings and appreciating currencies versus the euro. By the end of the quarter, the fund lost some of its outperformance due to its shorter duration; at the end of the quarter, the fund's duration is 4 years, while the index has a duration of 8.1 years.

Softer growth

In the Q1, it became clearer that global growth is slowing. This is particularly evident in Europe and the industrial locomotive Germany. In 2018, German industrial production was adversely affected both by a slowdown in global trade and the new car emission standards. The German Manufacturing Purchasing Managers' Index (PMI) has fallen well below 50 in recent months, indicating a fall in production, which worries the markets.

Growth in the US is, as expected, lower than in 2018, as the effects of tax cuts start to fade. Chinese growth also seems to be somewhat weaker. We expect the growth slowdown to be temporary, however. A breakthrough in the trade talks between the US and China would of course be positive, but more importantly, households are solid. There are no financial imbalances in the household sector that could lead us into a deeper decline. Unemployment is low, wage growth is slowly picking up and households are optimistic, which will keep consumption and the economy going. This is also confirmed by the PMI for the service sector, which is well above 50 in the large economies. The service sector is large and accounts for about 70% of the economy in industrialised countries.

Dovish central banks

The weaker growth prospects and few signs of inflationary pressure have led the central banks to put further interest rate hikes on hold. At their meeting in March, the US central bank cancelled the two expected rate hikes for 2019 and at the same time stated that they would put the quantitative tightening programme on hold from September. The European Central Bank also postponed the rate hike they had planned for the second half of 2019. Other central banks have also changed their stance and now expect to keep key rates unchanged or to lower interest rates going forward.

Norway goes against the tide

The Norwegian central bank, Norges Bank, went against the tide and raised the interest rate at their March meeting. Compared to the previous interest rate path, they raised the path at the short end and adjusted it down at the longer end. It now looks as though they will raise interest rates twice more in 2019 and once in 2020 before ending up with a key rate of about 1.75%. Norges Bank wants to raise interest rates faster in order to have some firing power if the Norwegian economy enters a weaker period.

Weaker growth, strong central banks and strong markets

Despite signs of weaker economic growth, the equity and credit markets enjoyed a strong start to 2019. This is largely due to the change in stance from the Federal Reserve, but also a hope that the US and China will come to an agreement on trade.

Towards the end of the quarter, markets became increasingly worried about economic growth. At the end of March, long-term interest rates fell sharply in the major advanced economies. The German 10-year interest rate once again entered negative territory and the US yield curve inverted. The latter received a lot of attention since an inverted yield curve has often been a good predictor of recessions. We do not put too much emphasis on this, especially due to quantitative easing which has contributed to lowering the term premium in long-term interest rates.

Broad based performance

The start of the year has been unusually good and broad based. Almost all of our holdings contributed positively. Mexico was the strongest performer with a total return of over 10%. The strong performance was due to an appreciation of the MXN versus EUR of 3.2% and an interest rate fall of 60 basis point, leading to solid bond price appreciation. Lower inflation contributed to the fall in interest rates. We expect the Mexican rates to fall further going forward as inflation continues to fall and the central bank starts to cut interest rates. This view is also supported by a dovish Fed, as the Mexican central bank often looks to the Fed when setting interest rates.

Our holdings in Croatia and Peru returned more than 8%. The solid performance in Croatia is due to a general fall in peripheral European credit spreads but also due to expectations that Croatian Investment Grade would be upgraded, which they were by S&P in late March. Our investment in a short-dated US Treasury bond was also among the highest contributors due to the size of the holding.

Portfolio changes

The fund re-entered Croatia. We believe there is a good case for further credit spreads after the country has taken steps to improve government finances and gained control of the problems in the company Agrokor. Moreover, we invested in a short-dated Swedish government bond. The Swedish krona is very weak, and we expect it to appreciate going forward.

We sold out of India and Spain and reduced the position in Portugal after solid performance.

Photo: Bloomberg

Photo: Bloomberg

SKAGEN Tellus A

All data in EUR as of 31/03/2019 unless otherwise stated.

SKAGEN Part of Storebrand

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.

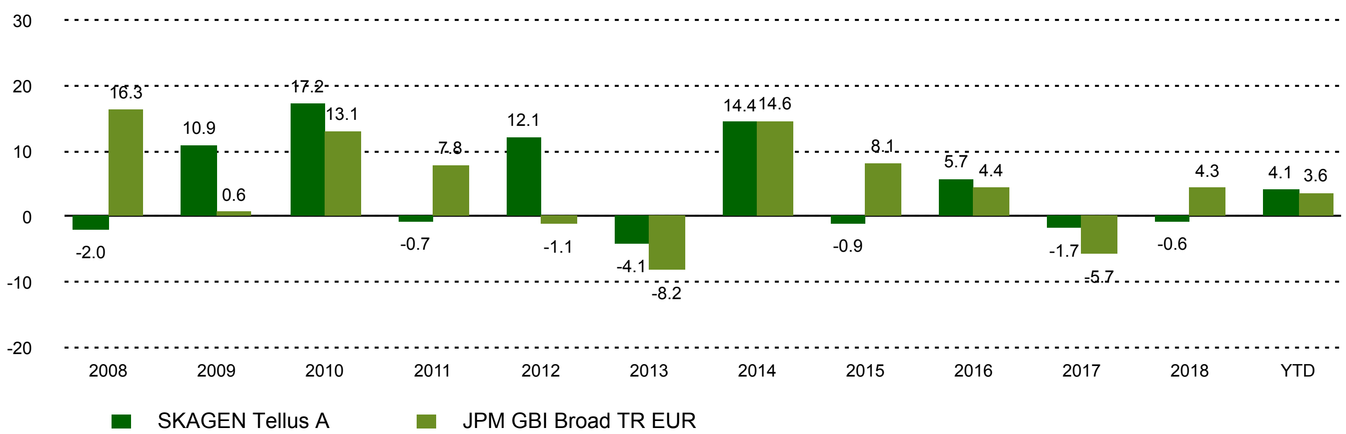
Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	11.98 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	61.03 EUR
Duration	2.92
WAL	4.03
Yield	3.98%
Number of holdings	13
Portfolio manager	Jane Tvedt

Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	1.0%	2.8%
Quarter to date	4.1%	3.6%
Year to date	4.1%	3.6%
Last year	4.5%	8.7%
Last 3 years	2.4%	1.5%
Last 5 years	3.2%	5.1%
Last 10 years	5.5%	3.9%
Since start	4.5%	4.2%

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 (%)
Mexican Government	7.13	0.73
US Government	20.58	0.51
Peruvian Government	5.80	0.49
Croatian Government	4.23	0.47
Portuguese Government	6.77	0.37

Largest detractors

Holding	Weight (%)	Contribution (%)
Asian Development Bank	0.78	-0.09
Czech Republic	7.13	-0.01
Spanish Government	0.89	0.02
Swedish Government	0.69	0.04
Republic of Uruguay	6.34	0.14

Absolute contribution based on NOK returns at fund level

SKAGEN Tellus A

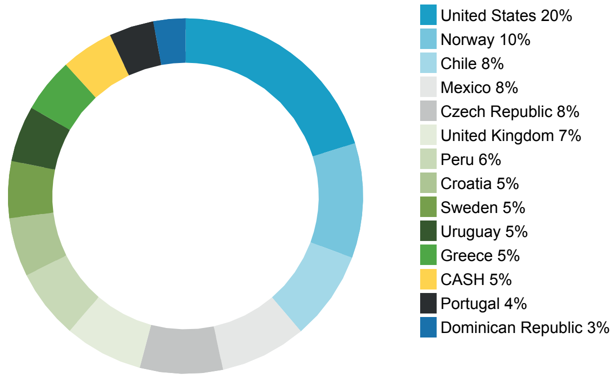
All data in EUR as of 31/03/2019 unless otherwise stated.

SKAGEN
Part of Storebrand

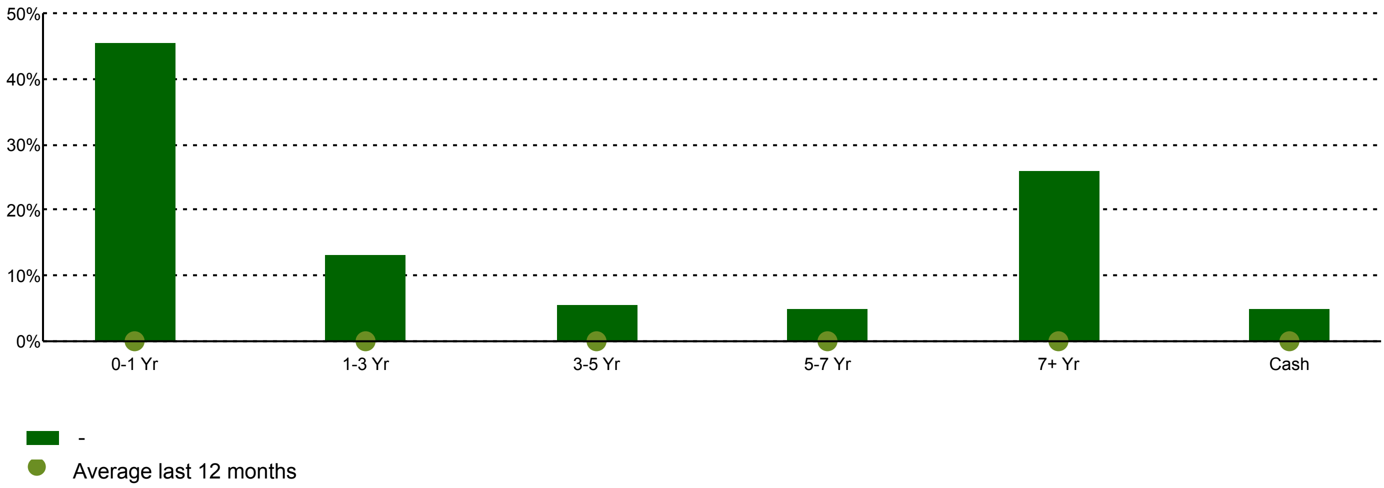
Top 10 investments

Holding	Percentage of Fund
US TREASURY N/B	20.2
Norwegian Government	10.4
REPUBLIC OF CHILE	8.1
Mexican Government	7.9
CZECH REPUBLIC	7.5
UK Government	7.2
REPUBLIC OF PERU	6.3
Croatia Government International Bond	5.4
Sweden Government	5.2
Uruguay Government	5.1
Total	83.3

Country exposure



Maturity structure



Contact

+47 51 80 37 09

contact@skagenfunds.com

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

Important information

Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.