



Apple trees, 1907. By Michael Archer, one of the Skagen painters. This image belongs to the Skagens Museum.

# SKAGEN Credit EUR

## A global corporate bond fund

### Status report February 2016

The art of common sense



# SKAGEN Credit EUR A – Key numbers

Key numbers as of 29 February	SKAGEN Credit EUR A	Index (Euribor 3m)
Return last month	0,5 %	0,0 %
Return year to date	- 1,6 %	0,0 %
Return since inception (30.05.14)	- 3,8 %	0,0 %
Current yield*	5,9 %	- 0,2 %
Average maturity (WAM)	1,0	0,25
Average life time (WAL)	2,7	N/A
Average credit spread (OAS)**	692 bps	N/A

\*Current yield changes from day to day and is no guarantee for future return

\*\* Average option adjusted spread on the investments, cash excluded. For bonds that trade at a significant discount and where the likelihood of recovering the entire principal, yield can be misleading as it assumes full repayment.

# The SKAGEN Credit investment universe



**SKAGEN Credit picks bonds both from the investment grade and the high yield spectrum with a high risk adjusted return potential. Minimum 50% investment grade.**

## Portfolio managers' comment

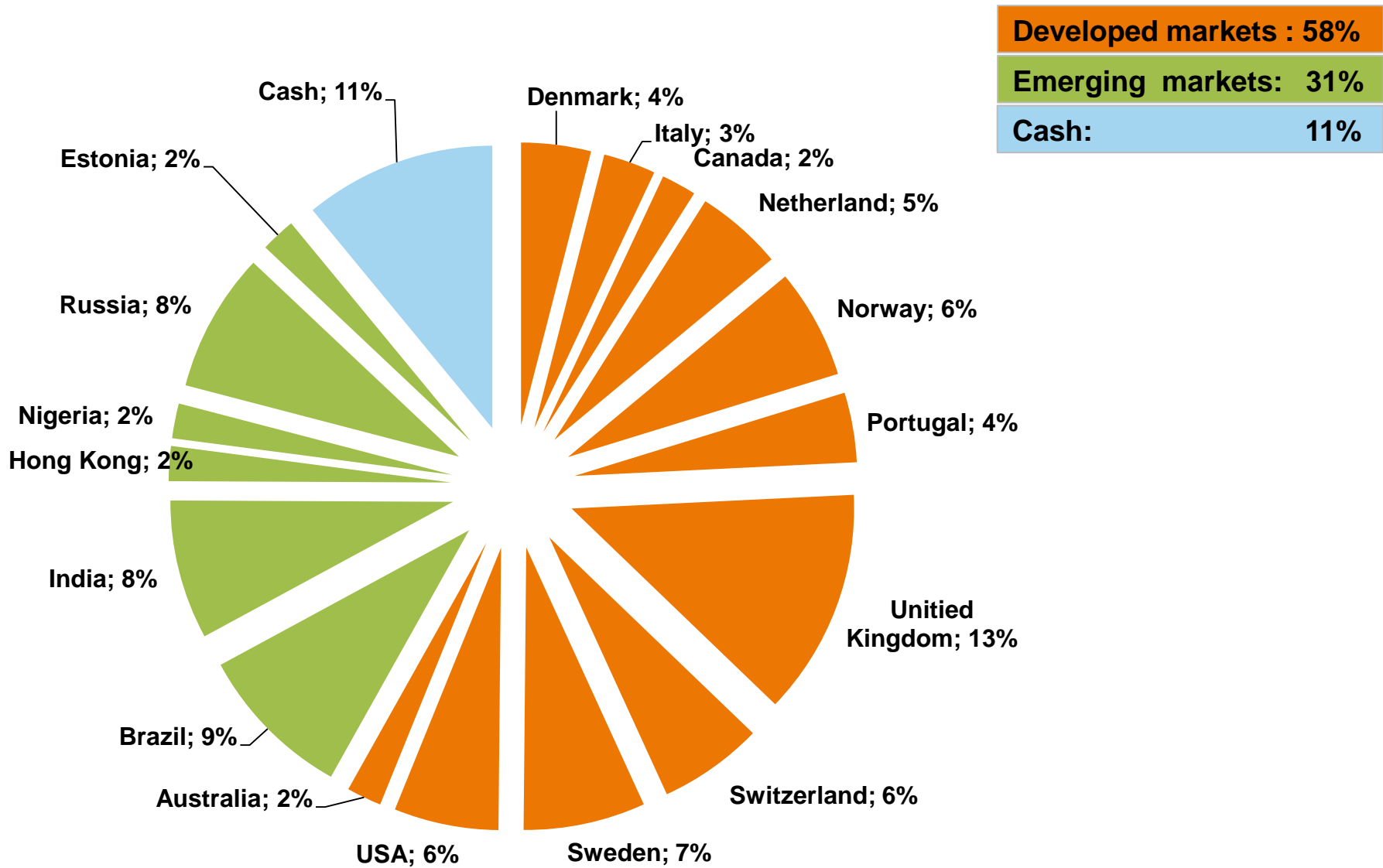
February was a mixed month. The downturn we have seen so far this year hit a provisional bottom in mid-February. The return was therefore positive in February, but for the year as a whole the fund is still in negative territory.

