



Apple trees, 1907. By Michael Archer, one of the Skagen painters. This image belongs to the Skagens Museum.

# SKAGEN Credit EUR

## A global corporate bond fund

### Status report March 2016

The art of common sense



# SKAGEN Credit EUR A – Key numbers

Key numbers as of 31 March	SKAGEN Credit EUR A	Index (Euribor 3m)
Return last month	3,1 %	0,0 %
Return year to date	0,8 %	-0,1 %
Return since inception (30.05.14)	- 2,3 %	0,0 %
Current yield*	4,6 %	- 0,2 %
Average maturity (WAM)	1,1	0,25
Average life time (WAL)	2,7	N/A
Average credit spread (OAS)**	590 bps	N/A

\*Current yield changes from day to day and is no guarantee for future return

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

# 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

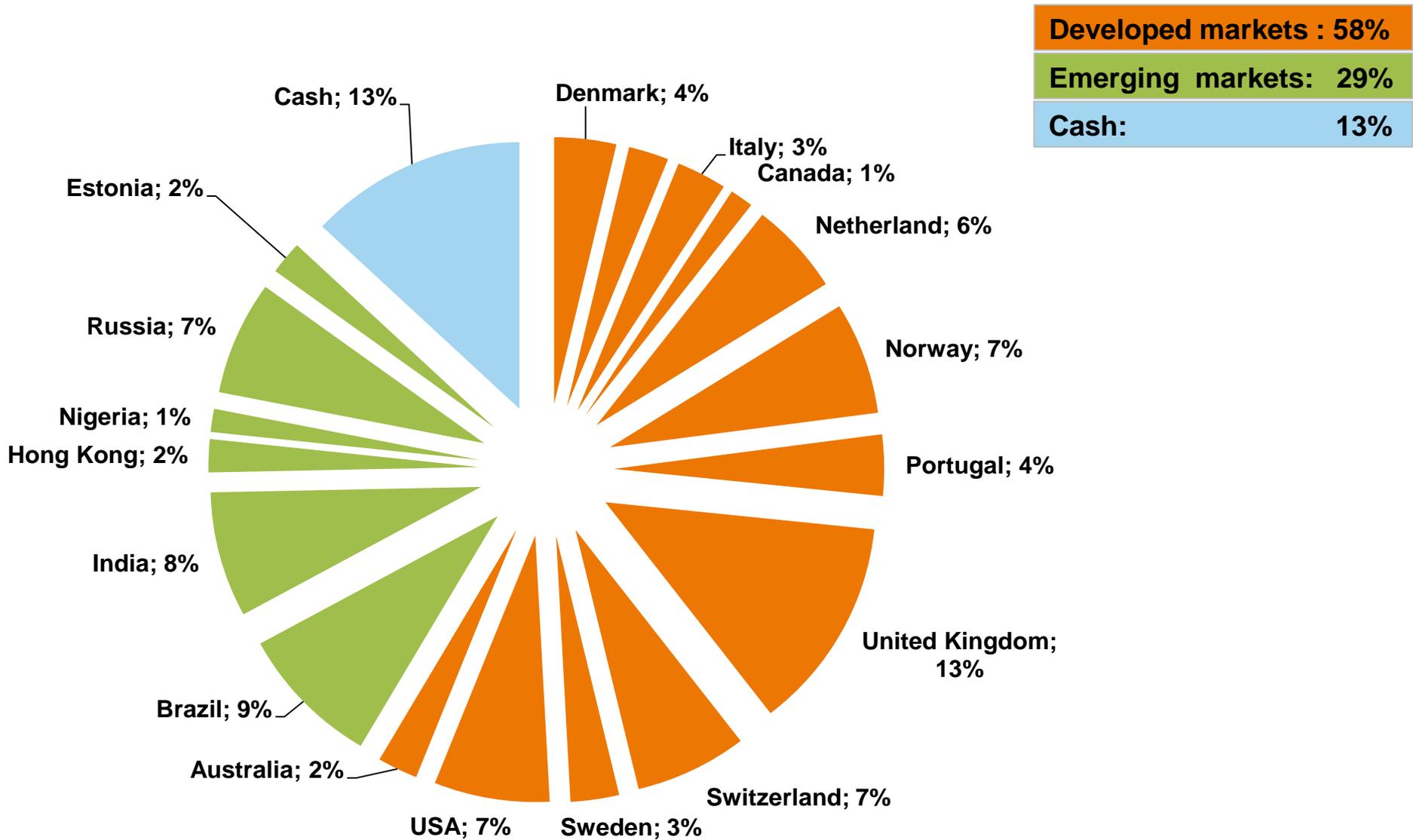
March was a very good month for SKAGEN Credit. The downturn in January reversed in the middle of February and the upturn continued in March. The negative sentiment has reversed, investors have started buying bonds again and prices have risen, even though there have been no significant changes fundamentally speaking. The quarter as a whole was turbulent, but so far this year, the return for the fund has been acceptable.

