



Apple trees, 1907. Detail. By Michael Archer, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

# SKAGEN Credit EUR

## Status report August 2016

The art of common sense



# SKAGEN Credit EUR A – Key numbers

| Key numbers as of 31 Aug          | SKAGEN Credit EUR A | Index<br>(EURIBOR 3M) |
|-----------------------------------|---------------------|-----------------------|
| Return last month                 | 0,96%               | -0,03 %               |
| Return year to date               | 6,00 %              | -0,16 %               |
| Return since inception (30.05.14) | 0,31 %              | -0,04 %               |
| Current yield*                    | 2,9 %               | -0,3 %                |
| Average maturity (WAM)            | 1,2                 | 0,25                  |
| Average life time (WAL)           | 3,0                 | N/A                   |
| Average credit spread (OAS)**     | 410 bps             | N/A                   |

\* Current yield changes from day to day and is no guarantee for future return. For bonds that trade at a significant discount and where the likelihood of recovering the entire principal, yield can be misleading as it assumes full repayment.

\*\* Average option adjusted spread on the investments, cash excluded

# The SKAGEN Credit investment universe

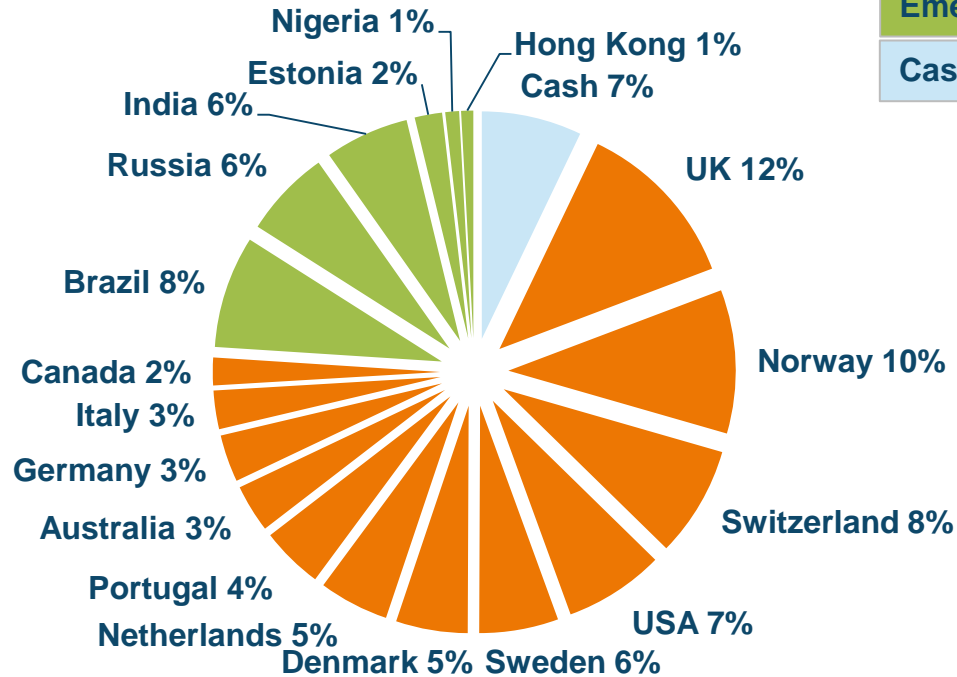


**SKAGEN Credit picks bonds both from the investment grade and the high yield spectrum with a high risk adjusted return potential. Minimum 50% investment grade.**

