



Apple trees, 1907. Detail. By Michael Archer, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Credit EUR

Status report October 2016

The art of common sense



SKAGEN Credit EUR A – Key numbers

Key numbers as of 31 October	SKAGEN Credit EUR A	Index (EURIBOR 3M)
Return last month	0,5%	0,0 %
Return year to date	6,3 %	-0,2 %
Return since inception (annualized)	0,4 %	-0,1 %
Current yield*	3,2 %	-0,3 %
Duration	1,2	0,25
Time to maturity	3,0	N/A
Average credit spread (OAS)**	377 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

Seen in isolation, October was a good month for the fund. The credit market has been calm over the past three months. Calm and stable markets are good for a credit fund like SKAGEN Credit as the fund increases in value equivalent to the yield. This has been rare over the past few years during which market turbulence has resulted in more or less return relative to the expected return. It is therefore important to have a savings horizon of at least two years for a fund like Credit.

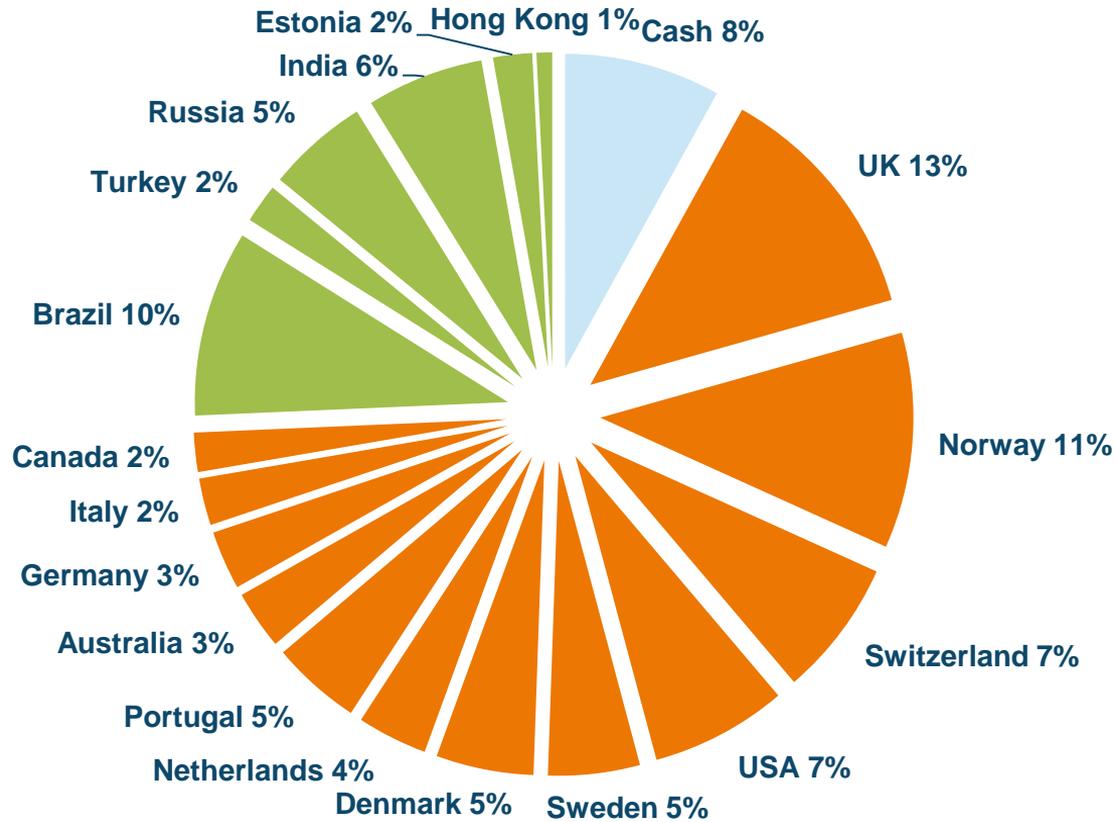
Ever since we launched in the summer of 2014 we have had a small portion of the portfolio invested in Turkish banks. In the winter, we started to have concerns about the financial situation of the Turkish state and sold out of all our investments in the country. During the summer, the riots and generally poor economic developments meant that the Turkish government was downgraded from Investment Grade to High Yield. The banks were also downgraded as a result. It is usual practice amongst rating agencies that banks and companies should not have a higher credit rating than the country.

