



Apple trees, 1973. Detail. By Michael Archer, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Credit EUR

Status report September 2016

The art of common sense



SKAGEN Credit EUR A – Key numbers

Key numbers as of 30 Sept.	SKAGEN Credit EUR A	Index (EURIBOR 3M)
Return last month	-0,2%	0,0 %
Return year to date	5,8 %	-0,2 %
Return since inception (30.05.14)	0,2 %	-0,1 %
Current yield*	3,0 %	-0,3 %
Average maturity (WAM)	1,0	0,25
Average life time (WAL)	2,8	N/A
Average credit spread (OAS)**	392 bps	N/A

* Current yield changes from day to day and is no guarantee for future return. For bonds that trade at a significant discount and where the likelihood of recovering the entire principal, yield can be misleading as it assumes full repayment.

** Average option adjusted spread on the investments, cash excluded

The SKAGEN Credit investment universe



SKAGEN Credit picks bonds both from the investment grade and the high yield spectrum with a high risk adjusted return potential. Minimum 50% investment grade.

Portfolio managers' comment

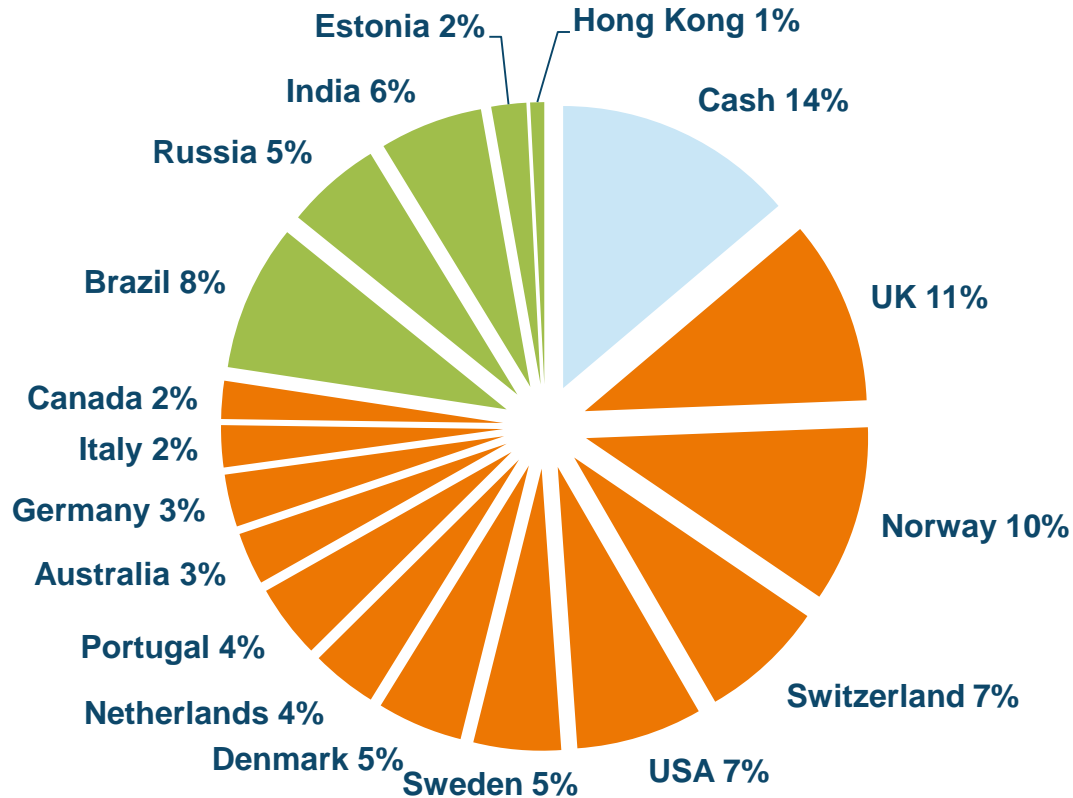
September was a sideways month in the credit market. After a quiet summer many of the companies issued new bonds in September. The increased supply of new bonds served to curb the price pressure we saw throughout the summer.

