



Apple trees, 1973. Detail. By Michael Archer, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Credit NOK

Statusrapport mai 2017

Kunsten å bruke sunn fornuft

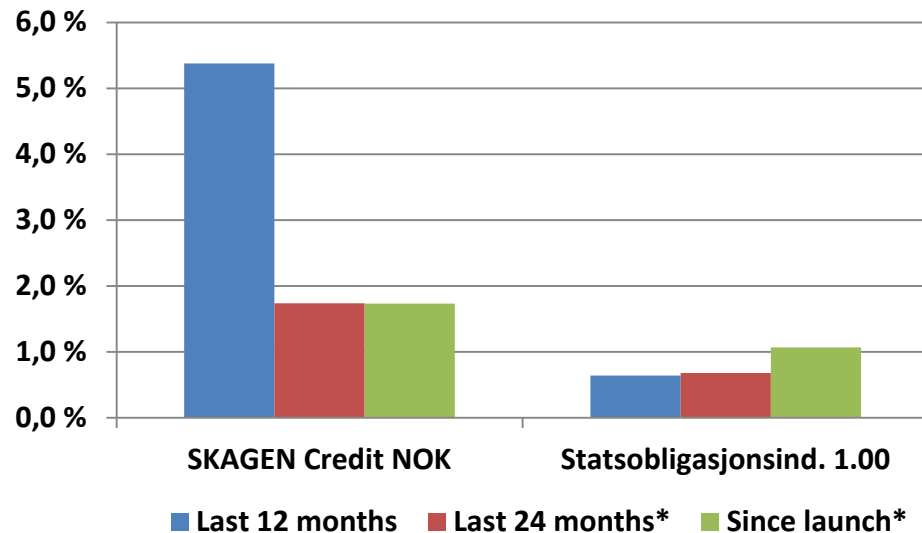
3Y EDITION



Credit nok

SKAGEN Credit NOK - 3 år

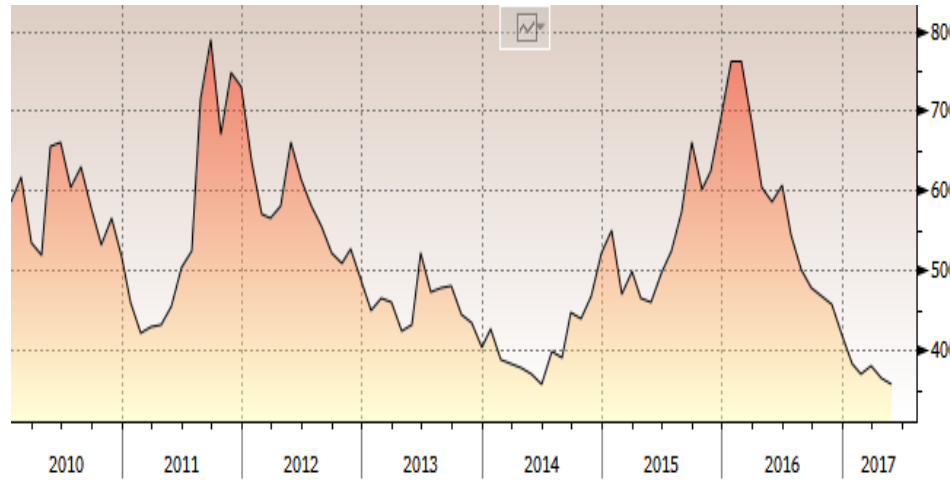
- God utvikling
- Unikt mandat som virker etter planen
- Det fleksible mandatet gjør oss skikket til å møte fremtiden





Corporate bonds last three years

It has been three years with some rather big changes in corporate bond prices. When the fund was launched back in May 2014, global corporate bonds were trading at historically low spreads. This is illustrated below in the graph showing the average risk premium global «high yield» corporates pay in the fixed income market.



