Quarterly Report
SKAGEN Tellus A
All data in EUR as of 28/06/2019 unless otherwise stated.

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Easier monetary policy in sight

SKAGEN Tellus had a strong first half of the year in absolute terms. The good return was partly due to a general fall in long-term interest rates and tighter credit spreads for some of the fund's holdings. Nonetheless, the fund underperformed its index in the second quarter due to being underweight duration and underweight Japanese yen. At quarter end, the fund's duration is 3.4 years, while the index has a duration of 8.3 years.

A broad based interest rate fall
The global economy is currently going through a softer patch. It is particularly Europe and the emerging economies that are experiencing weaker growth, but key figures from the US have also been more mixed lately. The trade war and uncertainty about future trade conditions are contributory factors driving weaker growth.

The weaker growth and inflation outlook have led the central banks to change course. The Federal Reserve (Fed) and European Central Bank (ECB) have now cancelled the monetary policy tightening that they communicated at the beginning of the year. The Fed is concerned about US growth and the effects of the trade war. They have stated that the current policy rate may be too high and that they are ready to cut interest rates if they see signs of weaker growth. The market is now pricing three cuts in 2019, the first already at the July meeting. The ECB has far less ammunition with a key rate of -0.4%. However, they have communicated that they may cut interest rates if the inflation outlook fails to improve. There is also the option to restart the QE program.

Weaker growth prospects as well as dovish central banks have led to a sharp fall in long-term interest rates. Since the turn of the year, the US 10-year government bond yield has fallen from 2.7%to 2.0%. In the second quarter, it fell by 40 basis points. Similarly, the German 10-year rate has fallen by 57 basis points since the turn of the year and 26 basis points in the last quarter. Long-term interest rates in most other countries have fallen along with interest rates in the US and Germany.

Weaker growth, but no recession
While we are in a period of softer growth, we expect it to be temporary. Progress in the trade talks between the US and China will of course be positive, but more importantly, households are solid. There are no imbalances in the household sector in the major economies that could lead us into deeper decline. Unemployment is low and households are optimistic, which will keep consumption and the economy going. This is also confirmed by both the PMI for the service sector and consumer confidence indicators, which are at solid levels.

Rally in peripherals
The performance in the fund in the second quarter is mostly due to lower interest rates and not so much currency appreciation. Our investments in peripheral Europe and Mexico contributed the most to the fund's performance.

There was a rally in peripheral government bonds in the quarter, with the interest rates falling substantially more than the general fall in global interest rates. The decline in credit premiums (the difference in interest rates to Germany) is due to a positive economic development and a stable and responsible fiscal policy in these countries.

Our investment in Croatia was the largest contributor in the quarter. The interest rate on the holding decreased by 60 basis points, leading to a bond price appreciation of 5.6%. Croatia is a large holding in the fund at 6.9%.
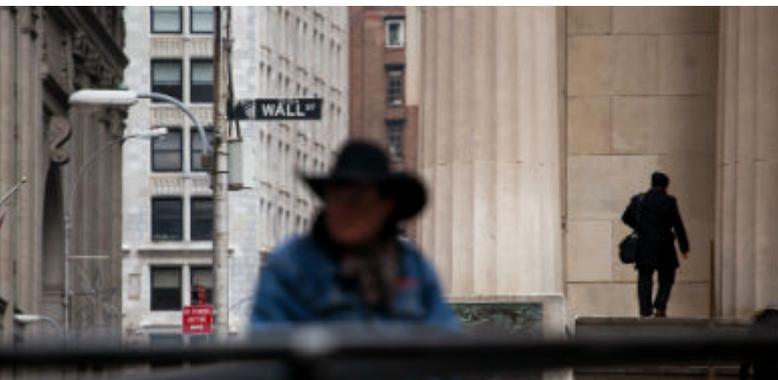

