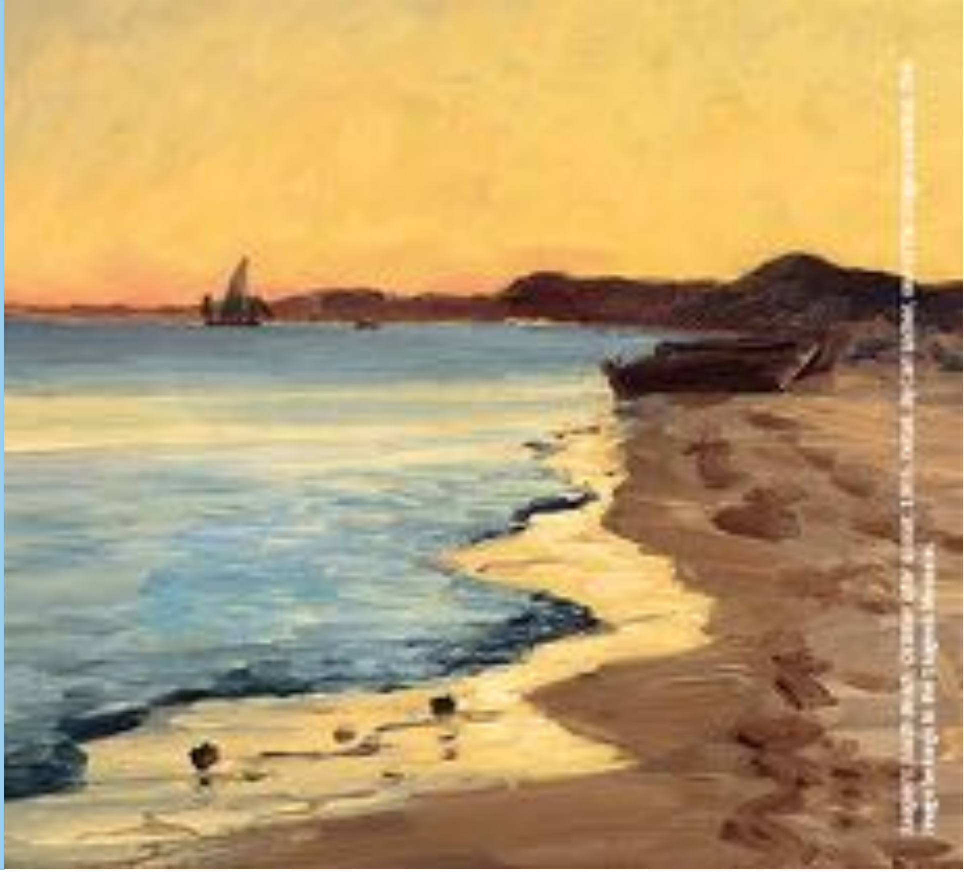
Torgeir Høien
Lead Manager



SKAGEN Tellus
Macro outlook for 2015

The art of common sense

SKAGEN

Macro outlook for 2015

We expect the global economy to grow faster than most analysts expect. Oil is a major input, and the increased supply of oil will boost growth in all oil-importing countries. The US is not a net importer of oil anymore, but we expect that the strong growth shown in H2 2014 will continue in 2015.

Falling commodity prices will drag down inflation in most countries. Inflation is already very low in most major economies, and we anticipate mild deflation in several countries.

Low inflation and low inflation expectations are feeding on each other, and falling inflation expectations will keep long term interest rates in check even as global growth accelerates.

We anticipate large-scale purchases of sovereign bonds by the European Central Bank. While we think this will have a limited effect on inflation, we expect it to have a significant impact on interest rate spreads in the Eurozone.

Japan's performance is the most uncertain among the advanced economies. The main risk is that investors will loose faith in the government's ability to service its debt.

See the enclosed sheets for details on where SKAGEN Tellus presently is invested.

Brazil

What?

SKAGEN Tellus is 4.3% invested in a government bond that matures in 2028. It currently yields 9.6%. Brazil has a BBB+ rating from S&P.

Why?

We find long-term yields in Brazil attractive. Adjusted for the 3% inflation target the real yield on our bond is 6.3%. The CDS premium is 2.4%, implying that the risk free real interest rate is 5.2% That is considerably higher than comparable yields in most other developed and emerging markets.

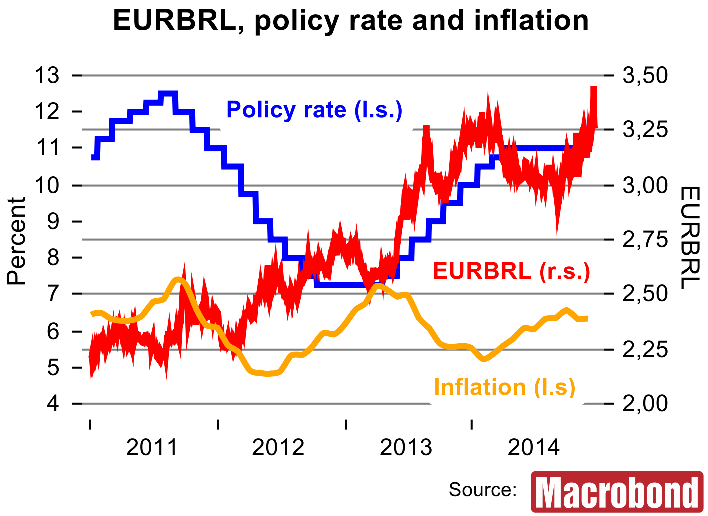
Admittedly, current inflation is higher than the inflation target. But we expect tight monetary policy - the policy rate is now 11.75% - and a strengthening BRL, which currently is weak, to gradually lower the rate of inflation. We disagree with the IMF's forecast, which only project a modest fall in inflation over the next two years.

