



*Interior, Brørdams 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 October 2016

The art of common sense



# Key numbers as of 31 October 2016

EUR, net of fees

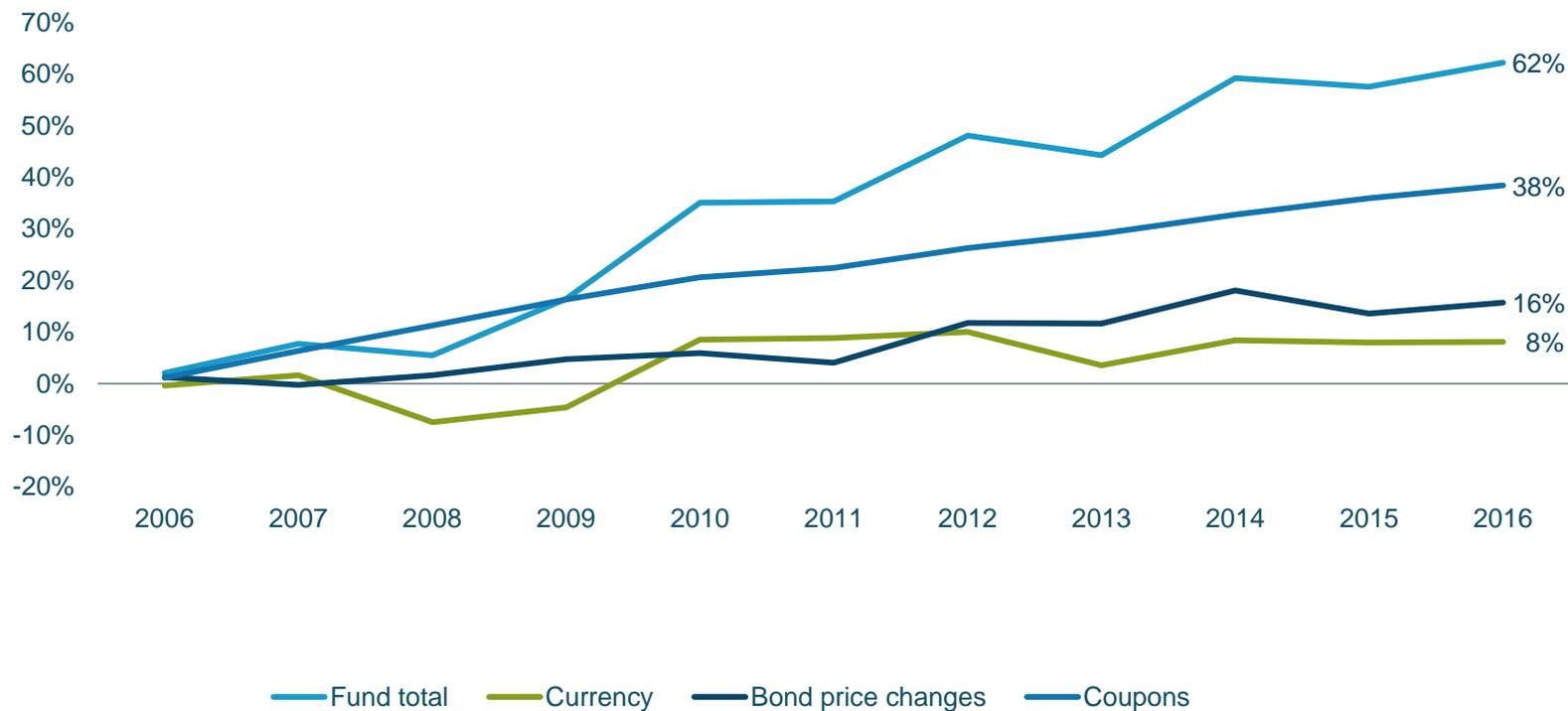
	October	QTD	YTD	1 years	3 years	5 years	Since inception*
<b>SKAGEN Tellus</b>	<b>0,4%</b>	<b>0,4%</b>	<b>4,3%</b>	<b>3,9%</b>	<b>5,1%</b>	<b>5,5%</b>	<b>5,3%</b>
<b>JPM Broad GBI Unhedged**</b>	<b>-1,0%</b>	<b>-1,0%</b>	<b>5,9%</b>	<b>6,4%</b>	<b>8,3%</b>	<b>4,8%</b>	<b>5,2%</b>
<b>Excess return</b>	<b>1,4%</b>	<b>1,4%</b>	<b>-1,6%</b>	<b>-2,5%</b>	<b>-3,2%</b>	<b>0,7%</b>	<b>0,1%</b>

\*Inception date: 29/09/2006

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

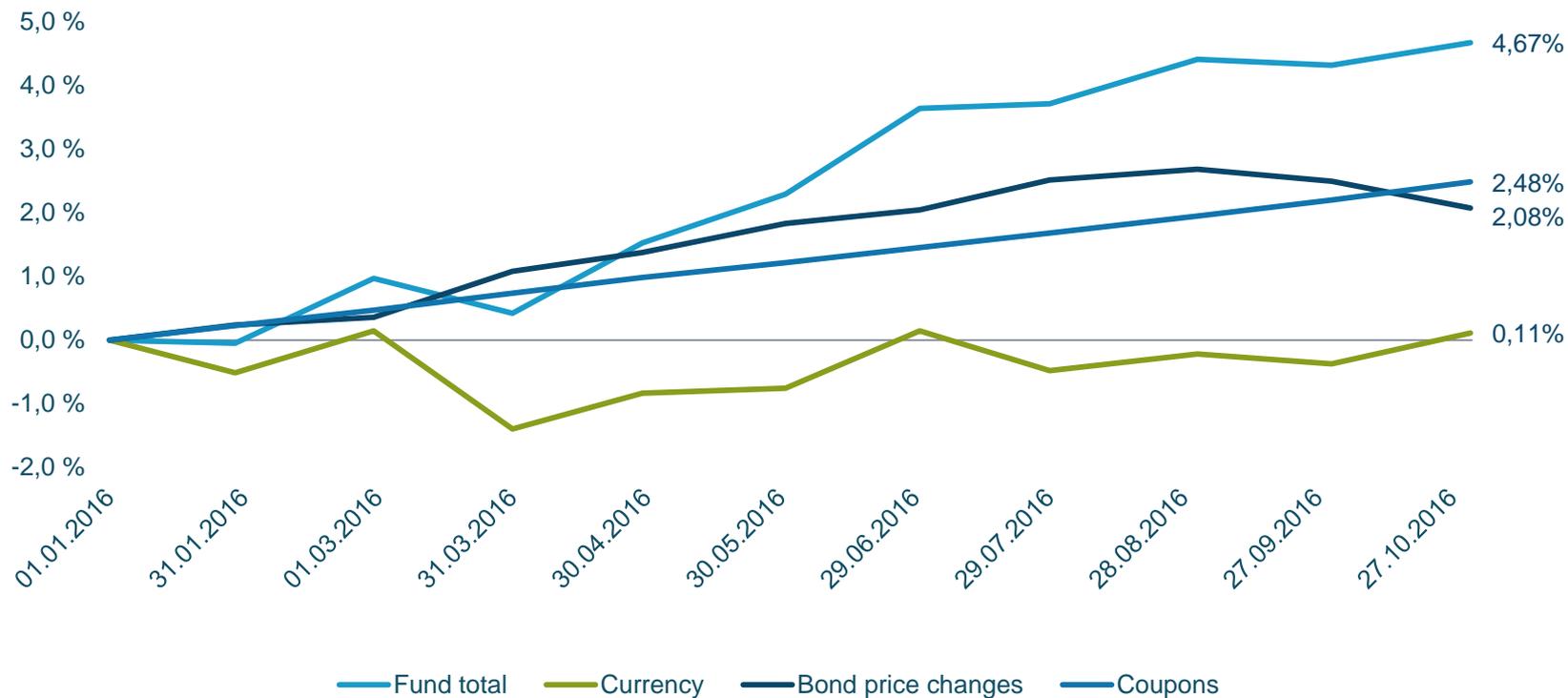
Unless otherwise stated, all performance data in this report relates to class A units, measured in EUR and is net of fees.

