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Skagen's South Beach, October after sunset, 1905. Detail, by Carl Locher, one of the Skagen painters. This image belongs to the Skagens Museum.

SKAGEN Tellus

Status Report October 2015

The art of common sense



Key numbers as of 31.10.2015

- SKAGEN Tellus* was up 1.5% in EUR in October. The benchmark was up 1.0%.
- Since inception the fund has had an annualised return in EUR of 5.5% versus 5.1% for the index. Over this period, 61% of the fund's return has come from interest coupons, while bond price appreciation has contributed 24% and currency movements, including the cost of currency hedging, have contributed 15%.
- Volatility as measured by standard deviation has been 7.0% since inception. The benchmark index has had a standard deviation of 8.3%. SKAGEN Tellus' information ratio, a measure of risk-adjusted return, has been 0.1 since the fund was launched.
- The fund's yield as of 31.10.2015 was 2.1% and the fund's duration was 4.8 years. The benchmark index had a yield of 1.2% and a duration of 7.3 years.

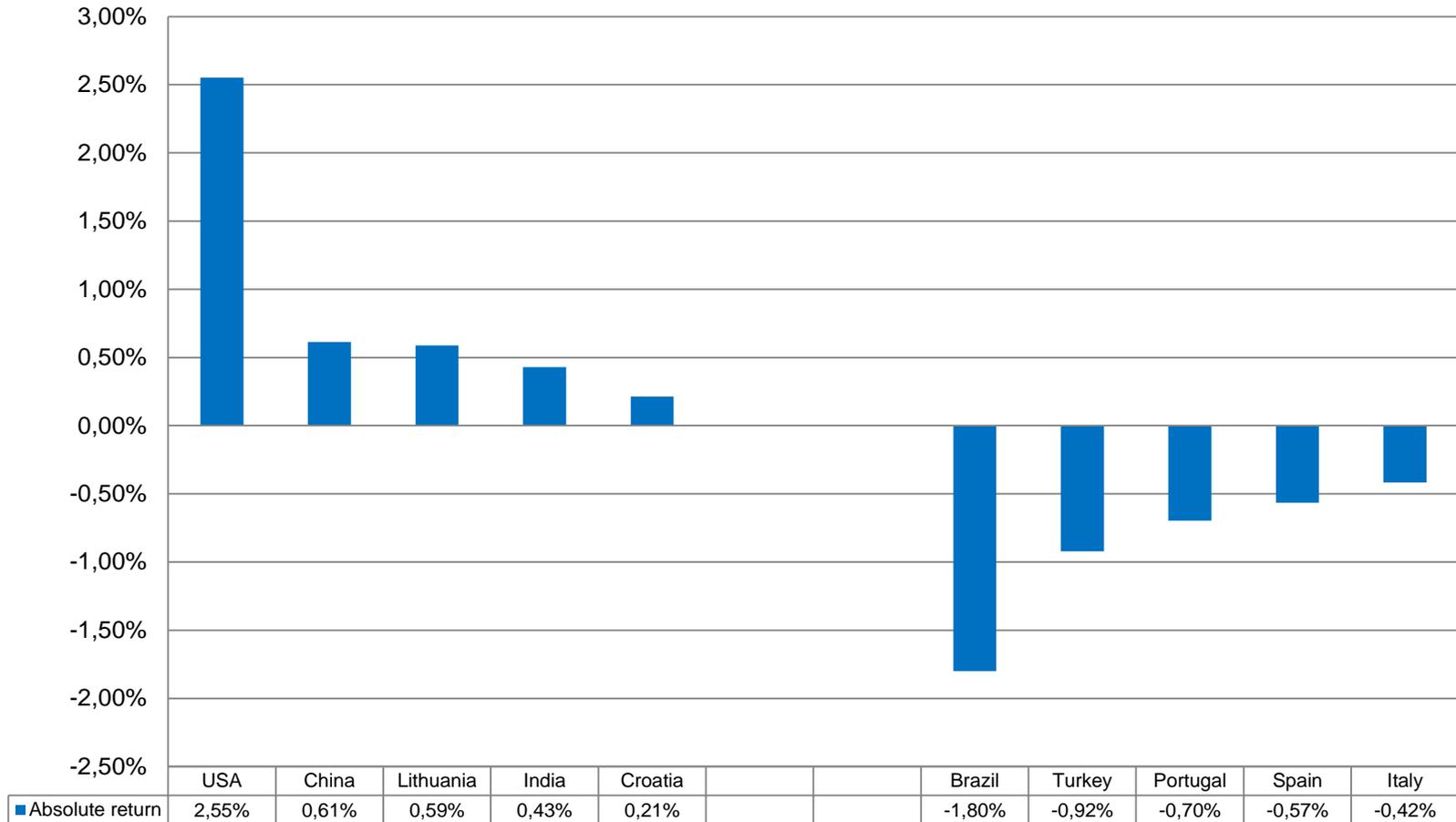
	October	QTD	YTD	1 Year	3 years	5 years	Since inception*
SKAGEN Tellus A	1,5%	1,5%	-0,6%	1,3%	3,5%	4,4%	5,5%
JPM Broad GBI Unhedged	1,0%	1,0%	7,5%	10,3%	3,1%	4,1%	5,1%
Excess return	0,5%	0,5%	-8,1%	-9,0%	0,3%	0,3%	0,4%