The credit spread in the fund is about the same as it was at the start of the year (590bps). This is still very high and twice as high as when the fund was launched in the summer of 2014. The investments in the fund are more or less the same, so we believe there is the potential for good returns going forward.

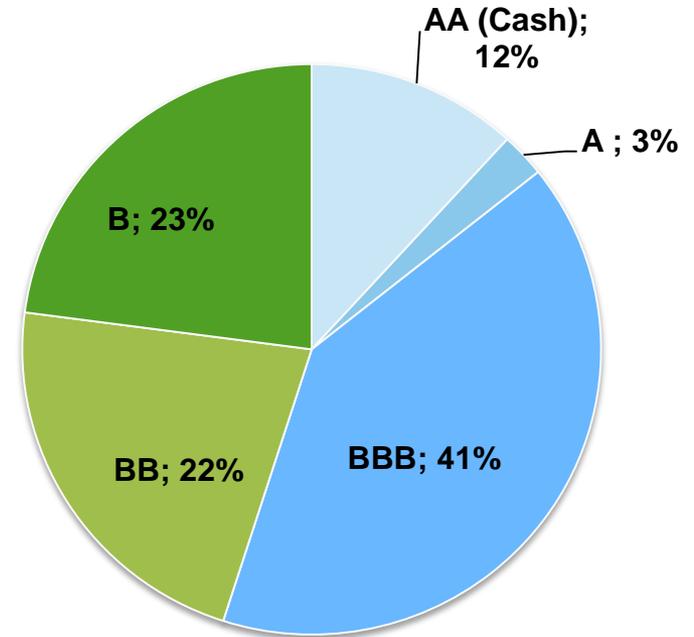
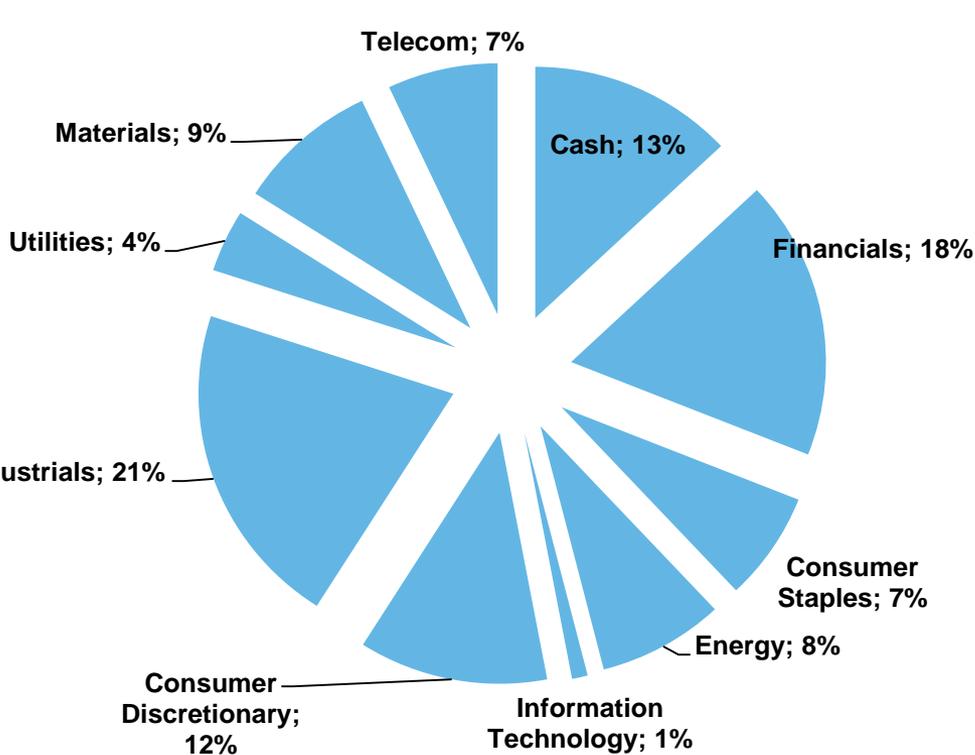
Both the first quarter and the past year have been turbulent in the credit market. We must go back to the Euro crisis of 2012 to see such high credit spreads (see graph). Historically speaking, periods with such high credit spreads have only been temporary and have arisen during periods of high uncertainty. We believe that the levels will gradually return to normal this time too. This is mainly because the current levels do not provide the correct credit spread/credit risk (bankruptcy risk) ratio and because companies will increasingly use bank financing if the bond market becomes too expensive. There is clearly significant overcapacity in individual sectors, however, and we expect further refinancing and some bankruptcies here. It is more important than ever to be invested in the right companies.