Brazil's net public debt to GDP ratio has declined to a little less than 34 pct. It's expected to fall toward 32% going forward. (Here we agree with the IMF). This indicate less credit risk than the market attach to Brazilian sovereign bonds. GDP growth has been very modest recently, but it is expected by the IMF to slowly pick up over the next years. We expect faster global growth to accelerate the Brazilian growth rate relative to the IMF's forecast.

Risks

Monetary policy might be loosened too fast, causing the BRL to depreciate and inflation to remain above the target.

GDP might fail to pick up, or the terms of trade might again be adversely affected, causing less pressure on the BRL to appreciate.



Forecast*	2014	2015	2016
GDP growth	0.3%	1.4%	2.2%
Inflation	6.3%	5.9%	5.6%
Primary budget balance/GDP	1.3%	2.0%	2.5%
Net public debt/GDP	33.6%	32.9%	32.5%

* IMF October 2014

22.12.2014

Chile

What?

SKAGEN Tellus is 3.9% invested in a CLP-denominated government bond that matures in 2020. It currently yields 4.9%. Chile has a AA+ rating from S&P.

Why?

Adjusted for the 3% inflation target, we find long-term nominal yields attractive. Public finances are very sound, with a net asset position and a small budget deficit. We think lower perceived credit risk and a tighter risk-free real interest rate spread relative to developed markets will lower long yields.

After an impressive annual growth rate of 5.3% from Q3 2009 to Q3 2013, the growth rate slowed to 0.8% over the last four quarters. We think this was just a temporary pause in Chile's process of catch-up growth. The IMF forecast GDP to grow 3.3% in 2015 and 4% in 2016.

Chile's CPI has been quite volatile since 2007, with high inflation in 2008 and a brief period of deflation in 2009. Currently core inflation is 5.0%. The inflation target is 3.0%. The policy rate is currently 3%, which we think is sufficient to quell the inflation overshoot.

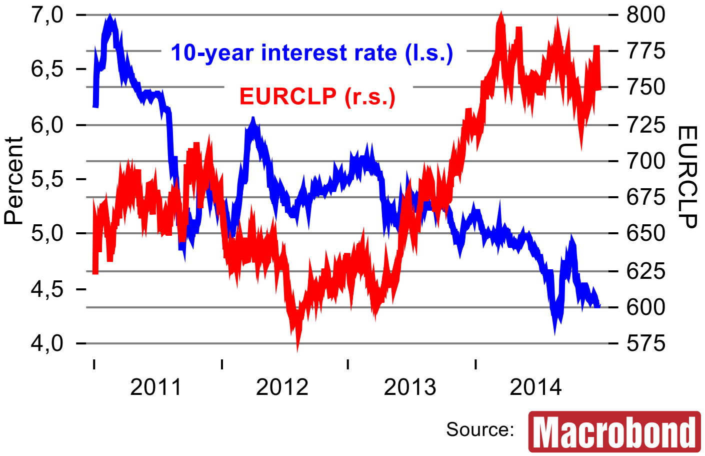
The price level as measured in EUR is 55% % of the Eurozone price level according to our calculations. Hence there is room for a further strengthening of the Chilean peso (CLP) going forward. The main driver of nominal appreciation is relatively rapid growth in GDP per capita compared to developed markets and expected inflation just slightly above developed market levels.

Risks

The small open economy will be adversely affected by a slowdown in the global economy, which could depreciate the CLP.

While we think interest spreads relative to US Treasuries are going to come in, a sharp increase in US Treasury yields could lift the absolute level of long term Chilean interest rates.

EURCLP and long interest rate



Forecast*	2014	2015	2016
GDP growth	2.0%	3.3%	4.0%
Inflation	4.4%	3.2%	3.0%
Primary budget balance/ GDP	-1.6%	-0.9%	-0.6%
Net public assets/GDP	4.3%	3.1%	2.3%

* IMF October 2014

23.12.2014

China

What?

SKAGEN Tellus is 4.8 % invested in a renminbi-denominated bond issued by the supranational AAA-rated European Bank of Reconstruction and Development. The bond matures in June 2016 and currently yields 1.2%.

Why?

This investment is motivated by the prospects of an appreciation of the CNY versus the EUR. China has a managed currency. The People's Bank of China uses interest rates, foreign currency interventions and required bank reserves to manage the CNY. Since 2005, when the fixed peg was dropped, the EURCNY has fallen from 10.2 to 7.6. We expect further gains over time, but the currency cross will be volatile from month to month.