Photo: Bloomberg

Photo: Bloomberg

The Greek credit spreads have fallen the most. Since the turn of the year, the credit premium in the 10-year Greek government bond is down 135 basis points. The fall in the second quarter was 100 basis points. Continued improvement of the economy is positive. Furthermore, the Conservative party New Democracy won the European Parliament elections. The election defeat of the government party Syriza resulted in Prime Minister Tsipra calling early elections. Elections will be held at the beginning of July. New Democracy is leading the polls with a solid margin and the market is very positive towards a change of government. By the end of June, the Greek 10-year government bond was yielding 2.4%, which is only approx. 30 basis points higher than in Italy.
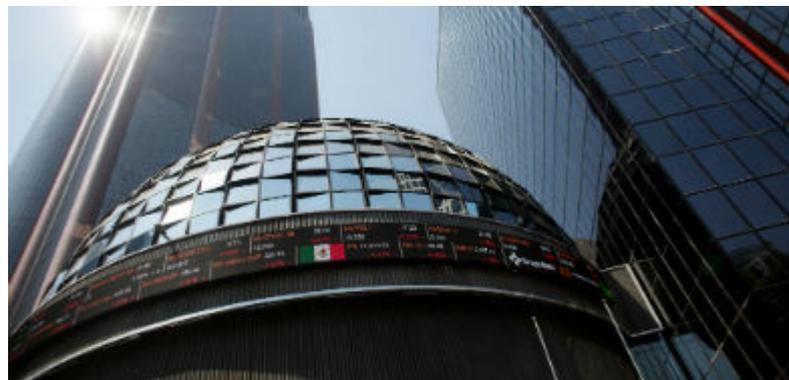
Currencies put a drag on performance
Our short-dated investments in the US and UK as well as our investments in Uruguay detracted the most from performance in Q2. The currencies depreciated relative to EUR. Our investments in US treasuries constitute almost 20% of the fund, meaning that even a small depreciation will have a relatively large impact on performance. The USD depreciated relative to EUR in the quarter.

We made only minor changes to the holdings in the second quarter.

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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.
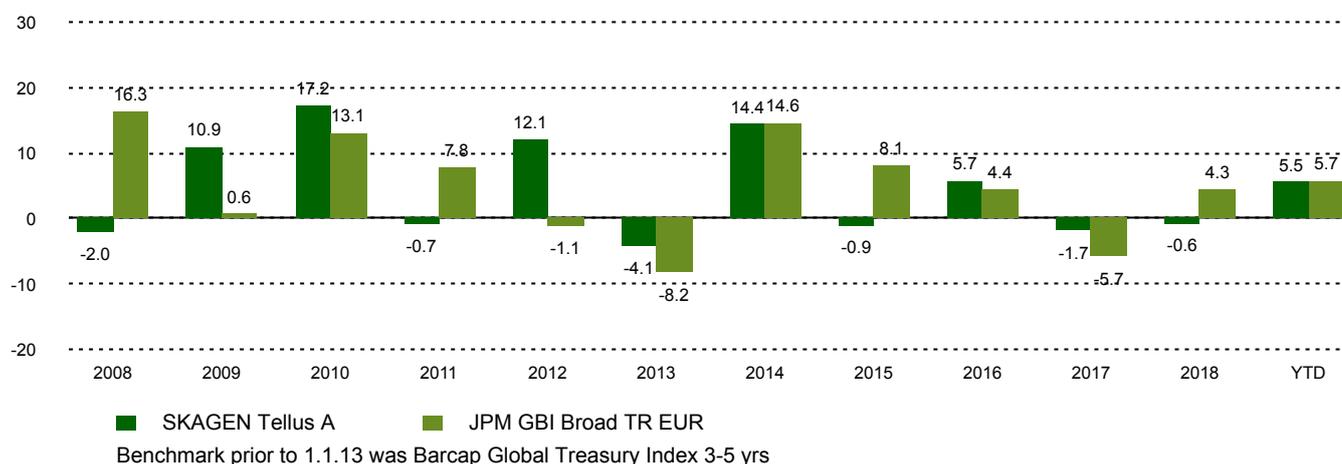
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	1.4%	0.1%
Quarter to date	1.3%	2.0%
Year to date	5.5%	5.7%
Last year	5.1%	8.3%
Last 3 years	1.7%	0.2%
Last 5 years	2.6%	4.9%
Last 10 years	5.2%	4.3%
Since start	4.5%	4.3%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	12.14 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	69.37 EUR
Duration	3.44
WAL	4.95
Yield	4.47%
Number of holdings	14
Portfolio manager	Jane Tvedt

Performance last ten years

Year	SKAGEN Tellus A	JPM GBI Broad TR EUR
2008	-2.0	16.3
2009	10.9	0.6
2010	17.2	13.1
2011	-0.7	7.8
2012	12.1	-1.1
2013	-4.1	-8.2
2014	14.4	14.6
2015	-0.9	8.1
2016	5.7	4.4
2017	-1.7	-5.7
2018	-0.6	4.3
YTD	5.5	5.7

