



Interior, Brøddums annex, 1916/17, Detail, By Anna Ancher, one of the Skagen Painters. This image belongs to the Art Museums of Skagen

SKAGEN Tellus

Status Report August 2016

The art of common sense



Key numbers as of 31 August 2016

EUR, net of fees

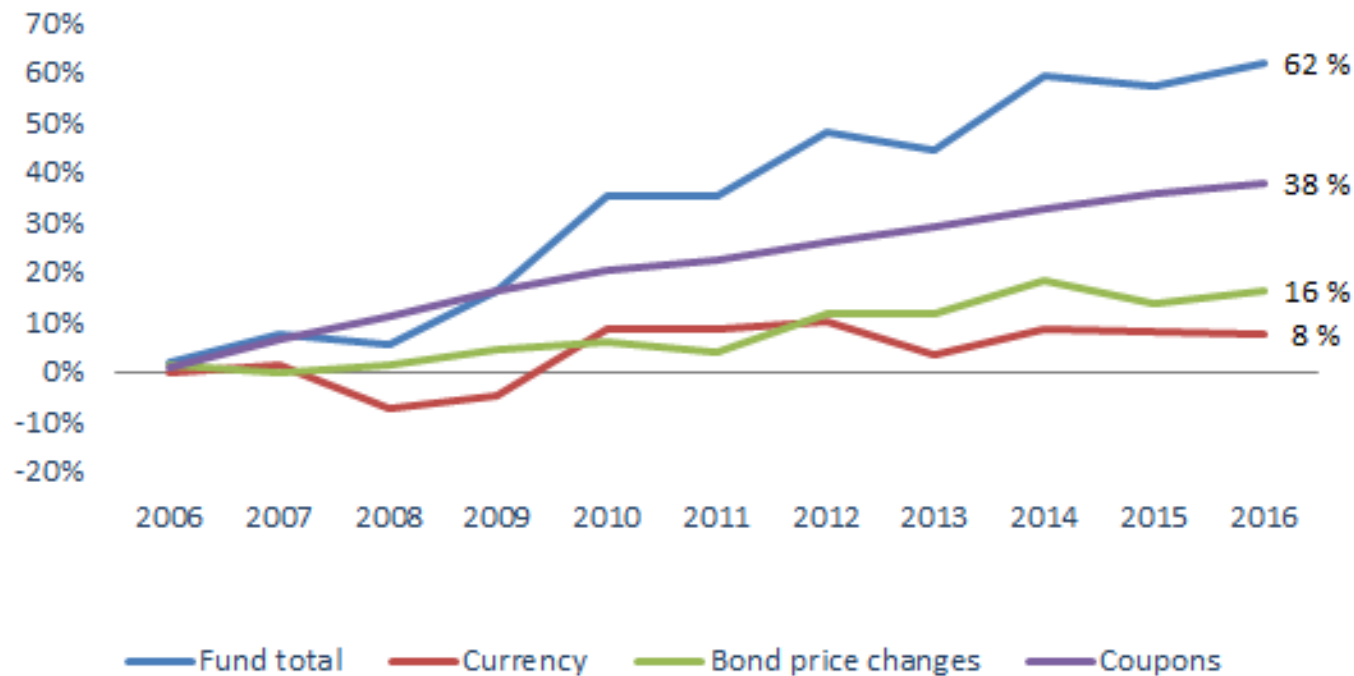
	August	QTD	YTD	1 years	3 years	5 years	Since inception*
SKAGEN Tellus	0,5%	0,6%	4,2%	4,7%	4,6%	5,5%	5,4%
JPM Broad GBI Unhedged *	-0,4%	-0,5%	7,3%	10,4%	8,7%	5,4%	5,4%
Excess return	0,9%	1,1%	-3,1%	-5,7%	-4,1%	0,2%	0,0%