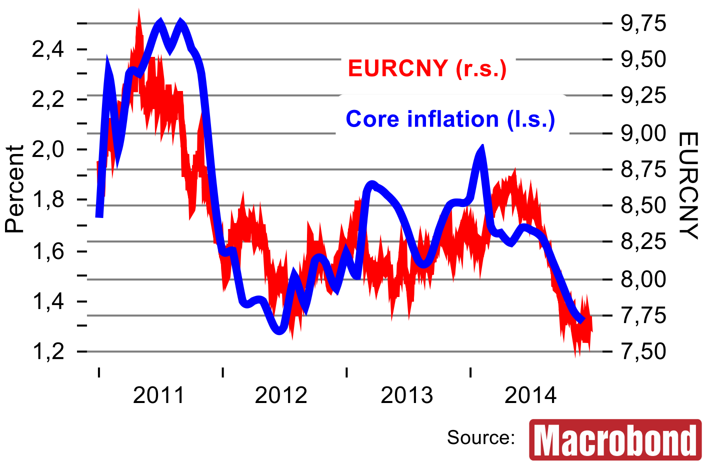
A country which has relatively rapid economic growth and inflation comparable to its trading partners should see its nominal exchange rate strengthen over time. A relative high GDP per capita growth raises the price level as measured in foreign currencies. If domestic inflation is not higher than in the rest of the world, this pushes up the nominal exchange rate. Hence, as long as China's growth vastly surpasses that of its peers and inflation is not much higher than the 2% targets in the US and the Eurozone, the CNY may be expected to appreciate. As catch-up growth slows down, trend appreciation will eventually come to an end. But we are not yet there. Measured in EUR the price level in China is according about 55% that of the Eurozone. Thus the renminbi can be expected to appreciate further as long as China climbs the ladder to become a fully developed economy. Of course, having a managed currency, the government may be expected to stop the nominal appreciation from time to time.

Risks

If there is a severe slowdown in economic growth the government could try to stimulate growth by depreciating the CNY.

Higher inflation will reduce the need for appreciation.

EURCNY and inflation



Forecast*	2014	2015	2016
GDP growth	7.4%	7.1%	6.8%
Inflation	2.3%	2.5%	3.0%
Primary balance/GDP	-0.5%	-0.3%	-0.3%
Gross public debt/GDP	40.7%	41.89%	42.9%

* IMF October 2014

22.12.2014

Colombia

What?

SKAGEN Tellus is 3.8% invested in a government bond that matures in 2021. The bond currently yields 5.2%. Colombia has a BBB+ rating from S&P.

Why?

The Colombian peso sold off at the end of 2014 due to falling oil prices. While oil accounts for about 25% of Colombian exports, oil production only constitutes about 3 percent of GDP. Hence we think that the Colombian economy will adjust to lower oil prices and that the peso will rebound in 2015.

Colombia is an emerging economy that has instituted a very sound macroeconomic framework, with open capital markets, prudent fiscal policies and an inflation targeting central bank. Growth has been rapid. The IMF forecast is for growth of about 4.5% over the next two years. The public primary balance is positive, and the net public debt to GDP ratio is projected to fall to 23% in 2016.

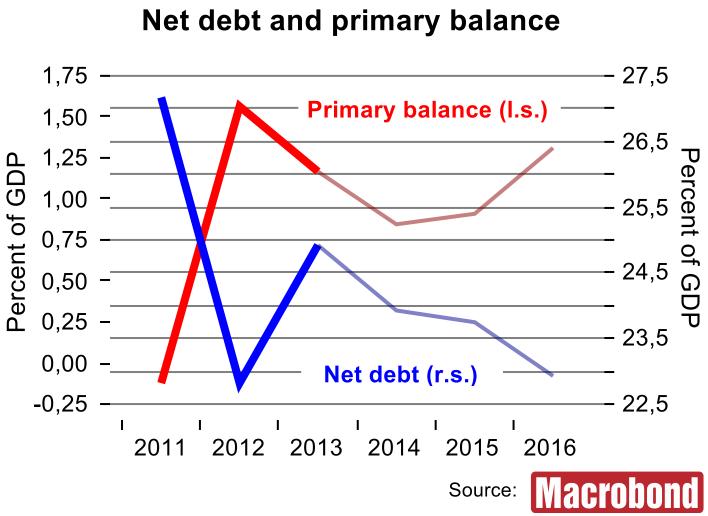
In 2010 the central bank adopted 3 pct +/- 1pp as its permanent inflation target. Currently core inflation is 3.2% and we expect inflation to be around this level over the coming years. The policy rate is 4.5%. The inflation expectation and risk adjusted long term interest rate is 3.1%. This latter number is higher than similar rates in most other emerging markets. We think there is room for capital gains as long interest rates fall.

Risks

As an emerging economy Colombian markets will be hit if there is a new leg to the global recession.

A further fall in oil prices will bring renewed pressure on the peso.

The activities of he the Marxist FARC guerilla might flare up again.



Forecast*	2014	2015	2016
GDP growth	4.8%	4.5%	4.5%
Inflation	2.8%	2.6%	3.0%
Primary budget balance/GDP	0.8%	0.9%	1.3%
Net public debt/GDP	23.9%	23.7%	22.9%

* IMF October 2014

23.12.2014

Croatia

What?

SKAGEN Tellus is 4.1% invested in a USD-denominated government bond that matures in 2024. It currently yields 4.9%. Croatia has a BB rating from S&P.

Why?

Croatia has had lack-luster growth since the 2008, and the IMF expects GDP to fall 0.8% from 2013 to 2014. The public debt has consequently grown to 66% of GDP, up from 30% before the global financial crises. Before the great recession the Croatian economy grew at an annual rate of about 4.5%.