Inception date: 29/09/2006

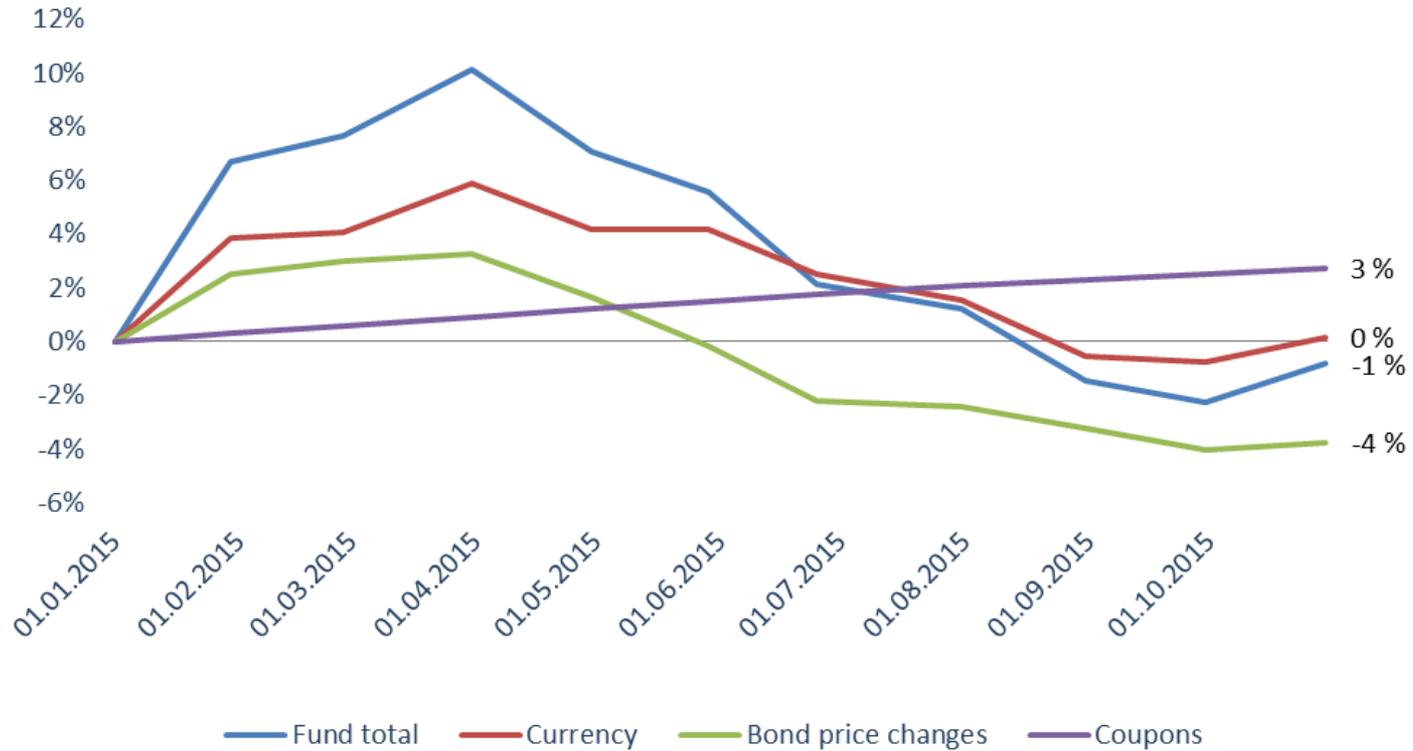
Benchmark index before 01/01/2013 was Barclay's Capital Global Treasury Index 3-5 years