US government bond yields rose during the summer, and this had a negative impact on the fund. We have a low fixed duration in the fund of around one year, so the increase in yields will only have a minimal impact on the fund. The reason for the yields rising is market expectations that the Fed will increase their policy rate during the autumn.

In March the European Central Bank announced that they would start buying corporate bonds in order to reduce loan costs to European businesses. The central bank initiated the purchases in June and the effect has been noticeable. The credit spreads have come down significantly in the Eurozone and liquidity has deteriorated in the bond market. We have chosen to reduce our weighting in euro-denominated securities as we believe that the future return potential does not reflect the risk. Two years ago 30% of the fund was invested in euro-denominated bonds. That was reduced to 20% one year ago and further down to 12% at the end of the month as a result of developments. That is the main reason we currently have a high proportion of cash in the fund.

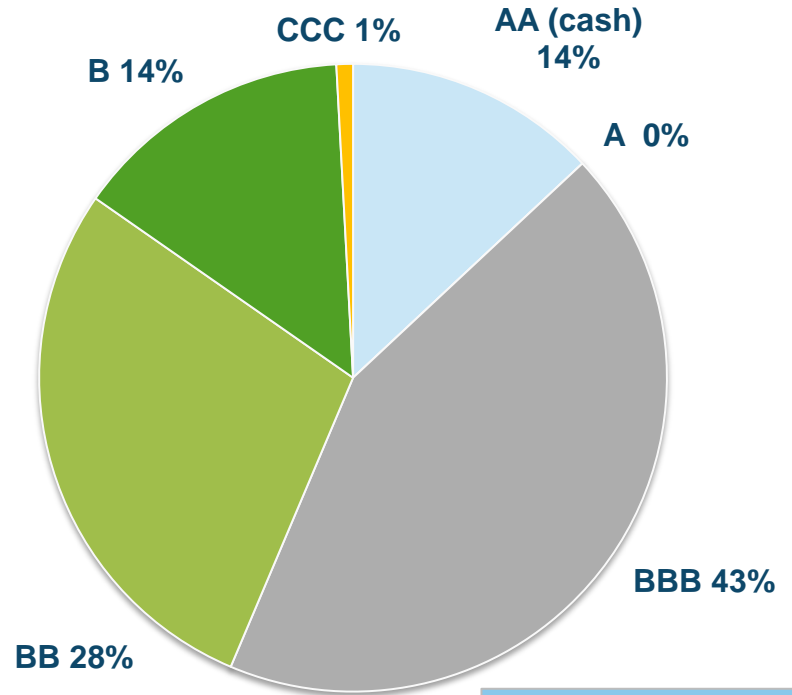
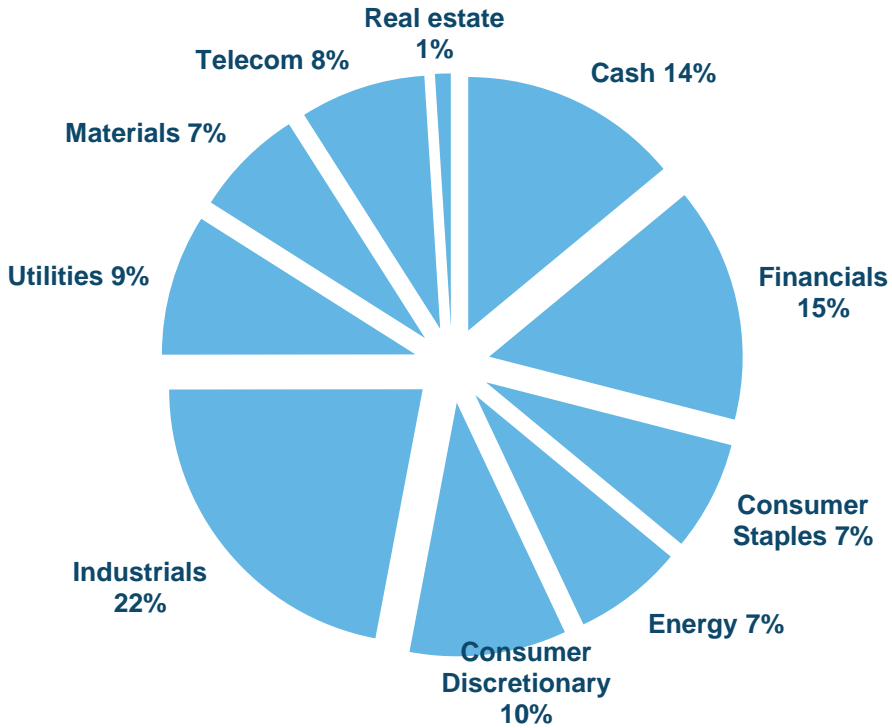
We have sold out of two companies this month, Diamond Bank and VW. Diamond Bank was our only African investment. It now appears unlikely that the Nigerian economy – which has been badly affected by the fall in oil price – will improve any time soon and we fear that banks in the country will suffer as a result. We sold out of VW as our investment thesis played out. We bought the bond when the diesel scandal was at its worst last winter on the hypothesis that the company was being overly punished in the financial market. That proved to be correct. The serious accusations have turned out to be true, but the company has taken responsibility and come to a settlement with many of the parties involved. The company is working on clearing its reputation among clients and in the financial market. We therefore see no further upside given the current pricing.

