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Extraordinarily weak global government bonds

The recent trend of rising interest rates continued in the second quarter. Interest rates on 10-year government bonds rose between 50 and 150 basis points in most countries during the quarter and credit spreads rose further. The extremely weak performance year to date is quite extraordinary and the last 12 months have been the weakest for global government bonds in decades and among the weakest ever.

SKAGEN Tellus was not immune to the poor market performance and generated a negative return during the second quarter, which was more or less in line with the benchmark index.

The largest positive contributors to fund performance in the quarter were our investments in the US and Uruguay, both driven by very strong currencies. The largest detractors were our investments in Romania and Chile driven by higher credit spreads. During the quarter we added some long duration exposure in low credit risk areas such as Germany, France, and the US. We reduced our exposure to Uruguay after a strong run for the currency and exited our Colombian investment ahead of the final round of presidential elections.

Weak growth outlook and high consumer price growth

The horrific war in Ukraine is still ongoing and looks set to be long-lasting. This is contributing to continued upward price pressure on commodities, although we have seen some prices falling back lately. At the same time, the Covid-19 related lockdowns in China have prolonged the supply chain

tightness experienced over the past year. This has put further upward pressure on prices and central banks globally are under significant pressure to act to ease inflation.

The outlook of higher interest rates, high price growth and higher uncertainty in general is weakening sentiment among consumers and businesses. We are therefore seeing growth forecasts being adjusted downwards and increased fear of recession. Central banks are faced with a challenging task as they try to reduce inflation without choking the economy. Thus far they have prioritised lowering inflation expectations and have surprised with increasingly tight monetary policy and forward guidance lately. Judging by market prices for inflation-protected securities, the more aggressive tone has so far been successful as long-term real rates have risen and long-term inflation expectations have fallen. The 10-year inflation expectations in the US have fallen from around 3% at the beginning of the second quarter to well below 2.5% at the end of the quarter. This is still above the goal of 2% inflation, but the market has certainly taken the latest moves by central banks seriously.

Credit spreads moving higher

A weaker economic outlook and general uncertainty has pulled up credit spreads and the current levels are fairly high in a historical context. Unsurprisingly, the eastern parts of Europe are one of the worst hit regions as the proximity to the war in Ukraine has added extra pressure on credit spreads.



Foto: Shutterstock

In Latin America, Colombia has seen some of the largest moves in credit spreads as the presidential elections concluded with the victory of Gustavo Petro who became the first ever left-wing president. His rather radical political agenda involving more protectionism and practically an end to the important oil industry has rattled markets. Given the fragmented congress, the likelihood of the most radical policy suggestions being implemented is probably small, but the uncertainty this introduces to the investment landscape is certainly something investors dislike strongly. We sold our Colombian exposure ahead of the election.



Foto: Shutterstock

Outlook

Central banks in tightening mode, high consumer price growth and geopolitical uncertainty are all contributing to weak economic prospects. The big question is if, and/or when, the weak economic outlook will drag down long-term interest rates. We do not think we can time the market and call the precise top for long-term rates, but do think it is worth increasing the allocation to low credit risk long-term government bonds. Assuming the economic environment further deteriorates in the next year, we could see a significant fall in long-term rates as investors seek safe havens and central banks postpone or call off rate hikes. In addition, the protection you now get from a higher yield on long-term bonds means that interest rates can increase quite substantially before you get a negative return. To illustrate this, imagine a 5-year bond with a 5% coupon. If the yield increases from 2% to 3% over a one-year period, this bond will return around -1.5%. If the same bond moves from a yield of 4% to 5%, you still get a positive return on your investment. The case for bonds in general and longer-term bonds in particular is improving.

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. Det tegnes i fondsandeler, og ikke direkte i aksjer eller andre verdipapirer. Fondet har risikoprofil 4. Referanseindeksen reflekterer fondets investeringsmandat. Siden fondet er aktivt forvaltet vil imidlertid porteføljen avvike fra indeksens sammensetning.