■ SKAGEN Tellus A   ■ JPM GBI Broad TR EUR
Benchmark prior to 1.1.13 was Barcap Global Treasury Index 3-5 yrs

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Croatia	6.67	0.42
Mexico	7.08	0.40
Greece	4.94	0.39
Portuguese Government	3.37	0.30
Peruvian Government	5.34	0.29

Largest detractors

Holding	Weight (%)	Contribution (%)
UK Government	6.81	-0.24
Republic of Uruguay	4.67	-0.19
US Government	20.96	-0.18
Swedish Government	4.87	-0.08
Dominican Republic	2.97	0.01

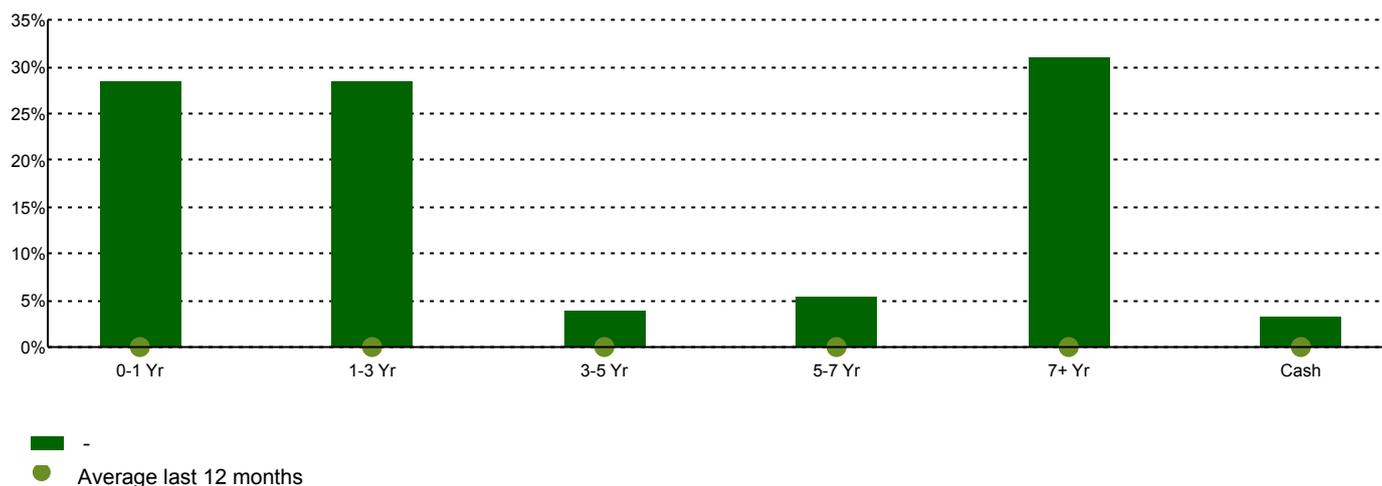Absolute contribution based on NOK returns at fund level

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Top 10 investments

Holding	Percentage of Fund
US Government	21.8
Kongeriket Norge	10.1
Republic of Croatia	7.3
Republic of Chile	7.1
Mexico	7.1
UK Government	6.6
Republic of Peru	6.2
Hellenic Republic	5.3
Kingdom of Sweden	4.5
Czech Republic Government	4.4
Total	80.5

Country exposure

- United States 22%
- Norway 10%
- Croatia 7%
- Chile 7%
- Mexico 7%
- United Kingdom 7%
- Peru 6%
- Greece 5%
- Sweden 5%
- Czech Republic 4%
- Portugal 4%
- Uruguay 4%
- South Africa 4%
- Dominican Republic 4%
- CASH 3%
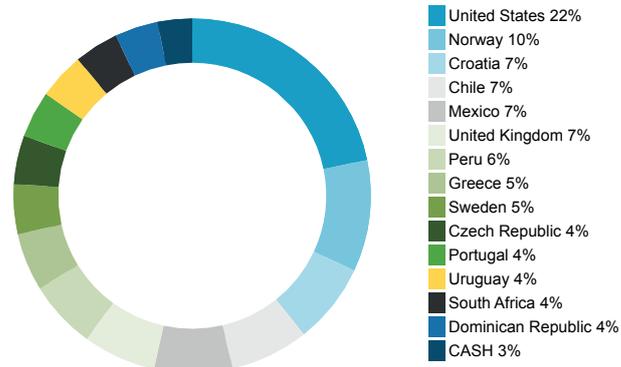
Maturity structure

- ■ -
- ● Average last 12 months

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Important information

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