**Inception date: 29/09/2006*

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

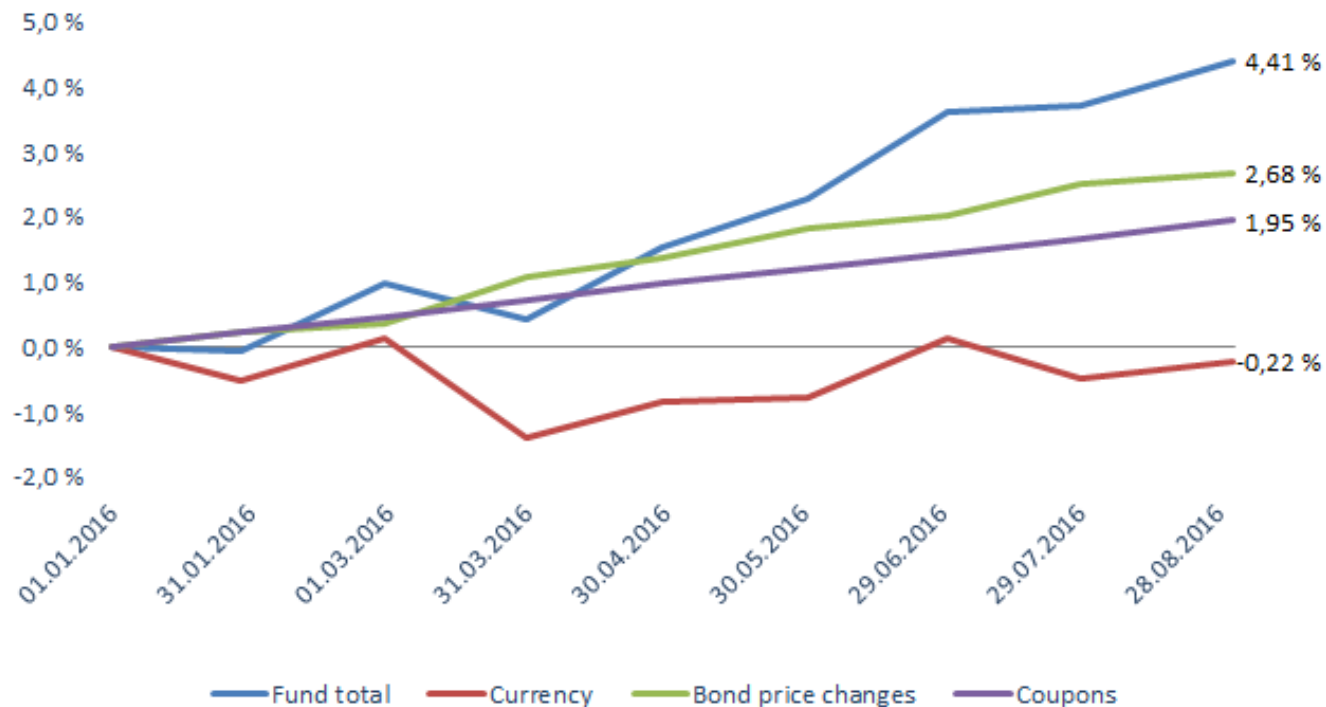
Unless otherwise stated, all performance data in this report relates to class A units, measured in EUR and is net of fees.