## Portfolio Managers' Comment

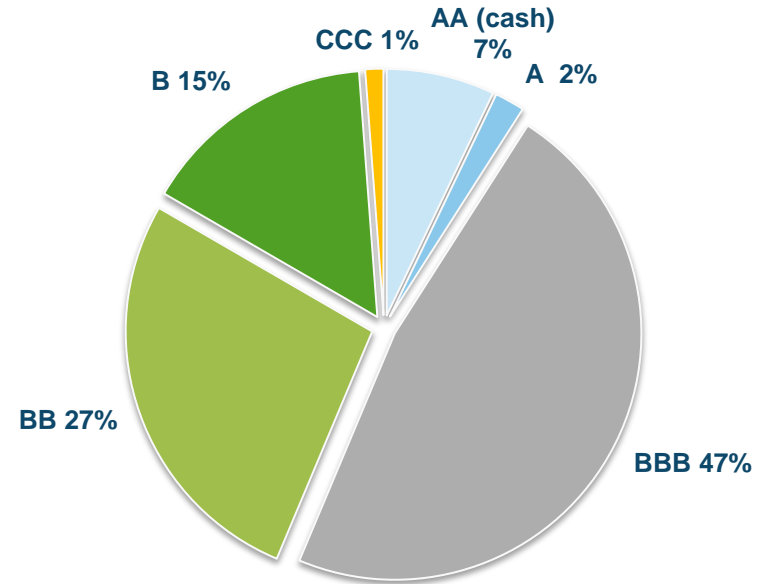
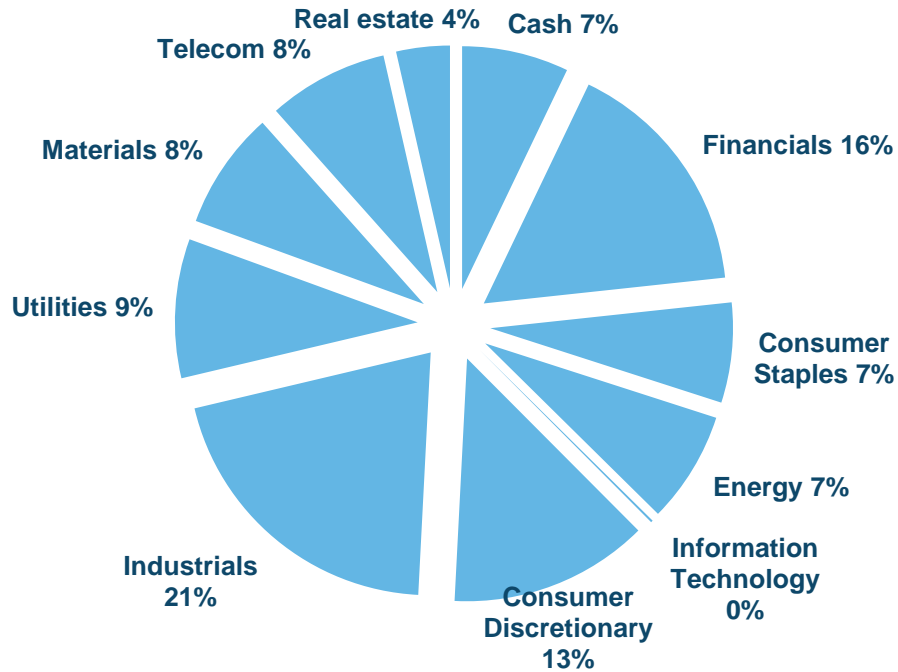
- There was a big demand for corporate bonds in August, both for investment grade and high yield bonds. Some of the markets have been rather quiet with many of the normal participants being on vacation. Many issuers tend to wait until September to approach the market in order to ensure full attention. The low supply of bonds in August probably helped to push prices higher (and spreads lower). Credit spreads on the holdings in SKAGEN Credit contracted by around 30 basis points on average this month.
- The ECB's and BoE's corporate bond buying programs are clearly working. At least if the goal is to lower credit spreads in the bond market. This market interference by central banks has led to a situation where an increasing number of EUR and GBP denominated corporate bonds have become very expensive relative to similar bonds, issued in other currencies. With our global mandate we have the opportunity to choose other currencies and the impact on us is minimal. The situation is worse for EUR-only or GBP-only investors that are unable to invest in anything else.
- When it comes to our holdings, several companies have reported good numbers. Perhaps most notably both Glencore and Petrobras showed further good development. In August we exited our small position in Avon after a good return in 2016. The German BB-rated auto-supplier Schaeffler is a new holding in the fund. Schaeffler has an organisational set-up that it can alter as well as a clear determination to improve its credit metrics and get investment grade rating in a few years time. We have invested in one of its USD bonds, maturing in 2023.