We invested in Croatian bonds at the end of 2014, expecting contrary to consensus that the economy will rebound in 2015 and that the debt to GDP ratio will dwindle faster than generally anticipated. There are already some signs of a turnaround with the unemployment rate down from 18.7% to 15.7% this fall.

As we expect the European economy in general to do better in 2015 than most analysts, benefitting among other things from lower oil prices, we think there is going to have a spill-over effect to Croatia, which became a EU member in 2013.

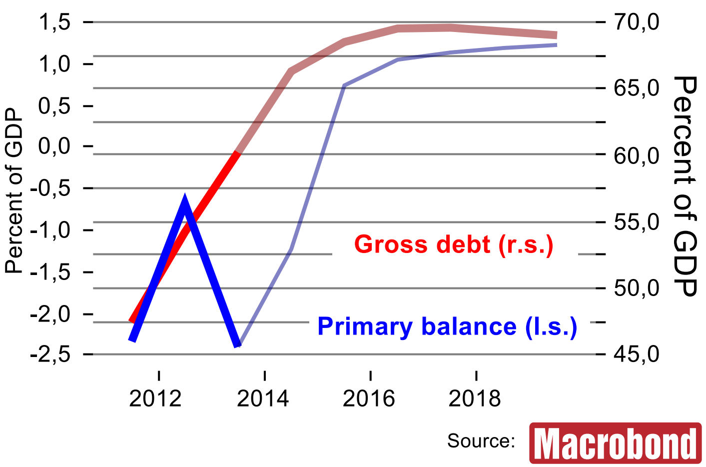
Consequently we expect the credit risk on USD denominated Croatian bonds to diminish from its current 2.2 p.p. level relative to US Treasuries.

Risks

While we think interest spreads relative to US Treasuries are going to come in, a sharp increase in US Treasury yields could lift the absolute level of long term Croatian interest rates.

The European economy may struggle more than we anticipate in 2015, with negative spill-over effects to Croatia.

Gross debt and primary balance



Forecast*	2014	2015	2016
GDP growth	-0.8%	0.5%	1.4%
Inflation	-0.3%	0.2%	1.0%
Primary budget balance/ GDP	-1.2%	0.7%	1.0%
Gross public debt/GDP	66.3%	68.4%	69.5%

* IMF October 2014

23.12.2014

India

What?

SKAGEN Tellus is 4,7% invested in two rupee-denominated bonds issued by the supranational triple-A rated European Bank of Reconstruction and Development. The bonds mature in March 2015 and June 2015 and currently yield 7.3% and 5.4%, respectively.

Why?

We have been invested in these bonds both because they offer a high short-term yield and because we think there is a potential for currency appreciation of the INR versus the EUR.

The annual growth rate of GDP has slowed down over the last two years, but the most recent indicators point to higher growth. Lower oil prices is a huge boon to India, which is a large oil importer. Public finances are getting in better shape, with a high nominal GDP growth enabling India to lower its debt to GDP ratio below 60% in 2015 according to the IMF. We think that the new government, led by Narendra Modi, will pursue a more business friendly policy than the previous one.

Raghuram Rajan, a former IMF chief economist, became the governor of the Indian central bank in September 2013. His policies has cut inflation.

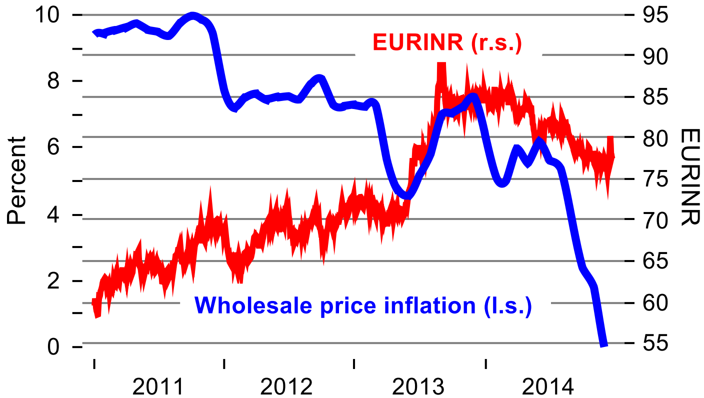
The price level in India as measured in EUR is 30% of the Eurozone. Since GDP per capita is much lower in India than in the Eurozone, the Indian price level should be lower. But we expect that real convergence and tight monetary policy will put upward pressure on the INR. Trend inflation is higher in India than in the Eurozone, but we expect the inflation differential to be reduced.

Risks

GDP growth might slow again, causing less upward pressure of the real exchange rate.

The Central Bank of India might be unsuccessful in holding down inflation, channeling most of the real appreciation through a relatively high inflation rate.

EURINR and inflation



Source: Macrobond

Forecast*	2014	2015	2016
GDP growth	5.6%	6.4%	6.5%
Consumer price inflation	7.8%	7.5%	6.7%
Primary budget balance/GDP	-2.6%	-2.3%	-2.2%
Gross public debt/GDP	60.5%	59.5%	58.5%

* IMF October 2014

22.12.2014

Italy

What?

SKAGEN Tellus is 8.2% invested in an Italian bond that matures in 2037. It currently yields 3.8%. Italy has a BBB- rating from S&P.

Why?

We expect the spread between Italian and German bonds to shrink and we do not expect a significant uptick in German bond yields. We thus expect that the absolute level of interest on Italian bonds to be lowered.

