

All data in SEK as of 31.12.2017 unless otherwise stated.

A steady quarter

Corporate bonds with investment grade rating experienced gradually lower credit spreads in the fourth quarter. On the last trading day of the year, these credit spreads reached a year-low. For corporate bonds with high yield rating, i.e. bonds with lower credit quality than investment grade, the credit spreads ended the quarter at the same levels as they started at. High yield rated bonds were slightly more volatile than usual in October and November but calmed down in the last month of the year. The pattern in Q4 was as before; corporate bond spreads kept falling in the absence of bad news.

SKAGEN Credit had a rather uneventful quarter with most bonds performing in line with the market. The largest contributors were Bombardier, Bharti and our two Brazilian holdings Petrobras and JBS.

Bombardier, the Canadian train and aeroplane company, had a good quarter following the announcement that Airbus and Bombardier joined forces in the CSeries program. This partnership not only reduces the risk of the whole CSeries program but also substantially expands the potential market for the aeroplanes.

The Indian telecom company Bharti rose along with the Indian bond market without reporting anything extraordinary.

Petrobras reported good quarterly numbers and once again proved it has put credit improvement in focus. It looks as though Petrobras has a good chance of reaching its target of net debt/EBITDA 2.5x in 2018. Moody's raised the Petrobras rating to its equivalent of a BB-.

On the negative side, Frontier Communications stands out after the bond fell substantially in November. Curiously enough, Frontier reported quarterly results more or less in line with market expectations. The fall in both the equity and bond prices appears to be the market losing faith in the management's ability to turn the business around.

Turkish Halkbank was also a negative contributor as it fell out of favour following accusations of involvement in sanctioned Iran business. Quarterly numbers from the bank show a well-run bank with a working business concept and a strong business position. As of late, that has mattered little to foreigners holding USD bonds.



Petrobras was one of the largest contributors. Photo: Bloomberg



Bombardier, the Canadian train and aeroplane company, had a good quarter. Photo: Bloomberg

Portfolio activity and positioning

In the last three months of the year, SKAGEN Credit exited the Estonian ferry and cargo company Tallink, which had been in the fund since 2015. The investment case changed as Tallink put itself up for sale thereby potentially triggering an unfavourable change of ownership clause in the bond terms. We exited our minor holding in the rig company Seadrill after the company filed for Chapter 11 in the US with a poor solution for bond holders. The position in the Danish cargo company DSV was reduced in the quarter but otherwise there have only been minor changes in the fund. The risk level in the fund continues to be relatively low with an average time to maturity of around two years.

Outlook

We enter 2018 with global corporate bond spreads at generally low levels. Central banks around the world still operate with low policy rates driving down interest rates in general. Some central banks are also active in the market buying various corporate bonds as a means to reduce interest rates even further for corporations. This has led to a situation whereby many companies are able to get cheap funding in the bond market. There is nothing wrong with cheap funding, and it may have made companies more willing to invest and thereby contributed to economic growth. Unfortunately, this has not led to improved corporate credit metrics. With improved credit metrics the very low corporate bond spreads in today's market would have been partially justified. Instead we have a situation where corporate bonds in general are expensive and yielding next to nothing. On top of that bond prices are dependent on central banks keeping their policy rates low and continuing with corporate bond purchases. The prospects are not good.

One way of manoeuvring in today's rather unfavourable corporate bond market is by having a mandate to hand-pick and only invest in a limited number of select bonds. These bonds are either heading for improved credit metrics or are simply mispriced in the market. One example could be a utility company with strong credit metrics but lacking an official rating and issuing bonds in a currency other than EUR or USD. SKAGEN Credit is one of very few funds with the mandate to pick bonds from all over the world irrespective of currency, geography, sector, rating or maturity.

SKAGEN Credit is our global corporate bond fund.

The fund is suitable for investors who have at least a two year investment horizon.

SKAGEN Credit SEK A is a currency-hedged feeder fund that invests its assets in the master fund SKAGEN Credit.

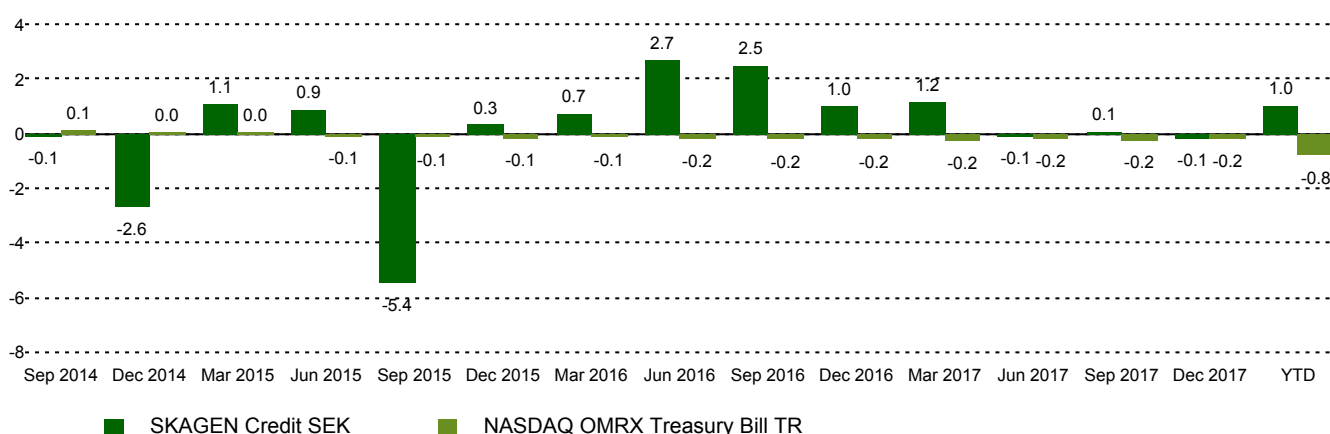
Historical performance (net of fees)