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

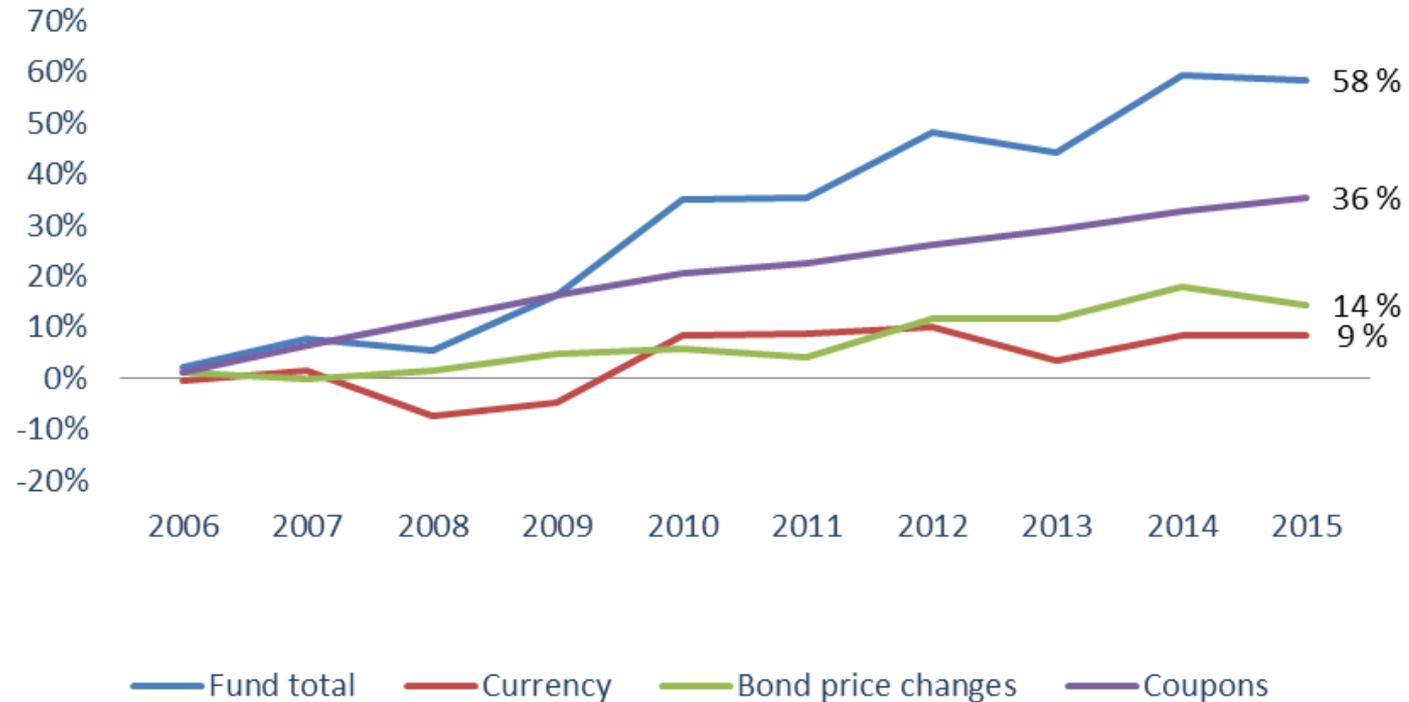
Top 5 best and worst contributors year to date



Accumulated returns year to date in EUR



Accumulated returns since inception in EUR

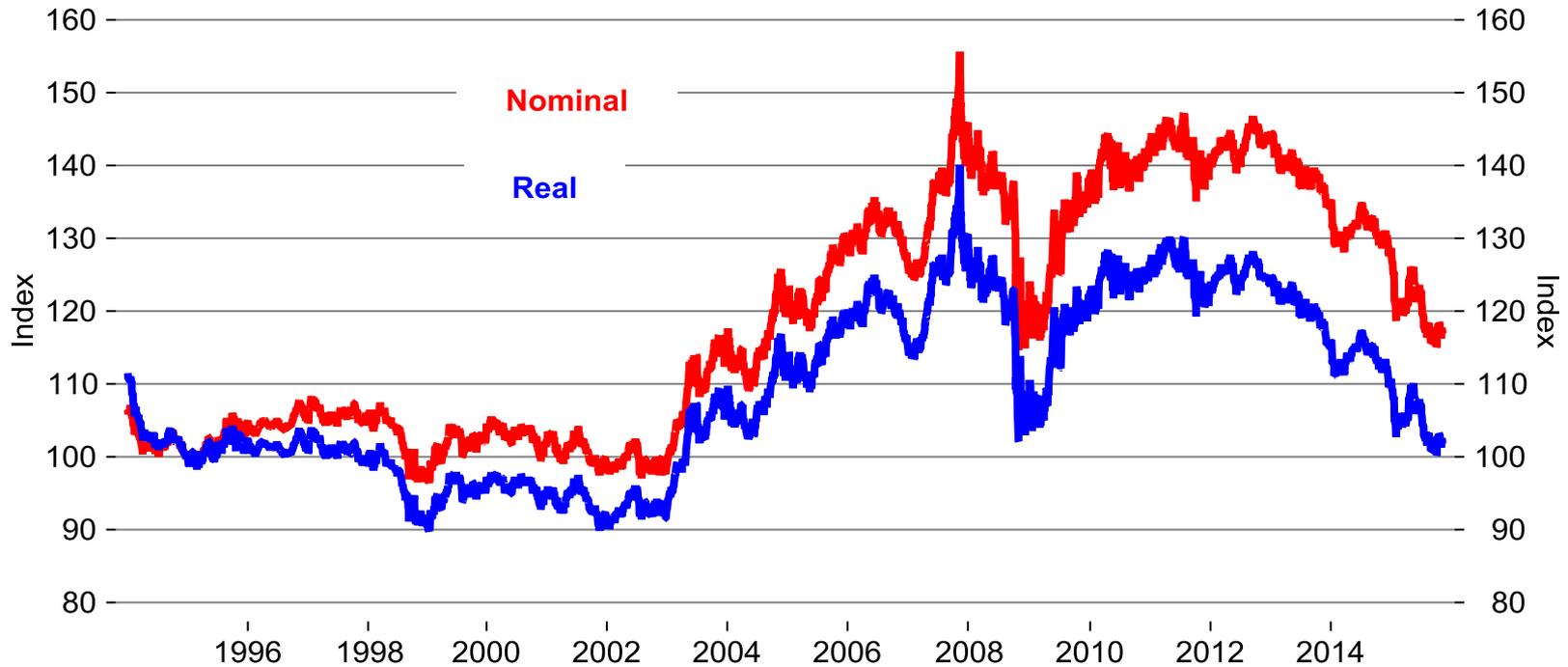


What happened in October?