In October, we once again bought into the Turkish bank, Halkbank, since the bank was downgraded solely on the basis of its domicile in a country in which government finances are under pressure and not because the bank itself has carried out bad banking practices. The bank is well capitalised, has the majority of its loans among small businesses and private individuals, is earning money and has few loan losses.

This is an example of how we are able to take advantage of the situation in emerging markets where countries with poor government finances influence the credit rating of national companies regardless of how well the companies are doing. This provides us with the opportunity to obtain good returns from companies that have a lower risk than their yield indicates, purely because they are located in countries with low credit ratings.

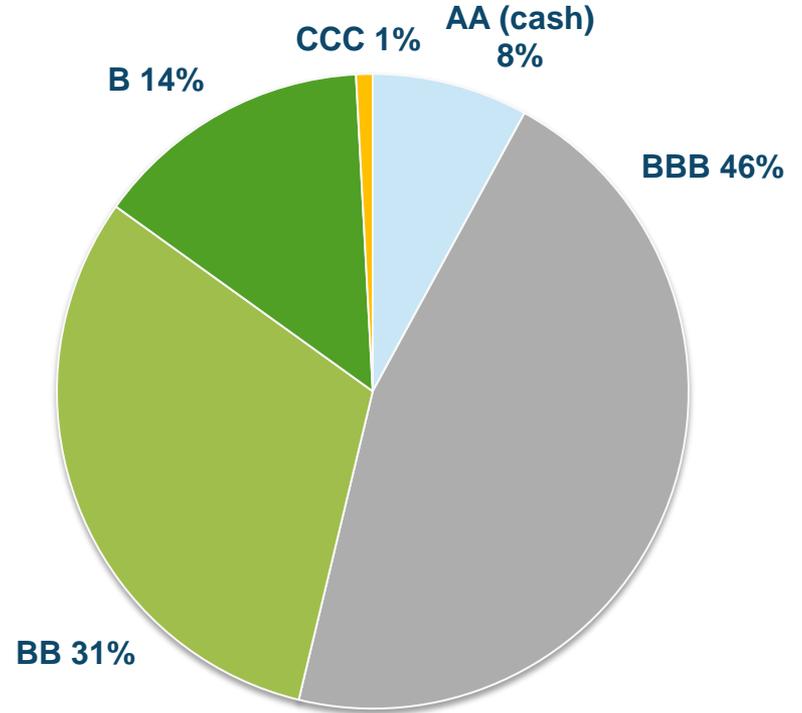
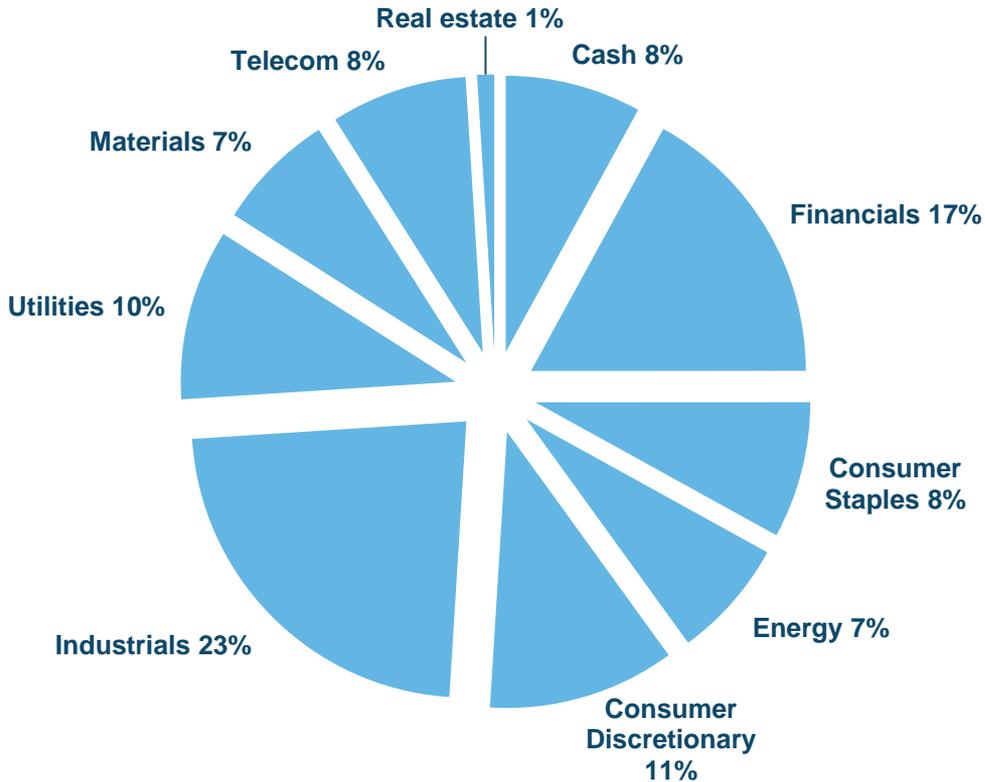
Our bond is a senior bond (good security) issued in USD, with a maturity in 2021 and gives a running return of ca. 6%. The investment constitutes 2.1% of the fund. See the fact sheet further on in the report for details.