Unfortunately the dip in mid-2014 coincides with the launch of SKAGEN Credit. Increasing credit spreads has made bond prices decrease, and hence the latter part of 2014 wasn't so good when spreads increased.

In the latter part of 2015 bond spreads again increased and continued to do so until early 2016. The extreme levels were reversed rather quickly and the remainder of 2016 was very pleasant with constantly lower spreads.

In 2017 this spread decrease has continued and corporate bond spread are now back at level with May 2014.



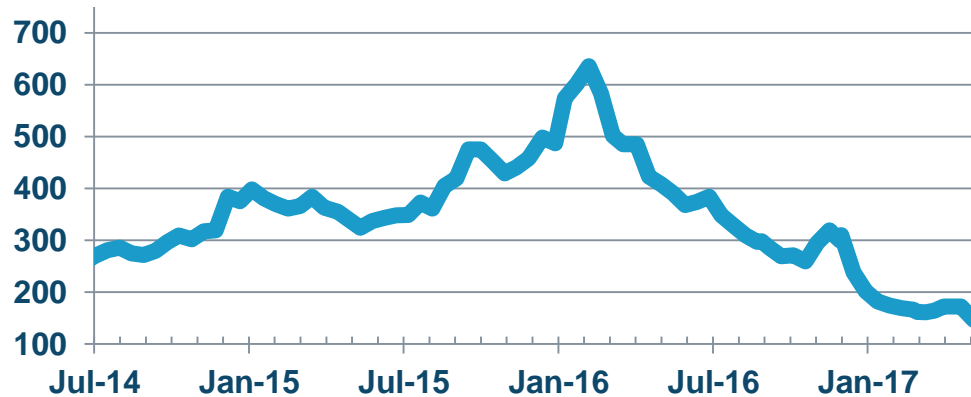
Credit spread in the fund

So the previous slide went through what happened with corporate bond spread on a general level. The question is why this is important when SKAGEN Credit isn't an index fund. It on the contrary picks corporate bonds from all around the world and holds a rather concentrated portfolio of around 40 holdings.

The credit spread on a single bond changes when the issuing company's credit quality changes. If a company for example raise more equity the equity/debt ratio improves and the risk decreases for the bond holders. The company's business situation can also improve and thereby its future earnings, resulting in lower risk for bond holders. Such changes are what we are looking for when picking bonds in Credit. By constantly picking the «right bonds» the fund will in the long run generate a better return than investing in the broad index.

In times with large changes in the «average level», improvements in a single company's credit metrics matters little. When a whole sector is shun due to one reason or another, the spread for all bonds changes more or less the same. The average spread on the holdings in Credit does change with the market and therefore it's important to look at general levels.

The graph to the right show the average credit spread in Credit but it doesn't say anything about the risk-level on the underlying bonds.



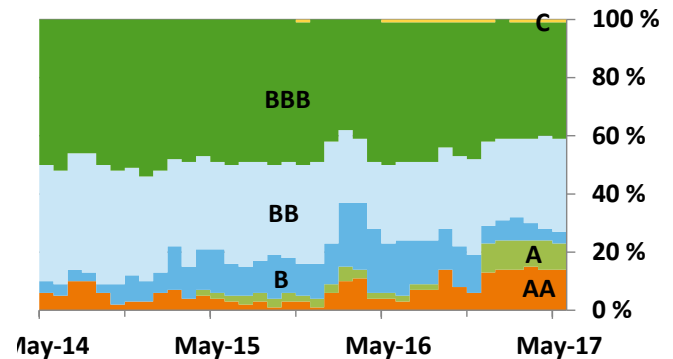
Lower risk

Credit quality is one important element when looking at a corporate bond fund. A fund with higher rated, BBB or better, companies will likely in the long run give a lower but more stable return than a fund with BB or lower. The two parameters return and stability can be combined and expressed as a risk adjusted return. By doing this the best ratio is found in the mid segment of the rating scale. BBB-BB rated bonds are therefore dominating the holdings in Credit. This has been the case since start and the risk reduction as of late in Credit has instead reduced the proportion in B rated companies and increased the proportion in A rated companies.

