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Skagens 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 April 2016

The art of common sense



Key numbers as of 30 April 2016

EUR, net of fees

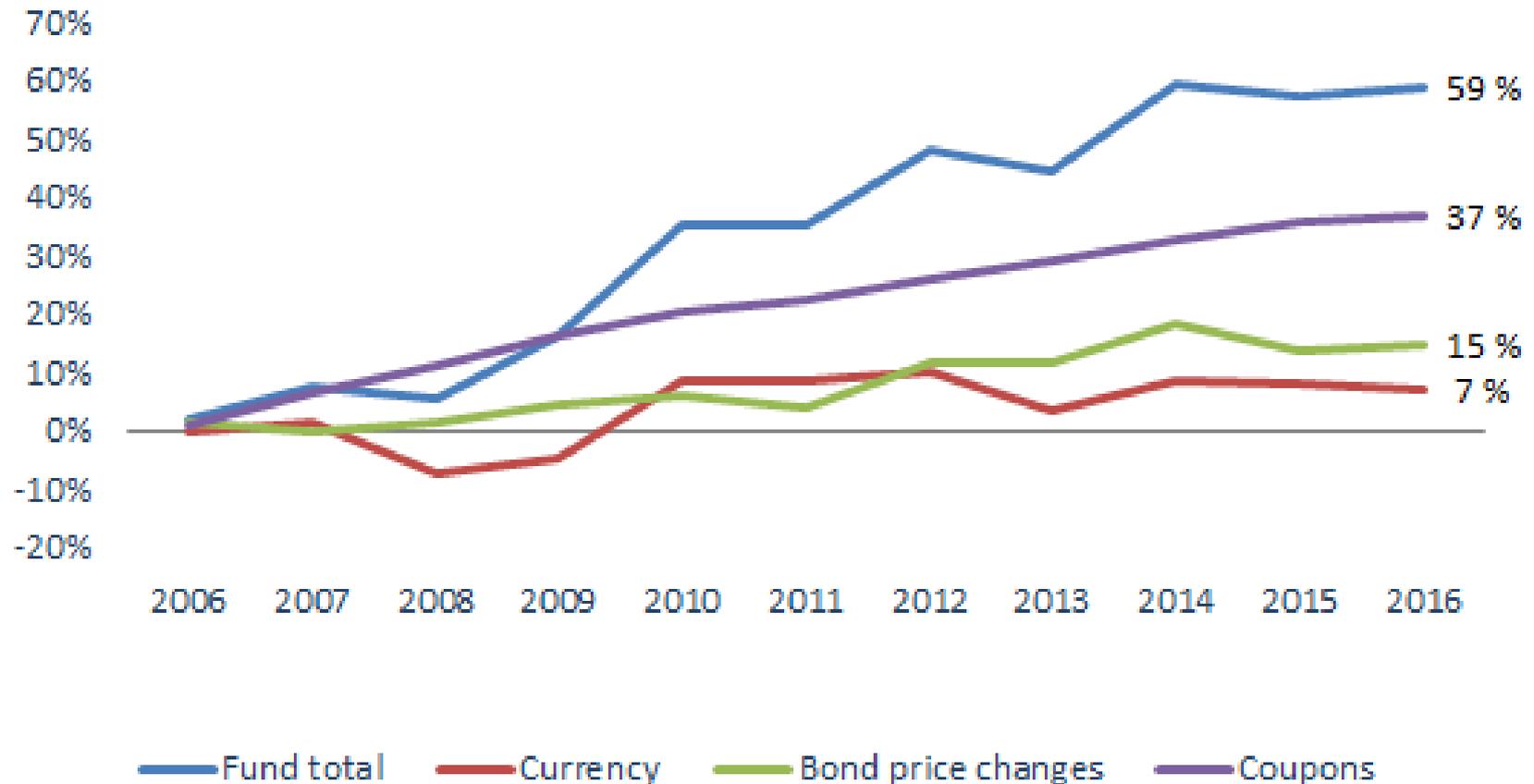
	April	QTD	YTD	1 years	3 years	5 years	Since inception*
SKAGEN Tellus A	1,2%	1,2%	1,4%	-6,0%	2,3%	5,4%	5,3%
JPM Broad GBI Unhedged	0,6%	0,6%	2,4%	3,6%	5,7%	5,7%	5,1%
Excess return	0,6%	0,6%	-0,9%	-9,6%	-3,4%	-0,4%	0,2%

**Inception date: 29/09/2006*

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

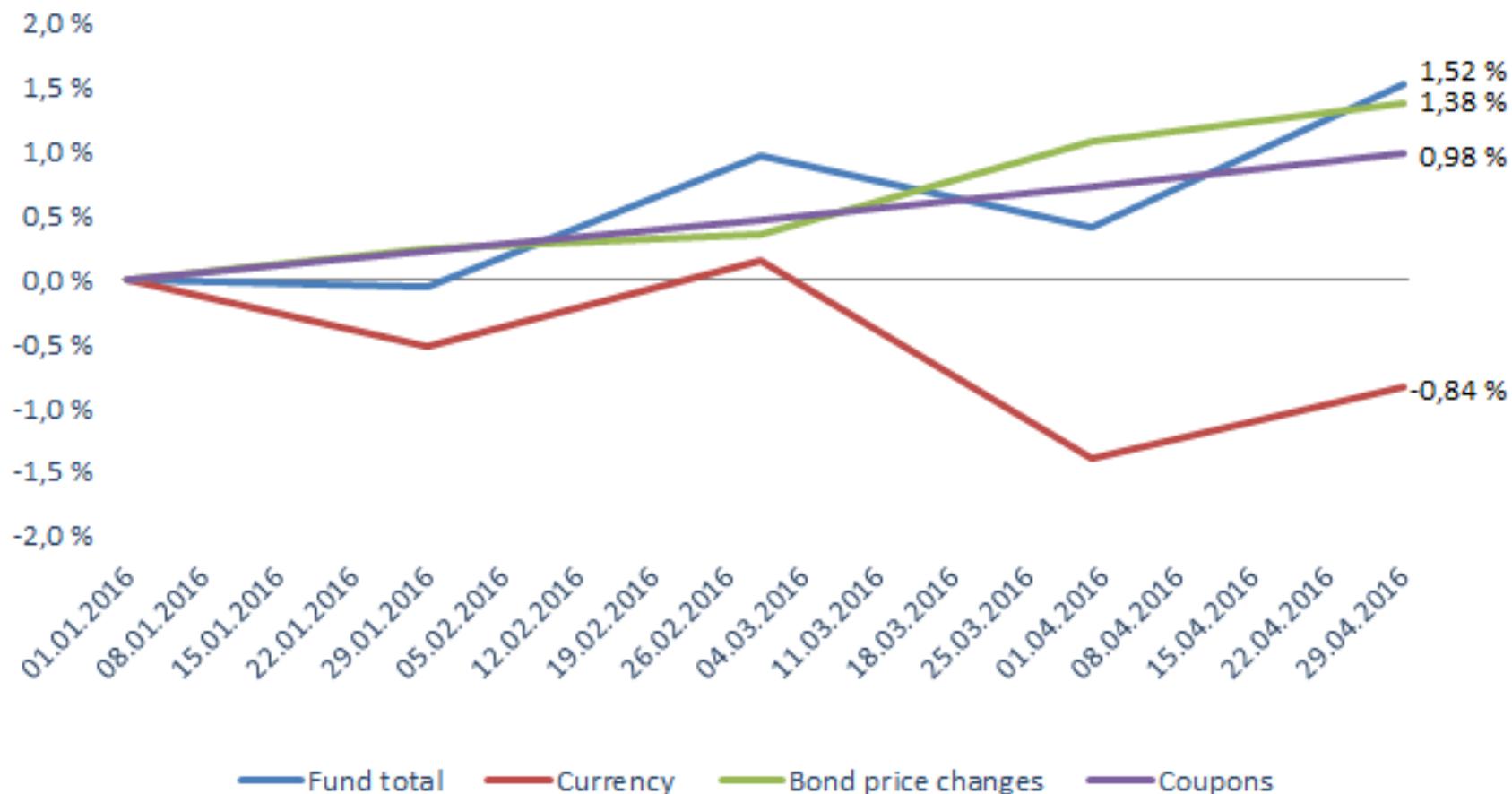
Unless otherwise stated, all performance data in this report relates to class A units, measured in EUR and is net of fees.