# Accumulated returns since inception in EUR



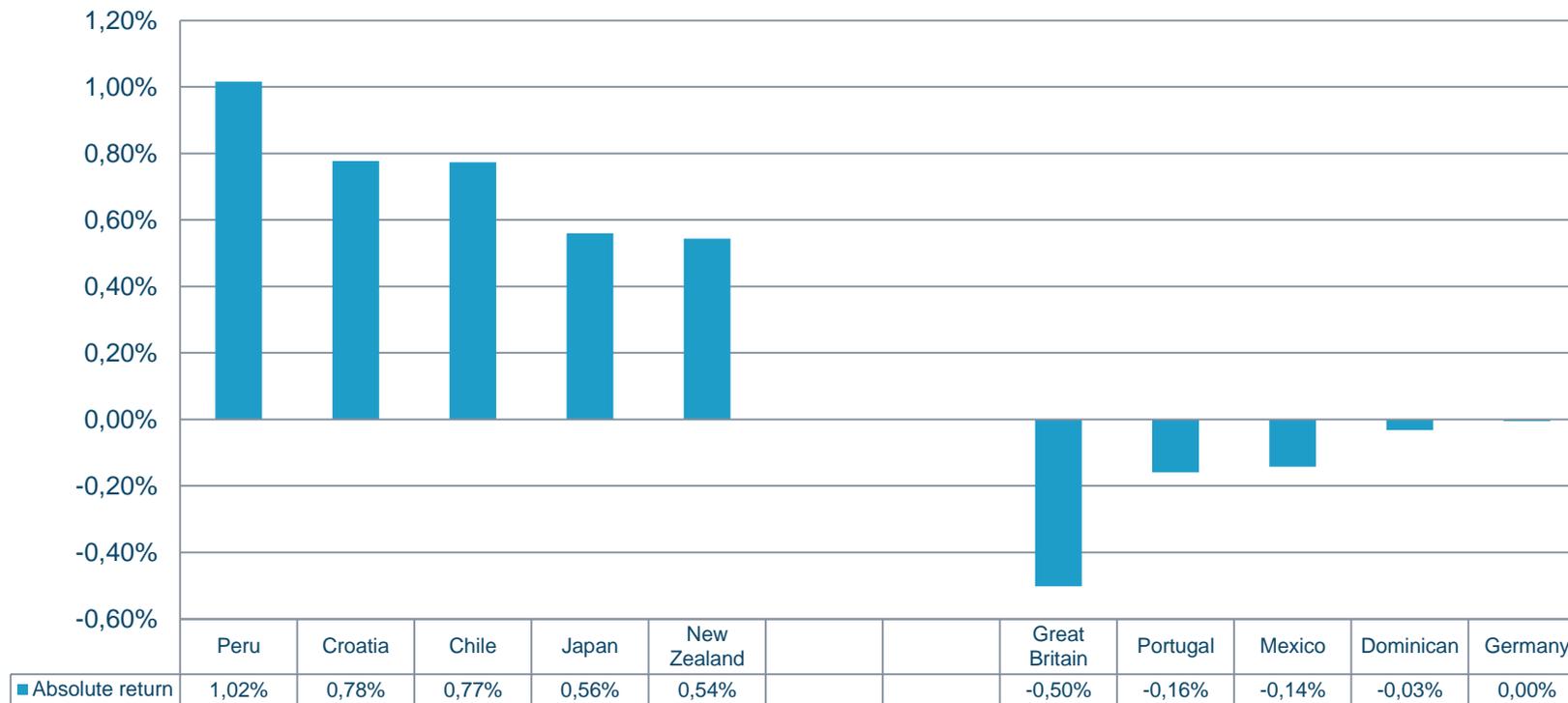
As of 31 October 2016

# Accumulated returns year to date in EUR



As of 31 October 2016

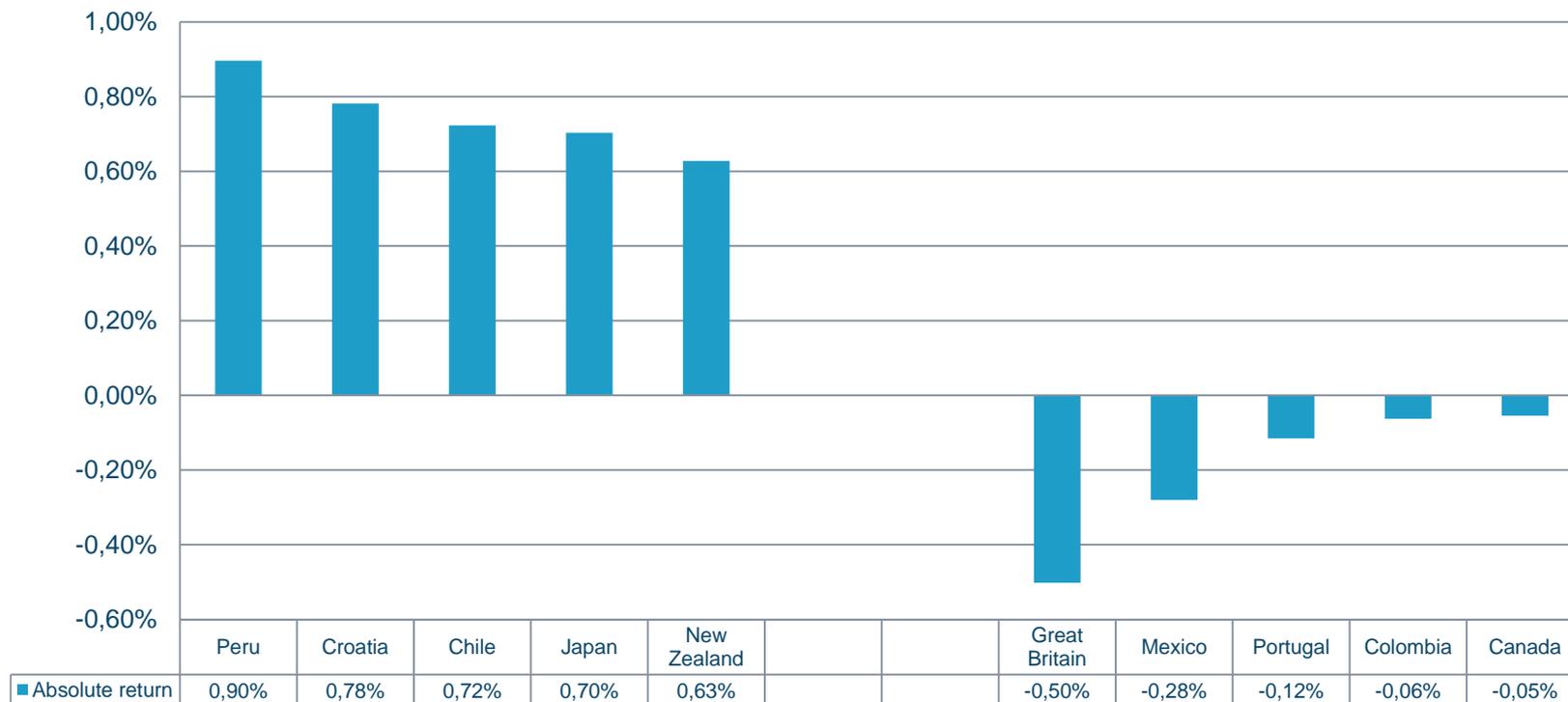
## Top 5 best and worst contributors year to date



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

As of 31 October 2016

# Top 5 best and worst contributors last 12 months



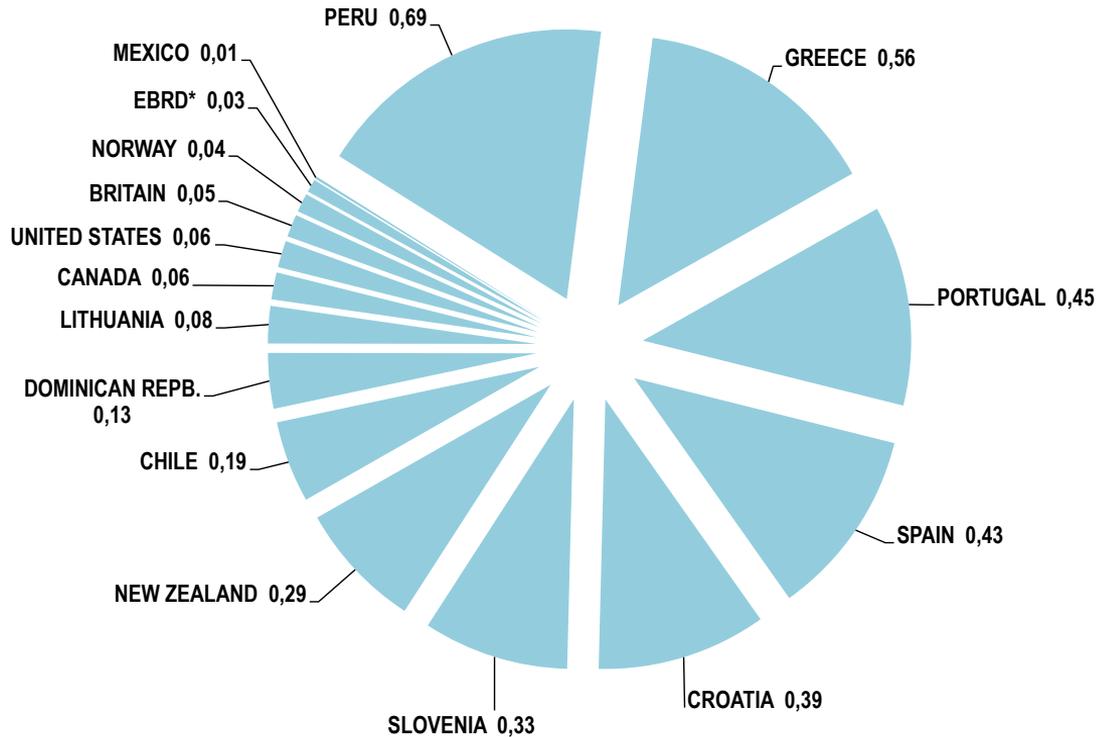
Contributing factors are interest coupons, bond price changes and currency fluctuations