- Completing a process that began in September, we sold out our holding of Brazilian sovereign debt. With a rate of inflation that continues to surprise on the upside and heightened uncertainty surrounding the fiscal situation, we no longer find the risk-reward parameters supportive.
- The fund is invested in Canadian short-term bonds. The real international value of the Canadian dollar has dropped almost 30 percent over the last 3 years, mostly due to lower commodity prices. We think the market has overreacted, and that the Canadian dollar is set for a rebound.
- SKAGEN Tellus also invested in short-dated Norwegian government bonds. The Norwegian krone has depreciated 20 percent over the last two years in real terms. The main culprit, of course, is the oil price drop. While we do not think that oil prices are set to rebound, we judge the likelihood of a further fall as small. Currency markets tend to overreact. Hence we think the Norwegian krone is likely to appreciate.

The international value of the Canadian dollar

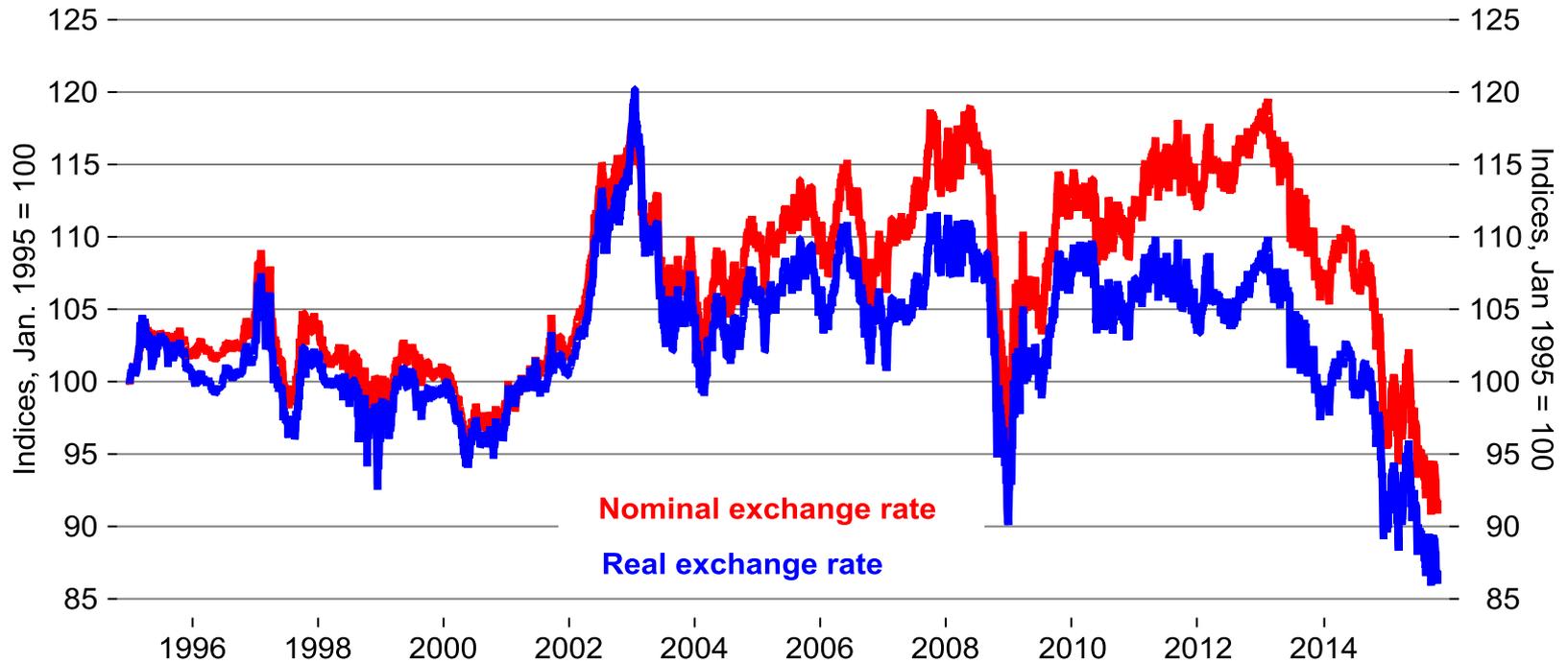
The Canadian dollar's exchange rate



Source: **Macrobond**

The international value of the Norwegian krone