Period	SKAGEN Credit SEK	Benchmark index
Last Month	-0.1%	-0.1%
Quarter to date	-0.1%	-0.2%
Year to date	1.0%	-0.8%
Last year	1.0%	-0.8%
Last 3 years	1.5%	-0.6%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	0.5%	-0.4%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	30.05.2014
Morningstar category	Other Bond
ISIN	NO0010710726
NAV	89.81 SEK
Fixed management fee	0.80%
Benchmark index	NASDAQ OMRX Treasury Bill TR
AUM (mill.)	13.70 SEK
Duration	1.03
WAL	2.25
Yield	-0.18%
Number of holdings	35
Lead manager	Ola Sjöstrand

Quarterly Performance



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Bombardier Inc	2.41	0.10
Bharti Airtel Int	3.34	0.07
Petrobras Global Finance	3.20	0.06
JBS Investments GmbH	2.94	0.06
Glencore	4.86	0.04



Largest detractors

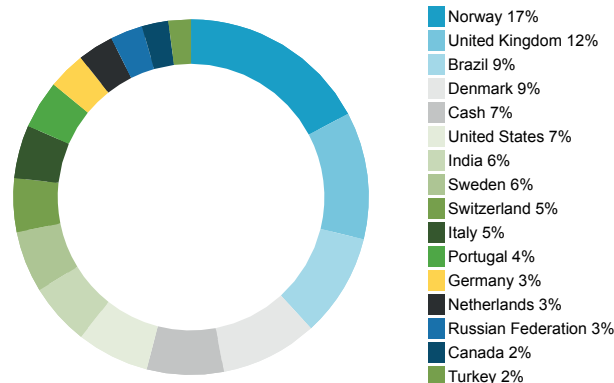
Holding	Weight (%)	Contribution (%)
Frontier Communications	0.80	-0.07
Turkiye Halk Bankasi AS	2.01	-0.02
Rolta Americas LLC	0.26	-0.01
Sagax AB	1.30	-0.01
American Tower Corp	1.32	0.00

Absolute contribution based on NOK returns at fund level

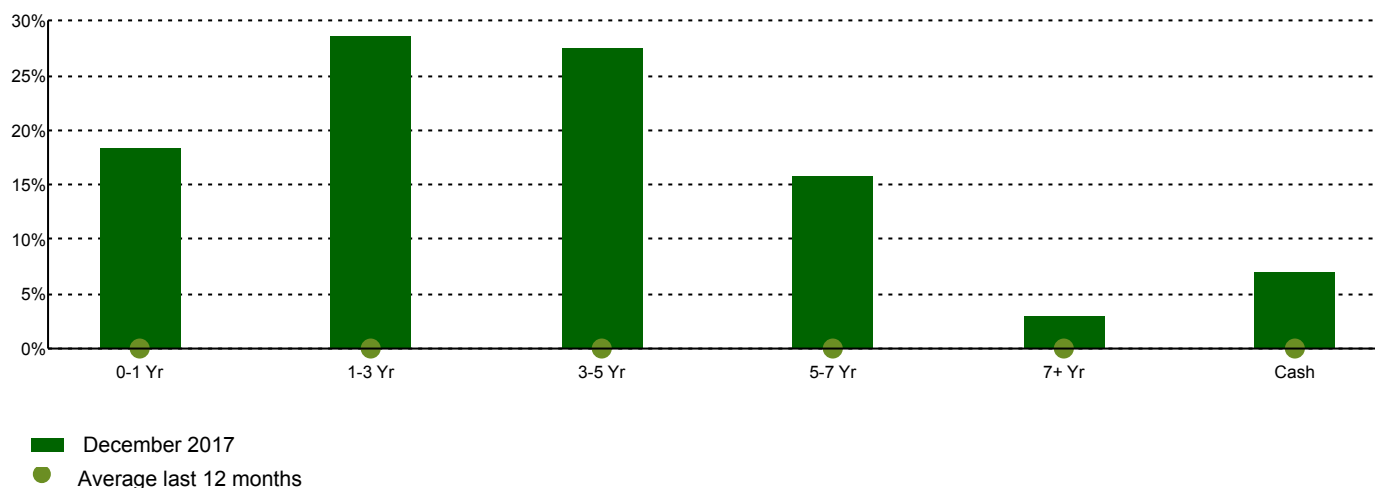
Top 10 investments

Holding	Percentage of Fund
BKK	5.1
Heathrow Funding Ltd	5.1
Glencore Canada Financial Corp	4.9
EDP Finance BV	4.4
Olav Thon Eiendomsselskap ASA	4.1
Jacob Holm & Sonner Holding AS	4.1
Jaguar Land Rover Automotive Plc	3.7
Schaeffler Finance BV	3.5
Bharti Airtel International	3.3
Petrobras Global Finance BV	3.2
Total	41.4

Country exposure



Maturity structure



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Important information

Unless otherwise stated, performance data relates to class A units and is net of fees. Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this 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 a fund's portfolio.