The credit market has been turbulent so far this year, a negative trend that started as far back as last summer. Falling commodity prices can take most of the blame for the developments, but the unrest also affected other sectors, although these have not struggled in the same way. Much of the turbulence is transitory in nature and will pass, but certain companies have been severely impacted and will have to be restructured. These are generally companies associated with commodities such as oil, coal, iron ore and copper.

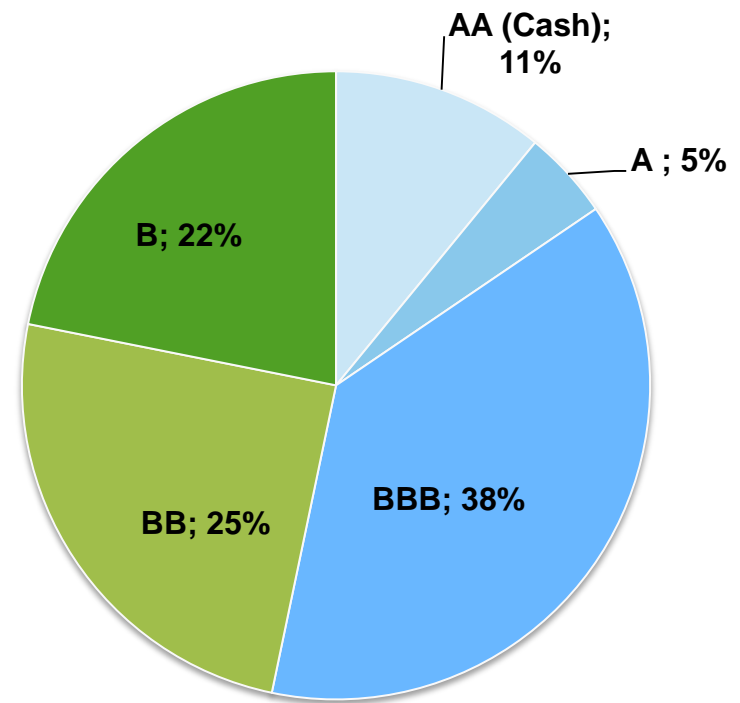
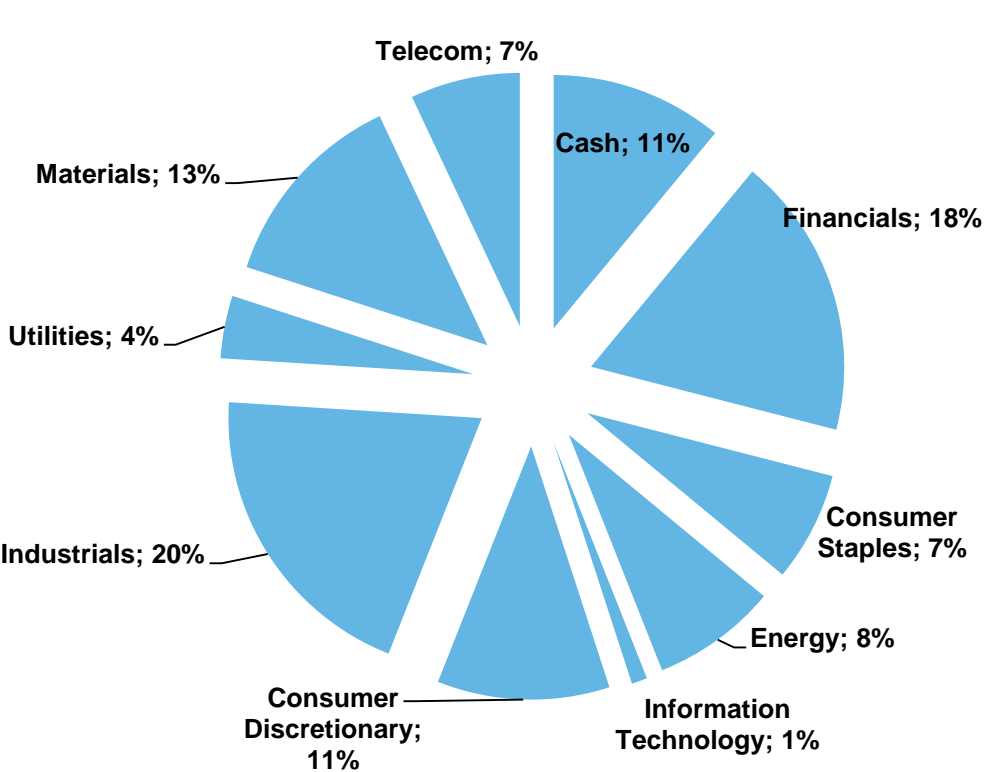
In February we sold out of two companies, namely Norwegian Solstad Offshore and Czech EP Energy. We exited Solstad as the likelihood of a restructuring has increased even though the company is one of the best within the Norwegian oil service industry. EP Energy is a power provider in the Czech Republic and Slovakia which we sold out of as we fear that their credit worthiness will be downgraded as a result of lower electricity prices. We also have one newcomer in the portfolio in February, German auto manufacturer Volkswagen (see fact sheet further on in the report).