During the month we sold out of Swedish steel manufacturer, SSAB, when the company offered to buy back their own bonds at a good price. There is one newcomer in the portfolio, US Frontier Communication (1% of the fund). The company is a large US supplier of broadband services with 3.5 million customers distributed over large parts of the country. The credit spread in the US is high following the winter turbulence and we therefore wished to increase our exposure to the country at the same time as Frontier is not a sector exposed to energy or commodities.

# Country diversification



# Sector and rating distribution



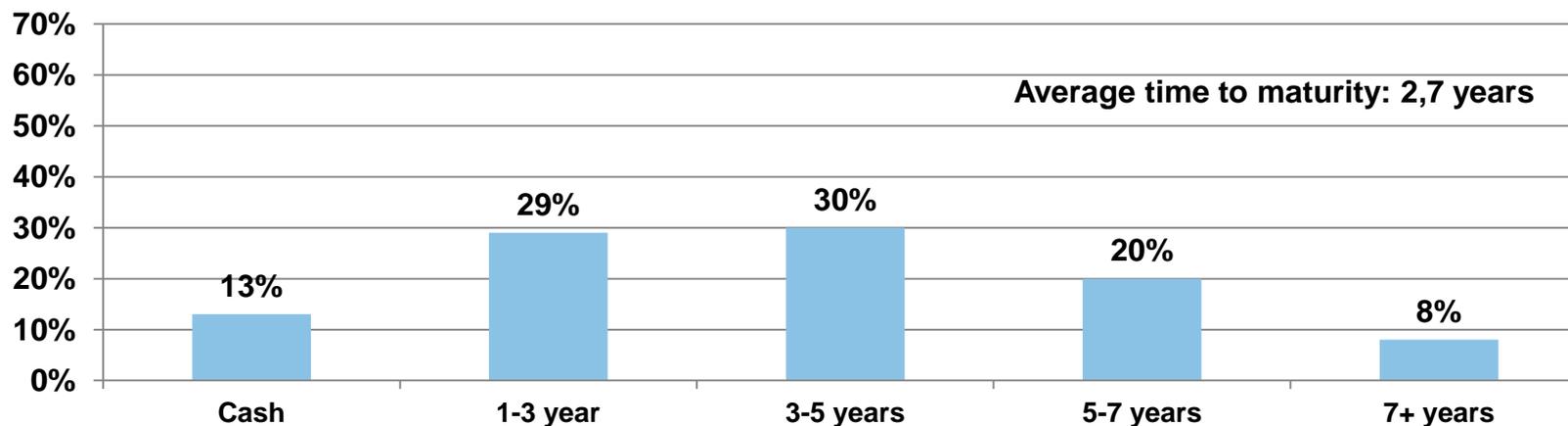
Investment grade:	55 %
High Yield:	45 %
Average rating:	BB+

# Interest rate duration and time to maturity

Interest rate exposure and denominated currency of bonds (before currency hedge)

Currency	Bond denominated	Interest rate duration
USD	45%	0,9 year
EUR	25%	1,6 year
GBP	23%	1,5 year
NOK	7%	0,1 year
Sum Fund	100%	1,1 year