Accumulated returns since inception in EUR



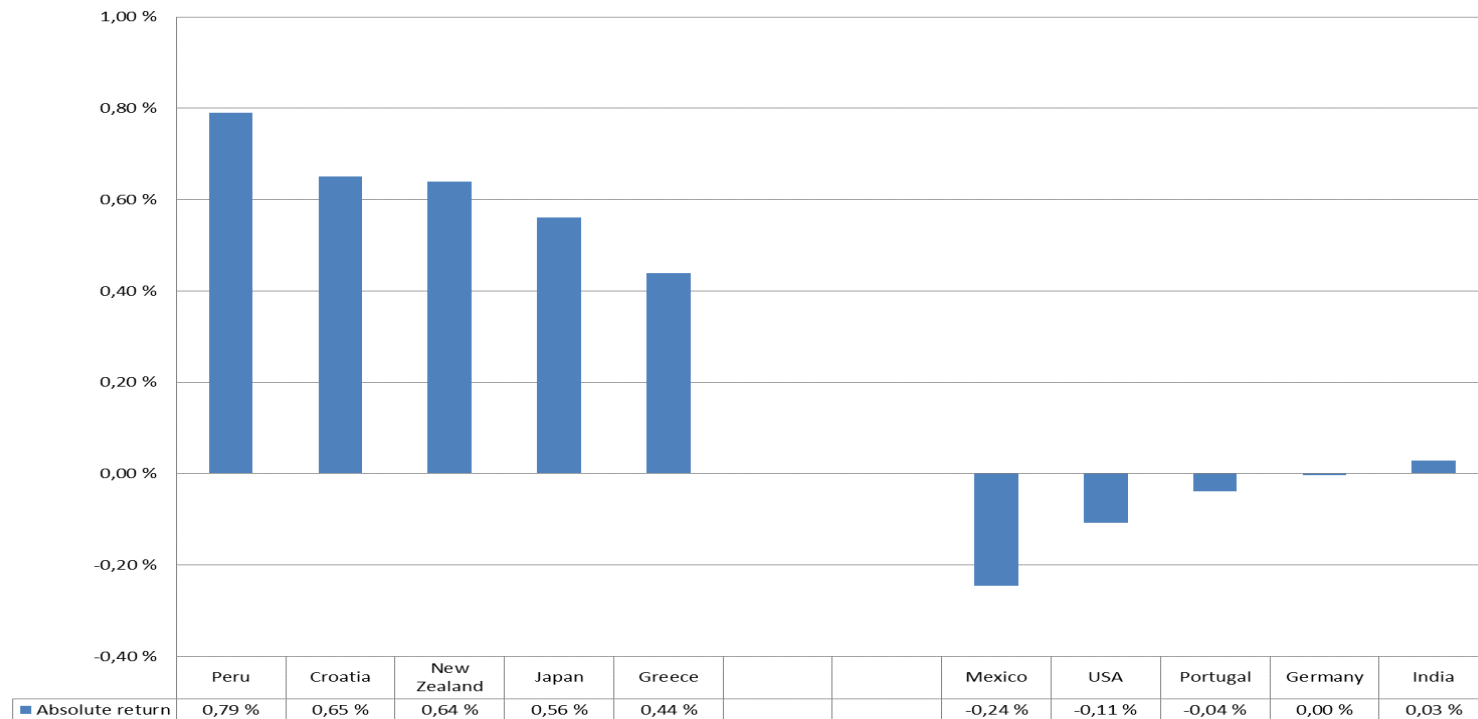
As of 31 August 2016

Accumulated returns year to date in EUR



As of 31 August 2016

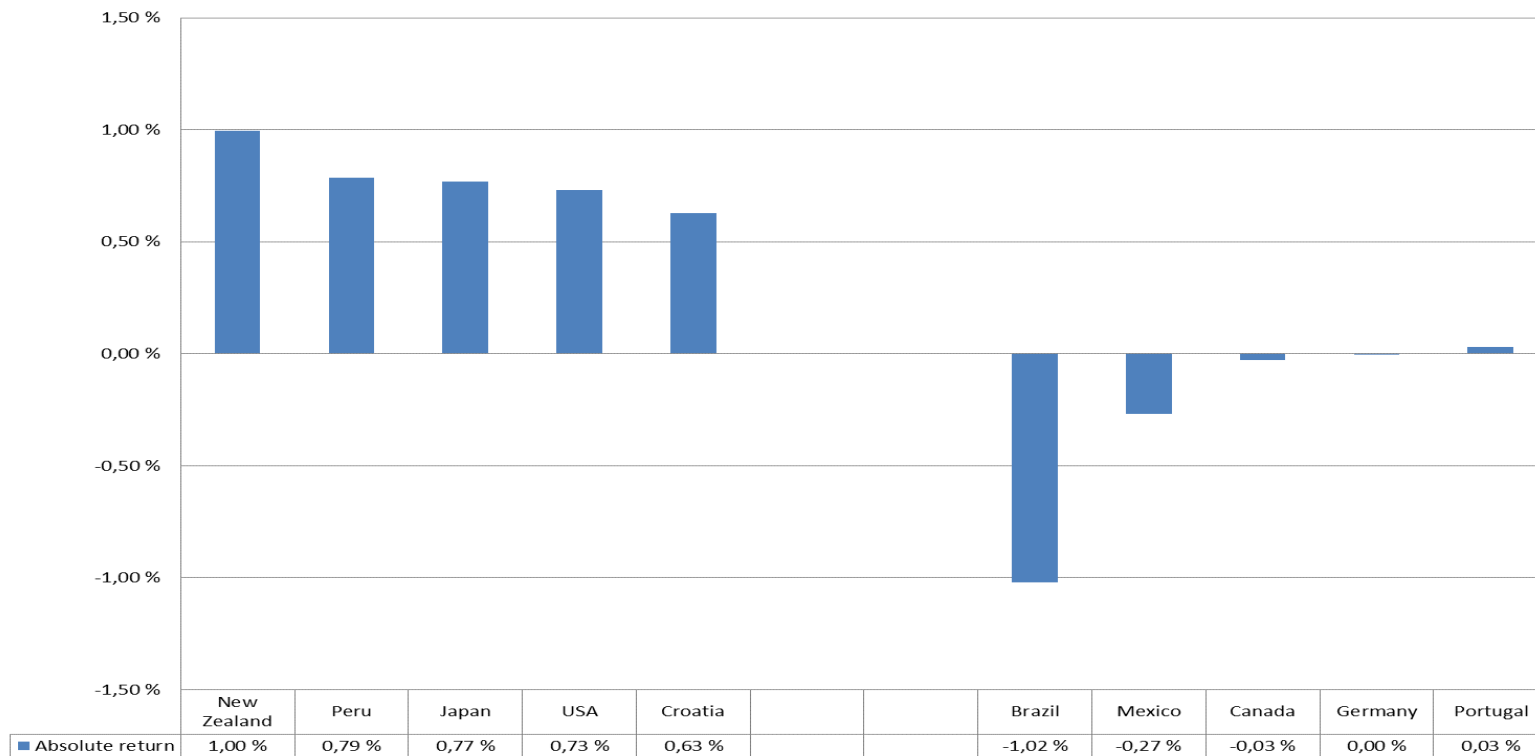
Top 5 best and worst contributors year to date



