



Portfolio Managers van Skagen Tellus

Torgeir Høien en Jane Tvedt

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Solid return

Our theory that safe long-term interest rates would not take off and that the interest rate spread in the Eurozone would diminish was substantiated. Hence 2014 was a very good year for unit holders in SKAGEN Tellus: the fund gained 14.4 percent, measured in euro.

Our long-term record is also solid. We recommend that unit holders in the global bond fund SKAGEN Tellus have an investment horizon of three years. Over the past three years the fund has delivered an average annual return of 7.1 percent, 5.8 percentage points ahead of its benchmark index, which measures how well a passively managed government bond portfolio performs. Since the fund was launched in 2006, it has delivered an annual return of 6.2 percent. This is 1.4 percentage points more than the index and close to our goal of beating the index by 1.5 percentage points over time.

The fund's best investments last year were in the Eurozone's periphery, with the best contributions coming from Slovenia, Portugal and Italy. We also had positive contributions from several of our other investments, which are spread around the world from China to the US. In the US, we could have earned even more if we had chosen to hold bonds with long maturity. Nonetheless, the strengthening of the US dollar provided us with a nice currency gain.

Japan – no thank you

The fund deviates most noticeably from the index in that we do not invest in Japanese bonds. In 2014 the yen exchange rate started and ended at approximately the same point relative to the euro, so we missed out on a further drop in the long-term interest rates.

We are, however, comfortable staying away from Japan, which is in our view a ticking time bomb. The risk is that one day investors will wake up to the fact that Japanese authorities are not able to handle the mountain of debt they have built up. When that happens, the yen will plummet, interest rates will shoot up and inflation will take off. The situation will be similar to that in Russia following the fall in oil price. People realized that the Russian state

was not capable of generating sufficient surplus for the foreseeable future to fulfill its contractual obligations at the prevailing price level. We do not wish to be in Japan when that happens and are fully aware that it is impossible to time when the meltdown will occur.

We still believe there is much to be gained from the reduced interest rate spreads in the Eurozone. The signals from the European Central Bank (ECB) are now clear: There will be a large-scale purchase of government bonds with the aim of pushing up inflation and spreading the effects of low interest rates to all 19 countries that now make up the Eurozone.

While we doubt that such a large-scale purchase will have any noticeable impact on inflation, we do believe that the effect on interest rate spreads will be significant. As we stated in our fixed income comment, we do not expect to see a noticeable rise in the long-term German interest rates, and for this reason we expect the other interest rates to fall in absolute terms. Hence there is a good chance of capital gains.

Follow Greece with Argus eyes

We follow the developments in Greece very carefully. We sold our Greek government bond in the autumn before the interest rates shot up after the government's presidential candidate failed to get elected.

We do not believe that the Greeks will pull out of the Eurozone, but there will be a turbulent period before the new government finishes negotiating with the ECB, the European Union and the International Monetary Fund (IMF). Thus, at some point in 2015 Greek bonds might become attractive again, as they have been previously.

SKAGEN Tellus

Fund start date	29 September 2006
Return since start	63.34 %
Average annual return	6.13 %
AUM	EUR 126 million
Number of unit holders	2 519
Portfolio managers	Torgeir Høyen en Jane Tvedt