The average rating in the fund has increased from BB to BBB the last 12 months.

Another important element is the average time to maturity on the holdings. (Several other names are used to express the same, such as Spread duration and Credit duration.) This is simply a measure of how much the value changes when credit spreads change. The longer the bonds are the larger a credit spread change will influence the funds value. In Credit the holdings are shorter than the average bond.

The average time to maturity is for the moment only 2,3 years in Credit. Last twelve months it has been reduced by around one year.



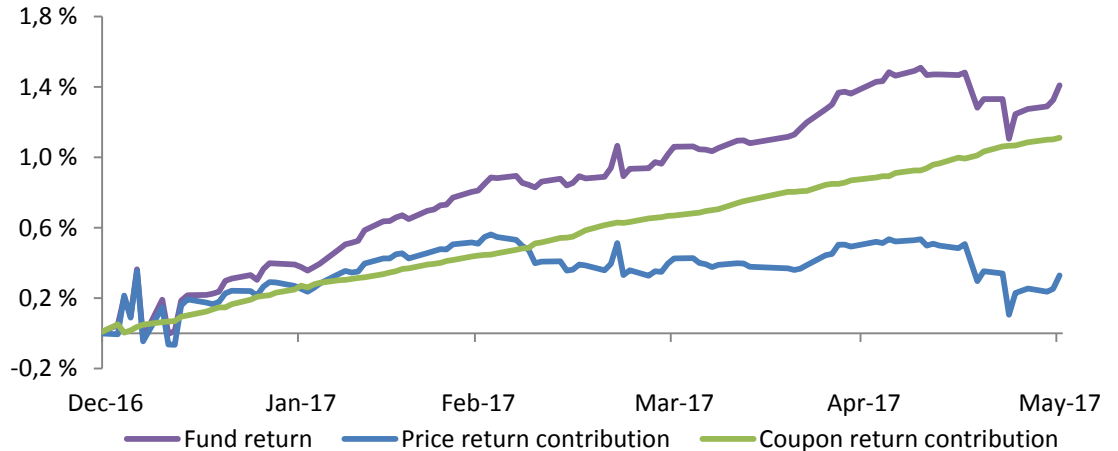


The mandate

SKAGEN Credit has a rather unique mandate. It is a truly global corporate bond fund where the return and volatility is generated by bond coupons and changes in corporate bond spreads. Interest rate risk is reduced to a very low level and currency risk is reduced to a minimum.

In the graph below the contribution is shown for SKAGEN Credit NOK year-to-date. The same relative contribution applies for Credit EUR and Credit SEK, but the absolute return numbers are different.

The fund's return is as can be seen in the graph a combination of a stable income from the bond's coupons, and market price changes of the same bonds.





One big market

The global corporate bond market is a huge market, and consists of both investment grade (IG) and high yield (HY) bonds. Even though it's a market with a lot of natural correlation there are some important differences.

The most obvious one is the division in credit quality, where there's a strict line drawn between BBB and BB rating. Companies with BBB rating or better are IG and the rest are HY. Fixed income investors are often bound to either IG or HY and very seldom have the mandate to invest in both.

Developed vs emerging

The corporate bond world has also been divided into developed and emerging markets. Unfortunately it doesn't say much about the real risk. «Emerging markets» are several markets that not necessarily correlate more than a developed and an emerging does.

Regardless if this is relevant or not, it is still in use and a lot of investors have limitations on the proportion invested in emerging markets.





Currency and geography

Another difference is the currency. Many investors are bound to one currency and can't choose others with more attractive return. A related difference is the regional split, where investors are limited to a specific country (often their own) or a specific region.

These two differences combined is often visible when a company issues bonds both in its local currency e.g. CHF and in USD. The domestic bond has a lot of local buyers but these investors are limited to invest in only this bond due to either the currency or the geographical market where it's issued. Buyers of the USD bond are often located in another country (the US) and have less incentives/interest to invest in a foreign company.