As of 31 October 2016

# Portfolio as of 31 October 2016

Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	10800	8,4	30.06.2017	0,6
Norwegian Government	NOK	80000	7,8	19.05.2017	4,3
US Government	USD	10000	7,8	30.11.2016	0,9
Croatia Government International Bond	EUR	8300	7,7	30.05.2022	3,9
Peruvian Government	PEN	25000	6,3	12.08.2037	6,9
Portugese Government	EUR	7000	5,8	15.10.2025	2,9
Canadian Government	CAD	10000	5,8	01.11.2016	1,0
Chilean Government	CLP	4410000	5,7	05.08.2020	5,5
Spanish Government	EUR	6000	5,4	30.04.2025	1,6
New Zealand Government	NZD	8000	5,3	17.04.2023	5,5
Mexican Government	MXN	120000	5,1	15.12.2016	7,3
UK Government	GBP	5000	4,8	23.01.2017	1,8
UK Government	GBP	5000	4,8	07.09.2017	1,0
Hellenic Republic Government	EUR	9000	4,7	24.02.2035	3,0
Canadian Government	CAD	8000	4,7	01.03.2018	1,3
Slovenia Government	EUR	3500	4,2	30.03.2026	5,1
Dominican Republic	DOP	150000	2,8	10.05.2024	11,5
European Bank Recon & Dev	INR	200 000	2,4	19.03.2018	5,8
Lithuanian Government	USD	2 000	1,9	01.02.2022	6,6

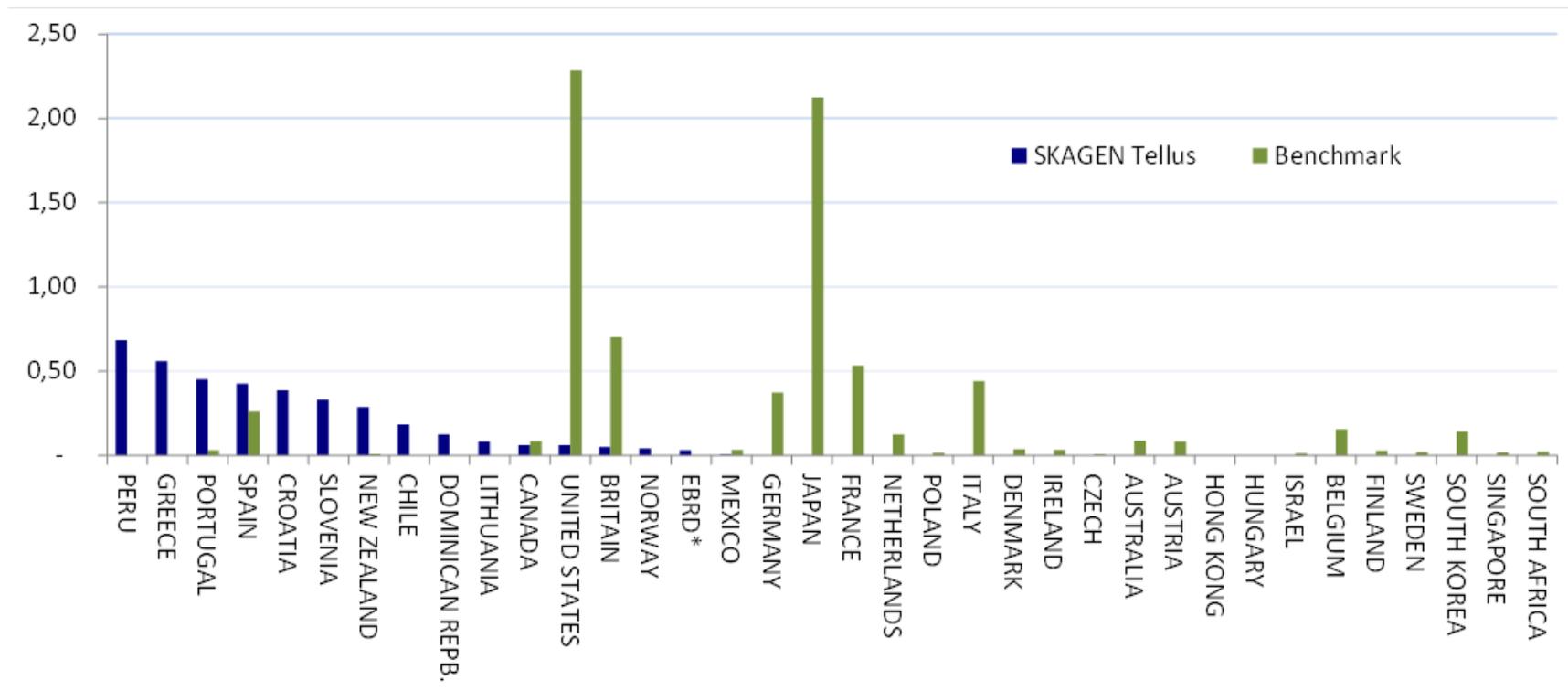
# Interest rate risk exposure



As of 31 October 2016

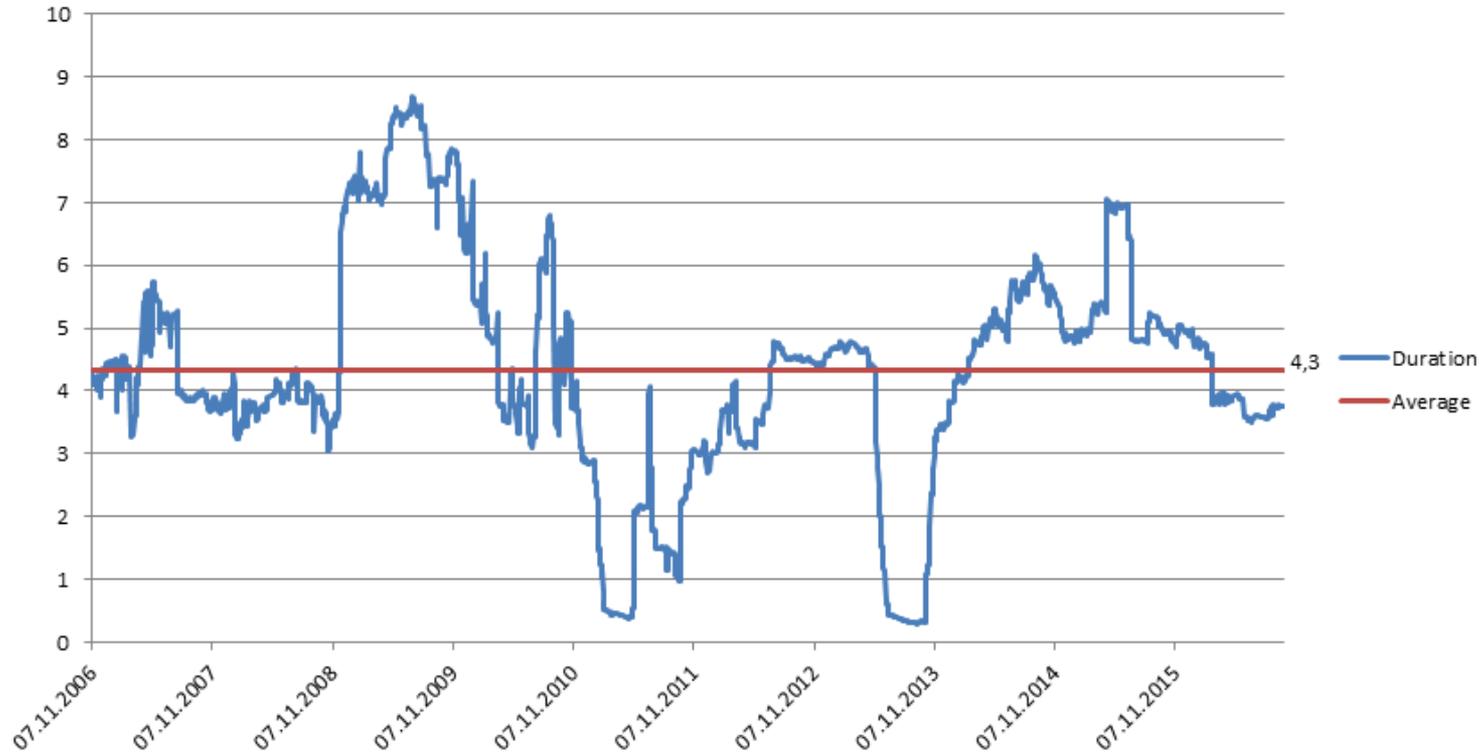
EBRD\* : European Bank of Reconstruction & Development