Country diversification



Developed markets:	63 %
Emerging markets:	23 %
Cash:	14 %

Sector and rating distribution



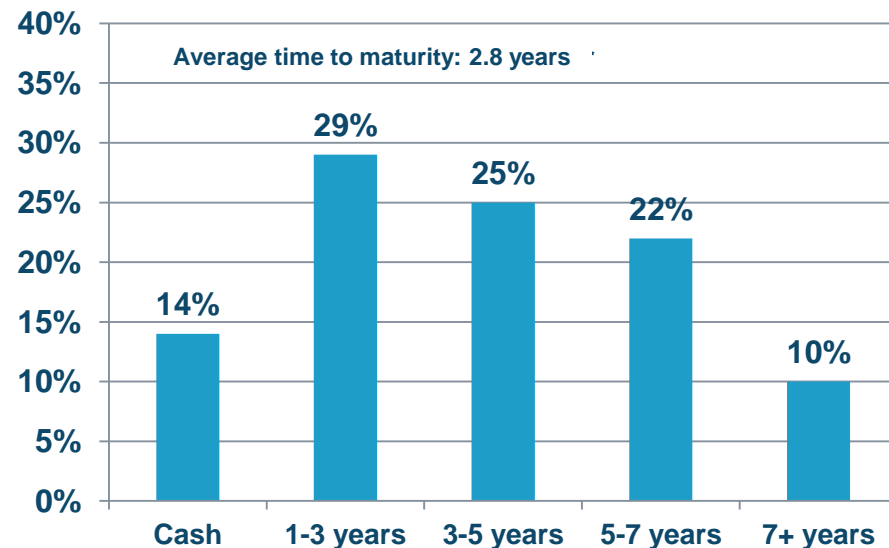
Investment grade:	56 %
High Yield:	44 %
Average rating:	BBB-

Interest rate duration and time to maturity

Interest rate exposure and denominated currency (before currency hedge)

Currency	Bond denominated	Interest rate duration
USD	42%	1,4 year
EUR	19%	1,8 year
GBP	21%	1,0 year
NOK	12%	0,1 year
SEK	3 %	0,1 year
DEK	3 %	0,1 year
Sum Fund	100%	1,2 year