Accumulated returns since inception in EUR



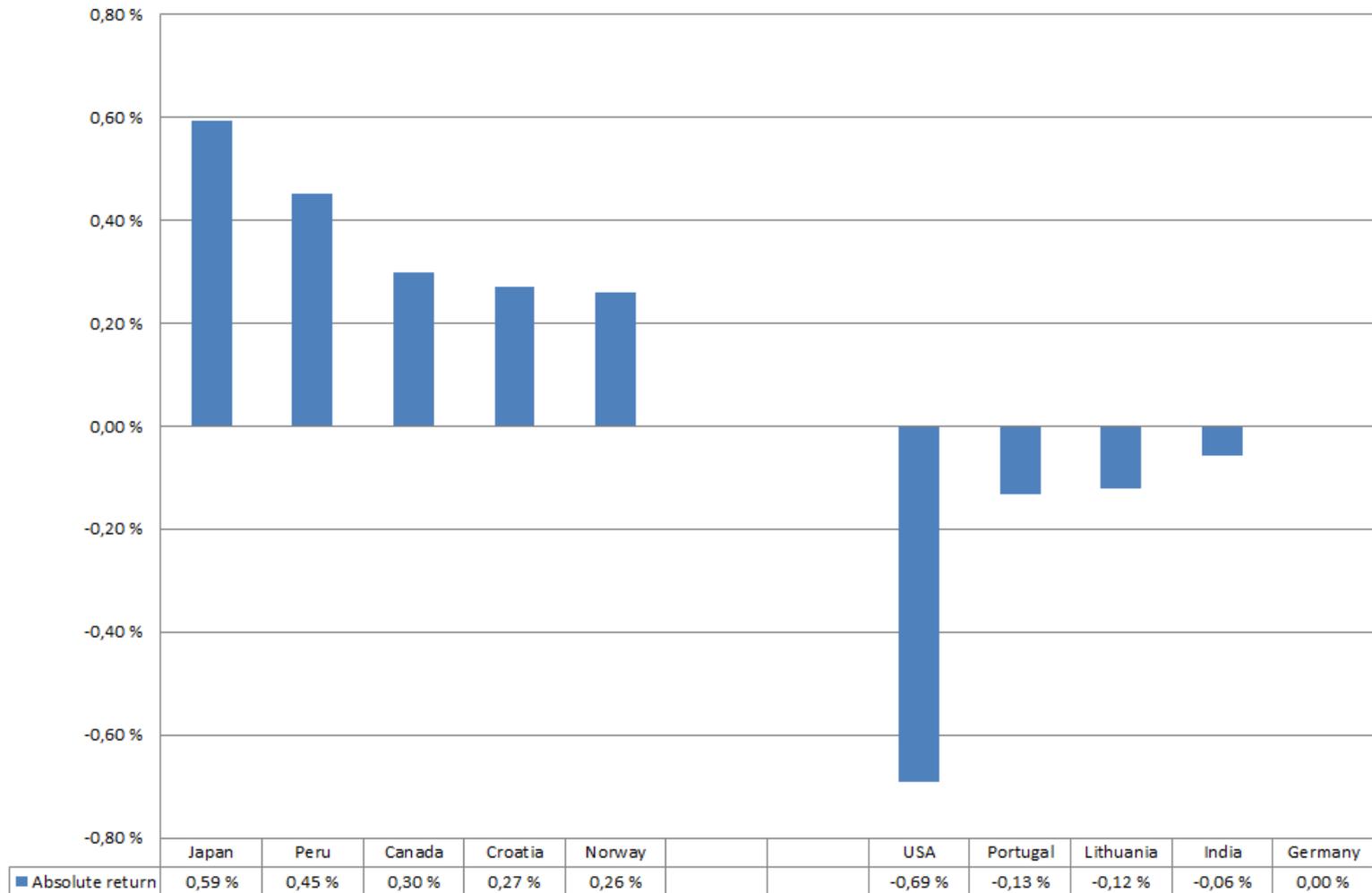
As of 30 April 2016

Accumulated returns year to date in EUR



As of 30 April 2016

Top 5 best and worst contributors year to date



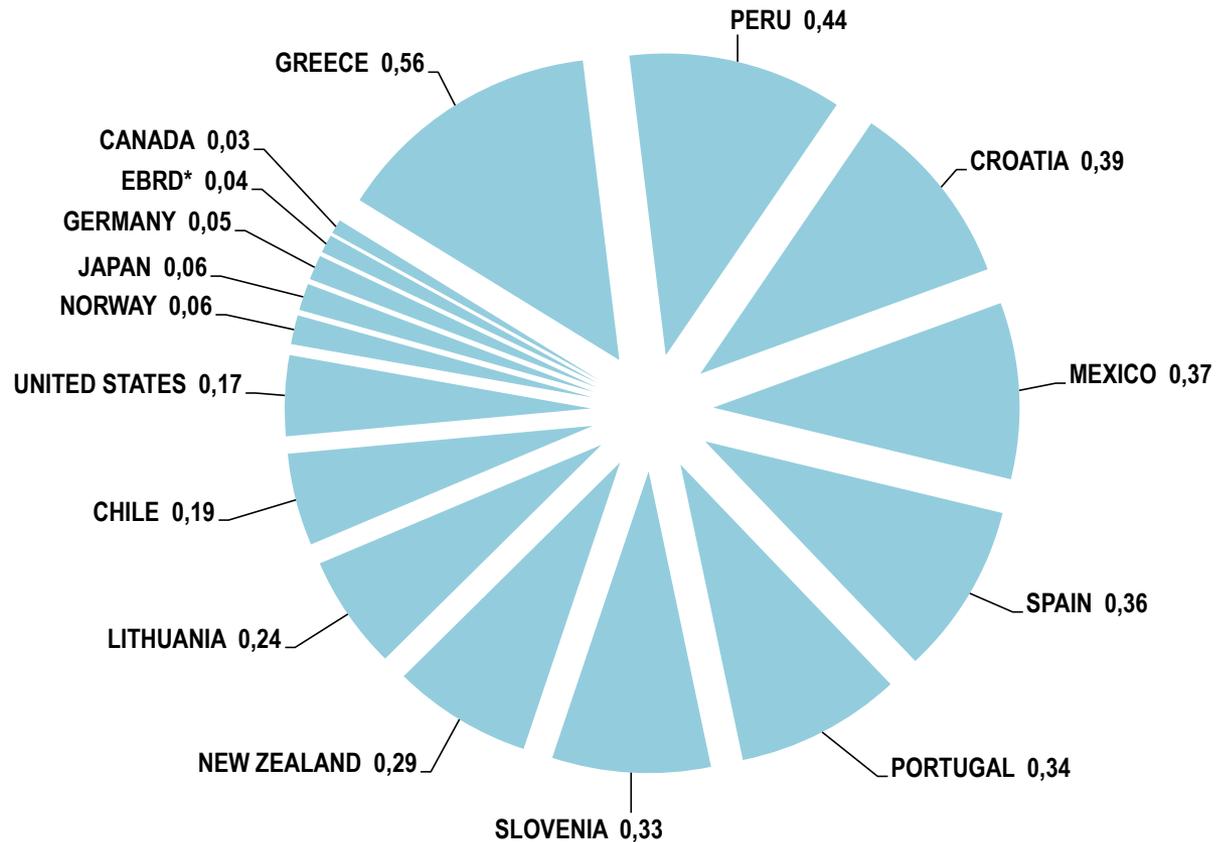
Contributing factors are interest coupons, bond price changes and currency fluctuations

As of 30 April 2016

Portfolio as of 30 April 2016

Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	12800	9,5	31.08.2016	0,5
US Government	USD	10800	8,0	30.06.2017	0,6
Croatia Government International Bond	EUR	8300	7,5	30.05.2022	3,9
US Government	USD	10000	7,5	30.11.2016	0,9
German Government	EUR	7000	6,0	10.03.2017	0,0
Norwegian Government	NOK	60000	6,0	19.05.2017	4,3
Canadian Government	CAD	10000	5,9	01.11.2016	1,0
Chilean Government	CLP	4410000	5,3	05.08.2020	5,5
Lithuanian Government	USD	5500	5,0	01.02.2022	6,6
New Zealand Government	NZD	8000	5,0	17.04.2023	5,5
Hellenic Republic Government	EUR	9000	4,6	24.02.2035	3,0
Spanish Government	EUR	5000	4,3	30.04.2025	1,6
Portugese Government	EUR	5000	4,3	15.10.2025	2,9
Peruvian Government	PEN	18000	4,1	12.08.2037	6,9
Slovenia Government	EUR	3500	4,0	30.03.2026	5,1
Japan Government	JPY	550000	3,9	16.10.2017	0,1
Mexican Government	MXN	60000	3,7	20.11.2036	10,0
European Bank Recon & Dev	INR	200000	2,2	19.03.2018	5,8