# Interest rate exposure relative to benchmark

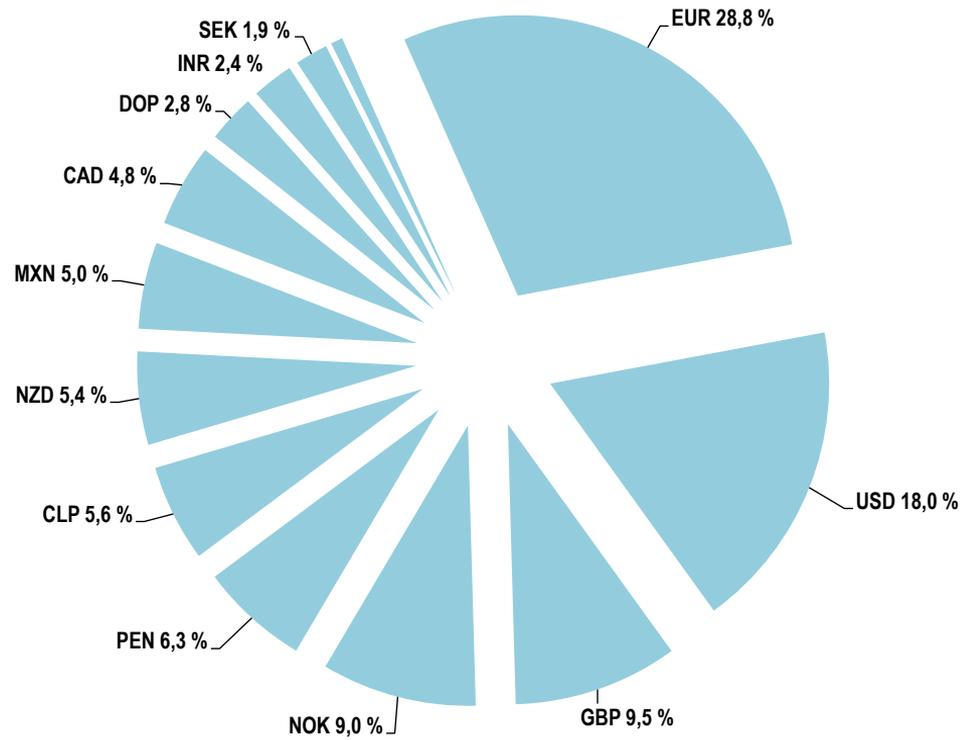


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# Interest duration since the fund's inception

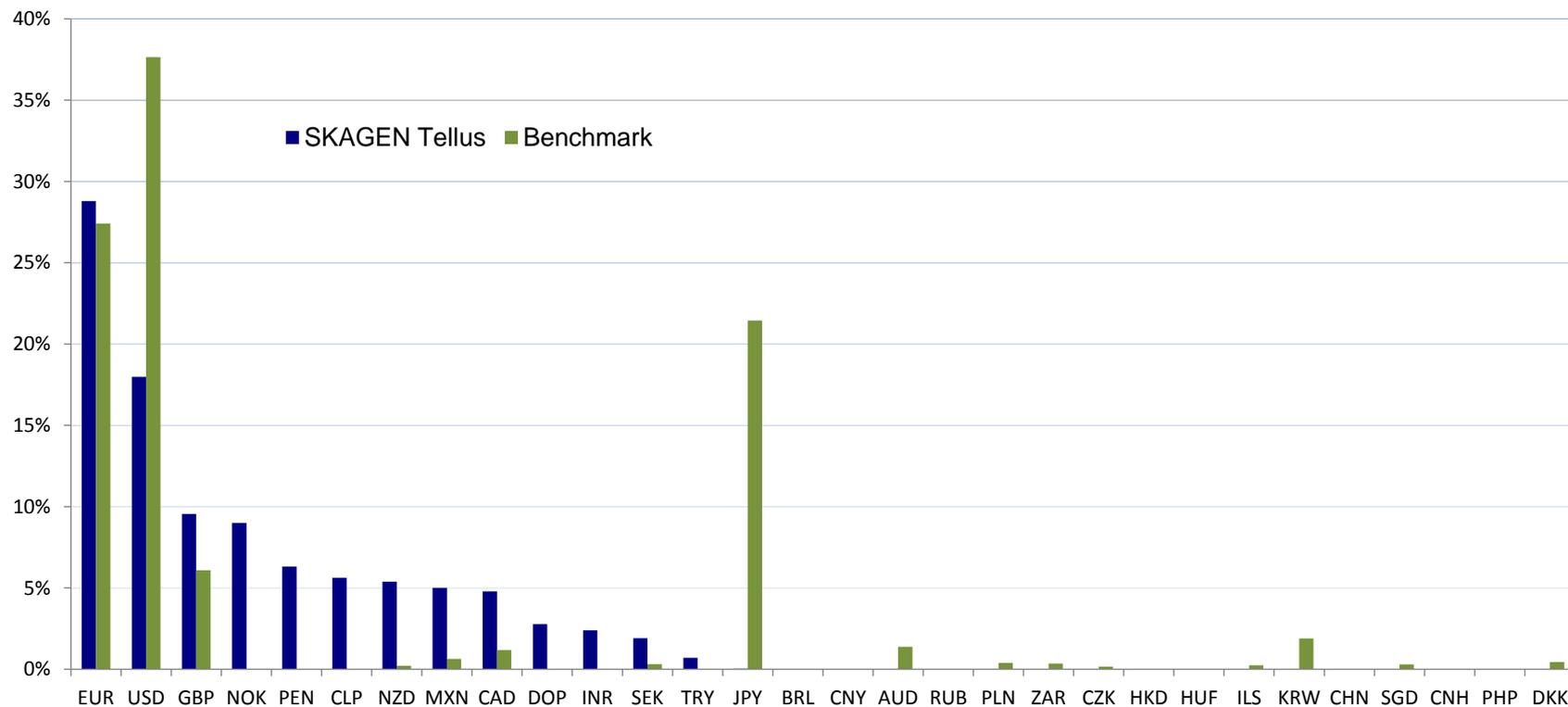


# Currency exposure



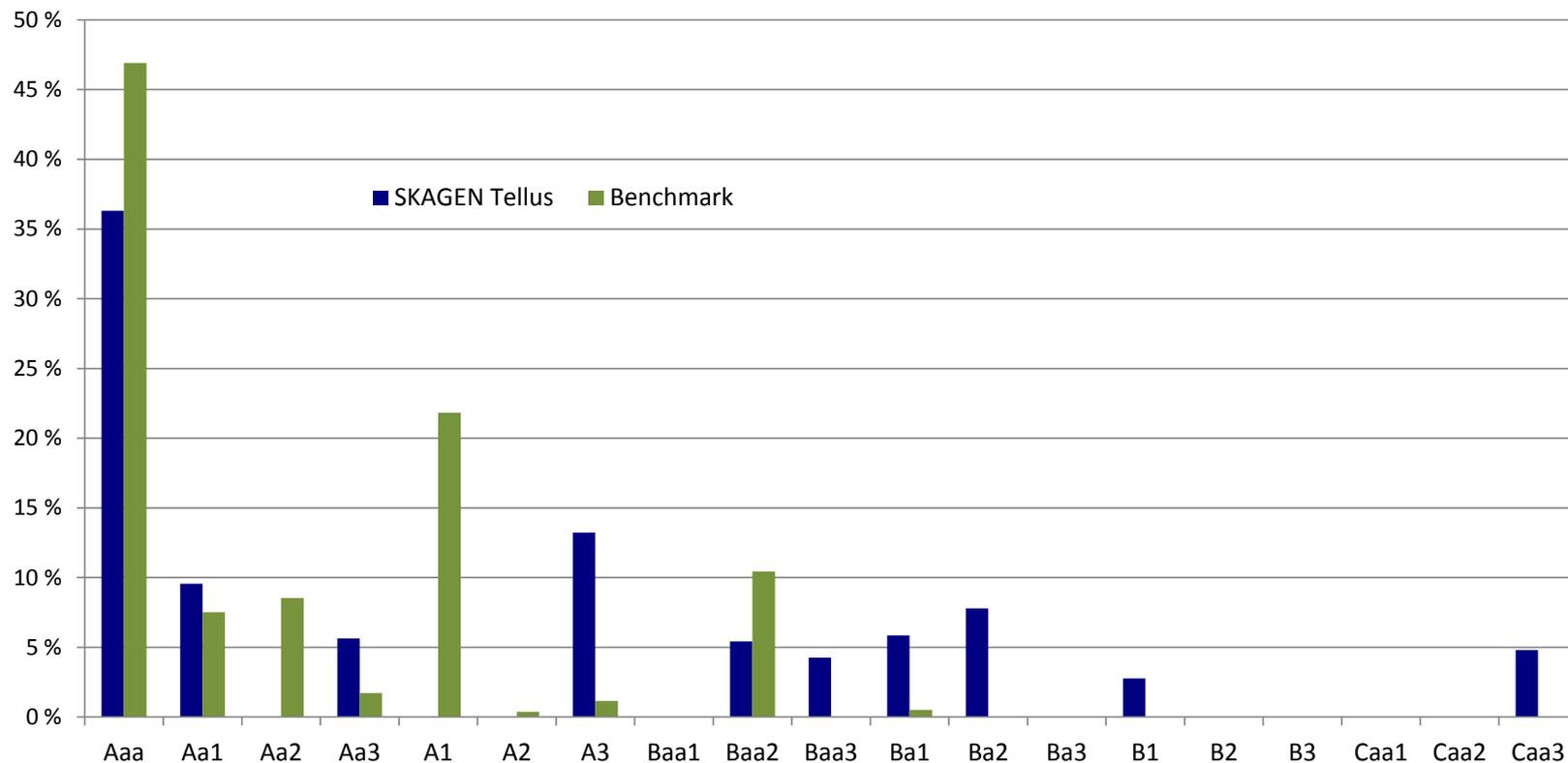
As of 31 October 2016

# Currency exposure relative to benchmark



As of 31 October 2016

# Moody's rating on Tellus' portfolio relative to benchmark



As of 31 October 2016



# Investing in the Dominican Republic

The art of common sense



# SKAGEN Tellus has invested in the Dominican Republic

- Late last month, SKAGEN Tellus invested 3% of its assets in a bond issued by the Dominican Republic.
- The bond matures in 2024, has an 11.5% coupon and current yields 10.5%.
- With high economic growth and fairly solid government finances we find the yield very attractive, and expect a combination of high coupons and bond price appreciation.
- The bond is issued in local currency, i.e. the Dominican Republic peso (DOP).
- The central bank of the Dominican Republic has an inflation target, and has used a crawling peg against the USD to hit the target. Lately the DOP has depreciated at a lower pace, and the rate of inflation has dropped to below 2%. We take this as an indication that the inflation target is about to be lowered and that the DOP's depreciation relative to the USD will slow down further.
- In our view the currency risk associated with local currency bonds is contained.