The Norwegian krone's exchange rate

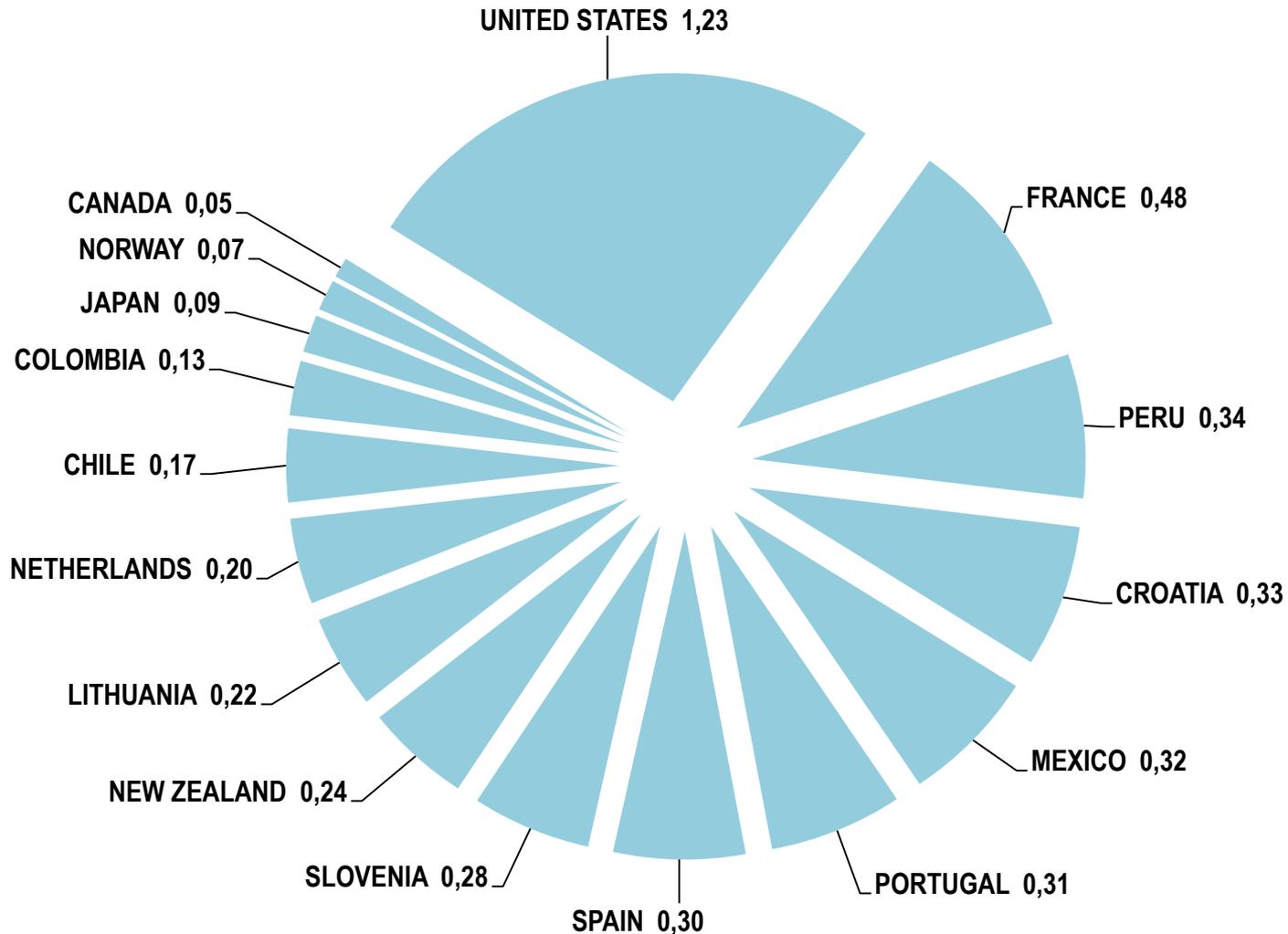


Source: **Macrobond**

SKAGEN Tellus portfolio as of 31.10.2015

Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	20 900	13,1	15.02.2025	2,0
French Government	EUR	15 000	10,4	25.05.2020	-
US Government	USD	12 800	8,1	31.08.2016	0,5
Croatia Government International Bond	EUR	8 300	5,9	30.05.2022	3,9
US Government	USD	8 000	5,0	30.06.2017	0,6
Canadian Government	CAD	10 000	4,8	01.11.2016	1,0
Netherlands Government	EUR	6 800	4,8	15.01.2020	0,3
Japan Government	JPY	900 000	4,8	20.06.2016	1,9
Norwegian Government	NOK	60 000	4,8	19.05.2017	4,3
Lithuanian Government	USD	5 500	4,3	01.02.2022	6,6
Chilean Government	CLP	4 410 000	4,3	05.08.2020	5,5
New Zealand Government	NZD	8 000	4,0	17.04.2023	5,5
Portugese Government	EUR	5 000	3,6	15.10.2025	2,9
Spanish Government	EUR	5 000	3,5	30.04.2025	1,6
Slovenia Government	EUR	3 500	3,3	30.03.2026	5,1
Peruvian Government	PEN	18 000	3,3	12.08.2037	6,9
Mexican Government	MXN	60 000	3,2	20.11.2036	10,0
Colombian Government	COP	13 400 000	3,1	14.04.2021	7,8
Japan Government	JPY	550 000	2,9	15.10.2017	0,1
European Bank Recon & Dev	INR	200 000	2,0	19.03.2018	5,8