Credit exposure - time to maturity profile



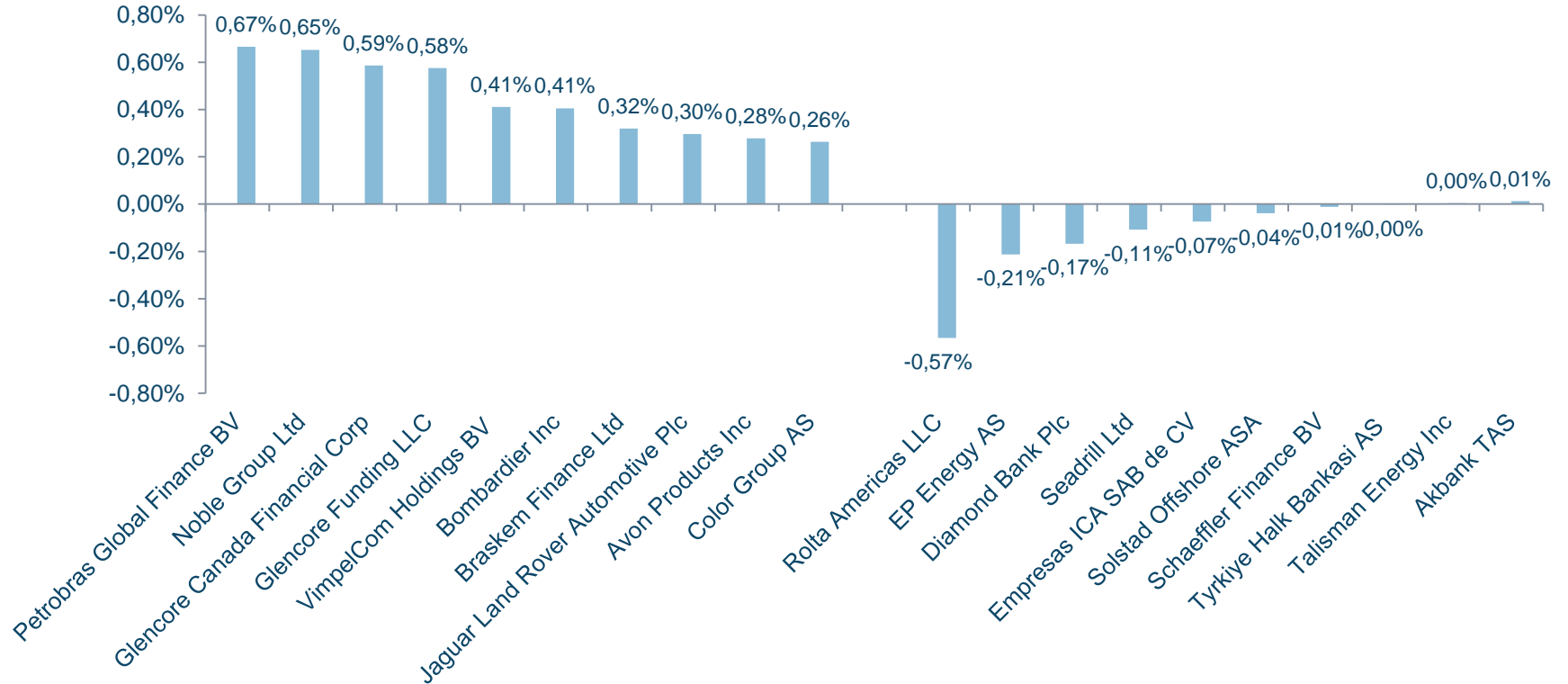
Top 10 investments

Company	Country of risk	Credit rating*	Percent of fund
Glencore**	Switzerland	BBB-	5,2 %
BKK	Norway	BBB	4,5 %
Energias de Portugal	Portugal	BBB-	4,2 %
Bharti Airtel	India	BBB-	3,6 %
Color Group	Norway	B+	3,3 %
Schaeffler	Germany	BB+	3,2 %
Petrobras	Brazil	B+	3,2 %
Samvardhana Motherson	Netherlands	BB+	3,1 %
LF Bank	Sweden	BBB+	3,0 %
Insurance Group	Australia	BBB+	3,0 %
Sum top 10			36,3%