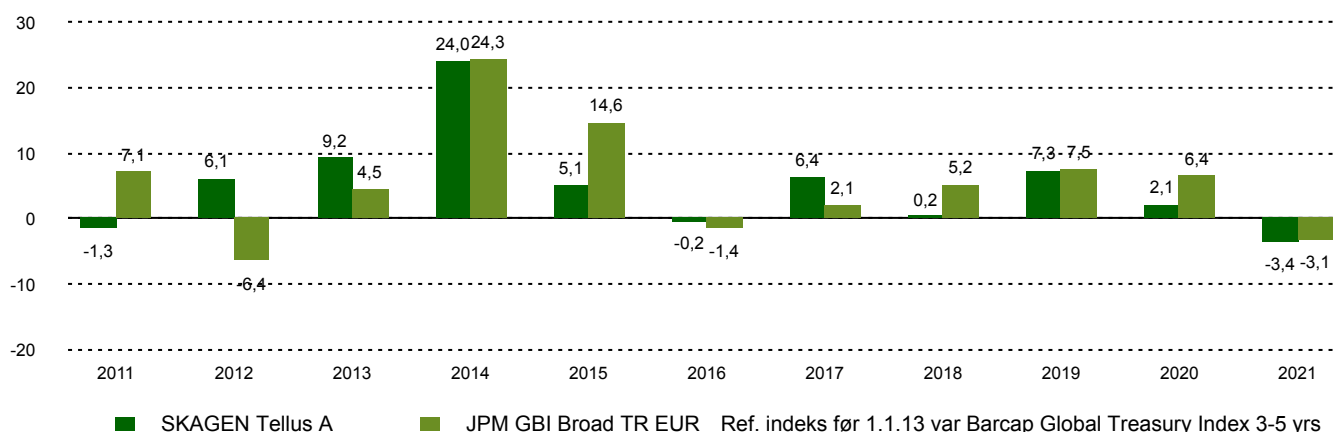
Historisk avkastning

Periode	SKAGEN Tellus A	Referanseindeks
Siste måned	1,1%	1,8%
Hittil i kvartal	3,3%	3,5%
Hittil i år	0,0%	-3,5%
Siste 12 måneder	-0,4%	-3,1%
Siste 3 år	0,7%	1,0%
Siste 5 år	1,6%	2,4%
Siste 10 år	5,1%	4,7%
Siden start	4,9%	4,7%

Fondsfakta

Type	Obligasjonsfond
Domisil	Norge
Start dato	29.09.2006
Morningstarkategori	Rente, Globale obligasjoner - EUR fokusert
ISIN	NO0010327786
NAV	103,96 NOK
Årlig forvaltningshonorar	0.80%
Referanseindeks	JPM GBI Broad TR EUR
Forvaltningskapital (mill.)	414,25 NOK
Rentefølsomhet	5,19
Vektet gj.sn. løpetid	7,15
Effektiv rente	4,30%
Antall poster	19
Porteføljeforvalter	Sondre Solvoll Bakketun

Avkastning siste 10 år

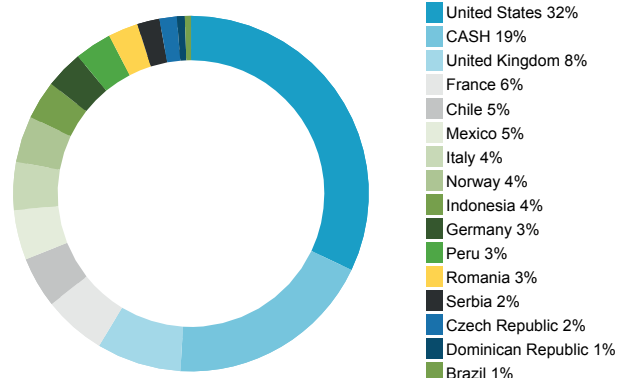


Historisk avkastning er ingen garanti for fremtidig avkastning. Fremtidig avkastning vil blant annet avhenge av markedsutviklingen, forvalterens dyktighet, fondets risikoprofil og forvaltningshonorar. Avkastningen kan bli negativ som følge av kurstap. Det er knyttet risiko til investeringer i fondet på grunn av markedsbevegelser, utvikling i valuta, rentenivåer, konjunkturer, bransje- og selskapsespesifikke forhold.