# Country diversification



|                    |      |
|--------------------|------|
| Developed markets: | 69 % |
| Emerging markets:  | 24 % |
| Cash:              | 7 %  |

# Sector and rating distribution



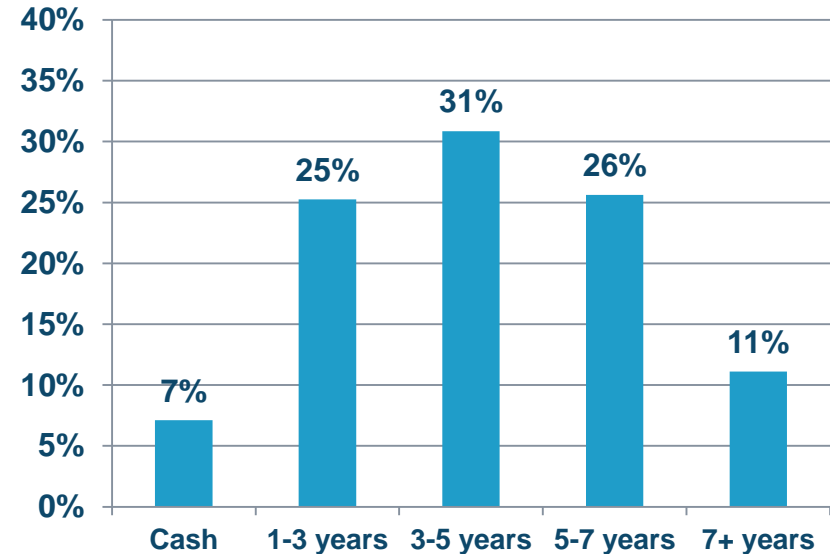
|                   |      |
|-------------------|------|
| Investment grade: | 56 % |
| High Yield:       | 44 % |
| Average rating:   | BB+  |

# Interest rate duration and time to maturity

## Interest rate exposure and denominated currency (before currency hedge)

| Currency | Bond denominated | Interest rate duration |
|----------|------------------|------------------------|
| USD      | 40%              | 1,5 year               |
| EUR      | 23%              | 1,2 year               |
| GBP      | 23%              | 1,2 year               |
| NOK      | 11%              | 0,1 year               |
| SEK      | 3 %              | 0,1 year               |
| DEK      | 2 %              | 0,1 year               |
| Sum Fund | 100%             | 1,2 year               |