The Italian sovereign debt is high as a percent of GDP, but fiscal policy was quite prudent during the great recession. The IMF forecast a primary surplus large enough to gradually cut the debt to GDP ratio. We think the IMF's forecast is to cautious. Italy is going to benefit from the huge drop in energy prices and GDP will also get a boost from the reforms being implemented by the new governments.

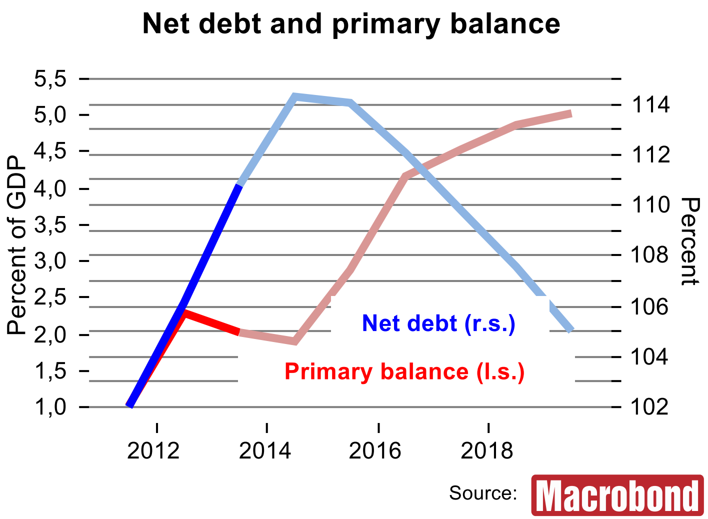
We expect the Europeans Central Bank to try to fight low inflation by launching a Quantitative Easing program in 2015. We are skeptical with respect to the effect on inflation of such a program. But large scale purchases of sovereign bonds will benefit Italy and most other countries in the Eurozone whose interest rates now is higher than in Germany.

Risks

The European Central Bank may not use sovereign bonds a vehicle for Quantitative Easing.

Sluggish growth might hold down revenues and make it difficult to cut the debt to GDP ratio.

Greece could exit the Eurozone, causing an exit premium to be added to Italian sovereign bonds.



Forecast*	2014	2015	2016
GDP growth	-0.2%	0.9%	1.3%
Inflation	0.1%	0.5%	1.1%
Primary budget balance/GDP	1.9%	2.9%	4.2%
Net public debt/GDP	114.3%	114.0%	112.1%

* IMF October 2014

22.12.2014

Lithuania

What?

We are invested in a Lithuanian USD denominated government bond that matures in February 2022. It currently yields 3.4%. Lithuania has A- rating from S&P.

Why

Lithuania is a small Baltic country with a strong economy. It was badly hit by the financial crisis, with GDP falling by 15% in 2009. The country managed to get out of the crisis quite quickly due to strict austerity measures and internal devaluation. Commitment to the requirements in ERM II implied that they did not use devaluation of the currency as a measure to get out of the crisis.

The country has been an EU member since 2004 and will join the Eurozone on January 1. 2015. Lithuania has a business friendly environment with a favorable tax system. Lithuania has a flat tax rate at 15% both for corporates and private.

The fundamentals of the Lithuanian economy are very strong. And its public finances are far superior to most Eurozone members. The primary budget is more or less balanced and its debt to GDP ratio is a only 33 percent.

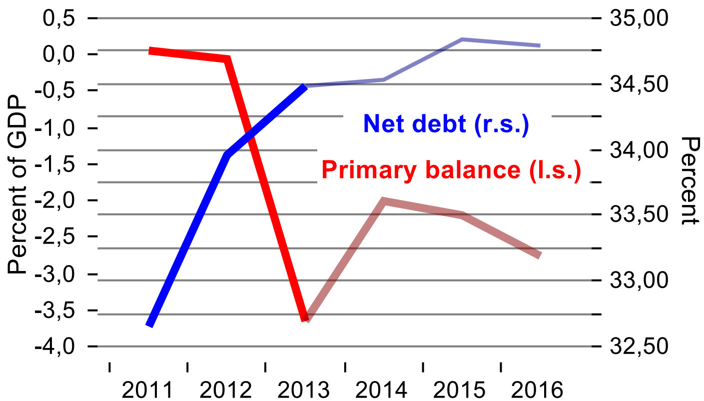
The spread to long US interest rates is 1.2 percentage points. We believe the spread will diminish further as Lithuanian adopt the euro. Since we do not think that US interest rates will increase significantly in 2015, we think the rate of interest on our Lithuanian bond will diminish further, causing us capital gain on our holding.

Risks

More geo-political tension in Europe.

A rise in long term US interest rates.

Net debt and primary balance



Source: Macrobond

Forecast*	2014	2015	2016
GDP growth	3.0%	3.3%	3.7%
Inflation	0.3%	1.3%	2.0%
Primary budget balance/GDP	-0.3%	0.2%	0.1%
Net public debt/GDP	33%	33%	33%

* IMF October 2014

22.12.2014

Mexico

What?

SKAGEN Tellus is 2.5% invested in a MXN denominated government bond that matures in 2036. It currently yields 6.8%. Mexico has an A rating from S&P.

Why?

