

An interesting start to the year

It has been a rather interesting start to 2018. Uncertainty around the future seems to have emerged, with strong growth in the large economies on the one hand and increased tariffs and trade barriers between countries on the other. The large central banks have started to increase policy rates or clearly signalled they are about to start hiking. Equity markets have shown there are other ways than up and long interest rates in the large “advanced economies” have started to rise. The yield on the US 10Y government bond went from 2.4 percent to around 2.75 percent, with a peak of 2.95 in February. The German equivalent bond started at 0.4 and increased sharply to 0.75 percent but ended the quarter at 0.5 percent. Global corporate bond spreads have also increased in the quarter. According to global indices including all outstanding bonds, High Yield bond spreads are up by some 20 basis points to 350 bps and Investment Grade by 15 basis points to 105 bps.

SKAGEN Credit has held a relatively low risk-portfolio for a while. The bonds in the fund have a short time to maturity, on average only two years, which makes them less exposed to changes in spreads than longer bonds are. The generally increased spreads in the first quarter nevertheless had a negative effect on the fund’s performance and matched the coupon payments making the funds return very close to zero.

Of the better performers is our small investment in the Indian IT company Rolta. Its bonds rebounded heavily due to reported progress in the ongoing restructuring of the company’s defaulted bonds. Bombardier is to be found on the same list after the US International Trade Council rejected the US Commerce Department’s 292% tariff ruling back in January.

Negative contributors included the Indian telecom company Bharti that has come under some rating pressure lately. An imminent downgrade is not likely, however, and Bharti will most certainly make sure this will not happen. Another detractor is the automotive parts company Samvardhana Motherson. There have not been any significant changes in Samvardhana’s business and the reduced bond price has more to do with the uncertainty around its Indian owner’s acquisition policy.

The fund holds a constant low interest rate duration of around 1 year. Therefore, changes in interest rates have a very limited effect on the fund’s return. Higher policy rates and higher long interest rates are, however, welcome as they make bonds in general relatively more attractive to other asset classes. For SKAGEN Credit, it is credit spreads and the changes in the same credit spreads that matter.



Of the better performers is our small investment in the Indian IT company Rolta. Photo: Bloomberg



The German 10Y government bond started at 0.4 and increased sharply to 0.75% but ended the quarter at 0.5%. Photo: Bloomberg

Portfolio activity and positioning

Frontier Communications was sold out of the fund during the quarter after it successfully issued new secured bonds. Although this was very positive and proved Frontier could finance itself in the corporate bond market, it also put the unsecured bonds in a less favourable position. Another company that left the fund was DSV, the Danish transportation company. DSV has been doing very well as of late and the bond simply reached a point (spread) where the upside was very limited.

Outlook

Higher policy rates and higher long (risk-free) interest rates seem to be a very likely scenario in 2018. Corporate bond spreads will most likely also increase following higher rates. This suits SKAGEN Credit very well as it is positioned for increasing spreads with its short maturity and as it is equipped with a free mandate that is truly global. SKAGEN Credit can pick bonds from all over the world with the maturity and risk-profile suitable for the current situation. Other index-related issues such as the amount of debt in the market or home country do not impose restrictions on the investments either.

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.

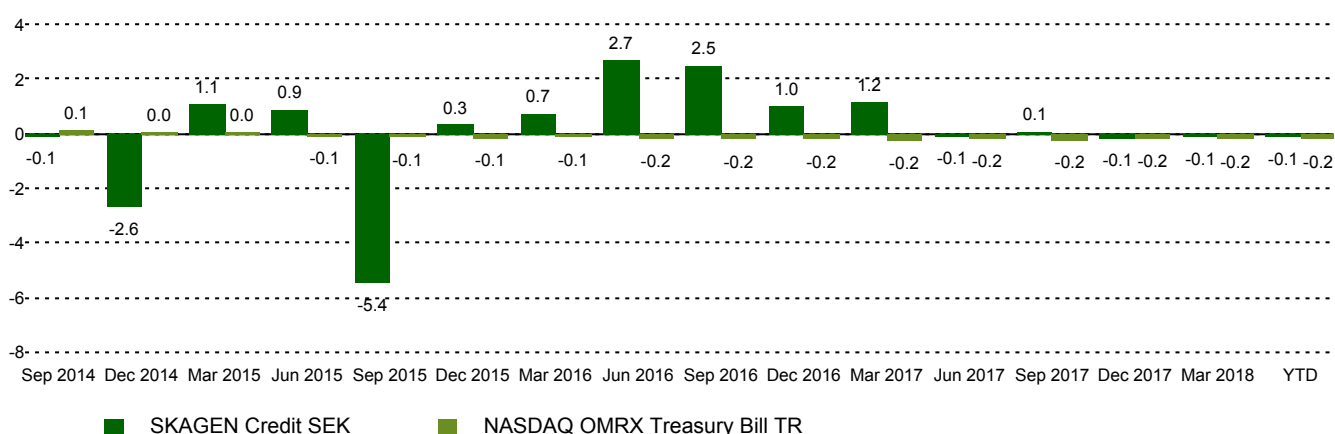
Historical performance (net of fees)

| Period | SKAGEN Credit SEK | Benchmark index |
|-----------------|-------------------|-----------------|
| Last month | -0.2% | -0.1% |
| Quarter to date | -0.1% | -0.2% |
| Year to date | -0.1% | -0.2% |
| Last year | -0.2% | -0.7% |
| Last 3 years | 1.1% | -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 | 89.72 SEK |
| Fixed management fee | 0.80% |
| Benchmark index | NASDAQ OMRX Treasury Bill TR |
| AUM (mill.) | 12.65 SEK |
| Duration | 1.03 |
| WAL | 2.09 |
| Yield | 0.10% |
| Number of holdings | 32 |
| Lead manager | Ola Sjöstrand |