# Politics, population and living standard

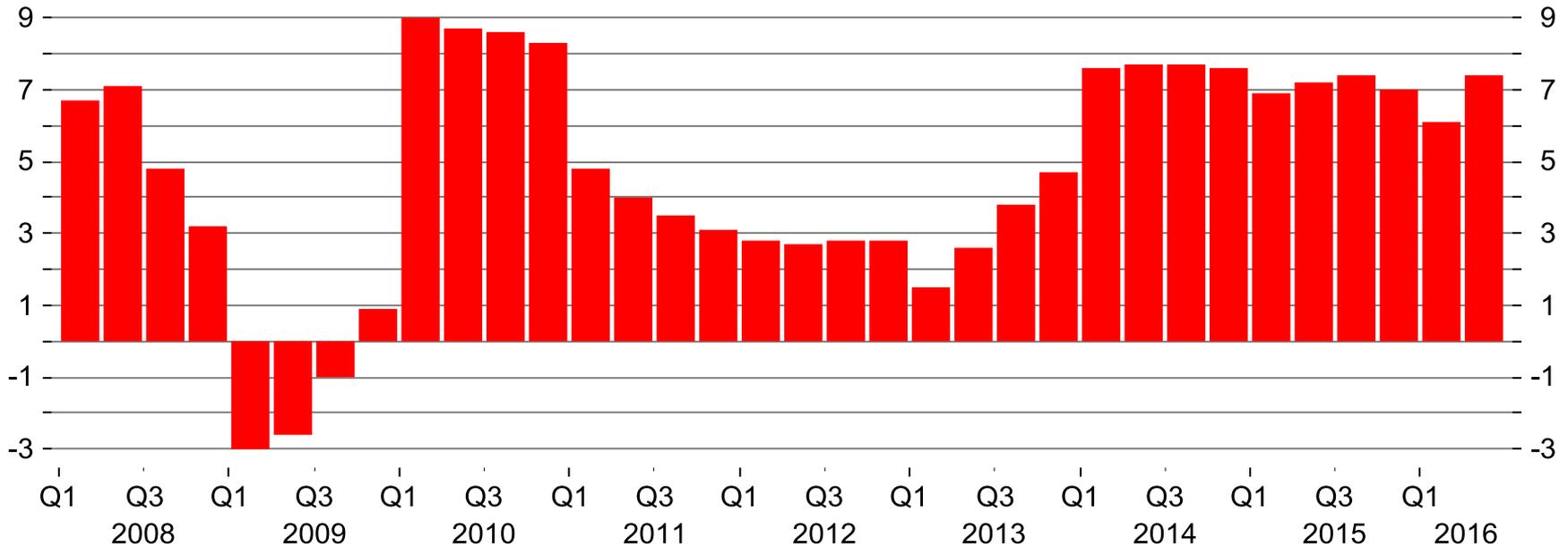
- There are voting irregularities and corruption, but overall the Dominican Republic has a functioning democracy.
- The Dominican Liberation Party (PLD) has a solid majority in both chambers of the Congress, and President Danilo Medina belongs to the PLD.
- PLD has dominated Dominican politics for the last 20 years. It started out as a left-wing party, but has gradually turned centrist and liberal.
- The constitution was amended before this year's election in order to allow Mr. Medina to run for a second term, which he won by a large margin. The next general election is in 2020.
- The Dominican Republic has 10.2 million inhabitants. Around 80% are urbanized.
- Life expectancy at birth is currently 74 years.
- GDP per capita in current USD is around 7000. PPP-adjusted, the income level is about 16 000.

# Decent international rankings; we think credit ratings are set to rise

- World Bank ease of doing business: 93 out of 189 (Peru is 50 and Brazil is 116)
- Fraser Institute economic freedom index: 55 out 159 (Peru is 52 and Brazil is 124)
- World Economic Forum's global competitiveness index: 92 out of 132 (Peru is 67 and Brazil is 81)
- Transparency International's corruption perception index: 103 out of 167 (Peru is 88 and Brazil is 76)
- The Dominican Republic is rated BB- by S&P, B1 by Moody and B+ by Fitch.