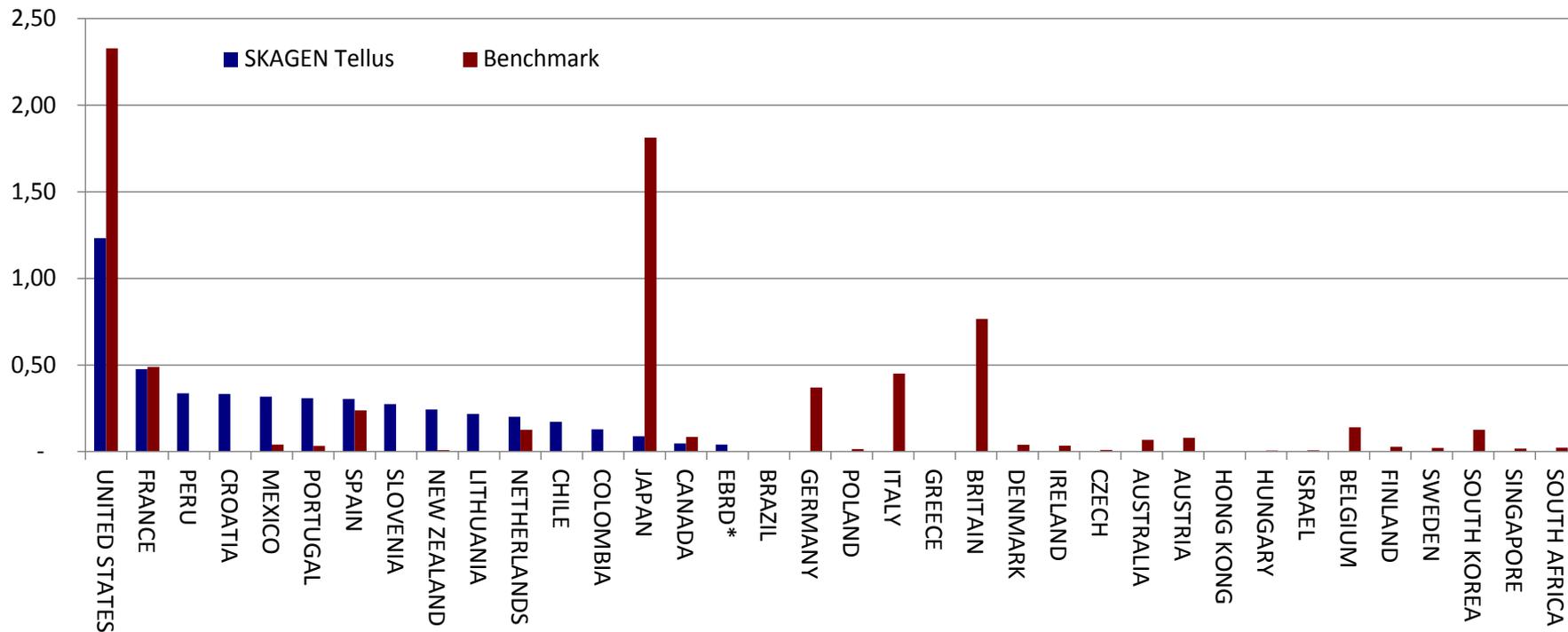
Distribution of interest rate risk exposure



