

## A low credit spread environment

Credit spreads continued slightly lower in the quarter. On a global level investment grade bonds saw spreads decrease by some 10 basis points and high yield bonds by roughly 25 basis points. The absolute levels are now down to spreads last seen three years ago.

There were some rather interesting events in the second quarter. In Europe the closely-watched elections didn't result in the EU break-up that some people had predicted if the result had turned out differently. The French election in particular, which ended with a devastating win for Mr. Macron, was interpreted as boosting the outlook for the European Union. In the UK the early general election called by Mrs. May backfired and put her and her government in a weaker position than before the election. The consequences of this could be a weaker bargaining position for the UK in the forthcoming Brexit negotiations.

On 30 May SKAGEN Credit celebrated its three year anniversary, which you can read more about in the May status report found on our homepage ([www.skagenfunds.com](http://www.skagenfunds.com)).



The French election that ended with a devastating win for Mr. Macron (pictured here) boosted the outlook for the European Union. Photo: Bloomberg

### Lower risk?

If the headlines are to be believed, risk in the world seems to have gradually decreased this quarter. The same impression is given by the equity volatility index VIX – an index which shows how the market prices future equity volatility. The VIX index is now trading at levels very close to all-time low. Hence there appear to be no or very few clouds on the horizon. Interestingly, VIX seems to have a high correlation with Global High Yield bonds.

In the world of corporate bonds in which SKAGEN Credit operates, risk is expressed in basis points above a risk-free rate. These basis points are often referred to as “the spread” and are basically what the bond market is willing to get paid in return for lending money to corporates. The lower the risk in a company, the lower the spread required. Spreads have fallen substantially over the past eighteen months and are now at lows last seen three years ago. This is interpreted by many as good times are here. We are not convinced, however. Or to put it more accurately, we are not convinced that the risk/reward looks attractive at these levels.

The companies in the SKAGEN Credit portfolio have in general reported good numbers this quarter. Many companies are taking advantage of the low bond spreads at present and extending their funding maturity by issuing new long bonds. Very few of these companies actually need more funding and as a result they are buying back their shorter dated bonds in the market. This has been beneficial for SKAGEN Credit as we hold a portfolio of rather short-dated bonds.

The Brazilian meat producer JBS has been through rough times recently. When its majority owner made a deal with the authorities and admitted to corruption, the bond that we hold in the fund fell by around ten percent. As the owners are very much linked to JBS, being both founding family and majority owner with seats in the board, it is uncertain how much all of this will spill over to JBS. The owners also provided the authorities with a taped conversation with the Brazilian president that sent the Brazilian stock markets tumbling.



Corporate bond spreads are essentially trading at low levels because central banks are operating with low interest rates. The Bank of England is pictured here. Photo: Bloomberg

### Active corporate bond picking

In today's environment it is more important than ever not to invest blindly in just any corporate bonds, but rather to pick companies/bonds where there is some extra value not shown in the price.

In SKAGEN Credit all bonds are hand-picked and are in the fund for a reason, not because they are part of an index. The risk in the fund has gradually been reduced over the last twelve months. The average credit rating has gone from BB to BBB while the average time to maturity has in the same period decreased from 3.5 to 2.5 years. The fund is therefore well positioned for some turbulence ahead and is ready to invest when attractive bonds turn up.

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

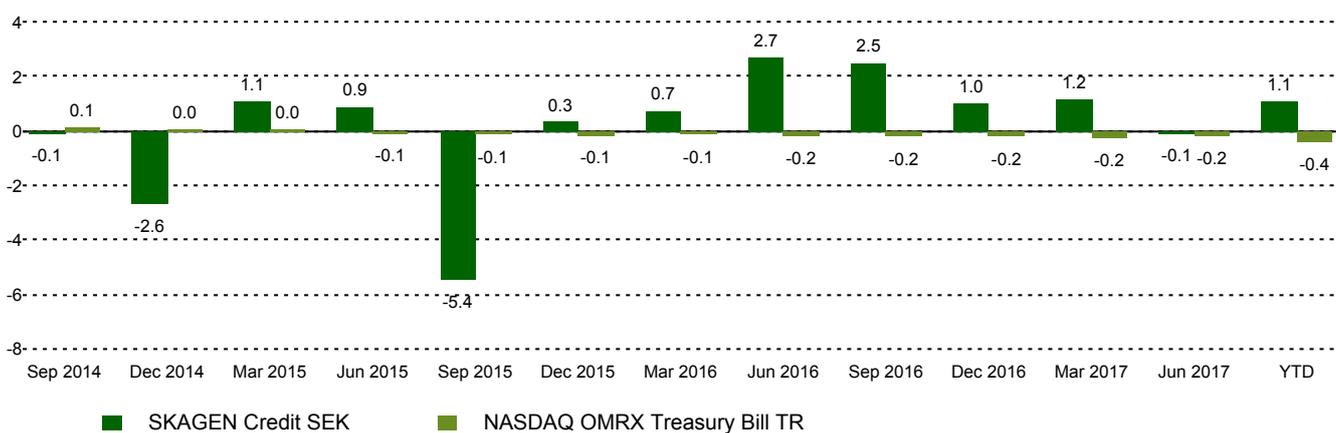
## Historical performance (net of fees)

| Period          | SKAGEN Credit SEK | Benchmark index |
|-----------------|-------------------|-----------------|
| Quarter to date | -0.1%             | -0.2%           |
| Year to date    | 1.1%              | -0.4%           |
| Last year       | 4.6%              | -0.8%           |
| Last 3 years    | 0.6%              | -0.4%           |
| Last 5 years    | n/a               | n/a             |
| Last 10 years   | n/a               | n/a             |
| Since start     | 0.7%              | -0.4%           |