# GDP has grown rapidly since the global recession, and the growth rate is currently about 7%

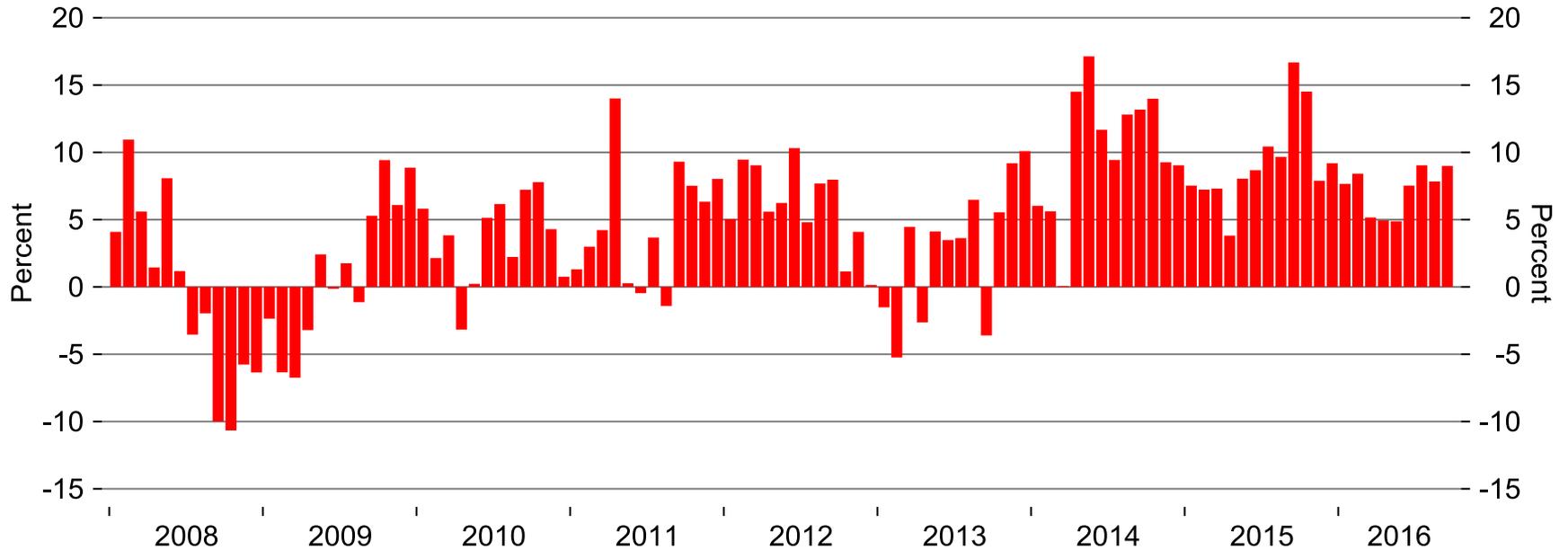
GDP YtD YoY



Source: **Macrobond**

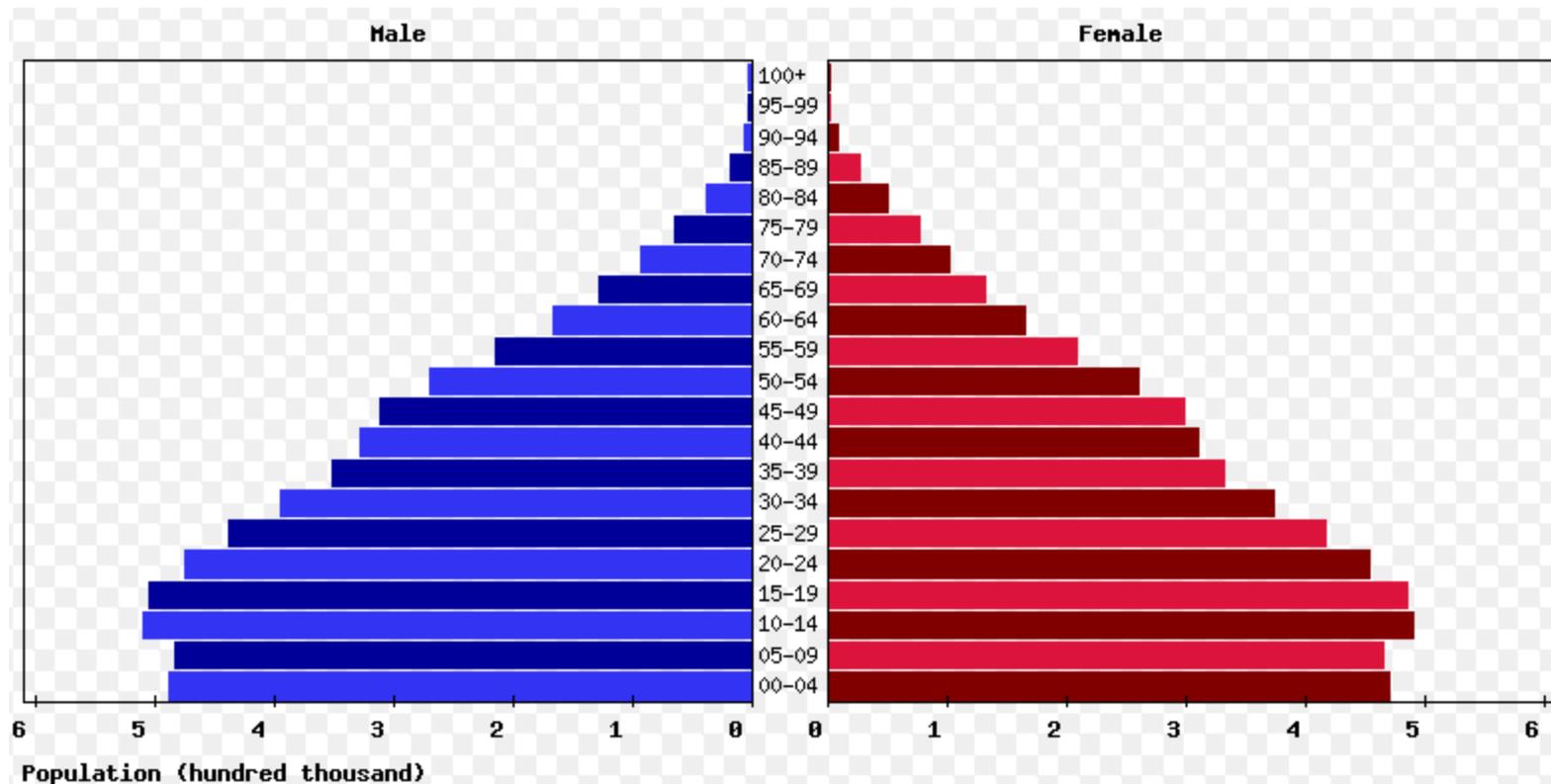
# Tourism is a major contributor to higher economic activity