Home bias

Region wise the corporate bond market is dominated by US and European companies. These two regions are also where most of the investors are based. Each country or region is often a local affair with mostly domestic investors. The occasional foreigner investors often withdraw from external markets quickly when anything happens, as the home bias effect get triggered in times of uncertainty. It simply feels safer to invest in your home market.

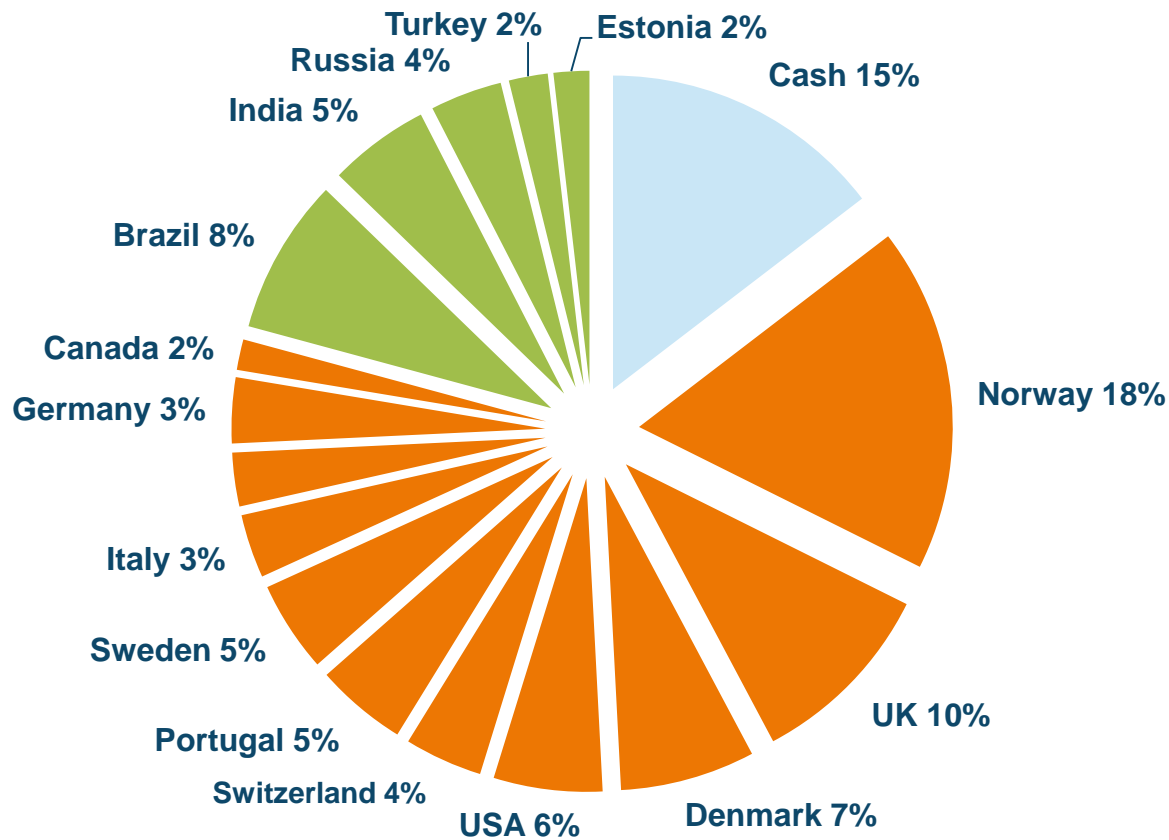
And the winner is...

The way the whole corporate bond market works often provides attractive opportunities for the ones that aren't bound by rating, geography or currency. Funds with mandate to freely pick bonds are rare. SKAGEN Credit is one of the lucky.