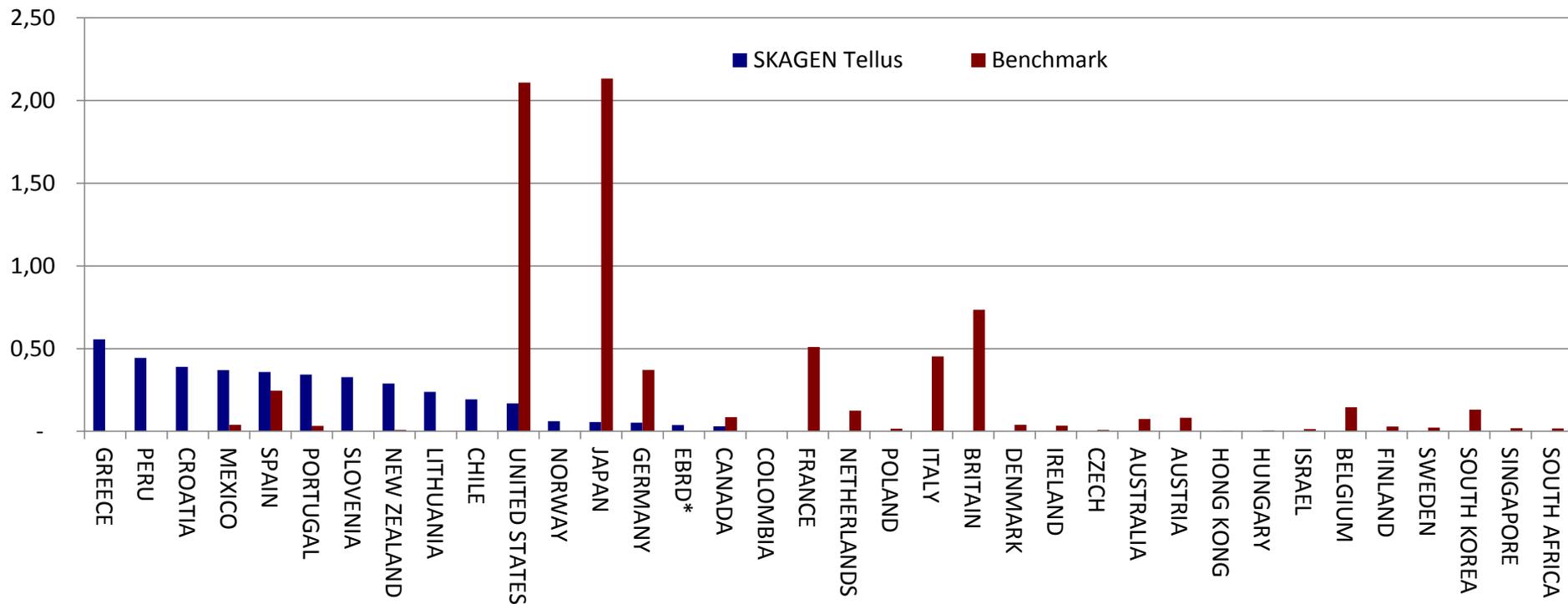
Interest rate risk exposure



EBRD* : European Bank of Reconstruction & Development

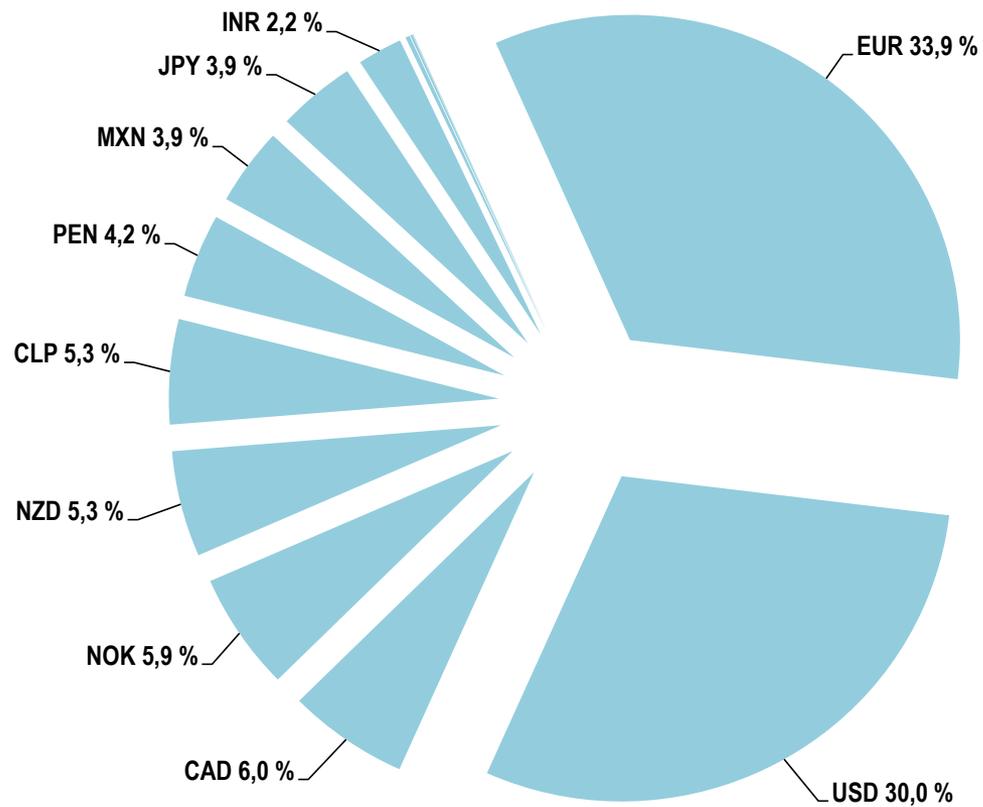
As of 30 April 2016

Interest rate exposure relative to benchmark



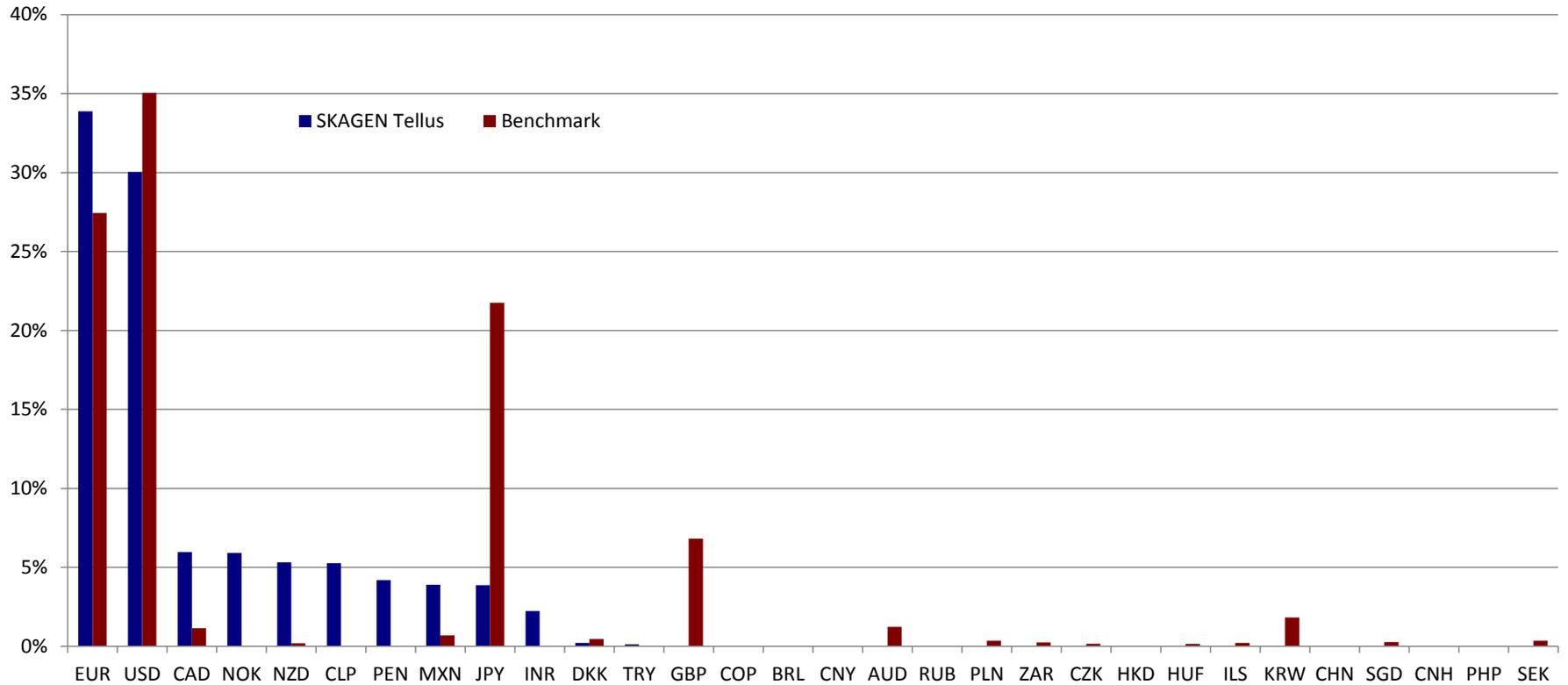
As of 30 April 2016

Currency exposure



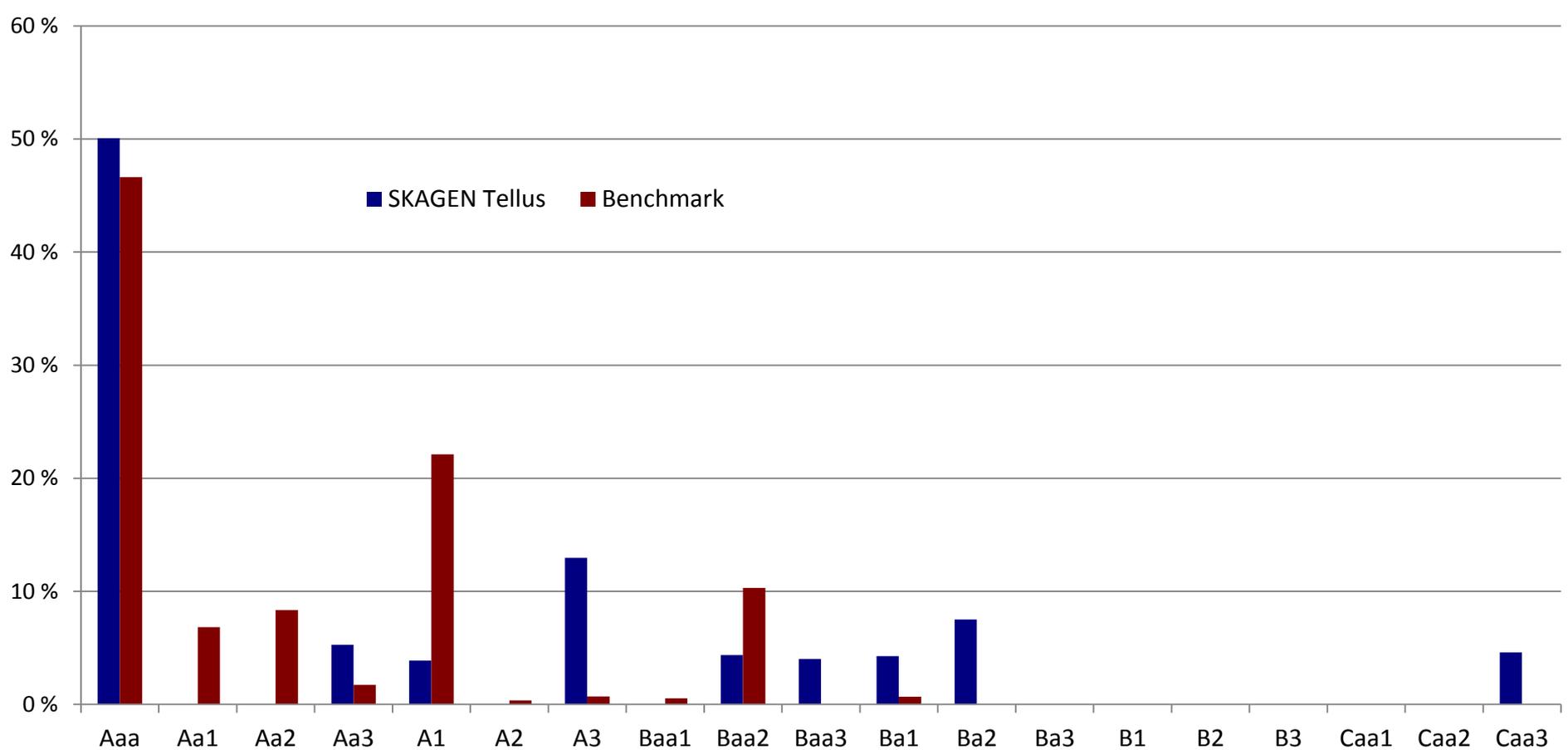
As of 30 April 2016

Currency exposure relative to benchmark



As of 30 April 2016

Moody's rating on Tellus' portfolio relative to benchmark



As of 30 April 2016

Why Tellus is invested in Peru



The art of common sense



Investment case

- SKAGEN Tellus owns a local currency bond with a coupon of 6.9 that matures on 12 August 2037.
- In addition to a relatively high interest rate, we see the potential for bond price appreciation and a stronger Peruvian sol (PEN).
- Currently the 10-year government interest rate is 6.6%. The inflation target ranges from 1 to 3%. Based on the 2% mid point, and assuming that long-term inflation expectations are anchored, the ex ante 10-year real interest rate is around 4.6%. The CDS on Peruvian government debt is currently 1.9 percentage points. Hence the risk-free real 10-year interest rate is around 2.7%.
- The price level in Peru is currently relatively low, about 15% lower than in Brazil. With inflation contained and the economy trending higher, there is room for a nominal appreciation of the PEN.
- Main risks: Outcome of the general election, the trend in commodity prices, and the risk-off mode in the global financial markets. Other risks: Stability in public finances and anchoring of inflation expectations after a period of inflation above the inflation target.
- *Some basic information:*
- Peru is a democratic republic with a population of 31 million.
- PPP adjusted GDP per capita was USD 12 200 in 2015 according to the IMF. By way of comparison, the numbers are USD 17 500 for Mexico and USD 15 600 for Brazil.
- In the Fraser Institute's Economic Freedom Index, Peru is ranked as country number 41 out of 157. The rankings for Mexico and Brazil are 93 and 118 respectively.
- Peru has an ease of doing business rank of 50 from the World Bank. This compares to 36 for Mexico and 116 for Brazil. The World Bank ranks all its 189 member states.
- The World Economic Forum ranks Peru as country number 69 out of 140 in its Global Competitiveness Report. Mexico's score is 57 and Brazil's is 75.

Economic trends

- Peru's terms of trade have worsened 22% since early 2013, and its GDP growth, which had been around 6%, fell to barely 2% at the beginning of 2015. The decline in the terms of trade was mostly due to lower commodity prices.