YoY growth in tourism arrivals



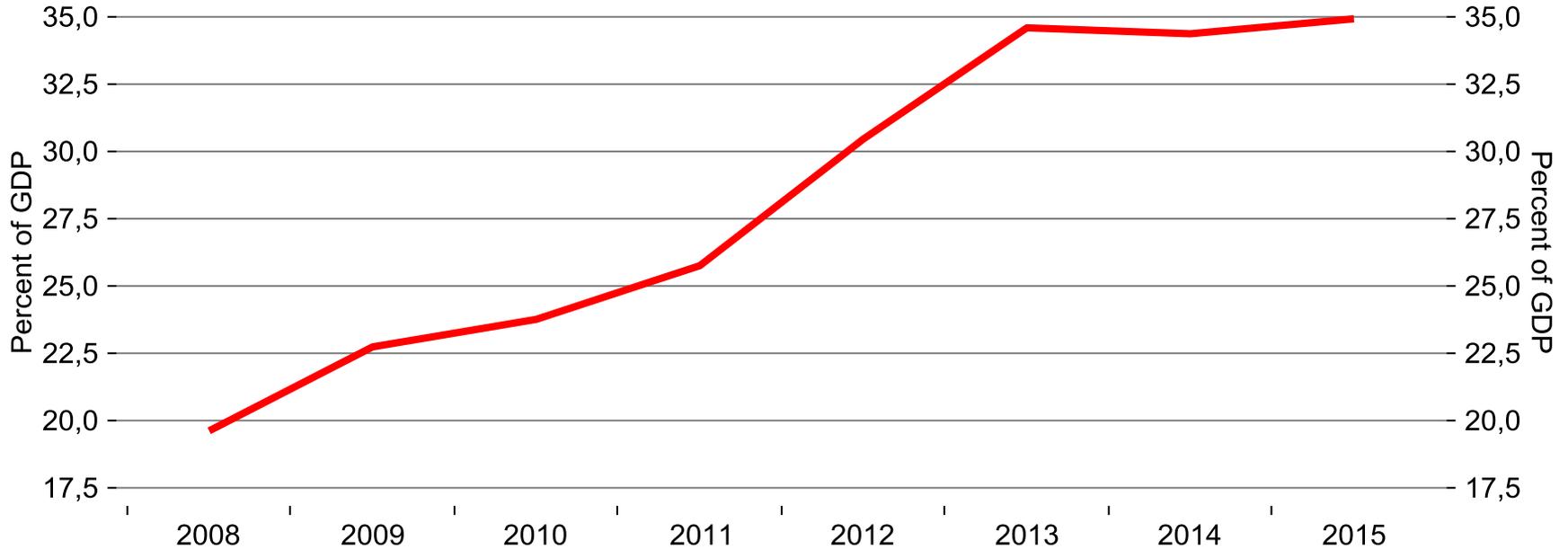
Source: **Macrobond**

# The population is young and growing



# Government debt amounts to 35% of GDP

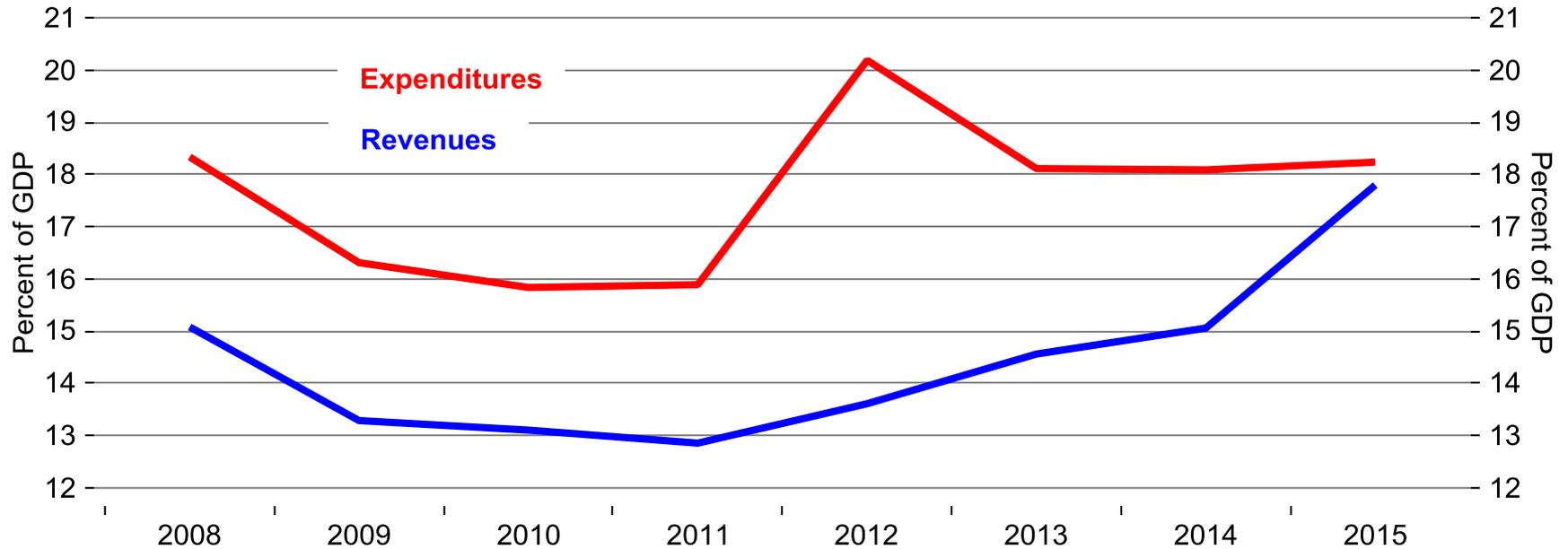
General government gross debt



Source: **Macrobond**

# Lately revenues have increased more than expenditure

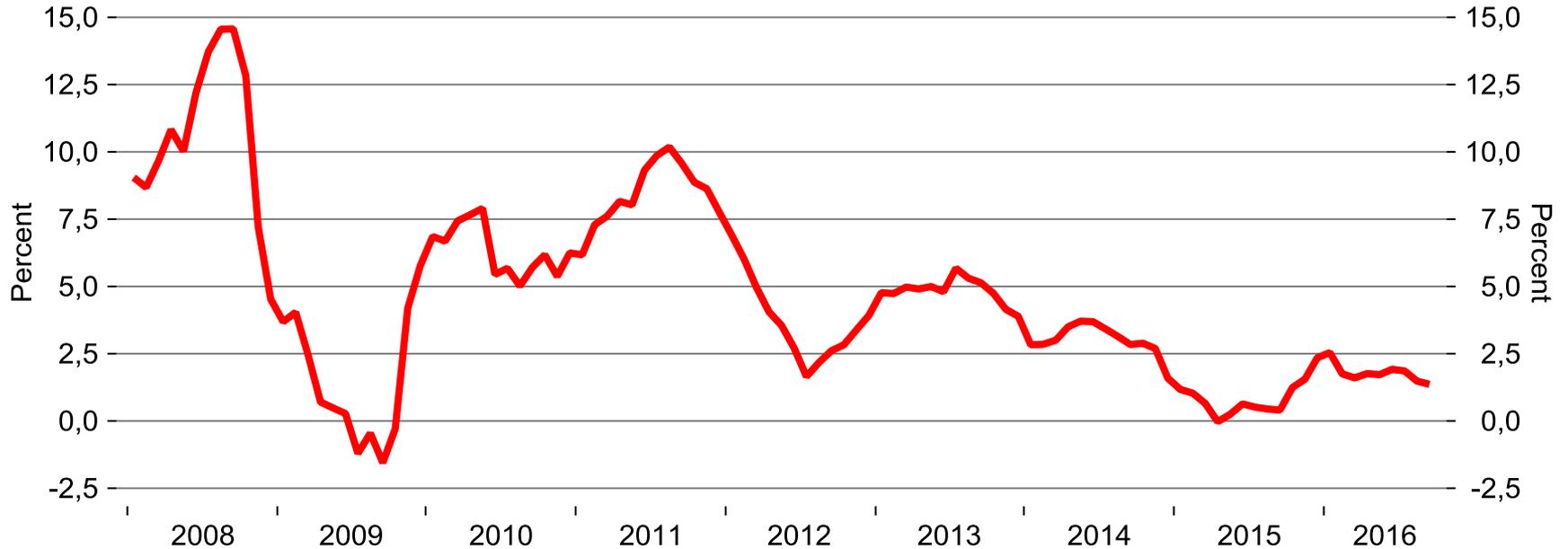
## Government expenditures and revenues



Source: **Macrobond**

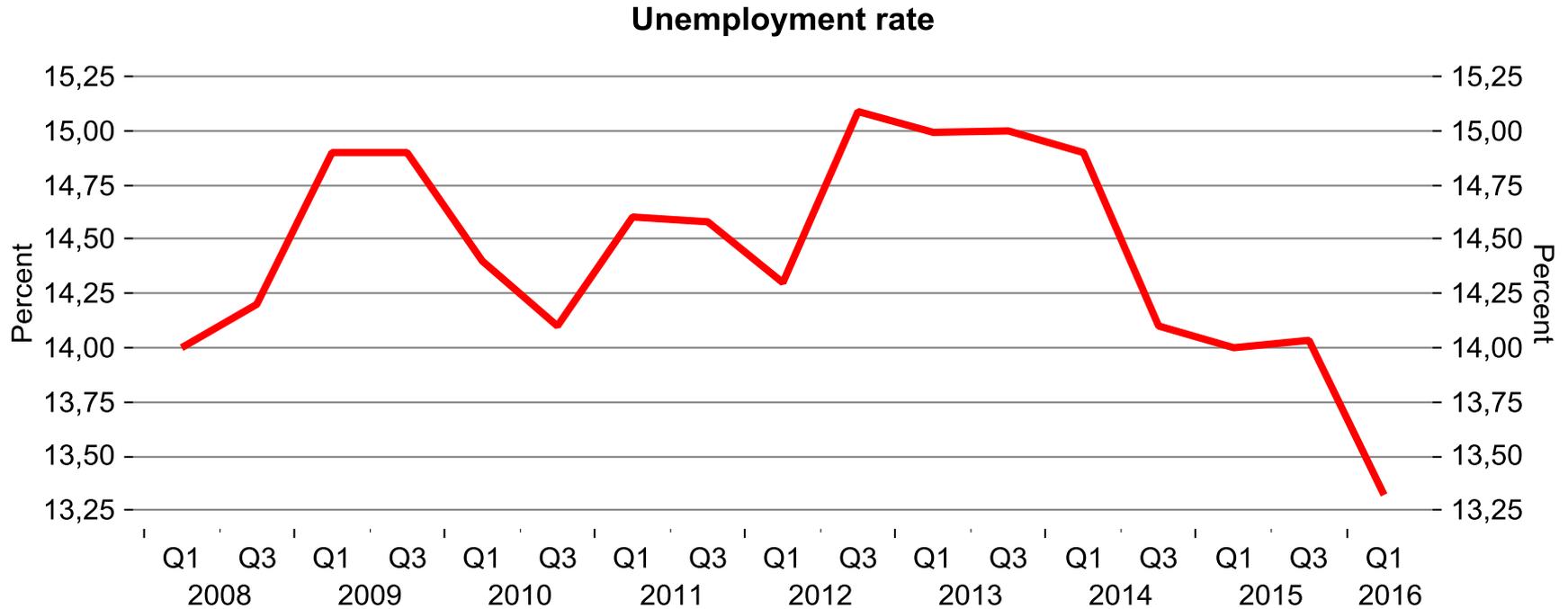
# Inflation has fallen, and we expect the inflation target to be lowered

Inflation



Source: **Macrobond**

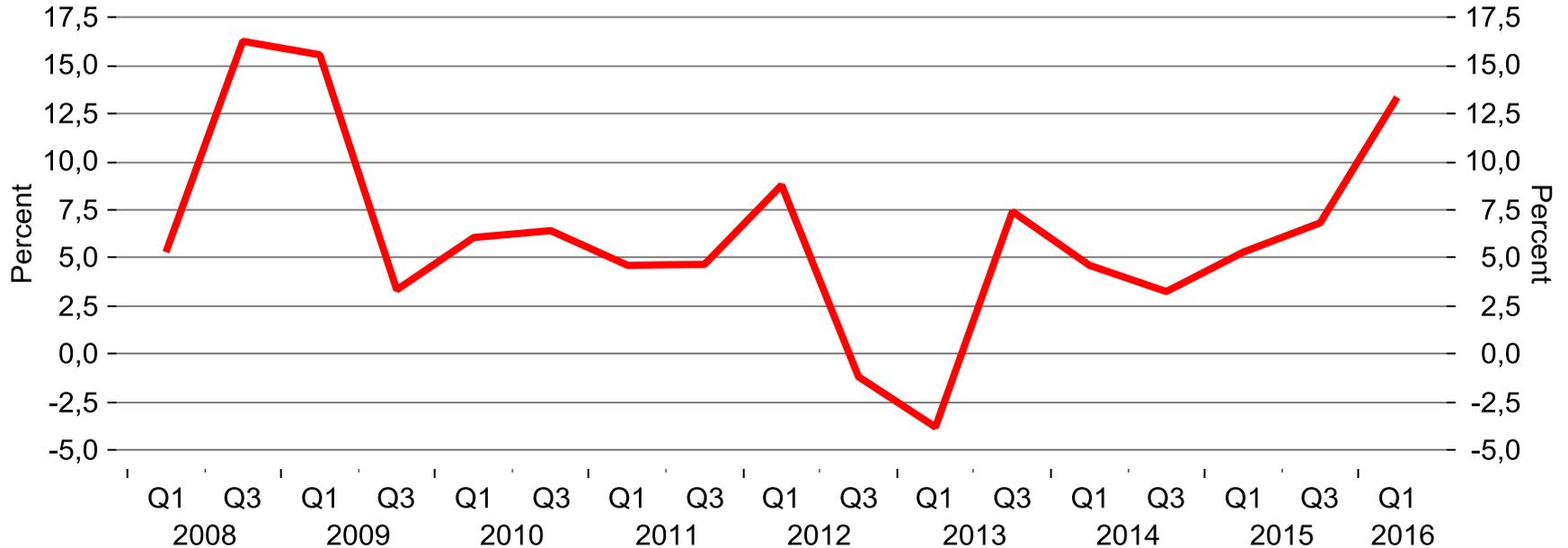
# Unemployment is high by DM standards, but has dropped since 2013