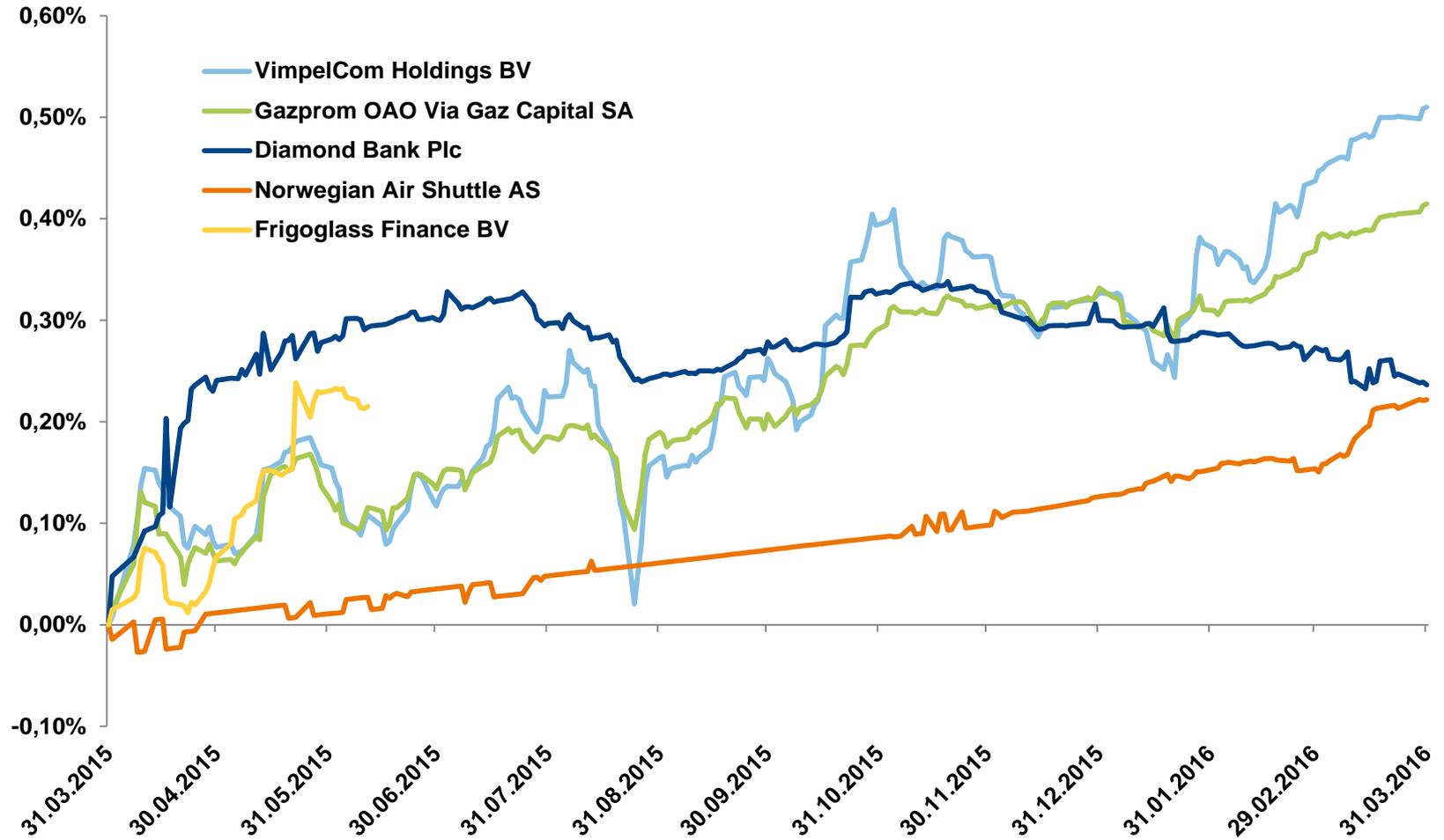
Credit exposure - time to maturity profile on bonds