- Lately GDP growth has accelerated, with GDP gaining 4.7% YoY in Q4 2015. Activity indicators suggest that the economy is experiencing decent growth at the beginning of 2016.
- The effective nominal value of the PEN declined 12% from 2013 to February 2016. Inflation has been around 3% per year in this period, slightly above the 2% target. This has broadly been in line with the average rate of inflation for Peru's trading partners. Hence the effective real exchange rate declined about the same as the nominal exchange rate from 2013 to February 2016.
- Peruvian public finances are solid, with gross debt amounting to 21% of GDP and net debt amounting to just 4% of GDP. The budget is just slightly in the red. Peru is rated A- by S&P.
- Monetary policy was eased from 2013 to early 2015. Since the end of 2015 monetary policy has been tightened, and the policy rate is now back to 4.25%.
- The recent drop in inflation – the headline measure was just above 4% - indicates that monetary policy is going to be kept at its current stance during 2016.
- The outcome of the first round of the presidential election caused the PEN to appreciate and the long-term yield to fall.
- The yield on long-term local currency bonds owned by SKAGEN Tellus rose about 1.5 percentage points from the end of 2014 to February 2016. Since then the yield has declined by about 1 percentage point. The bond matures in 2037 and currently yields 7%.
- The major task for the new president and the new congress is to further liberalise the economy.

Politics

- Ollanta Humala, who belongs to the left-wing Peru Wins party, is in the final months of his last term as president. Contrary to his policy pledges, Humala did not roll back market friendly reforms. But during his stewardship Peru did not further liberalise its economy.
- After the first round of the 2016 presidential election, the battle is between Keiko Fujimori, daughter of the former, corrupt and currently jailed, president Alberto Fujimori, and Pedro Kuczynsky, a former reformist premier and cabinet member. Both are formally on the right side of the political spectrum, but Fujimori is a social democrat and Kuczynsky is a liberal. The outcome of the second round is a close call, but opinion polls suggest that Kuczynsky has an edge.
- The former influential Maoist guerrilla group Shining Path now has only a minor political impact. Remaining activists are mostly involved in drug trafficking.



