

Southern Europe continues to deliver

SKAGEN Tellus delivered strong relative performance in the third quarter, mainly due to the fund's underweight in USD and JPY, both of which depreciated by around 3.5% relative to EUR in the quarter. Tellus is currently not invested in any JPY denominated bonds, while the index' JPY weight is 18.5%. The fund has a 15% position in USD while the index' USD weight is 38%.

The duration in Tellus is currently 4.5 years, which is substantially lower than the index's duration of 7.8 years. We only take interest rate risk in countries where there is still a solid case for a fall in the interest rate and/or the yield is very attractive.

The long-term yields in the large advanced economies were stable at the end of Q3 compared to the end of Q2. However, there was intra quarter volatility. The increased tension between North Korea and the US led to periods of flight to safety and a fall in the long-term yields in Germany and the US, amongst others.

Growth in the advanced economies is solid and it is picking up in emerging markets. The Fed is tightening monetary policy and the ECB is talking about it. In several emerging markets, inflation spiked after a drop in commodity prices led to a sharp depreciation of the exchange rate. The depreciation effects on inflation are now fading and inflation rates in many

emerging markets are falling, which leaves room for the central banks to cut policy rates.

Emerging markets still interesting

In the current interest environment where the credit spreads are low and the most likely direction for long-term interest rate is up, it is very important to be a "picky investor". Care needs to be taken when deciding which countries to invest in and how much duration risk to take.

During the quarter we added to the position in the Dominican Republic by buying a USD-denominated bond. We also increased the duration in India by buying a bond issued by the Asian Development Bank maturing in 2026. We believe the fall in inflation will lead to lower inflation expectations and a fall in long-term yields going forward.

We also added a new country to the portfolio, namely Uruguay. We find long-term yields in Uruguay very attractive, in particular given its strong credit metrics. Growth has been relatively resilient to the recessions in Brazil and Argentina and the authorities have demonstrated a clear commitment to putting the public finances on a sustainable track. Moreover, local currency bonds in Uruguay have only recently become available. Uruguay is in the process of opening up to international investors and developing a local yield curve.



We increased the duration in India by buying a bond issued by the Asian Development Bank maturing in 2026. Photo: Bloomberg



We find long-term yields in Uruguay very attractive, in particular given its strong credit metrics. Photo: Bloomberg

Portugal upgraded

Yields fell on most of the bonds in the portfolio, but the best performers were Portugal and Croatia.

Portugal has been a very strong performer in 2017. Solid growth and responsible fiscal policy have led to a revaluation of the Portuguese country risk. The spread between the Portuguese and German 10 year bond yields has decreased by 160 basis points since the beginning of the year and 65 basis points in the last quarter. Moreover, S&P upgraded Portugal to investment grade in September. This is very positive for the investment and eliminated the risk of Portugal being excluded from the ECB QE program (a country needs to have an investment grade rating from at least one rating agency to be included in the program).

After very strong performance in both 2016 and 2017, we decided to take profit and reduce the position Croatia in Q3. We also reduced the position because of what we view as increased country risk. The problems in Agrokor, Croatia's largest company (60 000 jobs, 15% GDP) pose a risk to the country's fiscal situation. Agrokor, which is a privately owned company within retail and food, is facing significant financial difficulties and is now under state control. The risk is that the crisis will escalate and lead to a need for a government rescue.

Performance depressed by currencies

The depreciation of the USD relative to the EUR was negative for our dollar-denominated investments and put a drag on the absolute performance in the third quarter. The dollar depreciated by 3.4% in Q3. Most of our emerging market investments also suffered from weaker currencies versus the EUR.

Our investments in Norway, Canada and Chile benefited from currency appreciation relative to EUR. Higher commodity prices were supportive of these currencies. Furthermore, two rate hikes by Bank of Canada contributed to a stronger Canadian dollar.

Brexit-related risk has led to a weaker pound in 2016 and to a fall in the value of our UK bonds. In September this turned and we saw a sharp appreciation of GBP after hawkish statements by the Bank of England. They stated that the market consistently underestimates the likelihood of a rate increase. The GBP ended the quarter 0.5% weaker relative to EUR.