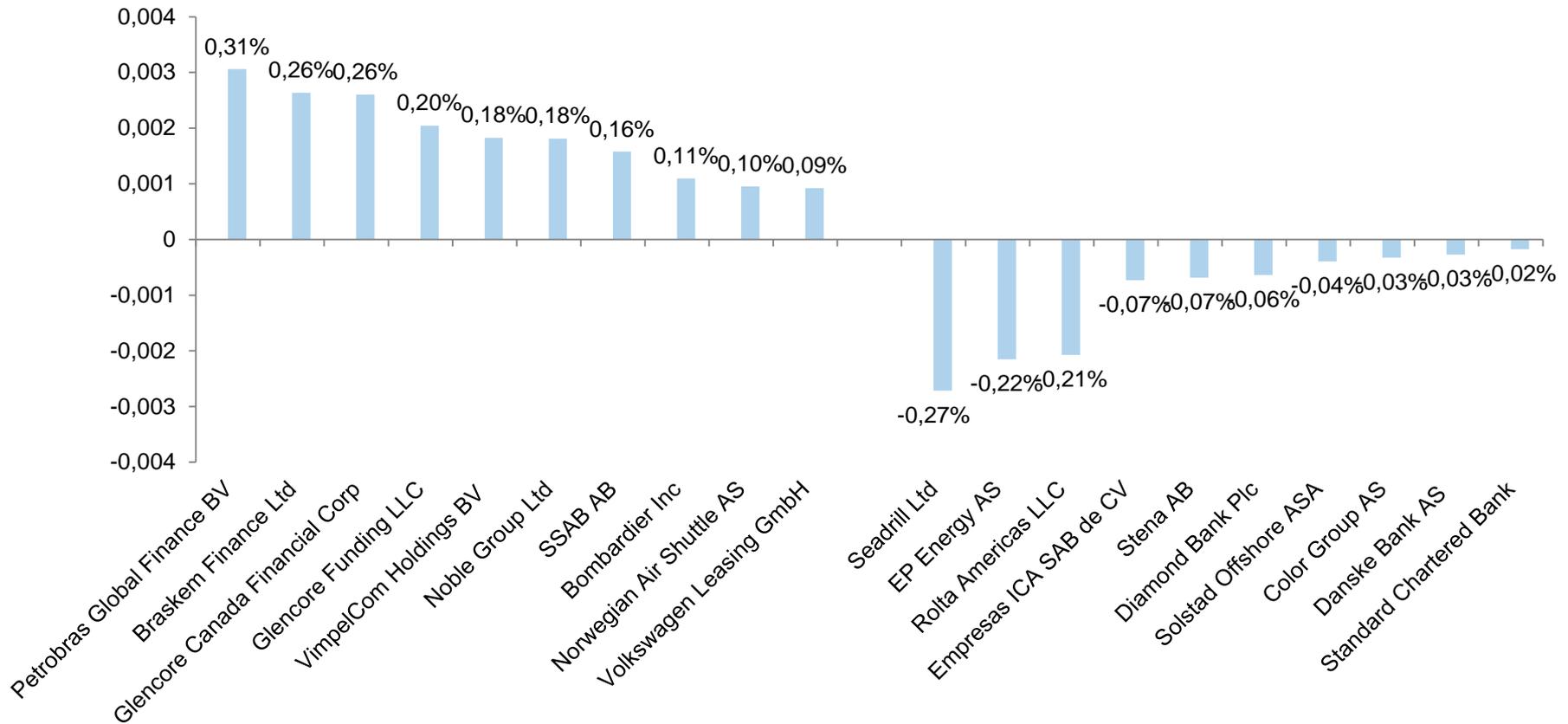
# Top 10 investments

Company	Country of risk	Credit rating*	Percent of fund
Glencore	Switzerland	BBB-	4,1 %
Danske Bank	Denmark	BBB	3,7 %
Gazprom	Russia	BB+	3,7 %
Energias de Portugal	Portugal	BBB-	3,7 %
Bharti Airtel	India	BBB-	3,6 %
Norwegian	Norway	B	3,4 %
Color Group	Norway	B+	3,4 %
Heathrow	UK	BBB	3,3 %
Bank of Baroda	India	BBB-	3,3 %
Vimpelcom	Russia	BB-	3,2 %
<b>Sum top 10</b>			<b>35,4 %</b>