## Fund Facts

|                      |                              |
|----------------------|------------------------------|
| Type                 | Fixed income                 |
| Domicile             | Norway                       |
| Launch date          | 30.05.2014                   |
| Morningstar category | Other Bond                   |
| ISIN                 | NO0010710726                 |
| NAV                  | 98.11 SEK                    |
| Fixed management fee | 0.80%                        |
| Benchmark index      | NASDAQ OMRX Treasury Bill TR |
| AUM (mill.)          | 25.34 SEK                    |
| Duration             | 0.93                         |
| WAL                  | 2.20                         |
| Yield                | -0.24%                       |
| Number of holdings   | 38                           |
| Lead manager         | Ola Sjöstrand                |

## Quarterly Performance



## Contributors in the quarter



### Largest contributors

| Holding       | Weight (%) | Contribution (%) |
|---------------|------------|------------------|
| Not Available | 0.00       | 0.00             |



### Largest detractors

| Holding       | Weight (%) | Contribution (%) |
|---------------|------------|------------------|
| Not Available | 0.00       | 0.00             |

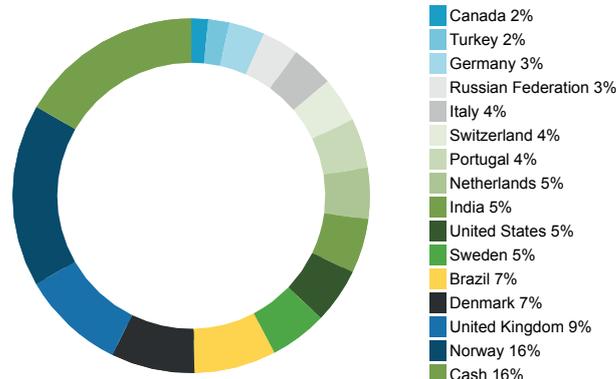
Absolute contribution based on NOK returns at fund level

All data in SEK as of 30.06.2017 unless otherwise stated.

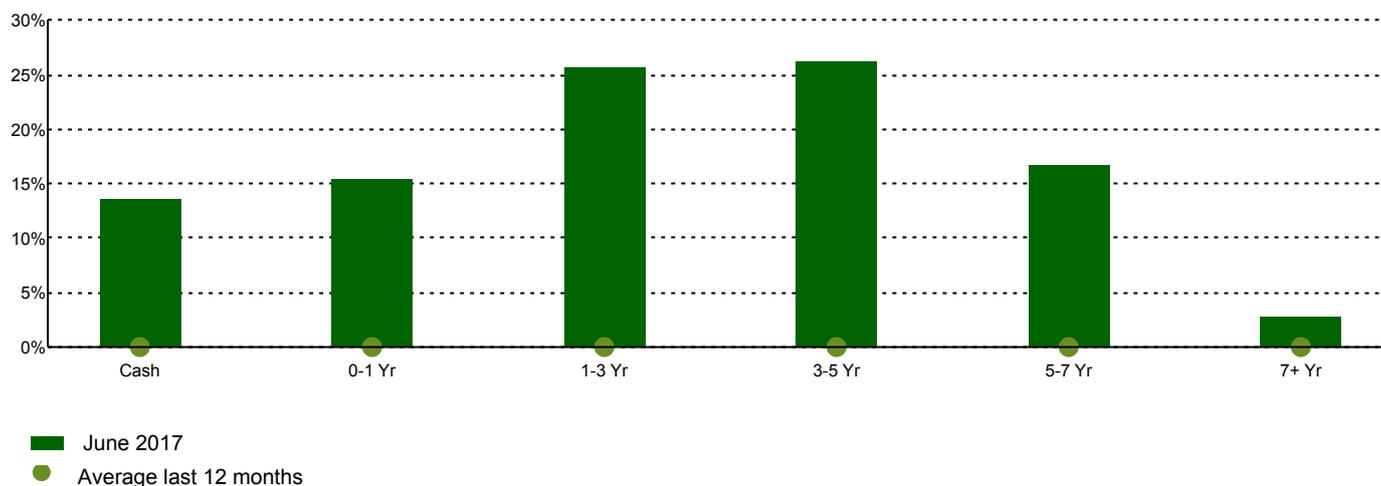
## Top 10 investments

| Holding                          | Percentage of Fund |
|----------------------------------|--------------------|
| Samvardhana Moterson Automotive  | 4.58               |
| BKK                              | 4.48               |
| EDP Finance BV                   | 4.47               |
| Heathrow Funding Ltd             | 4.43               |
| Glencore Canada Financial Corp   | 4.04               |
| Schaeffler Finance BV            | 3.19               |
| DSV A/S                          | 2.99               |
| Jaguar Land Rover Automotive Plc | 2.91               |
| Bharti Airtel International      | 2.90               |
| Cosan                            | 2.82               |
| Total                            | 36.82              |

## Country exposure



## Maturity structure



## Contact



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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.