

A strong quarter

Financial markets were strong in the third quarter, but with an upswing in Covid-19 infection rates, uncertainty returned to the markets towards the end of the period.

Fund development

SKAGEN Tellus had a slightly negative development in the third quarter, driven mainly by weak currencies, but ended the period ahead of the benchmark. The largest positive contributors to fund performance were our investments in Uruguay and the Dominican Republic thanks to falling interest rates in those countries. Meanwhile, the largest detractors were our US and Peruvian positions driven by weak currencies. We reduced our US duration exposure during the quarter and swapped our local currency denominated Chilean bond with a euro denominated one on maturity.

Return of the virus and increasing debt levels

Towards the end of the quarter we saw an upswing in Covid-19 and many countries are currently facing a second wave of infections. This has led to new rounds of containment measures and limitations on movement. While the measures have been less restrictive than earlier this year, it is clear that the economic recovery is slowing. This contributed to increased uncertainty in financial markets and both credit spreads and emerging market currencies performed poorly during September.

The severe situation that the world economy currently faces will have major consequences for both private and public debt levels around the



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ECB follows suit

At the end of September, the European Central Bank (ECB) also signalled that they were thinking along the same lines when the head of the ECB, Christine Lagarde, announced that they would consider the option of an average inflation target. As such, the central banks are signalling that they intend to keep monetary policy expansive even if inflation should rise towards the target. In other words, we can expect policy rates to stay low for an extended period.

world. The combination of decreasing revenues and increasing expenditure will lead to significant surges in leverage ratios. So far government and supranational support, along with the ultra-low interest rate environment, have kept the wheels turning, but as we start to see support measures fade, there will be an increasing danger of financial stress amongst both private and public debtors.

Economists from the World Bank recently warned that not since the emerging market debt crisis of the 1980s have they seen larger government debt restructuring needs. In addition, they warn that increased private ownership of government debt will make restructuring processes more challenging and time consuming in the future. This is something we are monitoring closely to avoid excessive risk taking in our funds.

New policy measures in the hunt for inflation

In August, the US Federal Reserve (Fed) announced a change in their inflation targeting from an absolute target to an average inflation target. This means that the goal now is to achieve 2 percent inflation on average over time. In practice this means that a period of inflation below 2 percent will be followed by a period of inflation above 2 percent. The change was not unexpected, but with this change, the Fed seeks to create higher inflation expectations and thereby achieve higher realised inflation.



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Outlook

Once again, we are seeing historically low interest rates in large parts of the world. Given the substantial challenges the world faces due to Covid-19, expectations are that interest rates will stay at a low level for an extended period. We do however still find opportunities for good investments in emerging markets where interest rates are higher. At the same time, we find it more important than ever to tread carefully to avoid the countries that are creating future problems for themselves due to overly large debt build-up during the current crisis.

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.

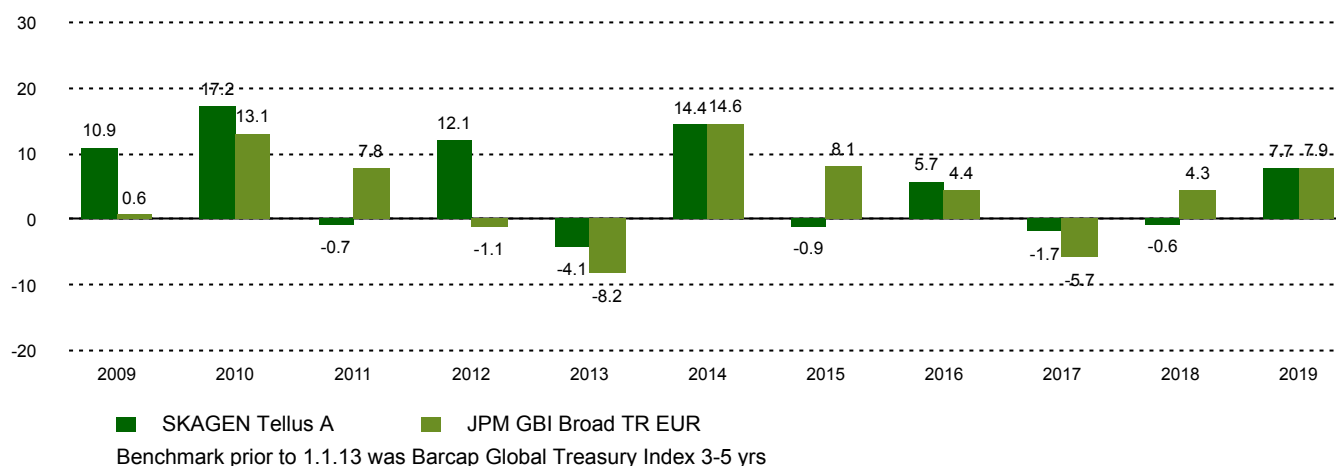
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last month	0.4%	2.0%
Quarter to date	-0.6%	-1.6%
Year to date	-4.9%	2.5%
Last year	-5.3%	-0.5%
Last 3 years	0.6%	4.7%
Last 5 years	1.4%	2.9%
Last 10 years	2.6%	3.4%
Since start	3.9%	4.3%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	11.04 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR EUR
AUM (mill.)	40.04 EUR
Duration	5.12
WAL	6.17
Yield	2.58%
Number of holdings	12
Portfolio manager	Jane Tvedt