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

As of 31 August 2016

Top 5 best and worst contributors last 12 months

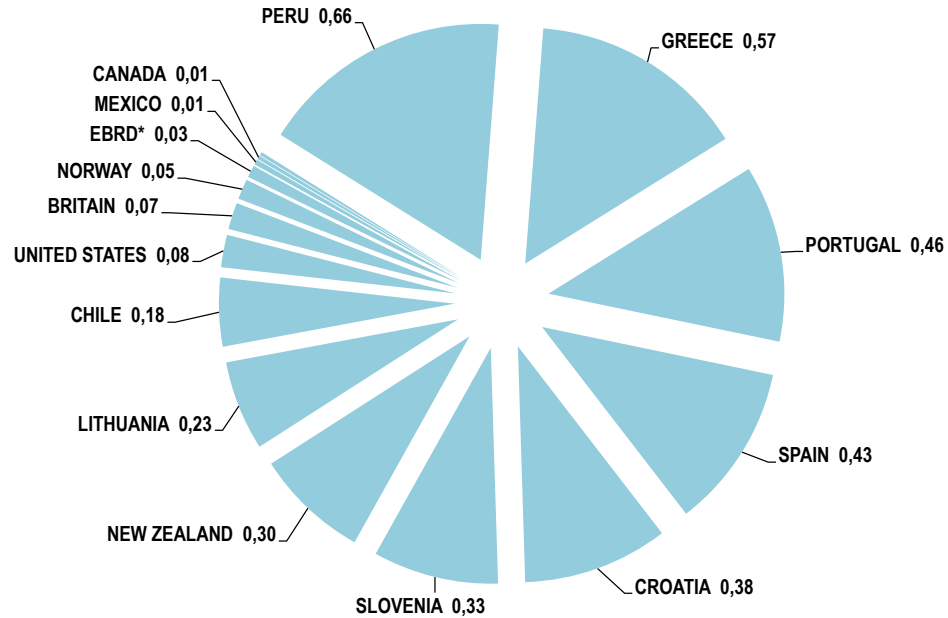


As of 31 August 2016

Portfolio as of 31 August 2016

Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	10800		8,0 30.06.2017	0,6
US Government	USD	10000		7,5 30.11.2016	0,9
Croatia Government International Bond	EUR	8300		7,4 30.05.2022	3,9
Norwegian Government	NOK	80000		7,4 19.05.2017	4,3
Portugese Government	EUR	7000		6,0 15.10.2025	2,9
Peruvian Government	PEN	25000		6,0 12.08.2037	6,9
Canadian Government	CAD	10000		5,7 01.11.2016	1,0
New Zealand Government	NZD	8000		5,4 17.04.2023	5,5
Spanish Government	EUR	6000		5,3 30.04.2025	1,6
Chilean Government	CLP	4410000		5,2 05.08.2020	5,5
Lithuanian Government	USD	5500		5,1 01.02.2022	6,6
UK Government	GBP	5000		4,9 07.09.2017	1,0
UK Government	GBP	5000		4,9 23.01.2017	1,8
Mexican Government	MXN	120000		4,9 15.12.2016	7,3
Hellenic Republic Government	EUR	9000		4,7 24.02.2035	3,0
Slovenia Government	EUR	3500		4,1 30.03.2026	5,1
European Bank Recon & Dev	INR	200000		2,3 19.03.2018	5,8
German Government	EUR	2000		1,7 10.03.2017	0,0