SKAGEN Tellus investerer i en aktivt forvaltet og diversifisert portefølje av hovedsakelig statsobligasjoner fra hele verden. Fondet passer for dem som ønsker å investere i et obligasjonsfond, enten alene eller som del i en veldiversifisert, og som har minst tre års investeringshorisont. Investorer bør tolerere valutasvingninger.

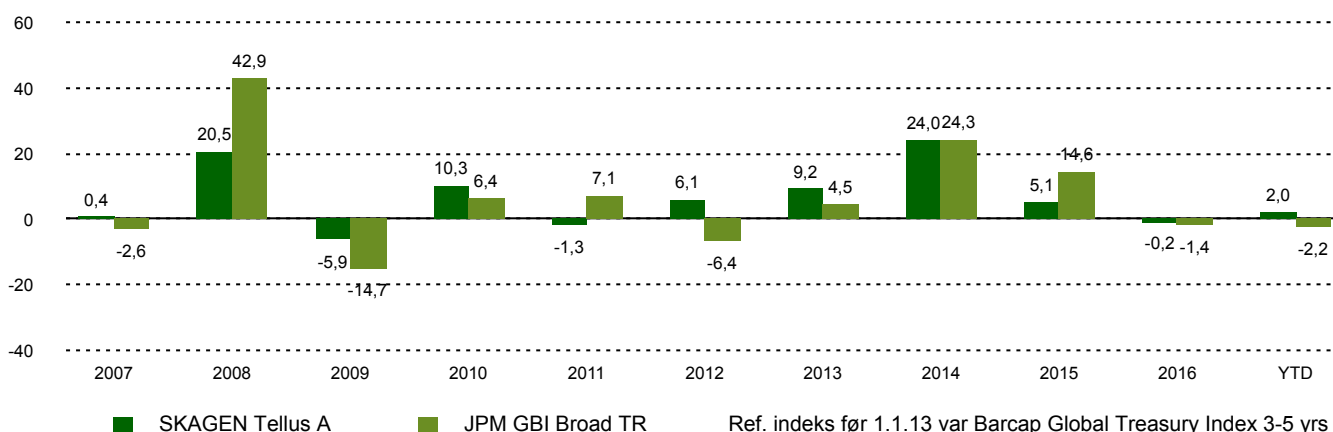
Historisk avkastning

| Periode | SKAGEN Tellus A | Referanseindeks |
|------------------|-----------------|-----------------|
| Siste måned | 2,2% | 0,8% |
| Hittil i kvartal | -1,8% | 0,3% |
| Hittil i år | 2,0% | -2,2% |
| Siste år | 5,0% | -3,3% |
| Siste 3 år | 7,0% | 8,6% |
| Siste 5 år | 7,9% | 6,5% |
| Siste 10 år | 6,7% | 6,9% |
| Siden start | 6,1% | 5,3% |

Fondsfakta

| | |
|-----------------------------|--|
| Type | Obligasjonsfond |
| Domisil | Norge |
| Start dato | 29.09.2006 |
| Morningstarkategori | Rente, Globale Obligasjoner - EUR fokusert |
| ISIN | NO0010327786 |
| NAV | 118,80 NOK |
| Årlig forvaltningshonorar | 0.80% |
| Referanseindeks | JPM GBI Broad TR |
| Forvaltningskapital (mill.) | 885,23 NOK |
| Rentefølsomhet | 4,45 |
| Vektet gj.sn. løpetid | 5,97 |
| Effektiv rente | 3,10% |
| Antall poster | 15 |
| Hovedforvalter | Jane Tvedt |

Avkastning siste 10 år



Bidragsytere i kvartalet



Største positive bidragsytere

| Navn | Vekt (%) | Bidrag (%) |
|----------------------|----------|------------|
| Portugese Government | 7,70 | 0,36 |
| Croatia | 7,02 | 0,31 |
| Norwegian Government | 10,52 | 0,18 |
| Republic of Chile | 6,48 | 0,10 |
| Republic of Slovenia | 5,02 | 0,08 |