## Credit exposure - time to maturity profile



Average time to maturity: 3,0 years

# Top 10 investments

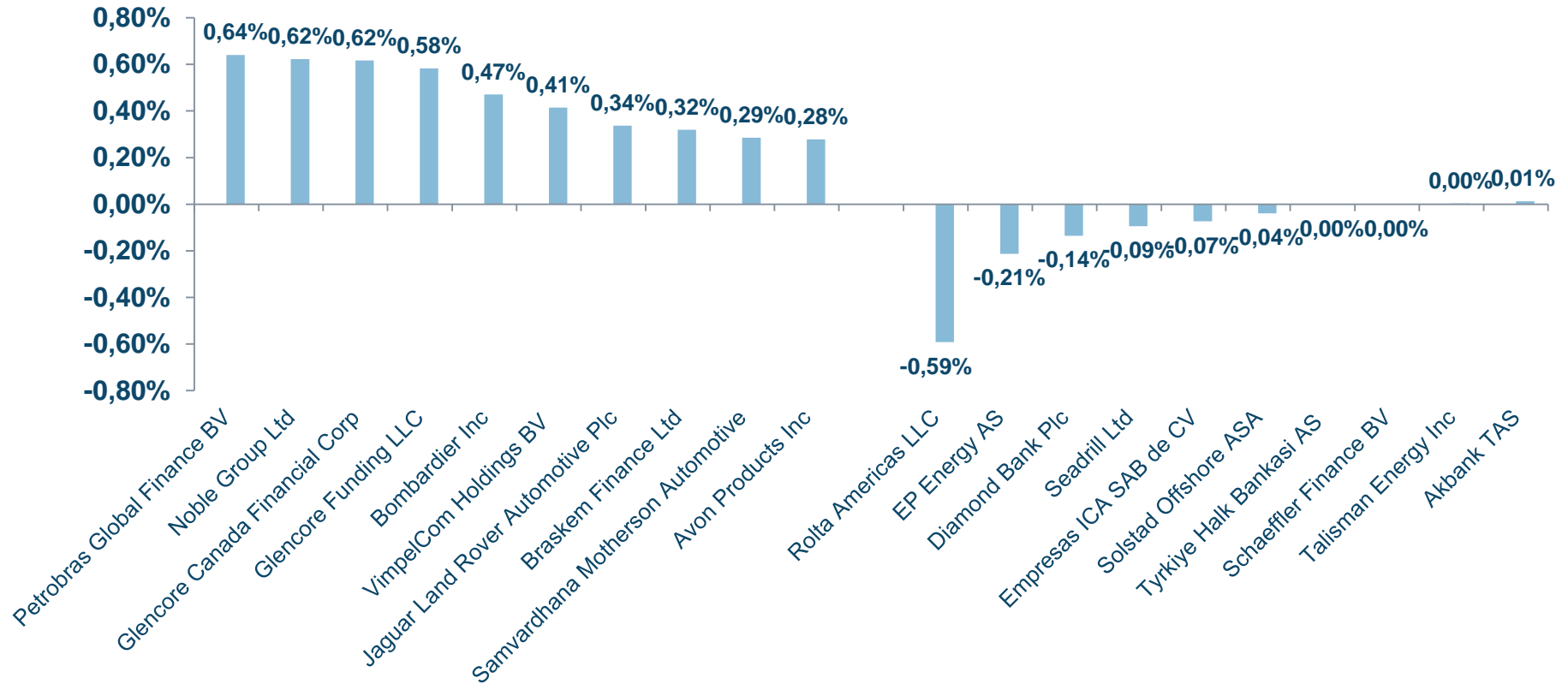
| Company               | Country of risk | Credit rating* | Percent of fund |
|-----------------------|-----------------|----------------|-----------------|
| Glencore**            | Switzerland     | BBB-           | 5,7 %           |
| BKK                   | Norway          | BBB            | 4,9 %           |
| Energias de Portugal  | Portugal        | BBB-           | 4,4 %           |
| LF Bank               | Sweden          | BBB+           | 3,4 %           |
| Bharti Airtel         | India           | BBB-           | 3,3 %           |
| Petrobras             | Brazil          | B+             | 3,3 %           |
| Gazprom               | Russia          | BB+            | 3,1 %           |
| Samvardhana Motherson | Netherlands     | BB+            | 3,1 %           |
| Vimpelcom             | Russia          | BB             | 3,1 %           |
| Heathrow              | UK              | BBB            | 2,9 %           |
| <b>Sum top 10</b>     |                 |                | <b>37,2%</b>    |