We have had a high cash position during the month. This gives us the flexibility to make good investments when the market looks brighter. The credit spread is currently extremely high, but such high levels are not sustainable over time. It is difficult to say precisely when it will turn, but the levels will return to normal eventually (see graph further on in the report).

# Country diversification



# Sector and rating distribution



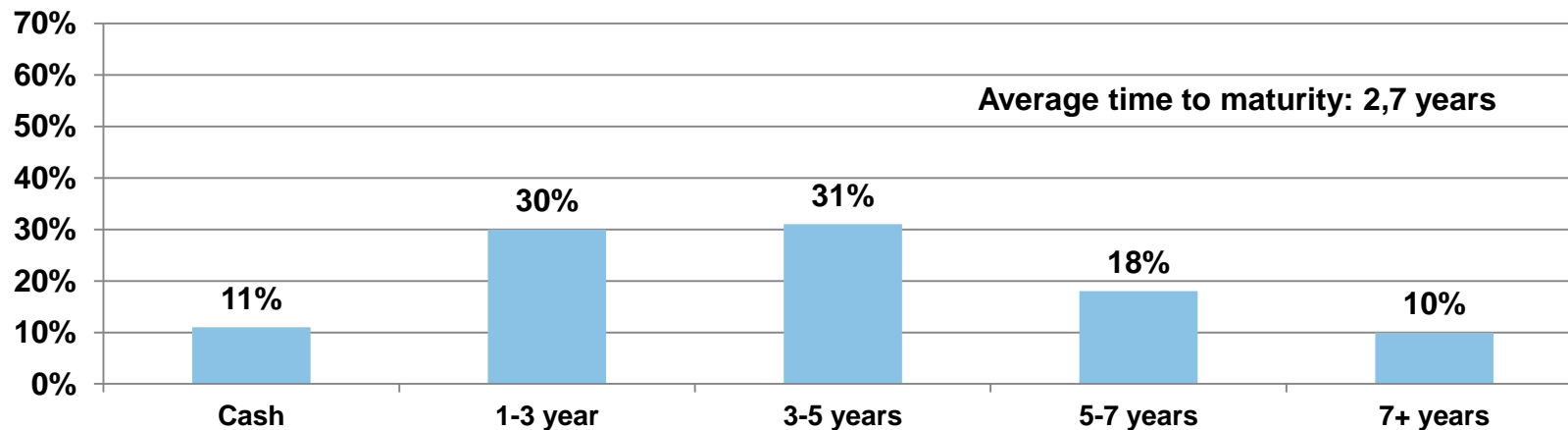
Investment grade:	53 %
High Yield:	47 %
Average rating:	BB+

