

A quarter we will never forget

The first quarter of 2020 will be one for the history books. No one could have foreseen the massive implications for financial markets and the global economy when we first heard about the Coronavirus in January. The volatility in financial markets has been at levels not seen since the financial crisis and the only assets gaining value have been government bonds and currencies in the traditional safe havens.

This has been a very difficult quarter for SKAGEN Tellus and the fund significantly underperformed its benchmark index. This was due to the underperformance of emerging markets currencies and government bonds versus government bonds and currencies in the traditional safe havens, where the index has a very high weight.

The Corona Quarter

Uncertainty related to the Coronavirus characterised the first quarter; China in January, Italy from late February and the rest of the world in March. Long-term interest rates fell globally in January, partly as a result of flight to safety, but the turmoil hit the market in full in late February. In March, the broad shutdown of kindergartens, schools and companies within the service sector resulted in significant uncertainty about the economic impact and a market reaction not seen since the financial crisis.

An oil shock on top

In addition, Norway and other oil exporting countries have been hit by an oil price shock. In early March, Saudi Arabia and Russia started an oil price war after not being able to agree on production cuts. As a result, the market is flooded with oil during a period of sharp decline in demand. The oil price has collapsed and was \$ 26.3/bbl (Brent crude) at the end of the quarter. This added to the uncertainty about the Norwegian economy and has been an important contributor to the collapse of the value of the Norwegian krone.



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Adding buffer

We made some changes to the portfolio during the quarter. We sold out of Greece and Portugal after solid performance. We also sold out of South Africa due to the heightened uncertainty in an already fragile economy.

We added new positions in Serbia and Indonesia. In addition, we increased the duration on our investments in the US, UK and Norway to have longer duration in developed markets and thereby have some investments in the portfolio that will gain on a rainy day. This is a temporary situation until the dust settles as we believe that over the longer term there is more value to be found in government bonds in emerging markets and peripheral Europe.

NOK in free fall

As the uncertainty spiked, the Norwegian krone depreciated sharply. From the beginning of March to 20 March, the NOK depreciated 20% versus EUR and 26% versus USD. This unprecedented volatility for the NOK has very negative implications for the financial sector and the rest of the economy. As a result, on 19 March, Norges Bank issued a statement saying that given the extraordinary situation, they would continuously consider whether there was a need to intervene in the market by purchasing Norwegian kroner. After this the NOK appreciated and there are clear signs that Norges Bank has been intervening in the market.

Massive stimuli from central banks and governments

Central banks were very quick to make interest rate cuts and implement other measures to ensure liquidity in the financial markets and funding for banks and companies. They quickly relaunched tools from the financial crisis. The Federal Reserve (Fed) cut interest rates by 150 basis points to 0-0.25% in March and introduced comprehensive measures to support the economy, including unlimited quantitative easing and several new funding facilities. For the first time ever, the Fed is also buying corporate bonds in addition to government bonds and mortgage-backed securities. Norges Bank cut the key policy rate by 125 basis points to 0.25%. Most central banks in both developed and emerging economies have followed suit with interest rate cuts and/or other measures such as quantitative easing.

Governments around the world have also come up with packages to support a sharply slowing economy. The US has provided a \$2 trillion package to companies, households and the health sector. The Norwegian authorities have also provided several packages to secure households and businesses during this difficult time.



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Emerging markets and Norway a drag on performance

The largest contributors were our investments in the US mostly due to the USD appreciating versus EUR during the quarter. Our investment in Greece, which we sold before March, also contributed positively.

The largest negative performers were our investments in emerging markets and Norway. The emerging markets investments suffered both from a steep increase in interest rates and depreciating currencies. This time the movements have been very large, but it is a pattern we always see during times of volatility. The risk premium in EM interest rates increases as a result of weaker liquidity and outflow. This is in most cases transitory and interest rates will decrease and currencies appreciate when volatility falls. Our investment in a Norwegian government bond suffered from the sharp depreciation of the NOK. With Norges Bank ready to support the NOK, some early signs of a possible agreement between Russia and Saudi Arabia to cut oil production and Norway being one of the countries with the fiscal clout to weather this crisis, we expect the NOK to appreciate going forward.

SKAGEN Tellus invests primarily in bonds and certificates issued or guaranteed by governments from around the world.

The fund is suitable for those with at least a three year investment horizon. Investors must be able to tolerate currency fluctuations.