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Uruguay Government	6.32	0.39
Dominican Republic	3.79	0.33
Croatia Government	7.22	0.26
Serbian Government	4.74	0.17
Mexican Bonos	6.02	0.12



Largest detractors

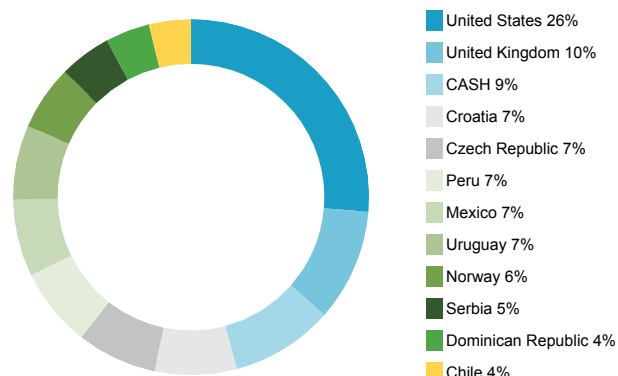
Holding	Weight (%)	Contribution (%)
United States Treasury	25.75	-1.10
Peruvian Government	7.27	-0.38
European Bank for Recon & Dev	4.96	-0.18
Czech Republic	7.17	-0.09
Norway Government	5.98	-0.07

Absolute contribution based on NOK returns at fund level

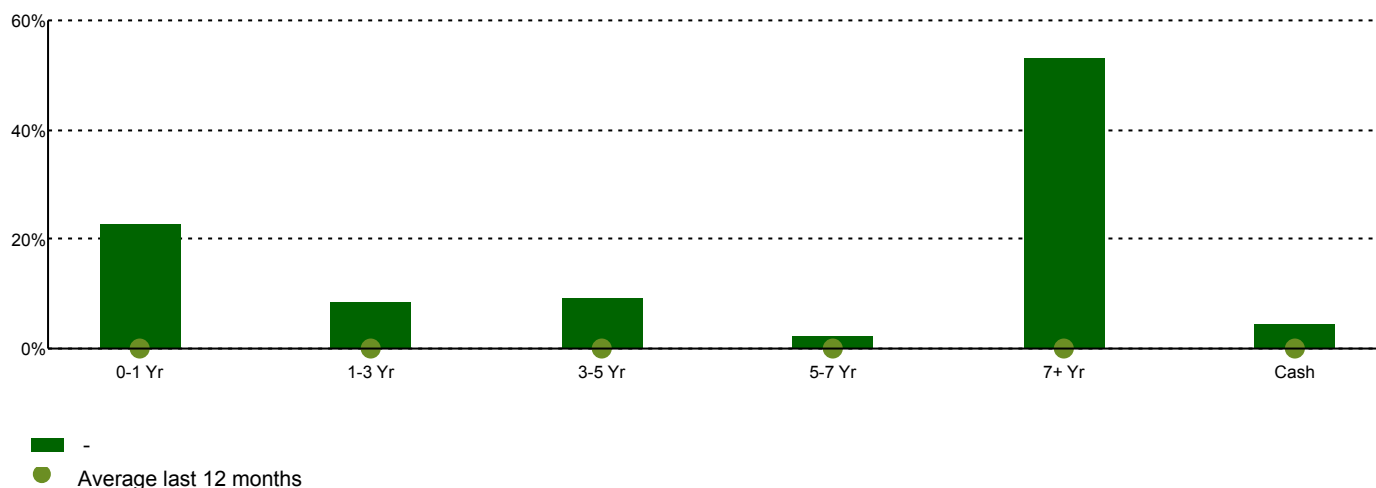
Top 10 investments

Holding	Percentage of Fund
US Government	26.3
UK Government	10.2
Republic of Croatia	7.4
Czech Republic Government	7.3
Republic of Peru	7.2
Mexico	7.0
Oriental Republic of Uruguay	6.7
Kongeriket Norge	5.9
European Bank for Reconstruction & Development	5.1
Republic of Serbia	4.7
Total	87.9

Country exposure



Maturity structure



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Important information

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