We find long-term yields in Mexico attractive. Adjusted for the inflation target at 3% the yield is 3.8%. The credit default swap premium is 0.8%, implying that the risk-free real interest rate on our bond is 3.0%. That's significantly higher than in advanced economies and many emerging markets.

We are invested at the long end of the yield curve and expect capital gains as the spread to global yields falls and the bond appreciates. Although the public debt is high for an emerging market, the public deficit is modest. The fall in oil prices do not have a large immediate impact on public finances, as the government has hedged the oil price at $78 per barrel.

The Mexican parliament has amended the constitution to allow foreign firms to explore and produce oil in Mexico. This represents a significant structural change in the Mexican economy, and, together with other implemented and proposed reforms, should help propel growth.

The Bank of Mexico targets 3% annual inflation, and during the past year core inflation has been falling. Currently core inflation is 3.3%. This should support the MXN, which is undervalued relative to the EUR according to our calculations.

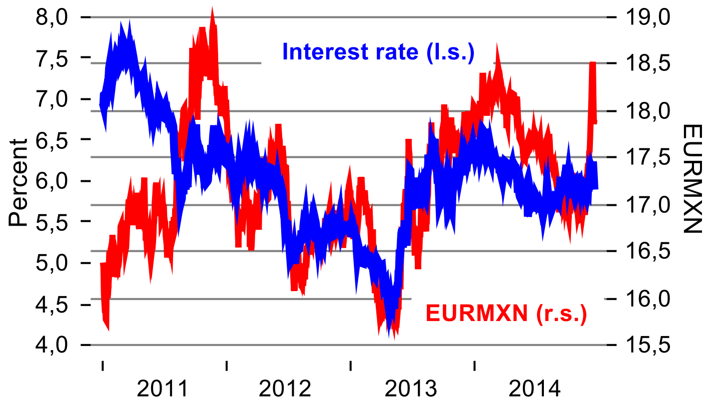
Risks

A prolonged period of low oil prices will hurt public finances.

Mexican growth is dependent on US growth.

Corruption and drug trafficking hamper growth.

EURMXN and 10-year interst rate



Source: Macrobond

Forecast*	2014	2015	2016
GDP growth	2.4%	3.5%	3.7%
Inflation	3.9%	3.6%	3.2%
Primary budget balance/GDP	-1.5%	-1.4 %	-0.7%
Gross public debt/GDP	42.1%	43.2%	43.9%

* IMF October 2014

22.12.2014

Peru

What?

SKAGEN Tellus is 4.2% invested in a Peruvian government bond that matures in 2037. It currently yields 6.7%. Peru has a A-rating from S&P.

Why?

Peru fits very well with our investment philosophy and offers us a an opportunity to gain broth from lower interest rates and a stronger currency. We think that both Peruvian bonds and the local currency are undervalued.

Public finances are very healthy, with a general government primary surplus and a negligible amount of net public debt. Growth has averaged about 5 percent over the last years. It dipped somewhat in 2014, but the growth rate is expected by the IMF, and us, to be above 5% over the next two years.

The central bank, which gained independence in 2011, targets 2% inflation. Core inflation is currently 2.7%, and is expected to dwindle down to the target in 2015 . The policy rate is currently 2.25%.

Strong growth in combination with low inflation is a recipe for trend appreciation of the local currency. EURPEN currently trades at 3.6, and we expect the rate to hit 3 over the next 12 months.

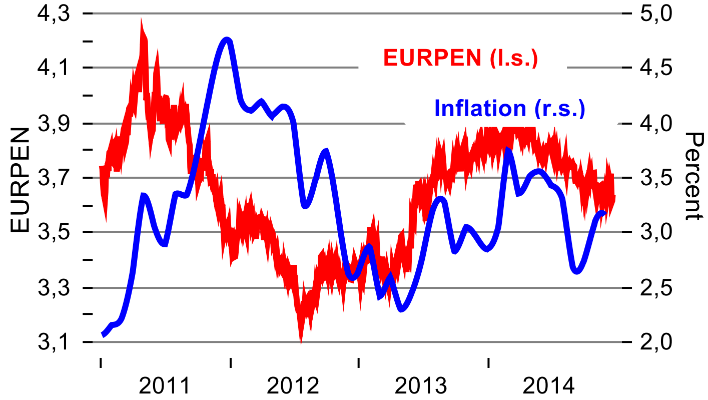
Adjusted for the inflation target and credit risk long interest rates are 2.6%, which signals that bonds are undervalued.

Risks

Being a small, open, emerging market, Peru is reliant on the prospects of the global economy, especially its main trading partners in the Americas and Asia.

While the interest spread to developed markets is high, the absolute interest rate level might spike if interest rates in the US and other advanced countries start to rise.

EURPEN and inflation



Source: Macrobond

Forecast*	2014	2015	2016
GDP growth	3.6%	5.1%	5.5%
Inflation	3.1%	2.3%	2.0%
Primary budget balance/GDP	0.6%	0.7%	0.3%
Net public debt/GDP	3.2%	3.2%	3.5%

* IMF October 2014

23.12.2014

Portugal

What?

SKAGEN Tellus is 7.9% invested in a Portuguese government bond that matures in April 2021. It currently yields 2.9%. Portugal has a BB rating from S&P.

Why?