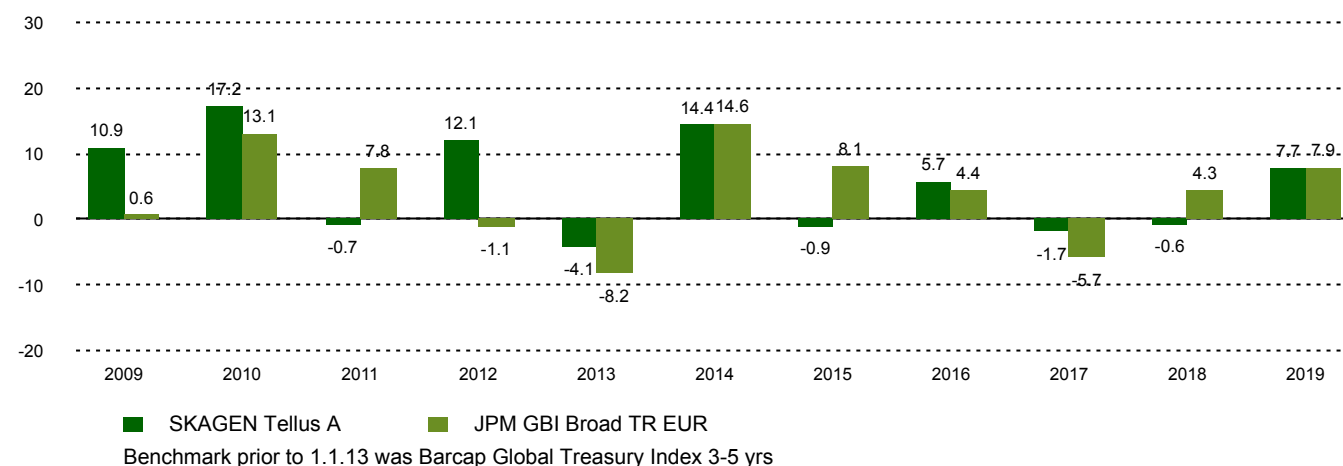
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	-6.2%	-0.1%
Quarter to date	-7.2%	4.9%
Year to date	-7.2%	4.9%
Last year	-4.0%	9.3%
Last 3 years	-1.0%	3.6%
Last 5 years	-1.5%	2.6%
Last 10 years	3.1%	4.3%
Since start	3.9%	4.6%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	10.77 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	41.60 EUR
Duration	5.04
WAL	n/a
Yield	2.93%
Number of holdings	12
Portfolio manager	Jane Tvedt

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
United States Treasury	19.79	0.66
Hellenic Republic	1.73	0.04
Portuguese Government	2.99	-0.12
Peruvian Government	7.03	-0.38
Czech Republic	6.46	-0.43



Largest detractors

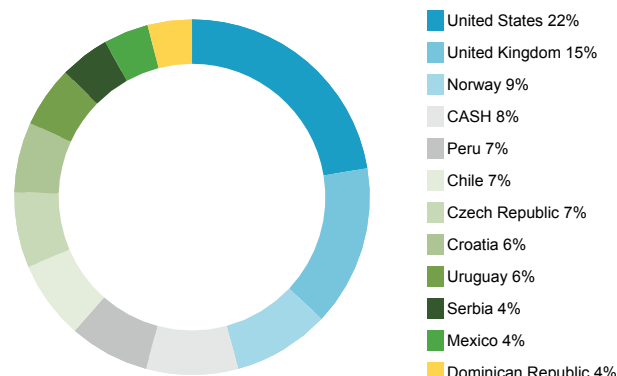
Holding	Weight (%)	Contribution (%)
Mexican Bonos	8.60	-1.94
Norway Government Bond	8.83	-1.24
Uruguay Government	5.85	-0.99
European Bank for Recon & Dev	2.10	-0.97
Republic of South Africa	3.46	-0.85

Absolute contribution based on NOK returns at fund level

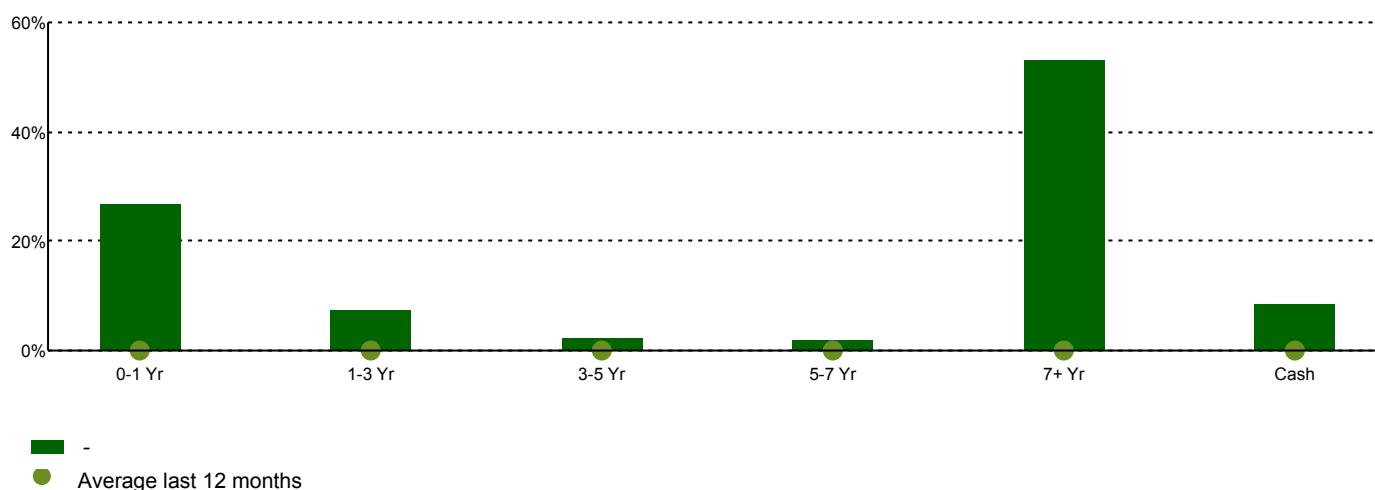
Top 10 investments

Holding	Percentage of Fund
US Government	22.4
UK Government	10.1
Kongeriket Norge	8.8
Republic of Peru	7.3
Republic of Chile	7.1
Czech Republic Government	6.9
Republic of Croatia	6.4
Oriental Republic of Uruguay	5.6
European Bank for Reconstruction & Development	4.5
Republic of Serbia	4.5
Total	83.5

Country exposure



Maturity structure



Contact



+47 51 80 37 09



contact@skagenfunds.com



SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

Important information

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