Outgoing president Ollanta Humala

Terms of Trade



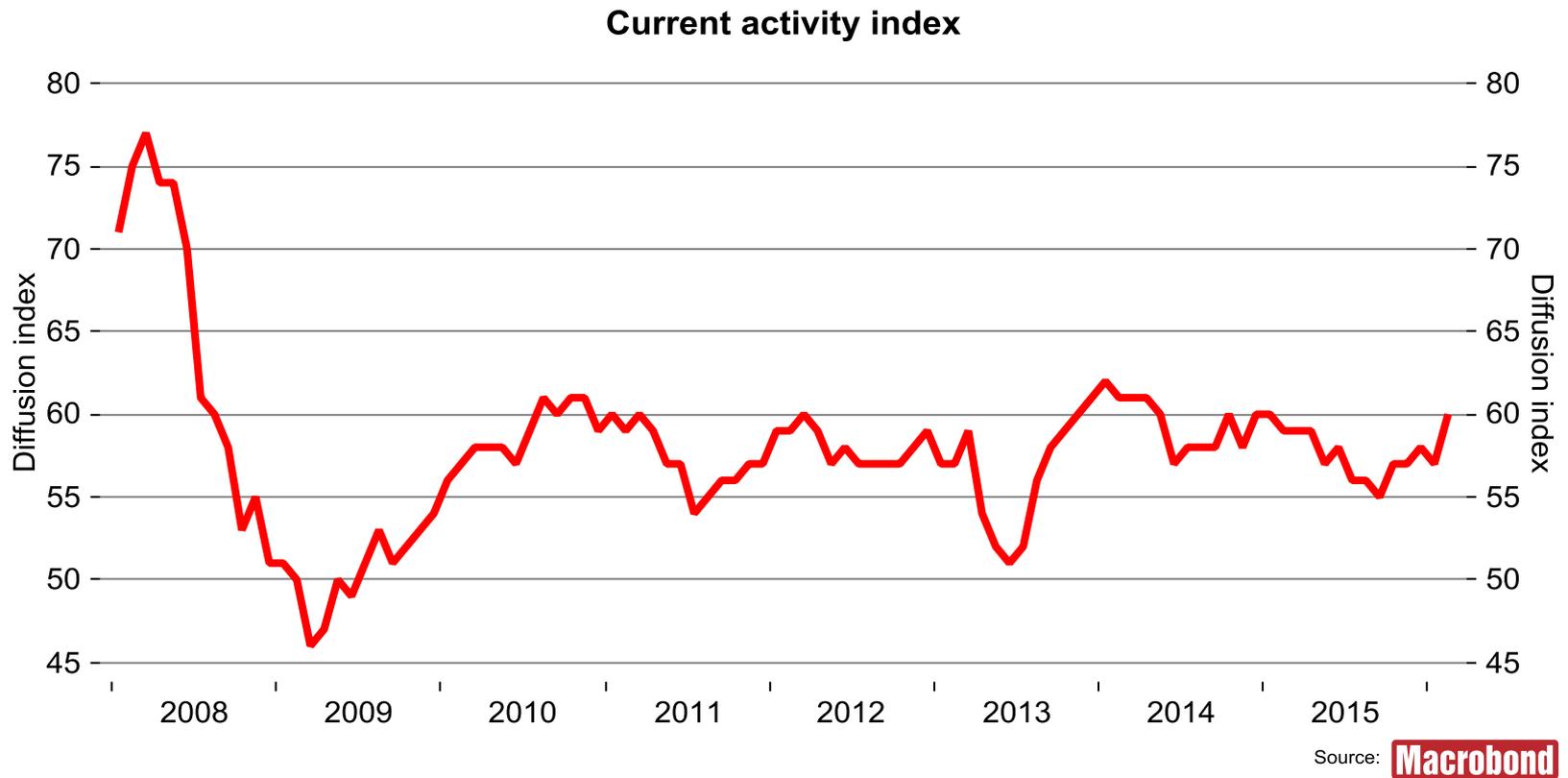
Source: **Macrobond**

GDP growth



Source: **Macrobond**

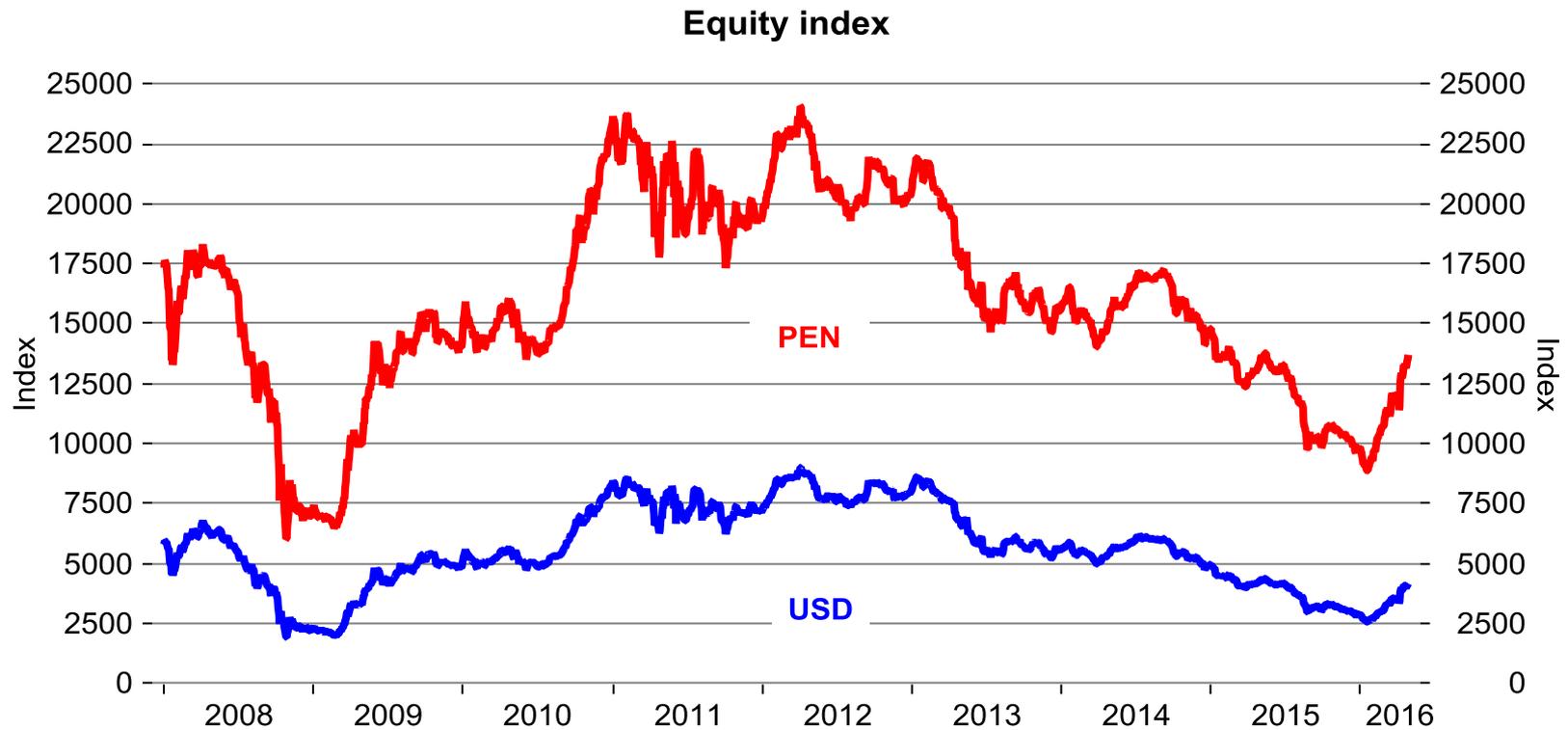
Current situation



Economic expectations

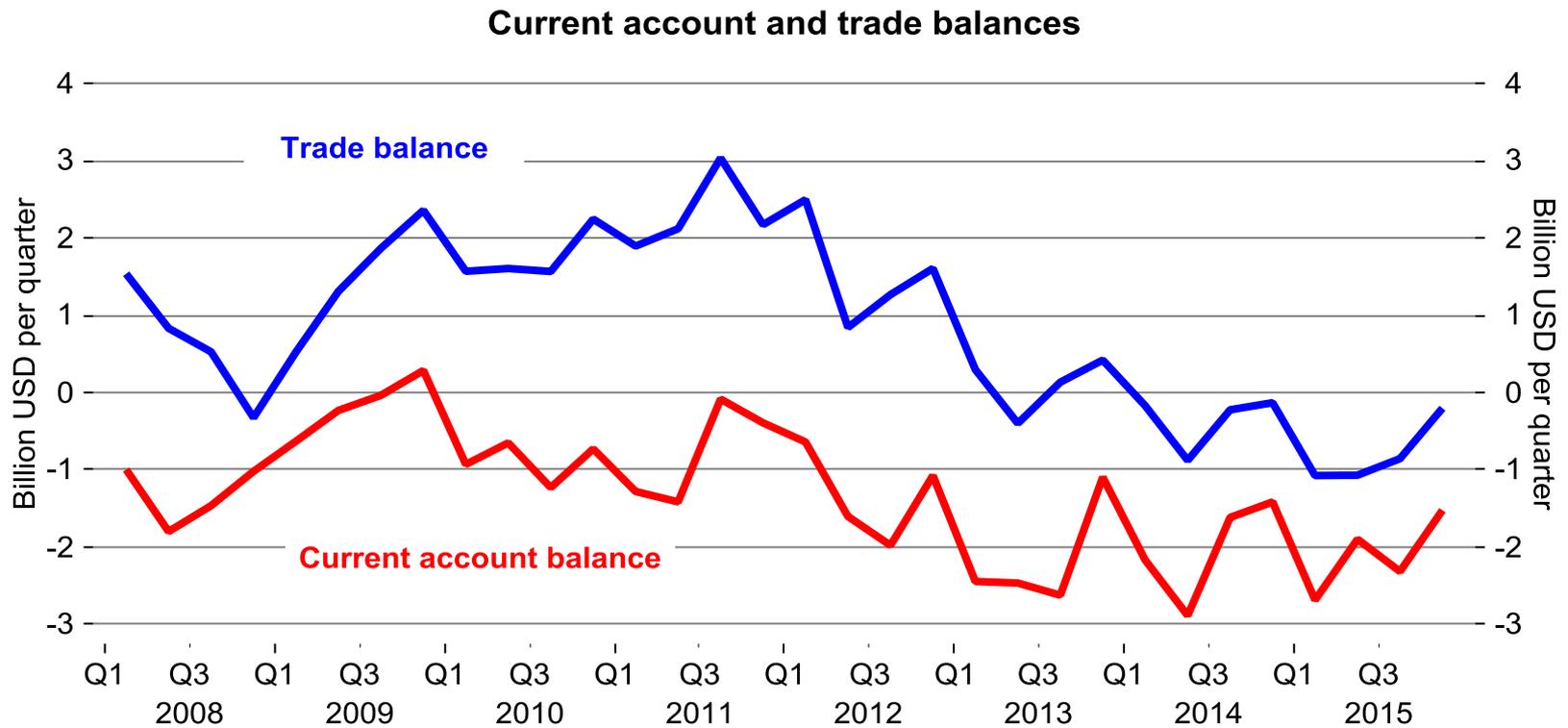


Stock market



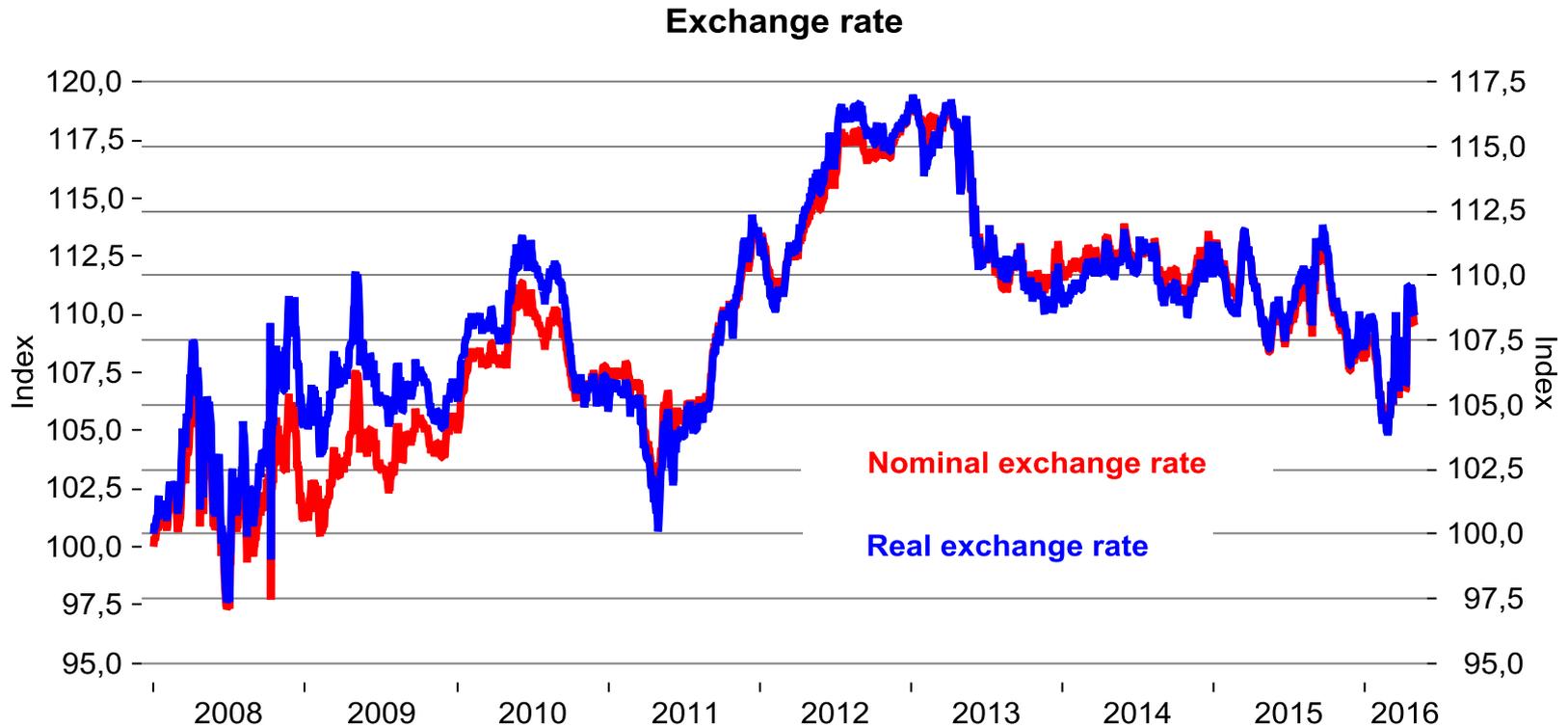
Source: **Macrobond**