SKAGEN Credit NOK – Nøkkeltall

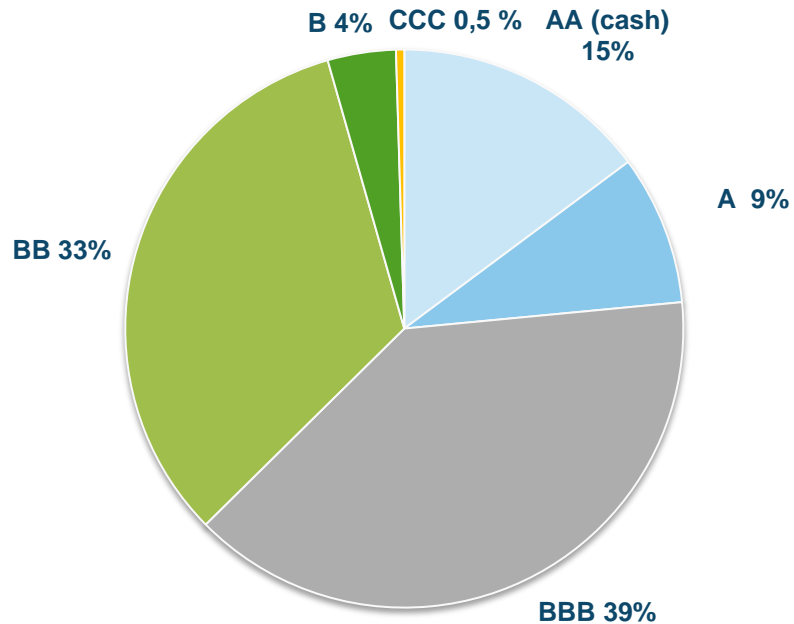
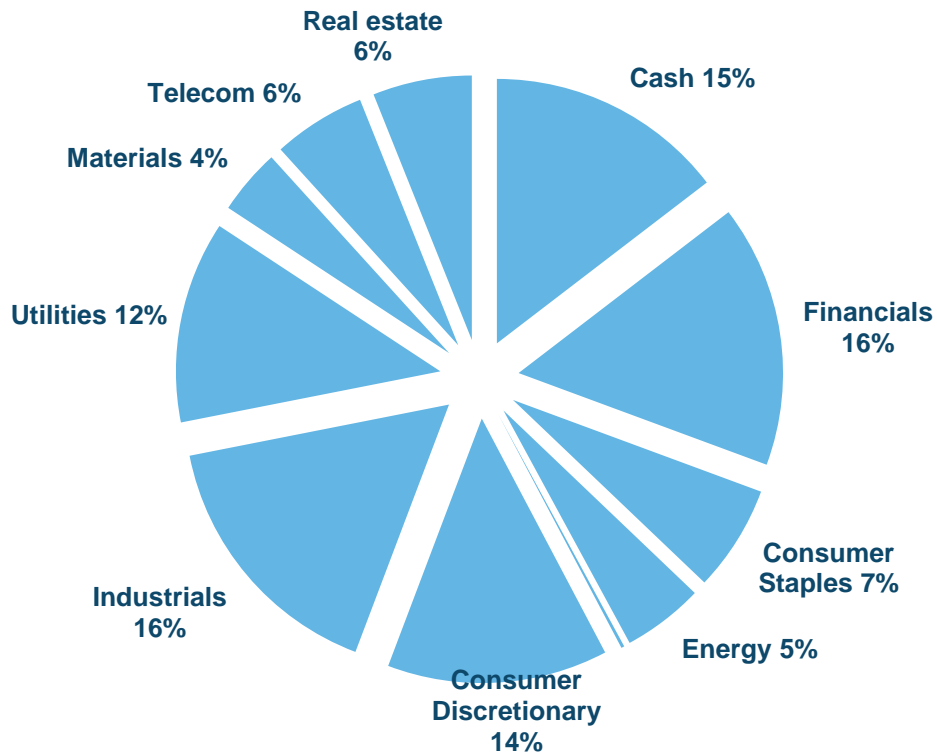
Nøkkeltall pr 31. mai	SKAGEN Credit NOK	Referense- indeks (ST3X)
Avkastning siste måned	0,0 %	0,1 %
Avkastning hittil i år	1,4 %	0,3 %
Avkastning siste 1 år	5,4 %	0,6 %
Avkastning siste 3 år (annualisert)	1,7 %	1,1 %
Avkastning siden oppstart (annualisert)	1,7 %	1,1 %
Rentefølsomhet (durasjon)	0,9	1,0
Gjennomsnittlig tid til forfall	2,3	N/A