Portugal is one of the countries within the eurozone that had to seek a bailout loan from the Eurozone and the IMF in 2011 due to prohibitive interest rates on the market. The economy has for a long time had low growth and public finances deteriorated rapidly after 2008. Currently general government net public debt amounts to about 124% of GDP. However, net of interest expenses the general government is set to run surpluses from 2014, and the debt to GDP ratio is projected by the IMF to start dropping in 2016.

After a rather remarkable turnaround in public finances the Portuguese government is currently able to borrow in the open market, and a further bail-out is out of the question. We expect that the impact of lower energy prices and more rapid global growth will cause GDP growth to be higher in 2015 and 2016 than forecast by IMF in October.

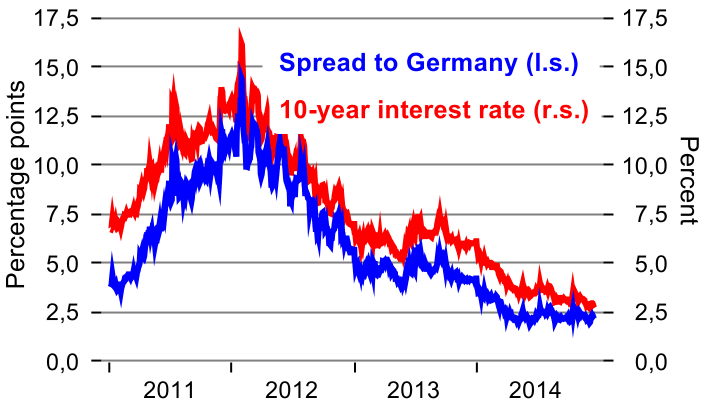
We expect the Europeans Central Bank to try to fight low inflation by launching a Quantitative Easing program in 2015. We are skeptical with respect to the effect on inflation of such a program. But large scale purchases of sovereign bonds will benefit Portugal and most other countries in the Eurozone whose interest rates now is higher than in Germany.

Risks

A Greek exit from the Eurozone will add an exit premium on Portuguese bonds.

Growth could sluggish, cutting revenues, and making it difficult to bring down the debt to GDP ratio.

Long interest rate



Source: Macrobond

Forecast*	**2014**	**2015**	**2016**
GDP growth	1.0%	1.5%	1.7%
Inflation	0.0%	1.1%	1.5%
Primary budget balance/GDP	0.3%	1.8%	2.1%
Net public debt/GDP	124%	124%	122%

* IMF October 2014

22.12.2014

Slovenia

What?

SKAGEN Tellus is 7.5% invested in a Slovenian bond that matures in 2026. Its current yield is 2.3%. Slovenia has an A- rating from S&P.

Why?

The long yield spiked in mid 2012 due to a perceived risk that the government had to bail out some of Slovenia's largest banks. When it became clear that the problems was much more limited than expected, the yield on sovereign bonds began to fall.

We have owned Slovenian bonds for a while, and we still think this is a good investment. The gross debt to GDP ratio is estimated to top out at 77.4 percent in 2014, which is quite low by Eurozone standards, and to fall from 2015 due to stronger GDP growth and a primary surplus. We think the IMF's projections are too pessimistic, and expect a sharper turnaround in the debt to GDP ration than the estimates shown in the figure below.

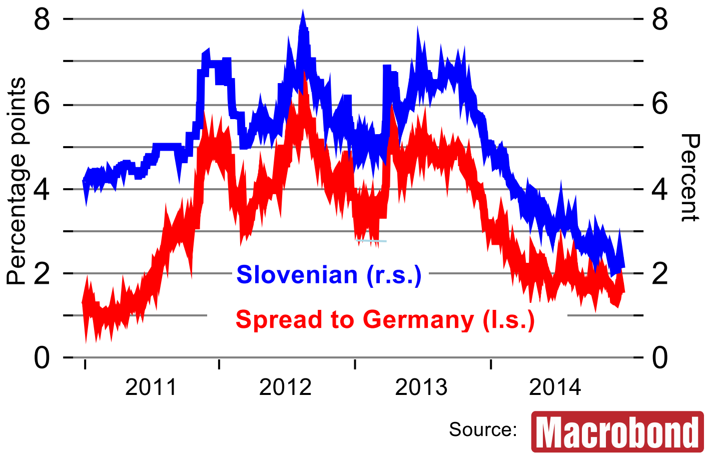
We expect the Europeans Central Bank to try to fight low inflation by launching a Quantitative Easing program in 2015. We are skeptical with respect to the effect on inflation of such a program. But large scale purchases of sovereign bonds will benefit Slovenia and most other countries in the Eurozone whose interest rates now is higher than in Germany.

Risks

Growth may disappoint, making it difficult to bring down the debt to GDP ratio.

A Greek exit from the Eurozone will put an exit premium on most bonds in the Eurozone.

Long interest rates



Forecast*	2014	2015	2016
GDP growth	1.4%	1.4%	1.5%
Inflation	0.5%	1.0%	1.7%
Primary balance/GDP	-1.6%	-0.1%	0.3%
Gross debt/GDP	77.4%	75.6%	75.3%

* IMF October 2014

22.12.2014

Turkey

What?

Tellus is 6.0% invested in a Turkish bond that matures in 2023. Its current yield is 9.6%. Turkey is rated BBB by S&P.

Why?