Current account and trade balances



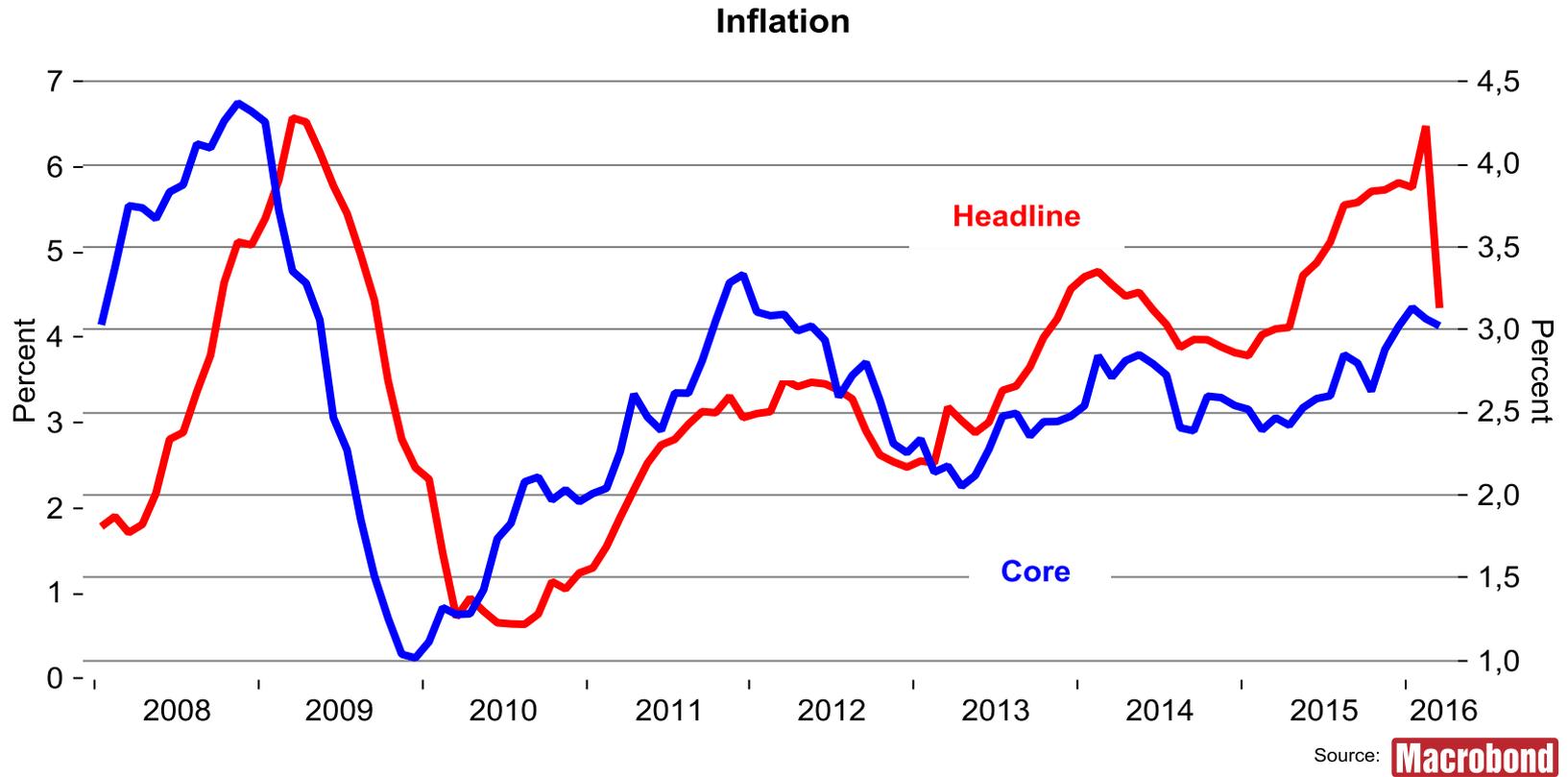
Source: **Macrobond**

Exchange rate

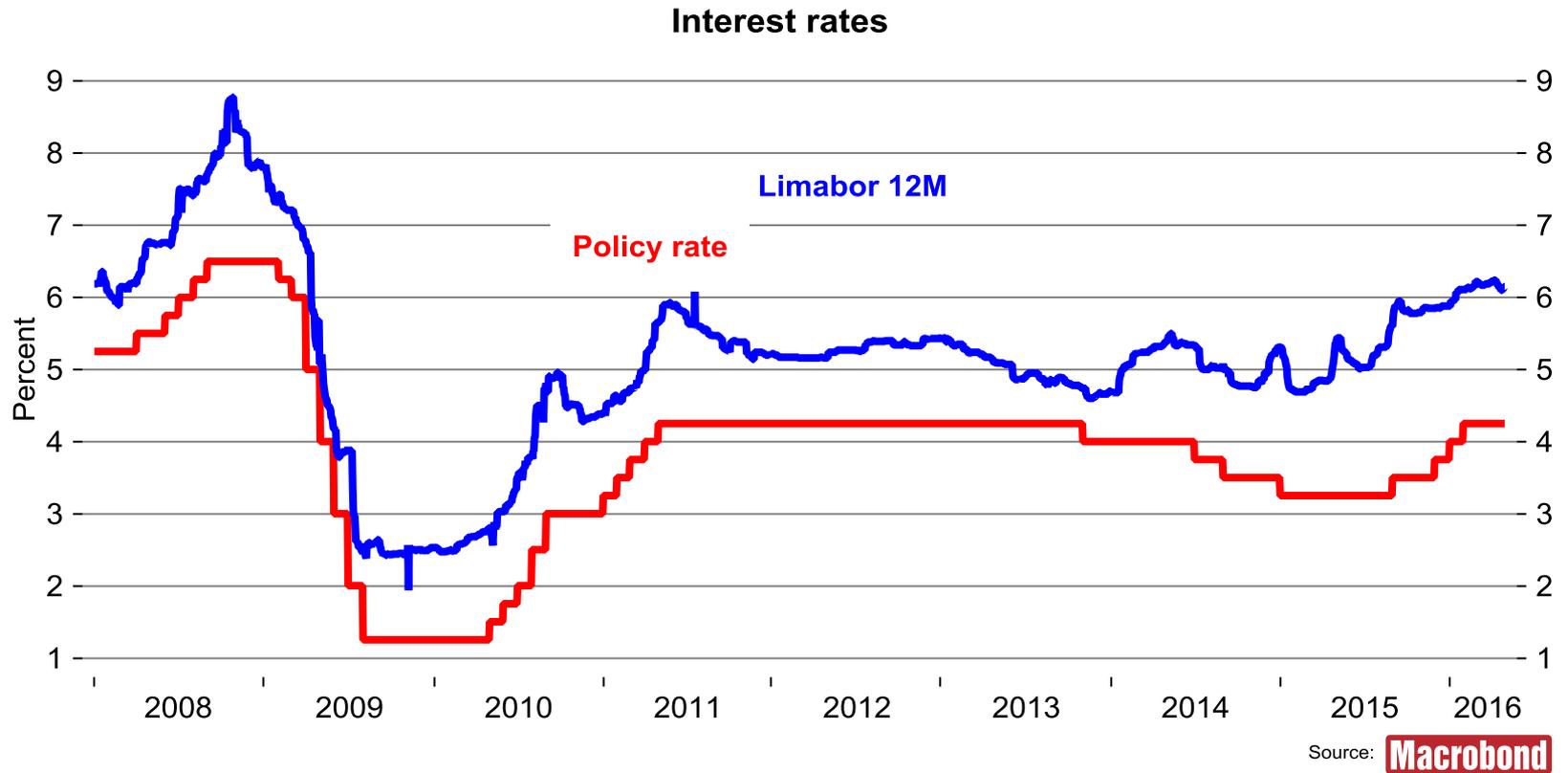


Source: **Macrobond**

Inflation



Short-term interest rates



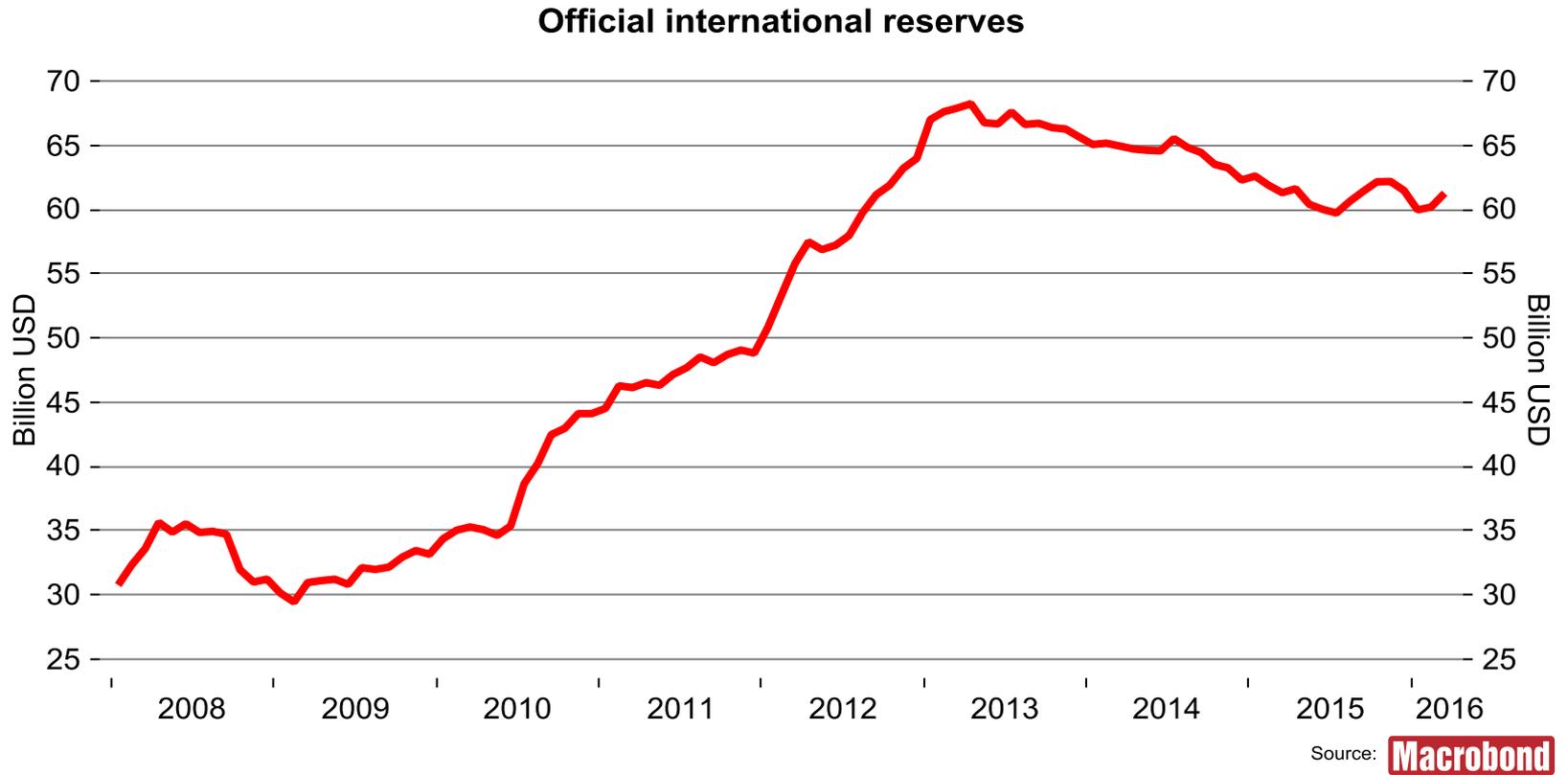
Tellus' Peruvian bond

The price of the bond owned by Tellus

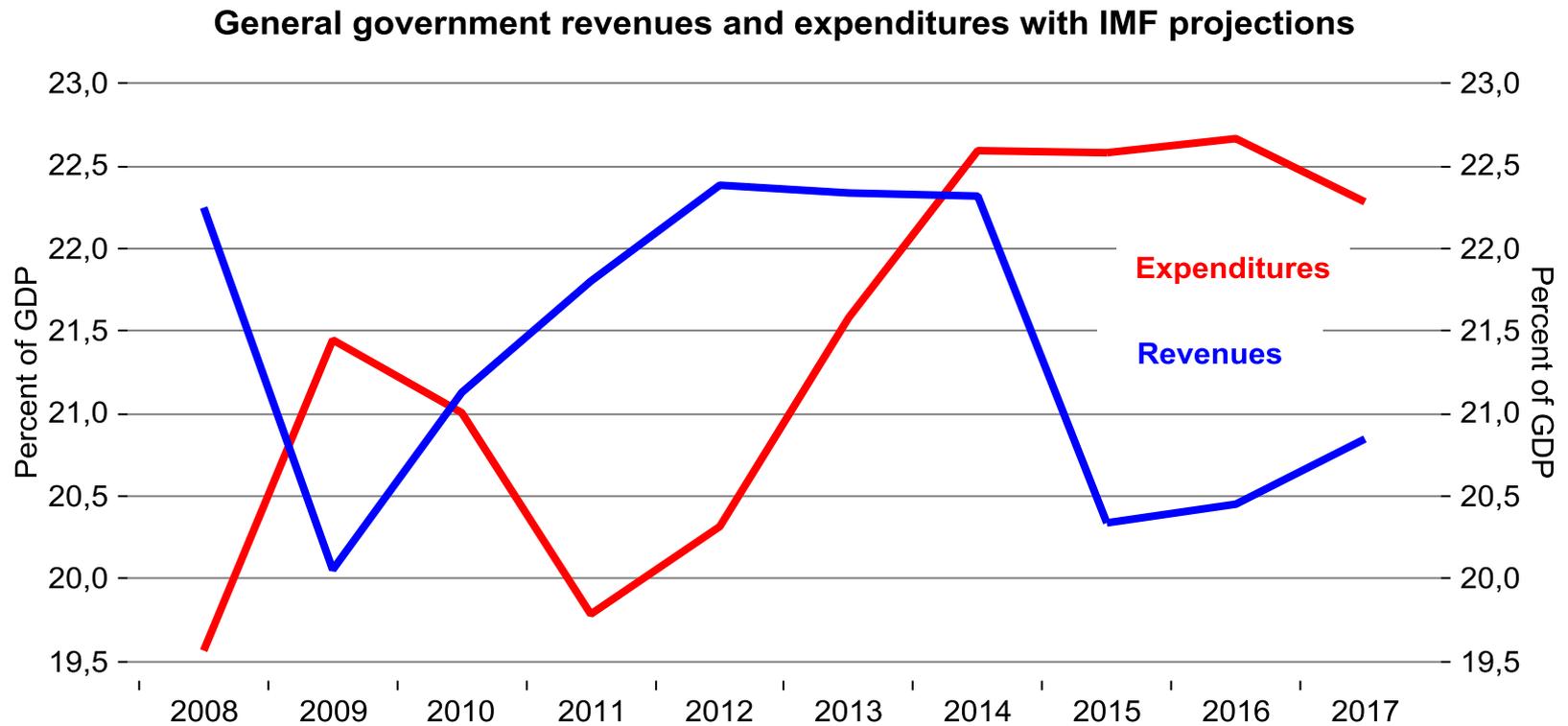