Country diversification



Developed markets:	66 %
Emerging Markets:	26 %
Cash:	8 %

Sector and rating distribution



Investment grade:	54 %
High Yield:	46 %
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	43%	1,6 year
EUR	20%	0,7 year
GBP	20%	1,5 year
NOK	11%	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



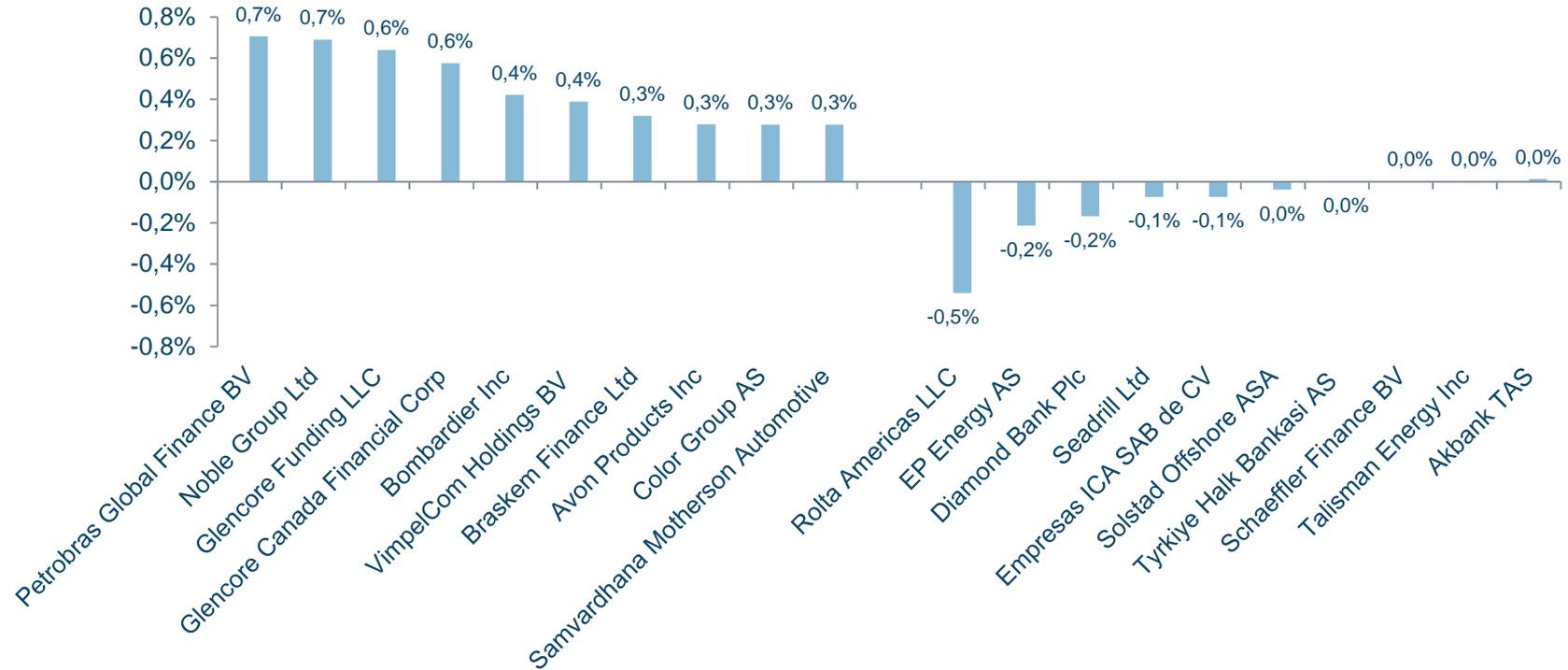
Top 10 investments

Company	Country of risk	Credit rating*	Percent of fund
Glencore**	Switzerland	BBB-	5,8 %
BKK	Norway	BBB	5,3 %
Energias de Portugal	Portugal	BBB-	4,6 %
Bharti Airtel	India	BBB-	3,8 %
Color Group	Norway	B+	3,4 %
Jaguar/Land Rover	United Kingdom	BB+	3,4 %
DSV	Denmark	BBB+	3,3 %
Cosan	Brazil	BB	3,2 %
Schaeffler	Germany	BB+	3,1 %
Sum top 10			36 %