The TRY sold off heftily in 2013, and long-term interest rates rose – both due to the general outflow from emerging markets and the tense political situation in Syria, Turkey's neighbour. We thought both the currency and the bonds were oversold, and purchased government debt

Turkey has a vibrant economy, that has annually grown 3.8% per capita since 2003. Lately GDP growth has been more sluggish, but we expect growth to pick up more than the IMF projects, mainly due to much lower energy prices.

Being an emerging market with quite rapid population growth, Turkey typically invests more than it saves. This results in current account deficits, which some investors abhor. But such deficits are only a problem if the investment share of GDP is low and /or banks are funded by foreign portfolio investments. While the investment share should have been higher - it's about 23% of GDP - our judgment is that Turkey's foreign finances are sound.

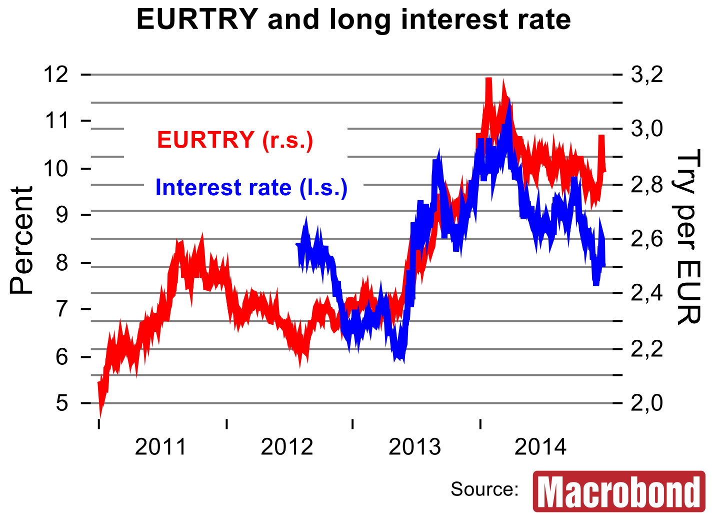
Inflation is quite high in Turkey, with inflation at 9%. We expect that a combination of tighter monetary policy and lower import prices to slow inflation going forward. Further ahead we expect Turkey to implement a strict inflation targeting regime, with inflation steady around 2-3 percent.

Public finances are solid, with a positive primary budget balance and a dwindling net public debt relative to GDP.

Risks

The geo-political situation in Turkeys neighbours.

Renewed focus on the current account deficit might cause further depreciation of the TRY.



Forecast*	2014	2015	2016
GDP growth	3.0%	3.0%	3.7%
Inflation	9.0%	6.6%	6.5%
Primary budget balance/GDP	0.4%	0.4%	0.5%
Net public debt/GDP	25.0%	24.5%	23.8%

* IMF October 2014

22.12.2014

United States

What?

SKAGEN Tellus has invested 28.9% of the portfolio in two Treasury bond that matures in May 2015 and August 2016. They currently yield 0.1% and 0.6%. The US has a AA+ rating from S&P.

Why?

We expect the USD to appreciate relative to the EUR. And other major advanced market currencies.

Fundamentally the US dollar is undervalued according to our analysis, which continuously updates IMF's 2011-based survey of purchasing power around the world. The price level in the US is about 5% lower than in the Eurozone – and that's before taking into account the higher GDP per capita ratio in the US. The higher the GDP ratio, the higher can the price level be. While currency values may stray away from their fundamental value for some time, this suggest an upward trend for the USD.

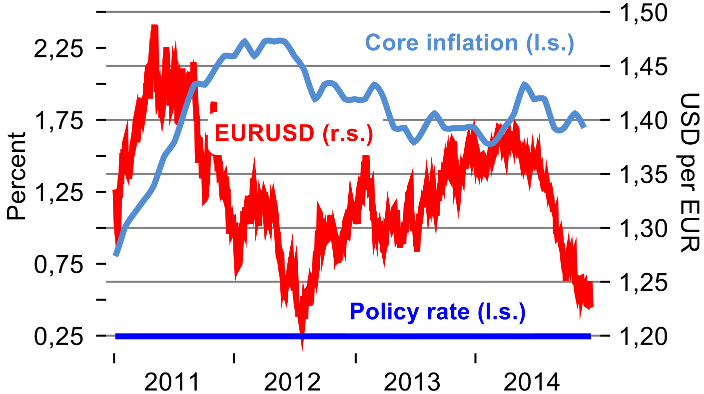
We think the momentum now is in favor of the USD. Growth is picking up more rapidly than expected and the unemployment rate is quite rapidly approaching what he Fed consider to be its natural level. This is not the case at all in the Eurozone. The Fed's current problem is that inflation is lower than their 2% target. But further disinflation or hikes in the policy rate will both have positive effect on the USD

The US's fiscal position has become much better over the last years, with the federal deficit lower than expected. This reduces the risk of so-called fiscal dominance, i.e. the risk that fiscal policy will trump monetary policy and inflate away the real value of the public debt – as is a risk in Japan.

Risks

Growth may falter, and the public debt may again begin to grow rapidly.

EURUSD, policy rate and core inflation



Source: Macrobond

Forecast*	2014	2015	2016
GDP growth	2.2%	3.1%	3.0%
Inflation	2.0%	2.1%	2.1%
Primary budget balance/GDP	-3.4%	-2.2%	-2.0%
Net public debt/GDP	80.7%	80.9%	81.0%

* IMF October 2014

22.12.2014

For more information please see:

SKAGEN Tellus on our web pages
SKAGEN's Market report
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