Source: **Macrobond**

International reserves



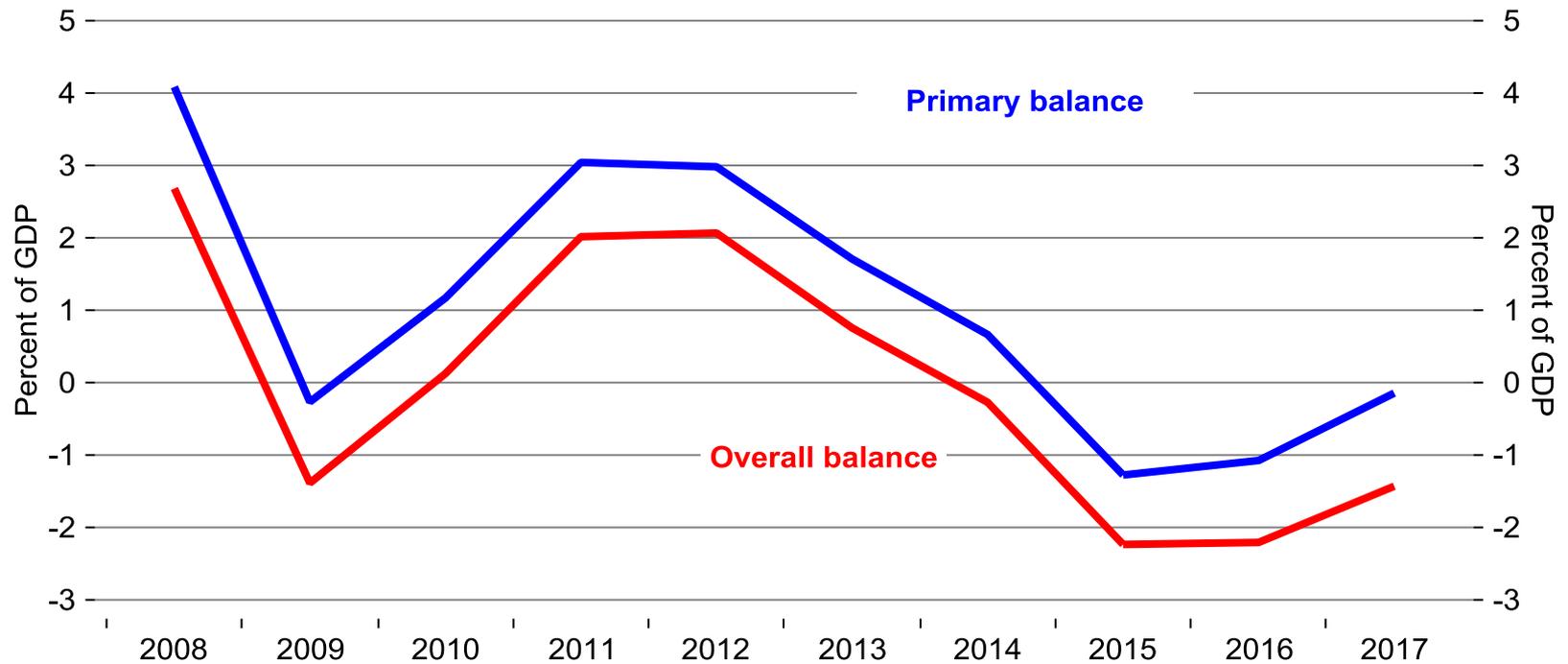
Government income and spending



Source: **Macrobond**

Government budget balances

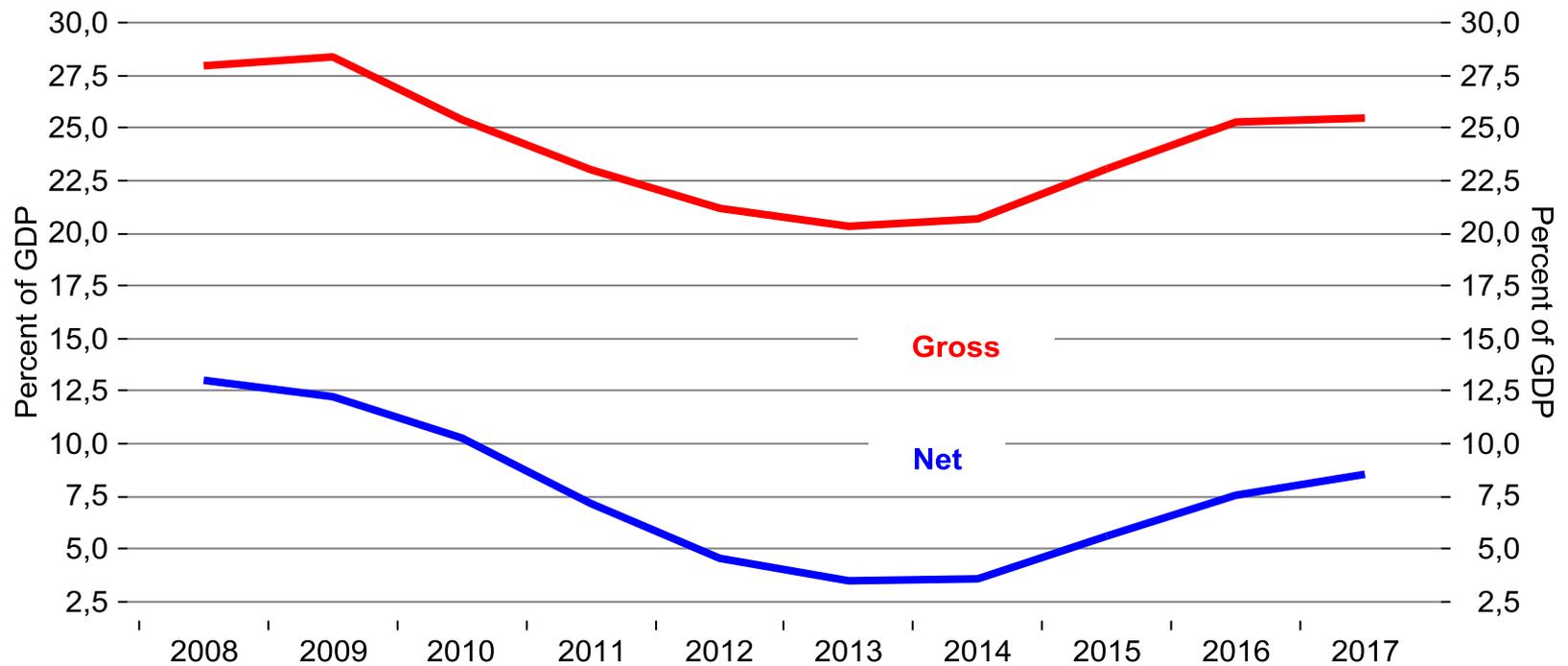
General government budget balance with IMF projections



Source: **Macrobond**

Public debt

General government debt with IMF projections



Source: **Macrobond**

For more information please see:

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

[SKAGEN's Market report](#)

[Latest comments by Torgeir Høien](#)

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.

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.

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