Geografisk fordeling av porteføljen



Developed markets:	64 %
Emerging Markets:	21 %
Cash:	15 %

Fordeling av porteføljen på kredittkvalitet og sektor



Investment grade: 63 %

High Yield: 37 %

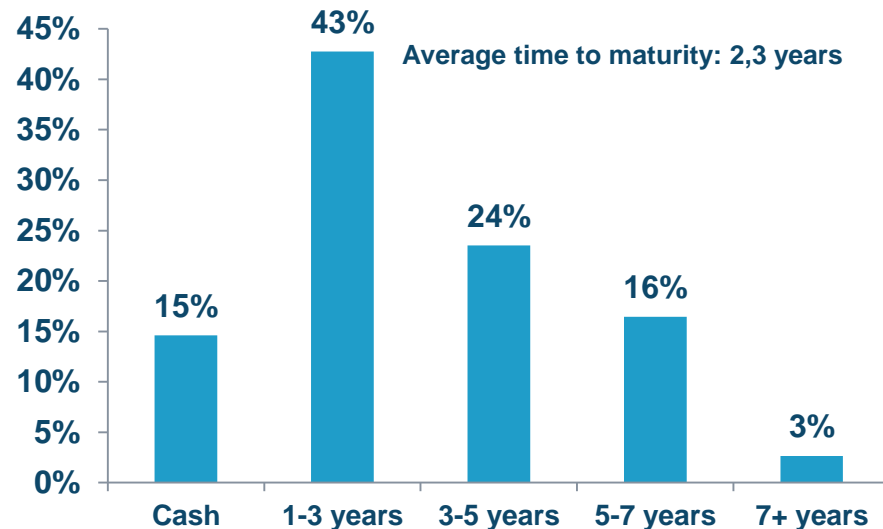
Average rating: BBB

Rentedurasjon og tid til forfall

Renteeksponering og valuta for obligasjoner (før valutasikring)

Currency	Bond denominated	Interest rate duration
USD	44%	1,2 year
EUR	10%	0,5 year
GBP	19%	1,2 year
NOK	19%	0,2 year
SEK	3%	0,3 year
DEK	3%	0,2 year
Sum Fund	100%	0,9 year

Kreditteksponering - tid til forfall for obligasjonene



De 10 største investeringene

Company	Country of risk	Credit rating*	Percent of fund
Energias de Portugal	Portugal	BBB-	4,7 %
Heathrow	United Kingdom	BBB	4,7 %
BKK	Norway	BBB	4,7 %
Sparebanken Telemark	Norway	A-	4,4 %
Glencore	Switzerland	BBB	4,0 %
Schaeffler	Germany	BB+	3,4 %
Fiat	Italy	BB-	3,3 %
DSV	Denmark	BBB	3,1 %
Bharti	India	BBB-	3,1 %
Cosan	Brazil	BB	3,0 %
Sum top 10			37,7 %

Gjennomsnittlig kredittvurdering av obligasjonene.

** Represent selskapsobligasjoner fra flere juridiske enheter i Glencore gruppen

Investeringsuniverset til SKAGEN Credit



SKAGEN Credit plukker obligasjoner globalt både fra investment grade og high yield sektoren, med potensiale for solid risikojustert avkastning. Minimum 50 prosent investment grade.

For mer informasjon, kontakt oss eller ler mer i siste [Markedsrapport](#) og om [SKAGEN Credit](#) på våre nettsider

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