As of 31 October 2015

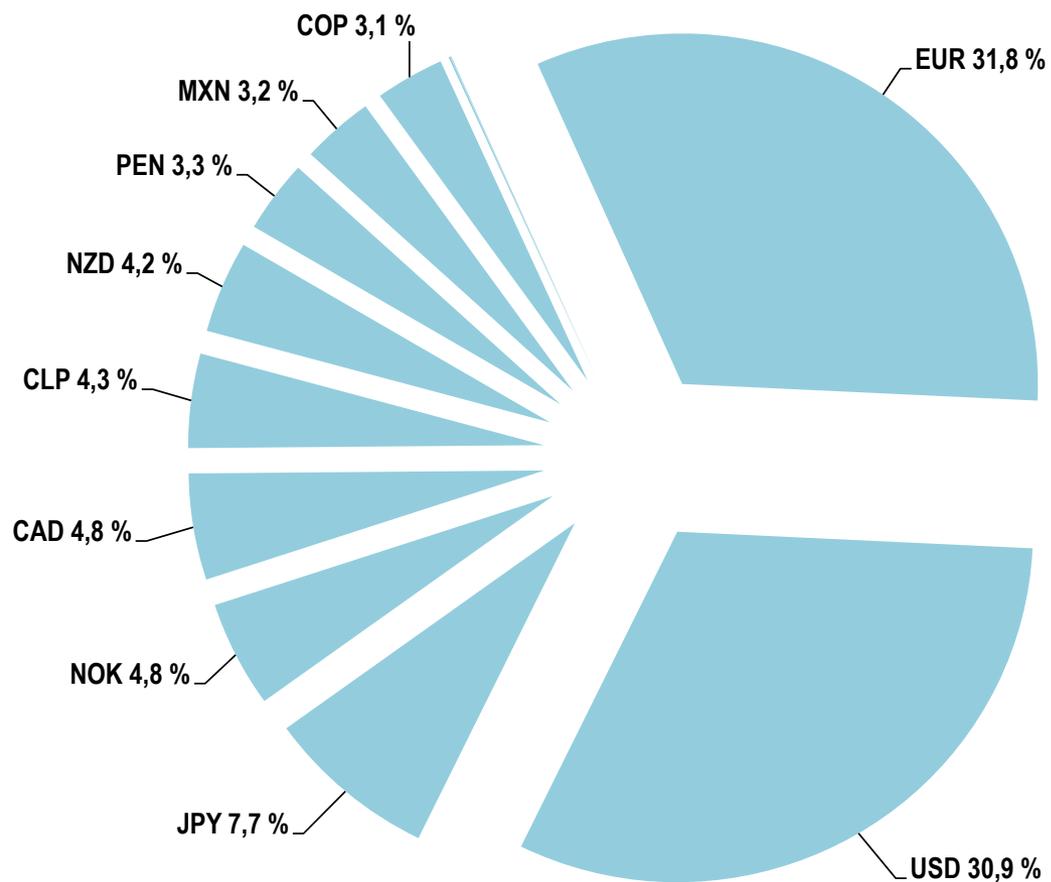
EBRD* : European Bank of Reconstruction & Development