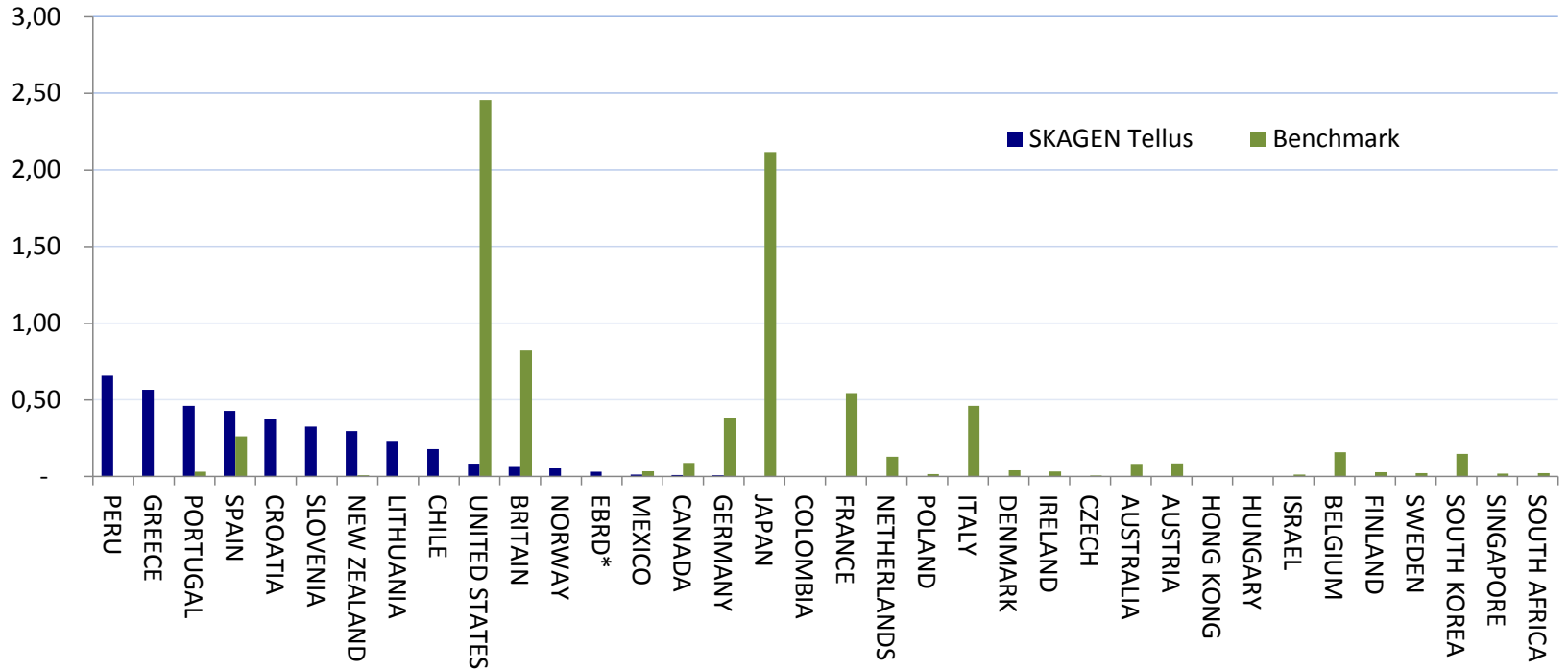
Interest rate risk exposure



EBRD* : European Bank of Reconstruction & Development

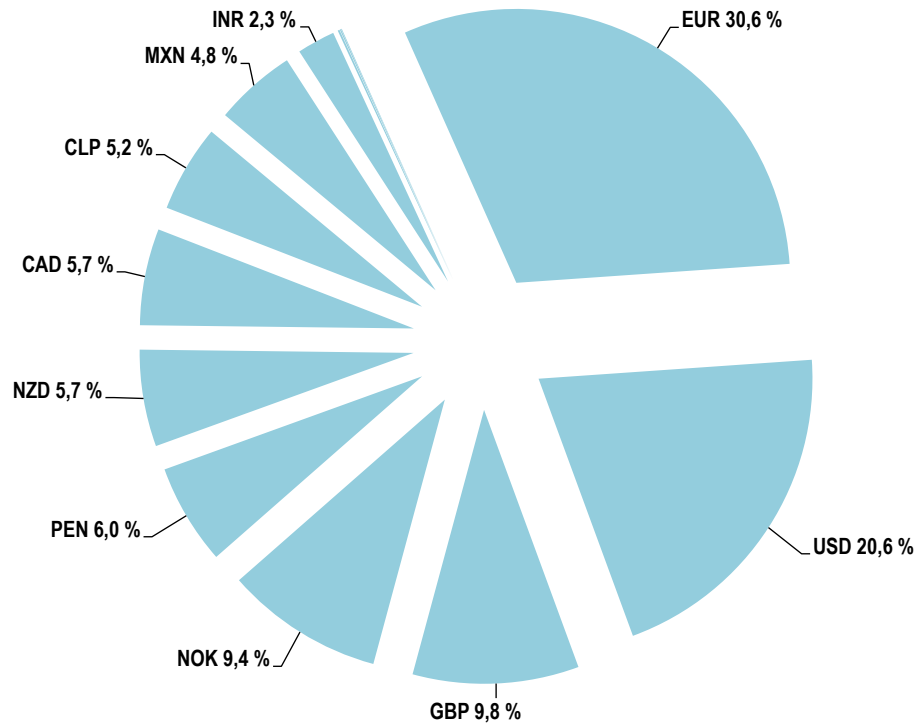
As of 31 August 2016

Interest rate exposure relative to benchmark



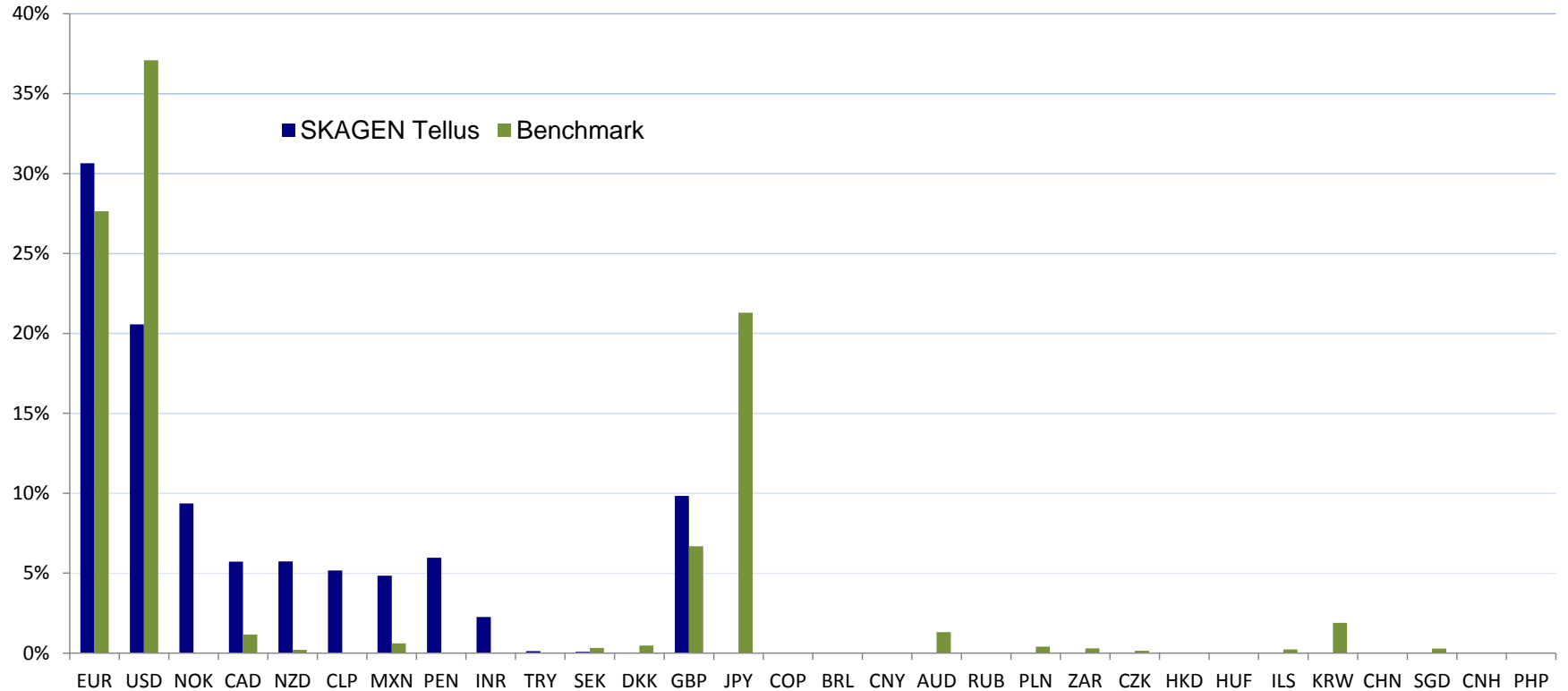
As of 31 August 2016

Currency exposure



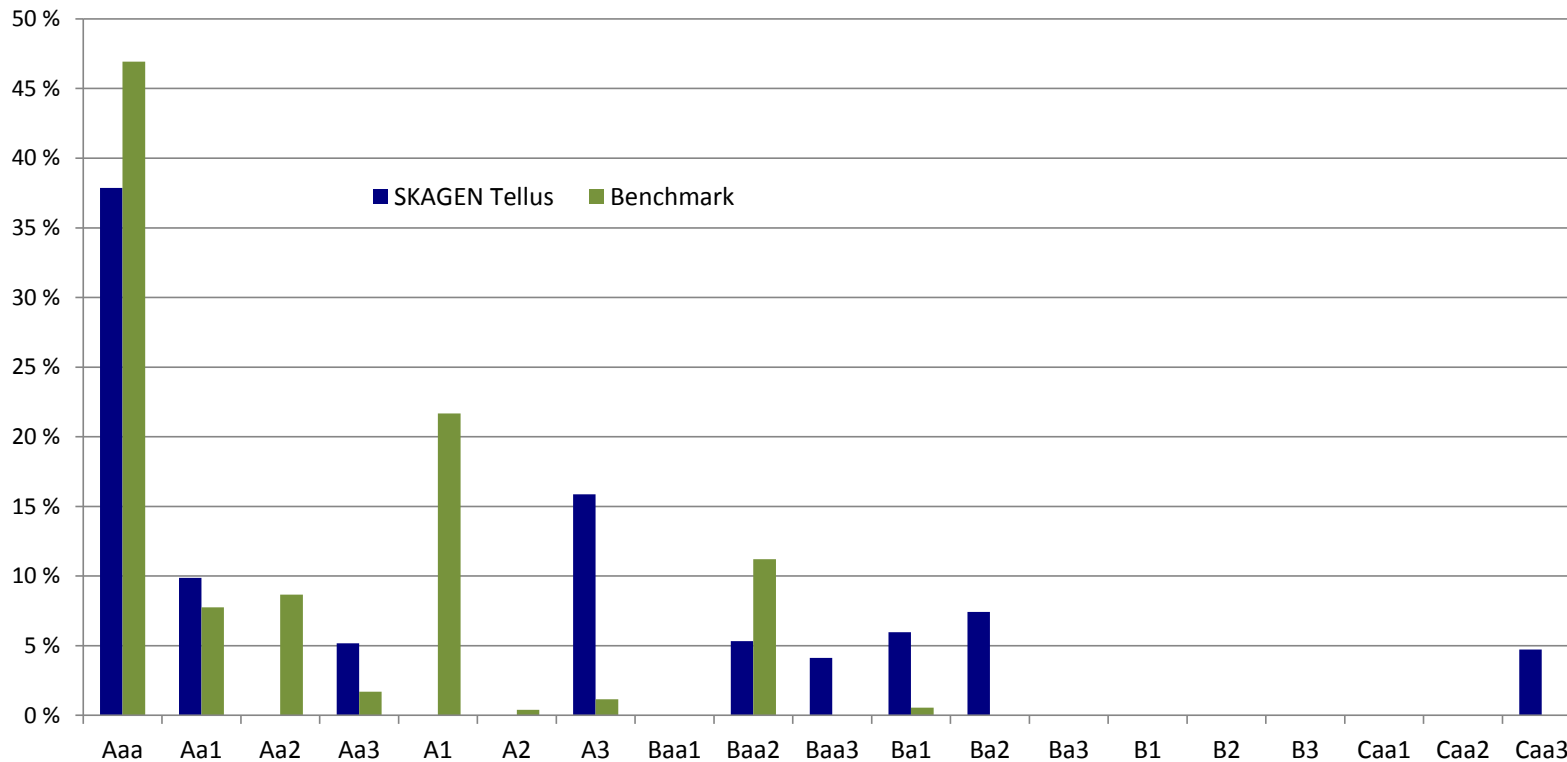
As of 31 August 2016

Currency exposure relative to benchmark



As of 31 July 2016

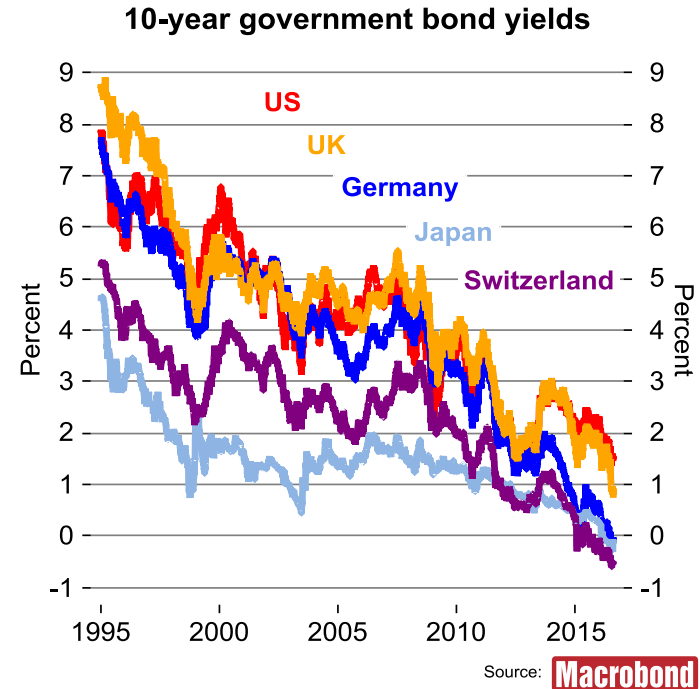
Moody's rating on Tellus' portfolio relative to benchmark



As of 31 August 2016

Why are government bond rates so low?

- It is widely known that government bond yields are currently very low, clustering around zero for maturities up to 10 years.
- Yields have fallen significantly since the start of the great recession. However, lower bond yields are not just a recent phenomenon. Long-term interest rates have been on a downward trend since the early 80s. The US Treasury's 10-year bond, for example, which now yields 1.5%, yielded 15.8% when it peaked in September 1981.
- Why is it that long-term interest rates have fallen so much, and what lies in store for the coming years?



Embracing the “Brexit” opportunity

- Despite the June EU referendum it is still unclear if and when the UK will leave the EU.
- It is also unclear what kind of international trade status the UK will have after a potential exit from the EU, and what the long-term economic and fiscal effects of an exit will be. An exit is unlikely to happen before the end of 2019.
- Markets are pricing in a significant risk that the UK will exit and that the economic consequences of an exit will be negative, not just in the short term but also in the medium to long run.
- *The contrarian bet, which is our bet, is that the UK ends up staying in the EU, or that if the UK leaves, the economic and fiscal implications are more benign than expected.*
- How do we play this bet? By buying short-dated British bonds on the anticipation of a stronger pound.