# Interest rate duration and time to maturity

Interest rate exposure and denominated currency of bonds (before currency hedge)

Currency	Bond denominated	Interest rate duration
USD	45%	0,6 years
EUR	23%	1,5 years
GBP	23%	1,6 years
NOK	9%	0,1 years
Sum Fund	100%	1,0 years

Credit exposure - time to maturity profile on bonds



# Top 10 investments

Company	Country of risk	Credit rating*	Percent of fund
Glencore	Switzerland	BBB-	4,1 %
Gazprom	Russia	BB+	4,0 %
Energias de Portugal	Portugal	BBB-	4,0 %
Danske Bank	Denmark	BBB	3,9 %
SSAB	Sweden	B+	3,8 %
Bharti Airtel	India	BBB-	3,6 %
Bank of Baroda	India	BBB-	3,6 %
Color Group	Norway	B+	3,6 %
Vimpelcom	Russia	BB-	3,6 %
Petrobras	Brazil	B+	3,4 %
<b>Sum top 10</b>			<b>37,6 %</b>



# Global Corporate High Yield spread - last 15 years



- Global High yield spreads are at the highest level since the EUR crisis back in 2011/2012
- Lines indicate average credit spread last 15 years at ca. 600 bps and +/- one standard deviation



Volkswagen (VW) is one of the world's largest car producers, making ca. 10million units a year under the Volkswagen, SEAT, and Skoda brands in the mass market; Audi, Bentley, Lamborghini, Porsche brands in the Premium segment; and Scania, MAN and Volkswagen brands in trucks and commercial vehicles. Porsche currently controls >50% of the company and the German regional state of Lower Saxony 20%.



**Bond Facts:**

Domicile:	Germany
Sector:	Auto
Credit rating:	BBB+
Currency:	EUR
Bond maturity:	2022
Position size:	2,0%
Spread at initiation	200 bps

**Company key credit multiples(Q315):**

EBITDA margin:	8,3%
EBITDA/interest exp:	5,3x

Credit supportive/triggers:

- Attractive yield, premium spread relative to peers
- A leading and attractive auto company under temporary pressure
- A well diversified company on brands, vehicle type, technology and geography
- Currently punished too hard in the credit market due to emission scandal
- A very solid balance sheet combined with a cash flow generation that can handle emission scandal costs

Credit concerns/risks :

- Reputation damage can effect sales going forward
- Law suits and fines take focus away from making good cars
- Costs related to law suits and fines exceed reasonable size
- More than the expected one-notch downgrade by credit agencies

# The portfolio managers

The portfolio managers draw on their expertise in the fixed income markets, as well as SKAGEN's equity fund managers' long experience of successful stock-picking. They have long-standing and complementary experience ranging from fixed income management to company analysis, risk management and trading.

## Ola Sjöstrand

Ola Sjöstrand has worked in SKAGEN since 2006 as portfolio manager of SKAGEN's fixed income funds. He launched and has been responsible for running the SKAGEN Krona fund amongst others. Before joining SKAGEN Ola worked as portfolio manager at the Swedish Soya Group. A combination of strong analytical skills and investment experience applying SKAGEN's investment philosophy puts Ola in a strong position to find good investment cases for the fund. Ola holds a BSc in Business Administration and Economics.

## Tomas Nordbø Middelthon

Tomas Nordbø Middelthon has worked in SKAGEN since 2010, both as a risk manager and more recently as portfolio manager of SKAGEN's fixed income funds. Before that Tomas worked within financial services in Statoil implementing financial risk management tools worldwide. Tomas holds an MBA within Finance and is a Certified Financial Analyst. He has strong analytical skills and a background from financial risk management. The combination of risk management and technical expertise is valuable in the screening and analysis of corporate bonds and portfolio construction.



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Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. KIIDs and prospectuses for all funds can be found on our website.

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