*Average bond rating*

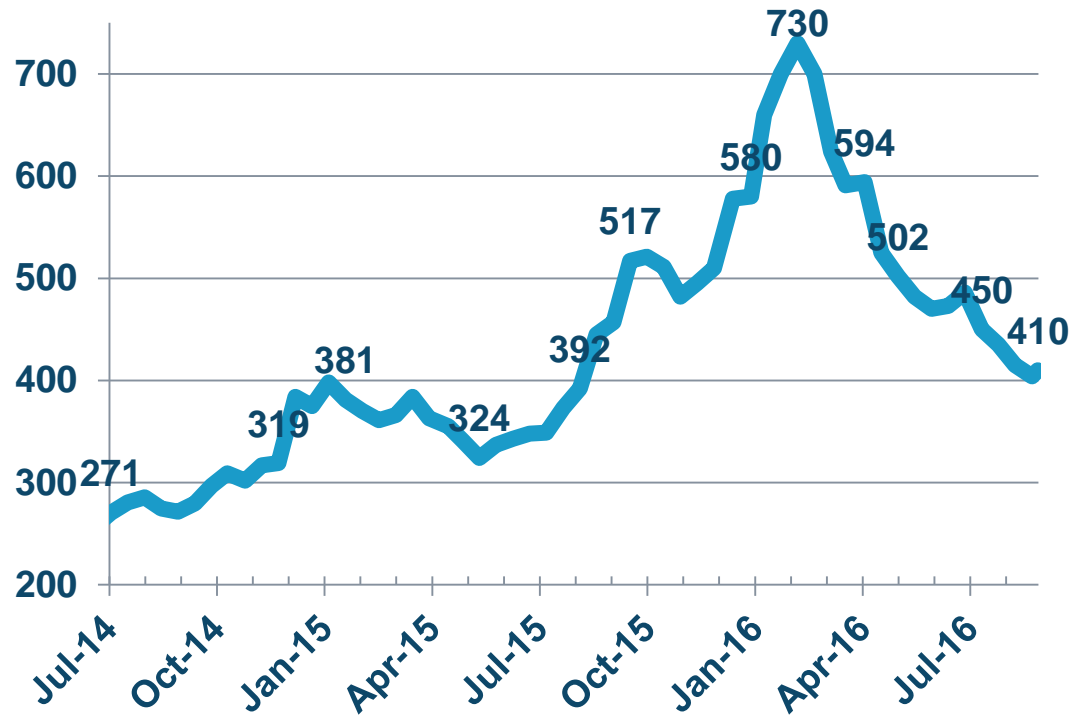
*\*\* Represent bonds from several legal units within the Glencore group*



# Best and worst contributors year to date



# Average credit spread in SKAGEN Credit



- This graph shows the difference in yield between the bonds and the reference rates (interest rate swaps) of the same maturity.
- SKAGEN Credit has since inception had a portfolio with rather consistent credit quality, and the changes in the credit spread are therefore mostly related to market events.

# The portfolio managers



The portfolio managers draw on their expertise in the fixed income markets, as well as SKAGEN's equity fund managers' long experience of successful stock picking. They have long-standing and complementary experience ranging from fixed income management to company analysis, risk management and trading.

- **Ola Sjöstrand** (pictured right) has worked for SKAGEN since 2006, managing a range of SKAGEN's fixed income funds. He launched and has been responsible for running the SKAGEN Krona fund, amongst others. Before joining SKAGEN, Ola worked as a portfolio manager at the Swedish Soya Group. A combination of strong analytical skills and investment experience applying SKAGEN's investment philosophy has primed Ola in finding good investment cases for the fund. Ola holds a BSc in Business Administration and Economics.
- **Tomas Nordbø Middelthon** (pictured left) has worked for SKAGEN since 2010, both as a risk manager and more recently as portfolio manager of SKAGEN's fixed income funds. Before that Tomas worked within financial services in Statoil, implementing financial risk management tools worldwide. Tomas holds an MBA in Finance and is an Authorised Financial Analyst. He has strong analytical skills and a background from financial risk management. His combined risk management and technical expertise is valuable in the screening and analysis of corporate bonds and portfolio construction.

## For more information please visit:

Latest [Market report](#)  
Information about [SKAGEN Credit EUR](#) on our website

Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and prospectuses for all funds can be found on our website.

SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. Statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the 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 the fund's portfolio.