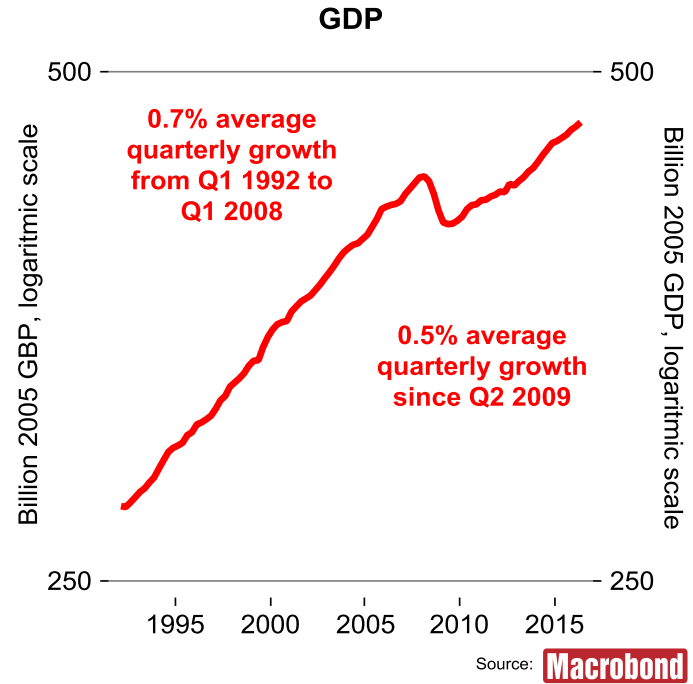
The pound is likely to appreciate again

- The pound has depreciated 10 percent in real trade-weighted terms since the EU referendum and it is down 15 percent since its recent high in 2015.
- The dip is probably due to higher economic and political uncertainty, a downward adjustment of long-term growth prospects and expectations of a more easy monetary policy.
- Whether so-called easy money causes a weaker currency and higher inflation is highly debatable, to say the least. The evidence from the UK since 2008 suggests otherwise.
- Indicators of economic activity since the EU referendum have mainly surprised on the upside.
- *Our view is that the pound will rebound toward its long-term trend.*

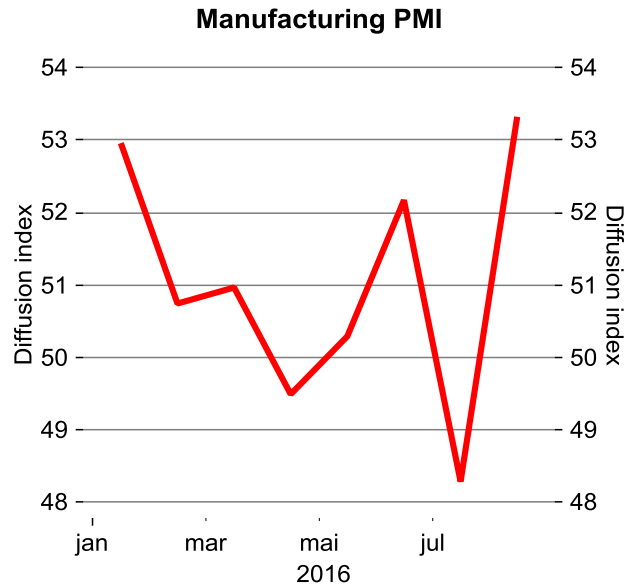


The UK isn't growing as fast as previously. The same is true of other advanced economies

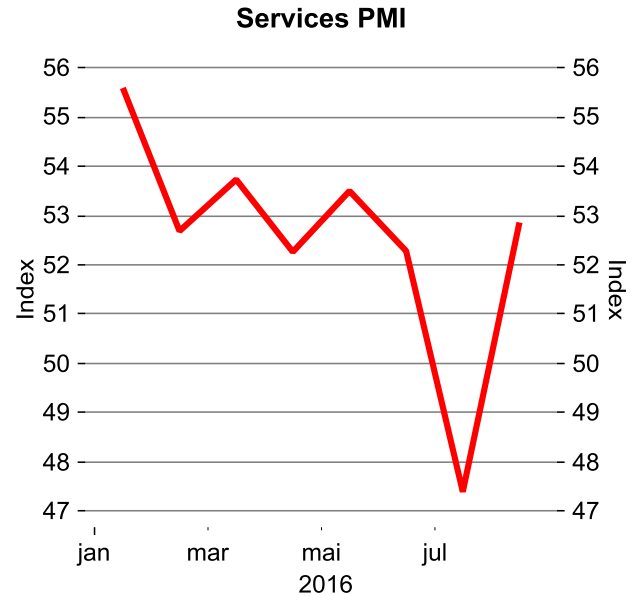
- As in most other advanced economies GDP has had lower trend growth after the recession than before the recession.
- With the unemployment rate normalized it is unlikely that there is much spare capacity in the economy. Trend GDP growth is probably bogged down by low efficiency growth and a slow capital accumulation.
- It is unclear what is behind this trend shift, and when the trend might shift up again.
- Note that this is not just a UK phenomenon. The same phenomenon is observed in the US, the Eurozone and in most smaller advanced economies.
- While UK trend growth is lower than it used to be, it is not lower than that of its peers.



Most indicators since the referendum have surprised on the upside



Source: **Macrobond**



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For more information please see:

[SKAGEN Tellus A on our web pages](#)
[SKAGEN's Market report](#)

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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