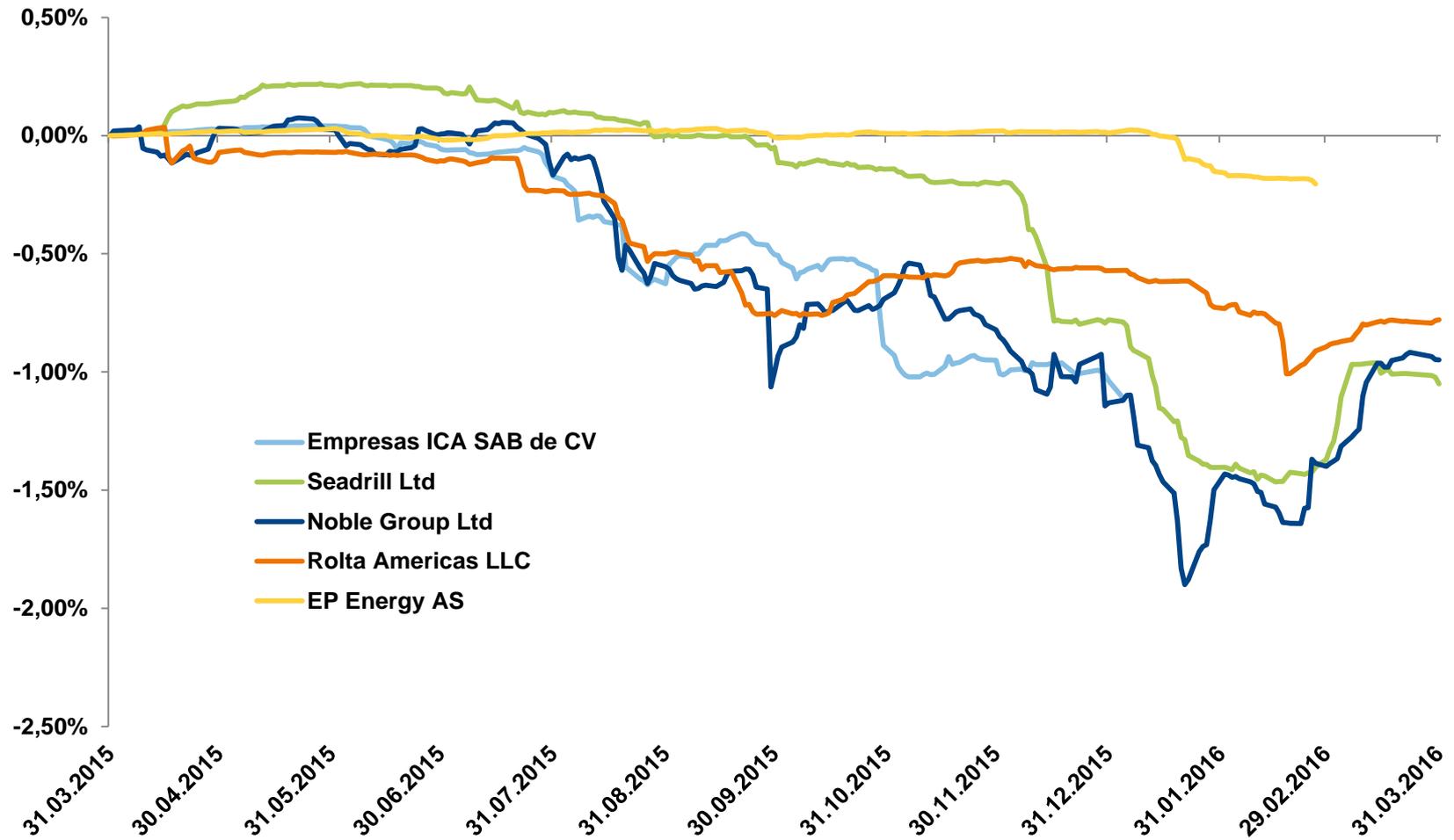
# Top 5 contributors



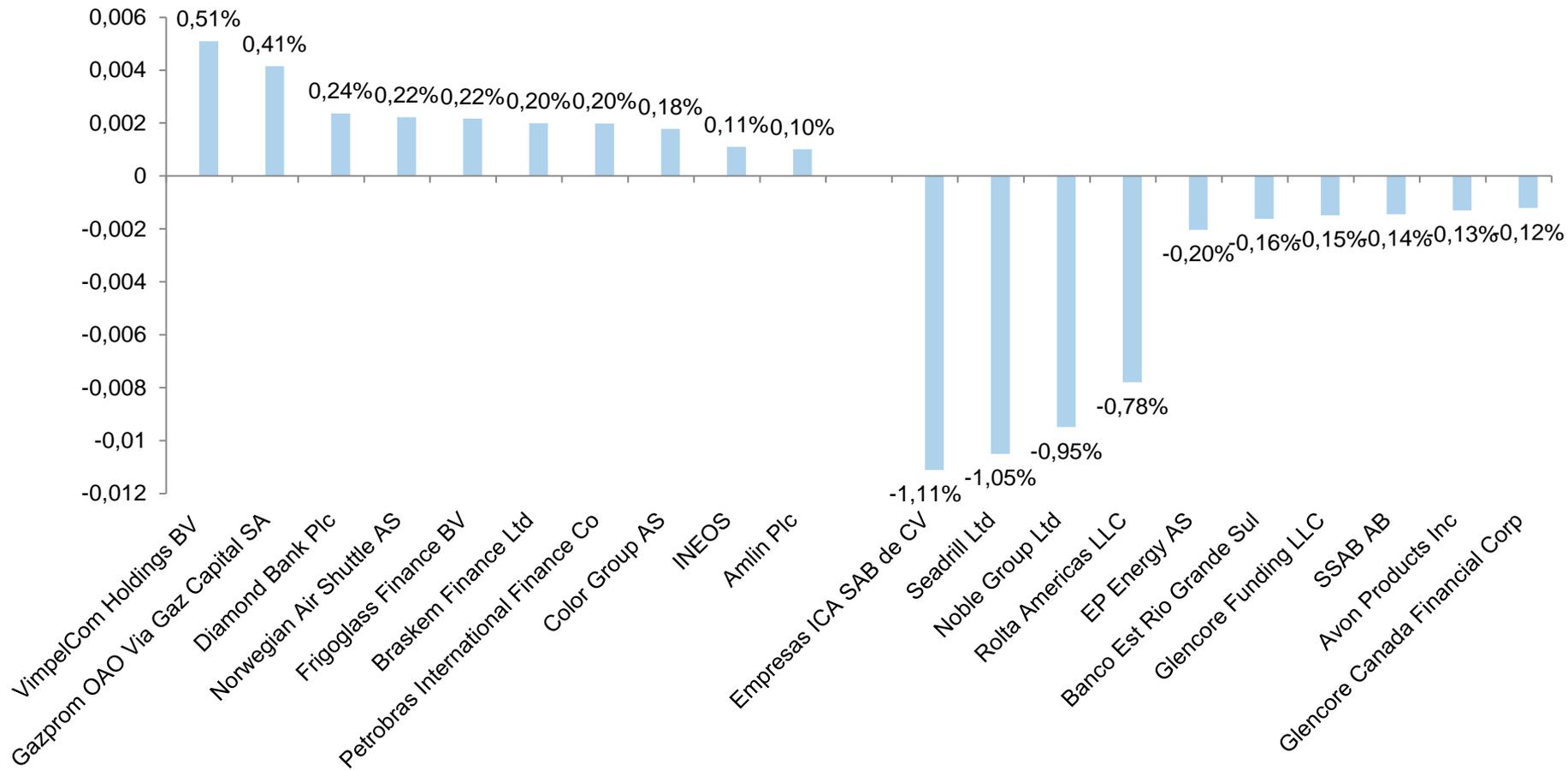
# Best and worst contributors YTD



# Worst 5 contributors



# Best and worst contributors last 12M



# Global Corporate High Yield spread - last 5 years



- Global High yield spreads are at the highest level since the EUR crisis back in 2011/2012
- Lines indicate average credit spread last 15 years at ca. 600 bps and +/- one standard deviation

# 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

Ola Sjöstrand has worked in SKAGEN since 2006 as portfolio manager 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 portfolio manager at the Swedish Soya Group. A combination of strong analytical skills and investment experience applying SKAGEN's investment philosophy puts Ola in a strong position to find good investment cases for the fund. Ola holds a BSc in Business Administration and Economics.

## Tomas Nordbø Middelthon

Tomas Nordbø Middelthon has worked in 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 within Finance and is a Certified Financial Analyst. He has strong analytical skills and a background from financial risk management. The combination of 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.

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