Interest rate exposure relative to benchmark



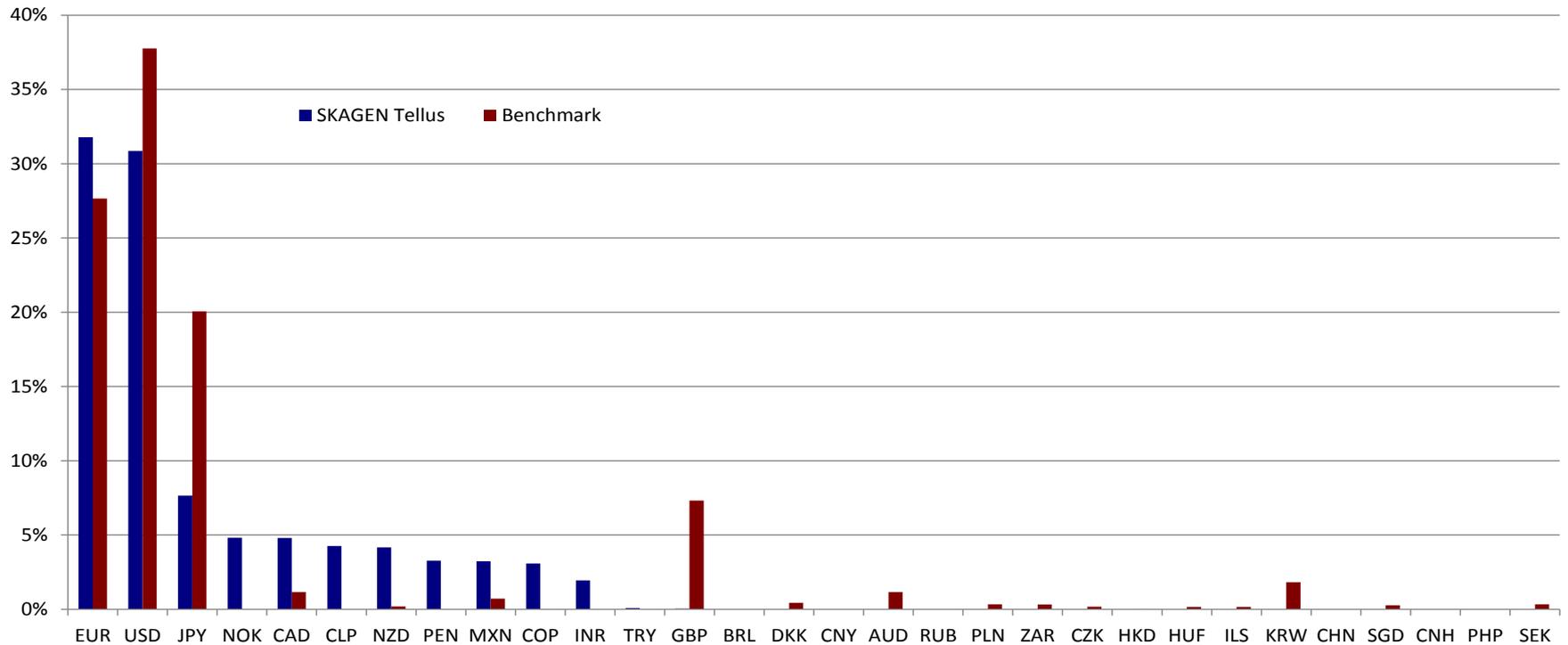
As of 31 October 2015

Distribution of currency exposure



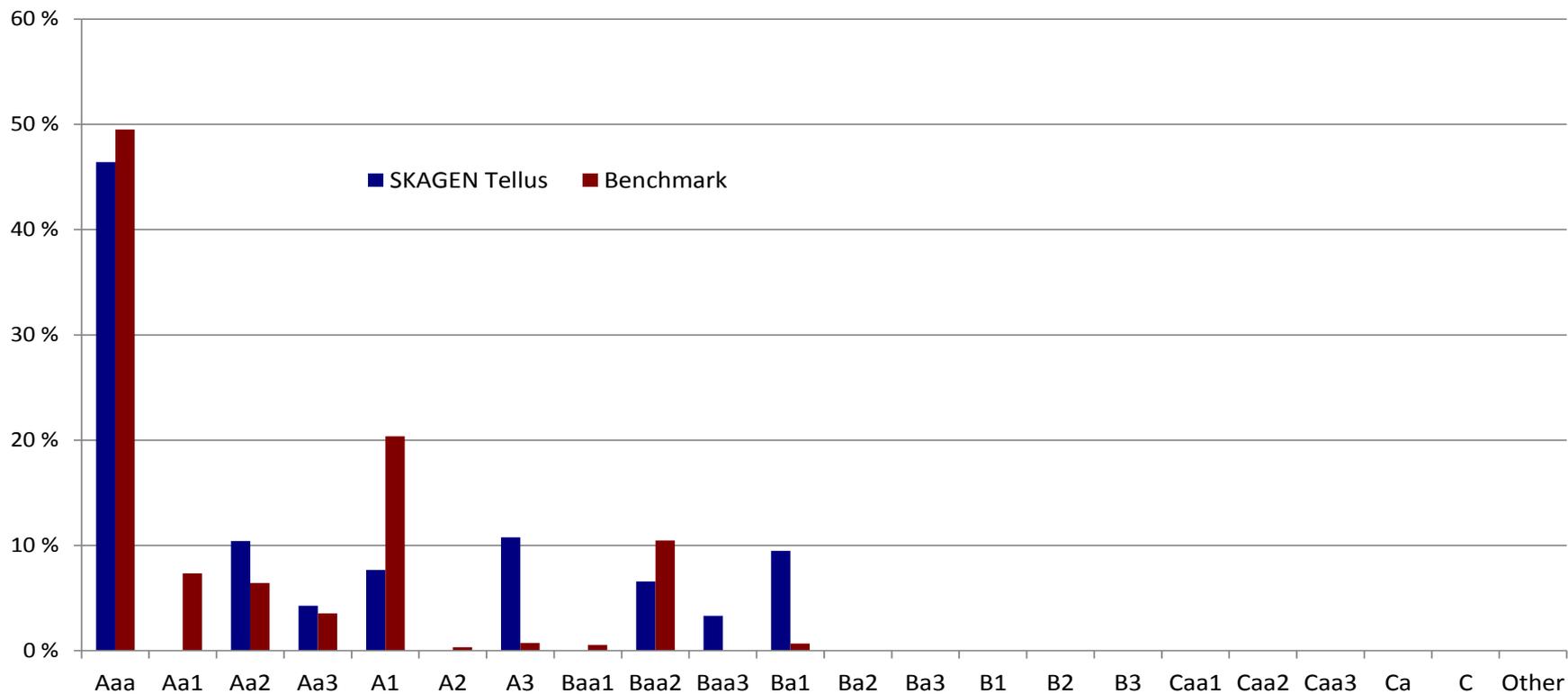
As of 31 October 2015

Currency exposure relative to benchmark



As of 31 October 2015

Moody's rating on Tellus' portfolio relative to benchmark



As of 31 October 2015

The interest rate outlook – in brief

- The Bank of England surprised most analysts at the beginning of November by announcing a dovish monetary policy outlook. The policy rate might not be hiked at all during the next 12 months.
- Previously most analysts and the market thought that The Bank of England would be the first advanced economy central bank to begin a sustained period of interest rate hikes. We think the Bank of England's U-turn is telling.
- Due to low, and in most cases falling inflation, and because of low expected inflation, advanced economies' central banks are very reluctant to begin to lift from close to zero interest rate policies. The ECB has in fact signalled that its policy rate might be cut further in December.
- The Federal Reserve is now presumed to be the first central bank to start a period of interest rates hikes. While there is a chance that the policy rate might be lifted in December, a chance that increased with the solid labour market report for October, we don't think that this is the first of many steps toward a "normalisation" of interest rate policies. We think that the Federal Reserve is going to move very cautiously, and that a rate hike might be reversed if inflation does not pick up.
- All of this has implications for long-term nominal bond yields, which are likely to be around their current levels in advanced economies well into 2016.

For more information please see:

[SKAGEN Tellus A on our web pages](#)

[SKAGEN's Market report](#)

[Latest comments by Torgeir Høyen](#)

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.

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