Quarterly Performance



Contributors in the quarter



Largest contributors

| Holding | Weight (%) | Contribution (%) |
|-----------------------------|------------|------------------|
| Rolta Americas | 0.39 | 0.14 |
| Bombardier | 2.67 | 0.05 |
| JBS Investments | 2.66 | 0.05 |
| BKK | 5.99 | 0.03 |
| Jacob Holm & Sonner Holding | 4.69 | 0.02 |



Largest detractors

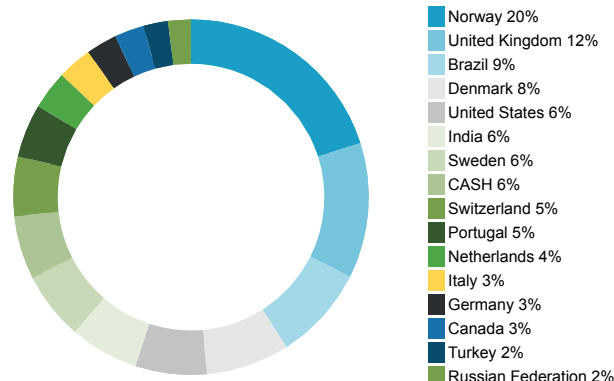
| Holding | Weight (%) | Contribution (%) |
|-----------------------------|------------|------------------|
| Bharti Airtel International | 3.63 | -0.08 |
| Samvardhana Motherson | 3.51 | -0.07 |
| Glencore | 5.33 | -0.07 |
| Jaguar Land Rover | 4.16 | -0.06 |
| Best Buy | 3.63 | -0.03 |

Absolute contribution based on NOK returns at fund level

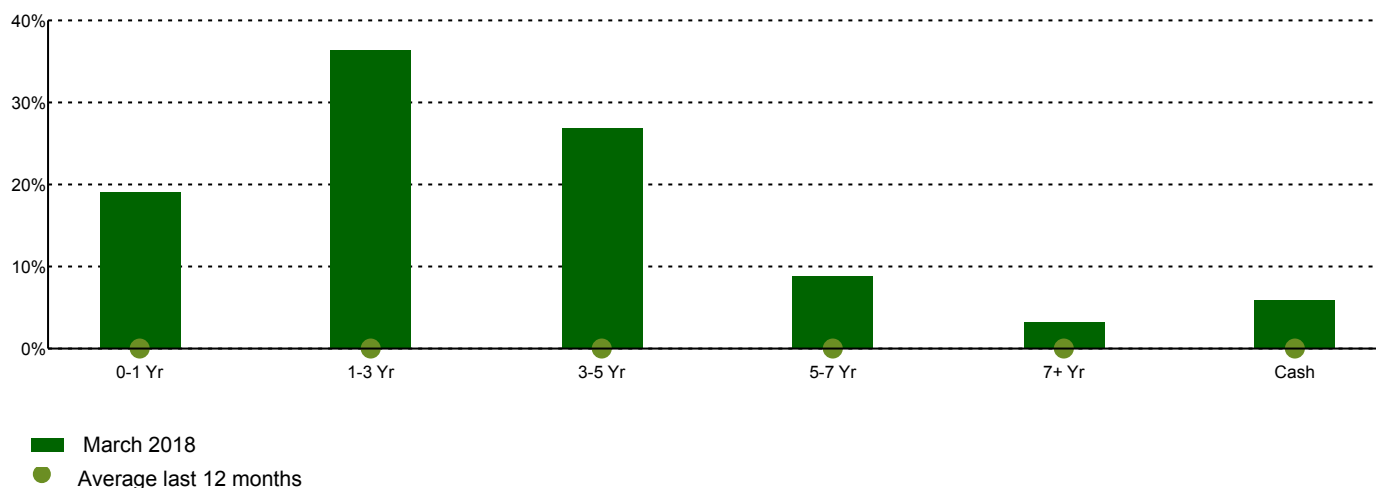
Top 10 investments

| Holding | Percentage of Fund |
|----------------------------------|--------------------|
| BKK | 5.9 |
| Heathrow Funding Ltd | 5.7 |
| Glencore Canada Financial Corp | 5.4 |
| EDP Finance BV | 4.8 |
| Olav Thon Eiendomsselskap ASA | 4.8 |
| Jacob Holm & Sonner Holding AS | 4.6 |
| Jaguar Land Rover Automotive Plc | 4.1 |
| Entra ASA | 3.7 |
| Agder Energi AS | 3.7 |
| Bharti Airtel International | 3.7 |
| Total | 46.5 |

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.