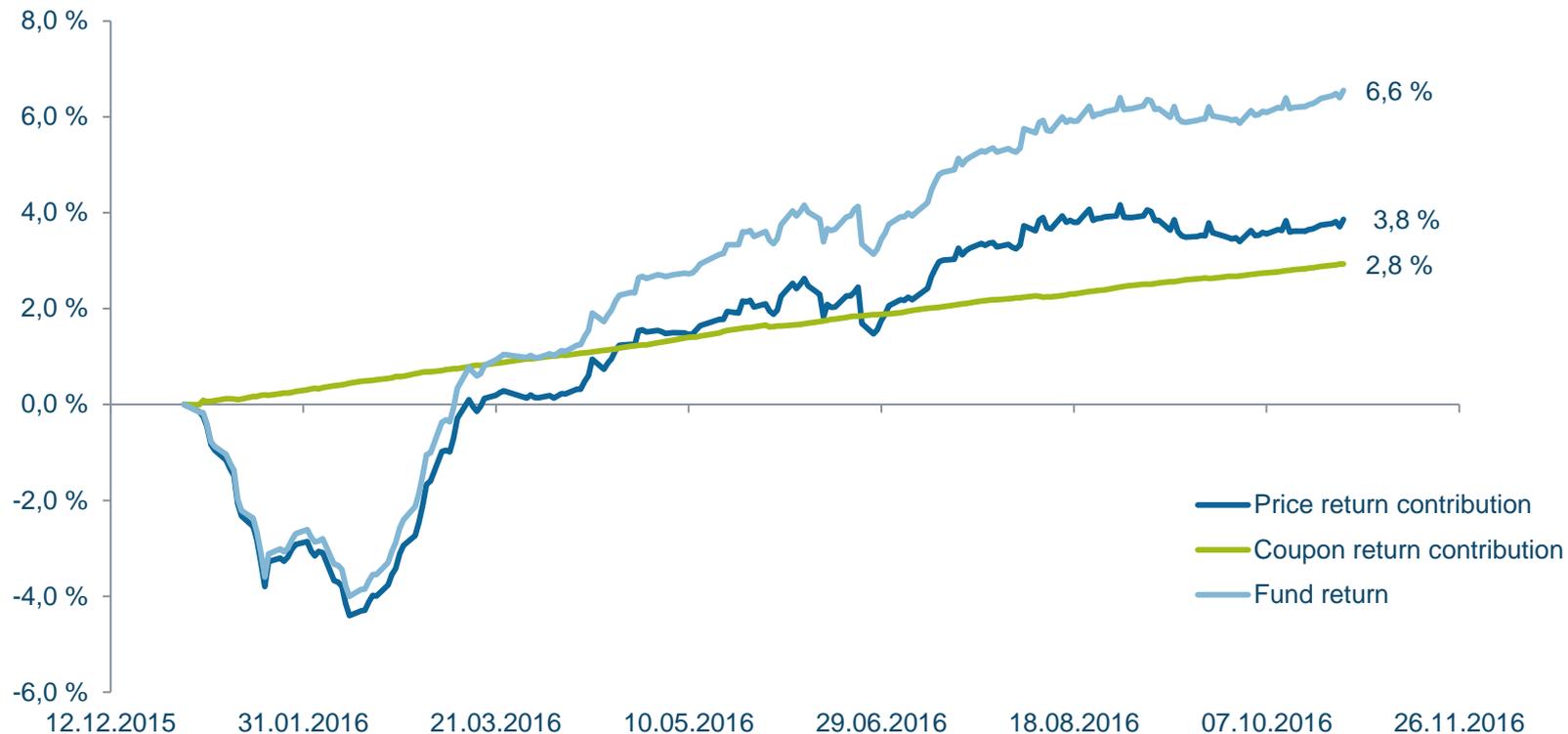
Average bond rating

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

Best and worst contributors YTD

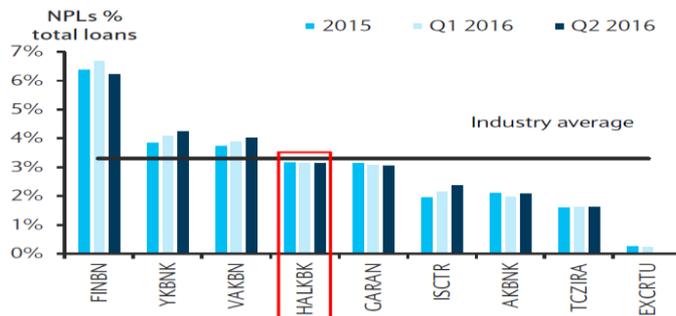


SKAGEN Credit NOK contribution from price and coupons



Halkbank

Turkish state-owned bank. Diversified bank present in all parts of Turkey. 7th largest in terms of assets and 2nd largest of the state-owned banks. Funded mostly by domestic deposits but it also has good access to funding in the USD bond market. Specialised in lending to small and midsize enterprises and to tradesmen. SME 40%, retail 20%, corporate 30%



Source: Company reports, BRSA, Barclays Research

Credit supportive/triggers:

- Strong business position and good credit metrics
- Attractive spread compared to the credit quality
- State support likely

Credit concerns/risks:

- Political situation in Turkey
- Rather high NPL ratios in the corporate sector

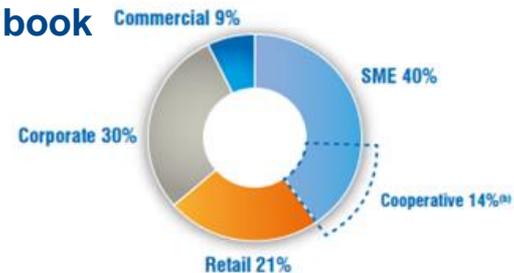
Bond facts:

Domicile:	Turkey
Sector:	Financial
Credit rating:	BB+
Currency:	USD
Maturity:	2021
Spread at purchase:	440 bps
Current Spread:	440 bps

Company key credit multiples Q2 16:

Tier-1/Core Capital ratio:	12,8%
Non performing loans:	3,3%
Net interest margin:	3,9%
Deposit/loan ratio	93%

Loan book



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.

For more information please visit:

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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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