Average bond rating

** Represent bonds from several legal units within the Glencore group

Best and worst contributors year to date



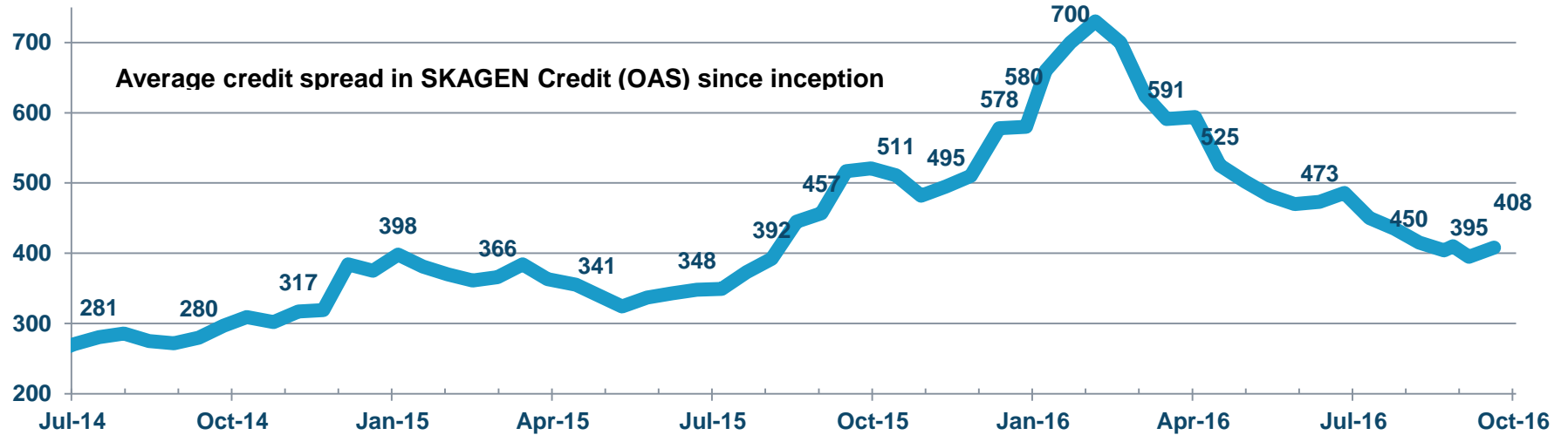
Global High Yield – last five years - OAS 480 (530 average)



OAS = Option adjusted credit spread

Source: Barcap

Average credit spread in SKAGEN Credit (May 2014 - Aug 2016)



- This graph shows the difference in yield between the bonds and the reference rates (interest rate swaps) of the same maturity.
- SKAGEN Credit has since inception had a portfolio with rather consistent credit quality, and the changes in the credit spread are therefore mostly related to market events.

The portfolio managers



The portfolio managers draw on their expertise in the fixed income markets, as well as SKAGEN's equity fund managers' long experience of successful stock picking. They have long-standing and complementary experience ranging from fixed income management to company analysis, risk management and trading.

- **Ola Sjöstrand** (pictured right) has worked for SKAGEN since 2006, managing a range of SKAGEN's fixed income funds. He launched and has been responsible for running the SKAGEN Krona fund, amongst others. Before joining SKAGEN, Ola worked as a portfolio manager at the Swedish Soya Group. A combination of strong analytical skills and investment experience applying SKAGEN's investment philosophy has primed Ola in finding good investment cases for the fund. Ola holds a BSc in Business Administration and Economics.
- **Tomas Nordbø Middelthon** (pictured left) has worked for SKAGEN since 2010, both as a risk manager and more recently as portfolio manager of SKAGEN's fixed income funds. Before that Tomas worked within financial services in Statoil, implementing financial risk management tools worldwide. Tomas holds an MBA in Finance and is an Authorised Financial Analyst. He has strong analytical skills and a background from financial risk management. His combined risk management and technical expertise is valuable in the screening and analysis of corporate bonds and portfolio construction.

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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. KIIDs and prospectuses for all funds can be found on our website.

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. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of the fund's portfolio.