Største negative bidragsytere

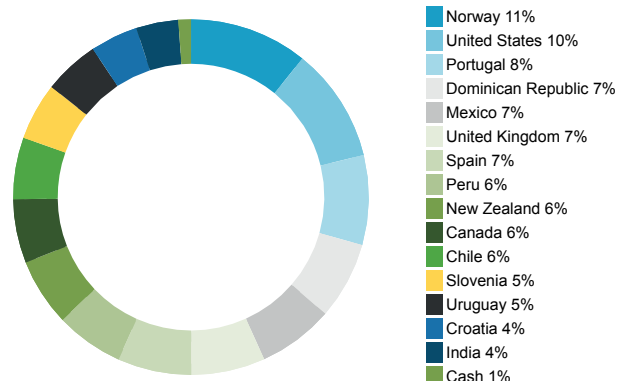
| Navn | Vekt (%) | Bidrag (%) |
|------------------------|----------|------------|
| US Government | 12,26 | -0,40 |
| Mexican Government | 6,78 | -0,28 |
| UK Government | 9,76 | -0,24 |
| New Zealand Government | 6,05 | -0,22 |
| Asian Development Bank | 1,63 | -0,09 |

I NOK for alle andelsklasser

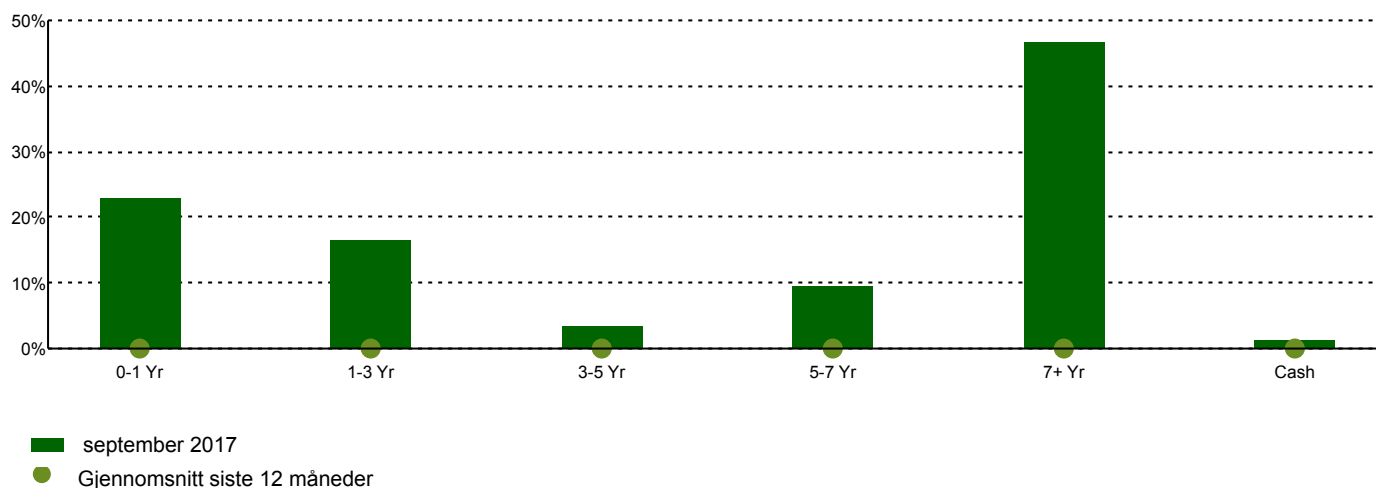
10 største investeringer

| Navn | Prosent av fond |
|------------------------|-----------------|
| Norwegian Government | 10,8 |
| US Treasury N/B | 10,4 |
| Portugese Government | 8,2 |
| Dominican Republic | 7,0 |
| Mexican Government | 6,9 |
| UK Government | 6,7 |
| Spanish Government | 6,7 |
| REPUBLIC OF PERU | 6,2 |
| NEW ZEALAND GOVERNMENT | 6,1 |
| Canadian Government | 5,8 |
| Total | 74,8 |

Landeksponering



Tid til forfall



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