Source: **Macrobond**

# High productivity growth causes non-inflationary high wage growth

Yearly wage growth



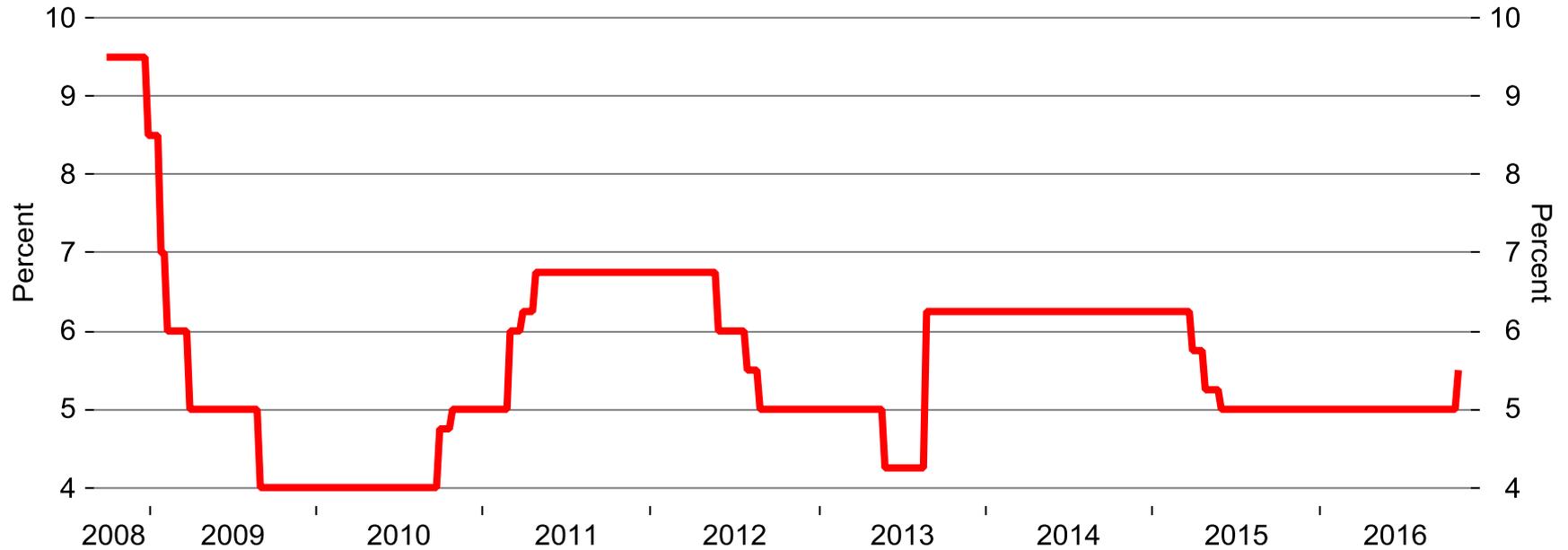
Source: **Macrobond**

# Monetary policy framework seems geared for low inflation

- Since 2012 the central bank has pursued inflation targeting. The current target is 4% +/-1 pp.
- Lately inflation has been undershooting the target. In September YoY growth in CPI was 1.4%, with core inflation at 1.8%.
- The stated policy of the central bank is to use its deposit rate as its monetary instrument. However, the central bank seems to be using the USDDOP as its main policy instrument. The DOP has been depreciating 4% per year relative to the USD over the last four years. With an inflation target that has been about 4 percentage points higher than in the US, this makes sense.
- Over the last two years the depreciation of the DOP has slowed down somewhat. It depreciated 2.6% in 2015 and so far in 2016 it has depreciated 1.4%.
- We expect the Dominican Republic's central bank to lower its inflation target and to moderate the depreciation of the DOP against the USD.

# Policy rate

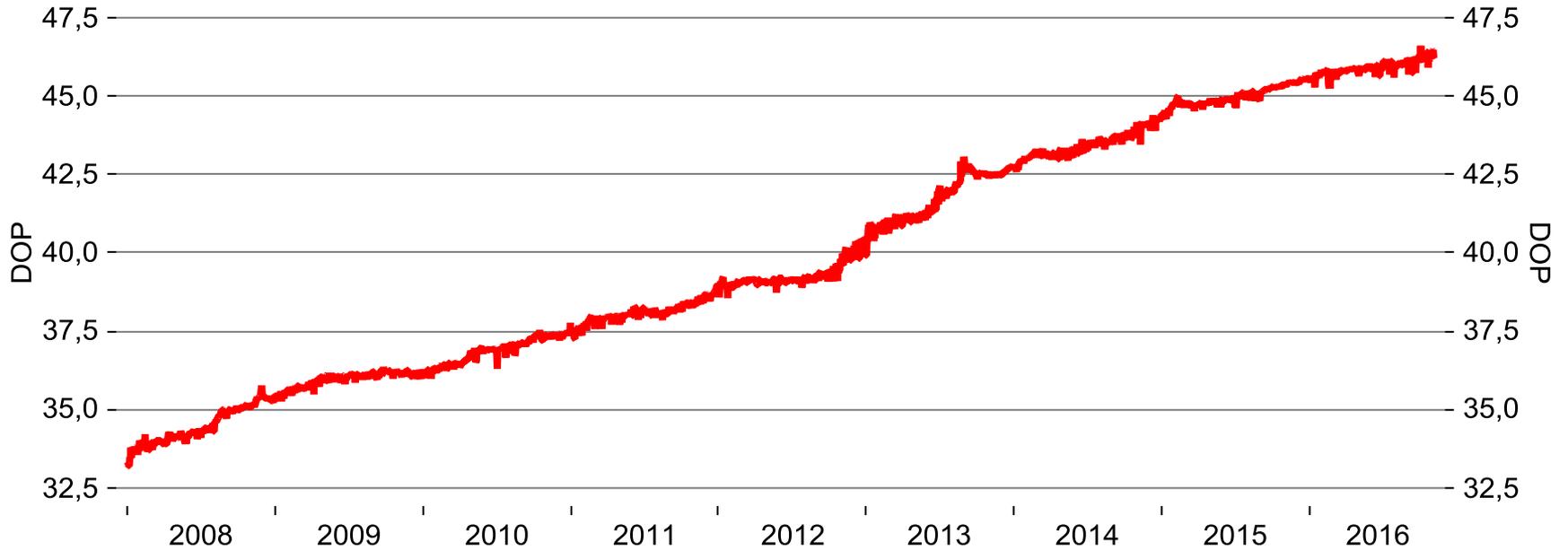
Policy rate



Source: **Macrobond**

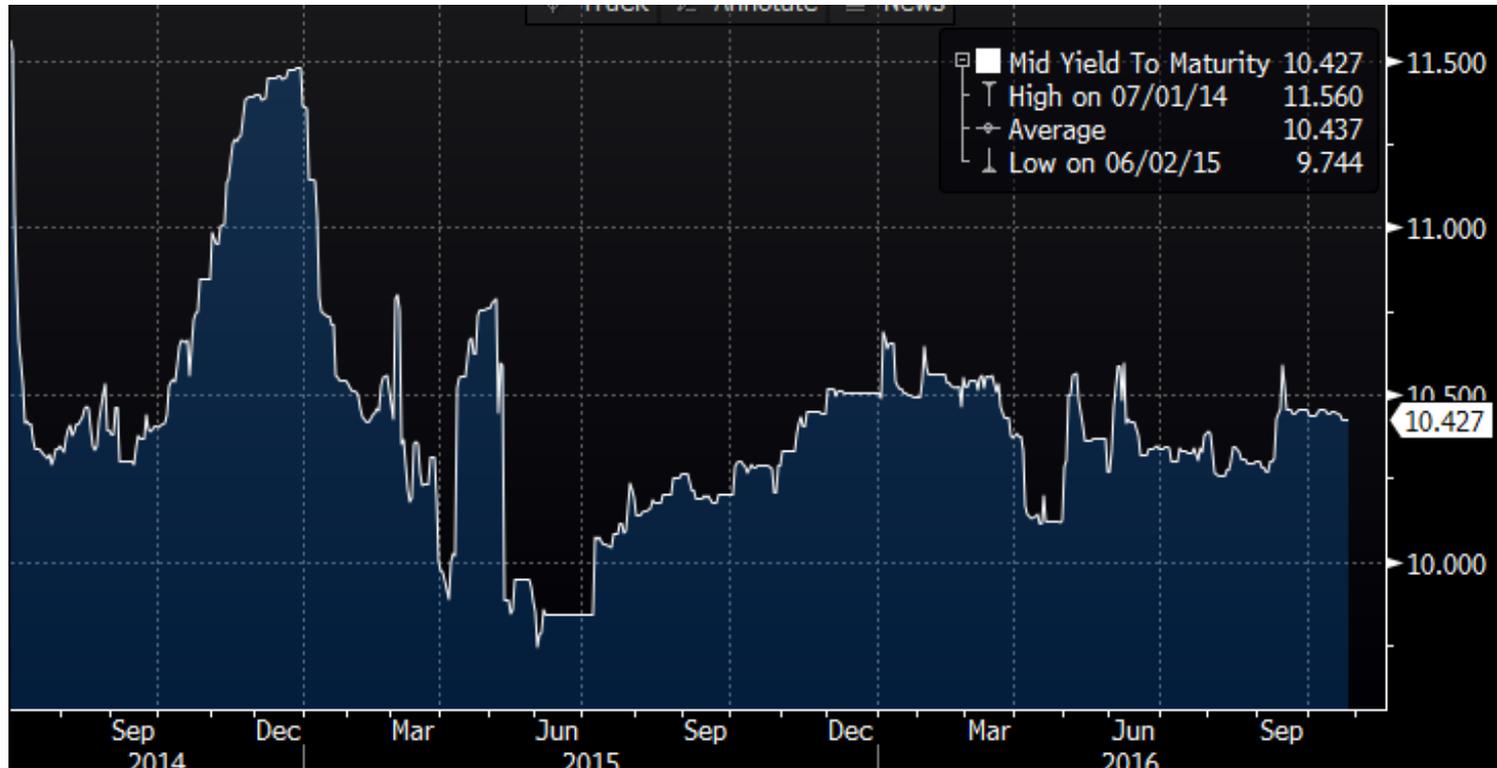
# DOP per USD

DOP per USD



Source: **Macrobond**

# Interest rate on DOP DOMREP 11.5%, 2024



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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