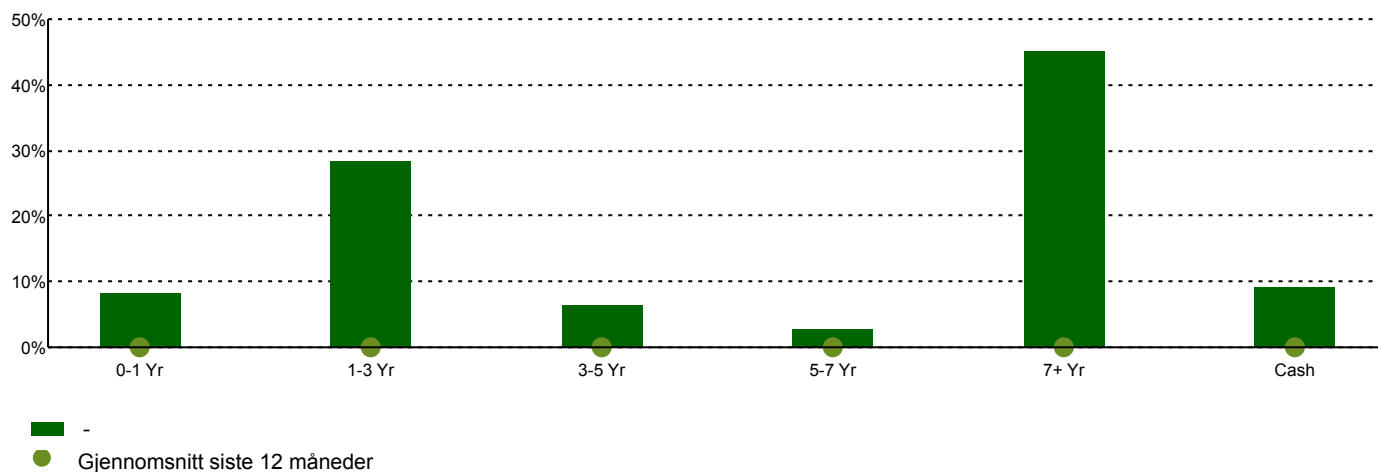
10 største investeringer

Navn	Prosent av fond
US Government	32,1
French Government	5,7
UK Government	5,2
International Finance Corp	4,7
European Bank for Reconstruction & Development	4,7
Republic of Chile	4,6
Mexico	4,5
Italian Government	4,4
Kongeriket Norge	4,2
Indonesia Government International Bond	3,5
Total	73,6

Landeksponering



Tid til forfall



Viktig informasjon

All informasjon er basert på mest oppdaterte tall tilgjengelig. Med mindre noe annet er opplyst, vil avkastningsdata være relatert til andelsklasse A og vises etter fradrag for honorarer. Forvaltningskapital per utgangen av forrige måned. All informasjon er fremstilt av SKAGEN AS (SKAGEN) med mindre noe annet er opplyst. SKAGEN fraskriver seg ethvert ansvar for direkte- og indirekte tap samt utgifter pådratt i forbindelse med bruk av eller forståelsen av innholdet i rapporten. Ansatte i SKAGEN vil kunne eie finansielle instrumenter utstedt av selskaper som er omtalt i rapporten eller som fondene har i sine porteføljer.



+47 51 80 39 00



kundeservice@skagenfondene.no



SKAGEN AS, Postboks 160, 4001 Stavanger