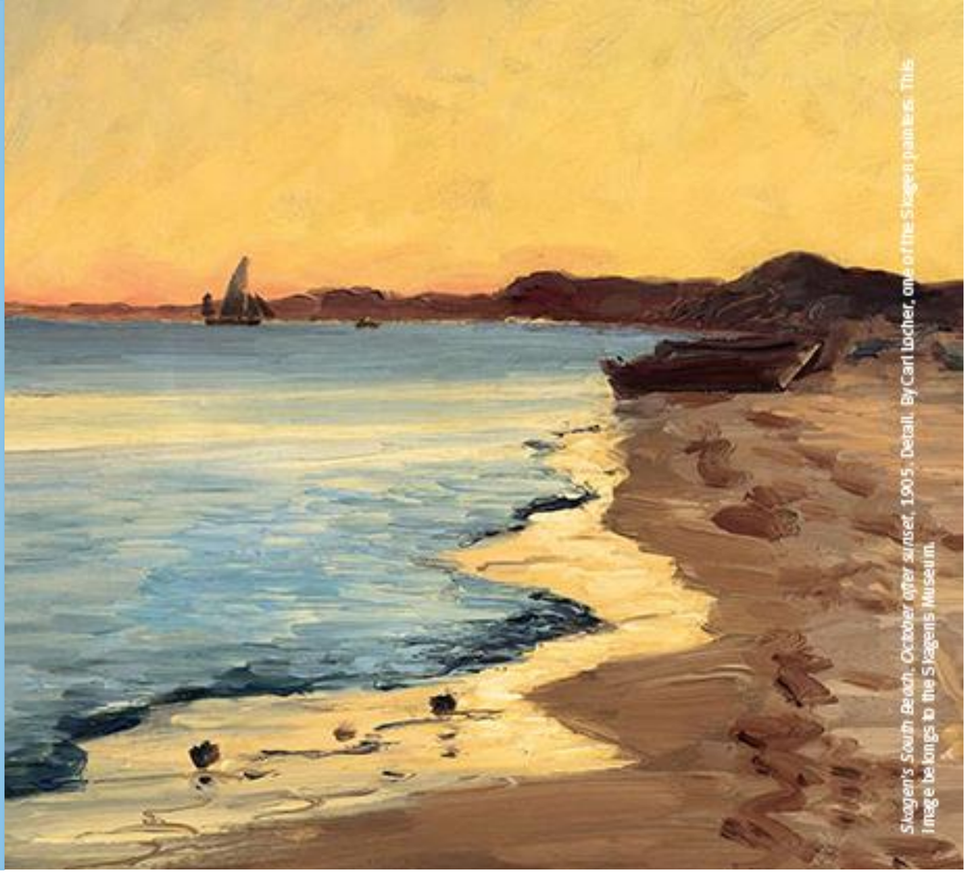
Jane Tvedt
Lead Manager

Torgeir Høien
Co-manager



SKAGEN Tellus
Status Report July 2016

The art of common sense

SKAGEN

Key numbers as of 31 July 2016

EUR, net of fees

	July	QTD	YTD	1 years	3 years	5 years	Since inception*
SKAGEN Tellus	0,1%	0,1%	3,7%	1,3%	4,3%	5,4%	5,4%
JPM Broad GBI Unhedged *	-0,1%	-0,1%	7,8%	9,7%	8,9%	5,7%	5,5%
Excess return	0,1%	0,1%	-4,1%	-8,4%	-4,7%	-0,3%	-0,1%

**Inception date: 29/09/2006*
Benchmark index before 01/01/2013 was Barclay's Capital Global Treasury Index 3-5 years
Unless otherwise stated, all performance data in this report relates to class A units, measured in EUR and is net of fees.

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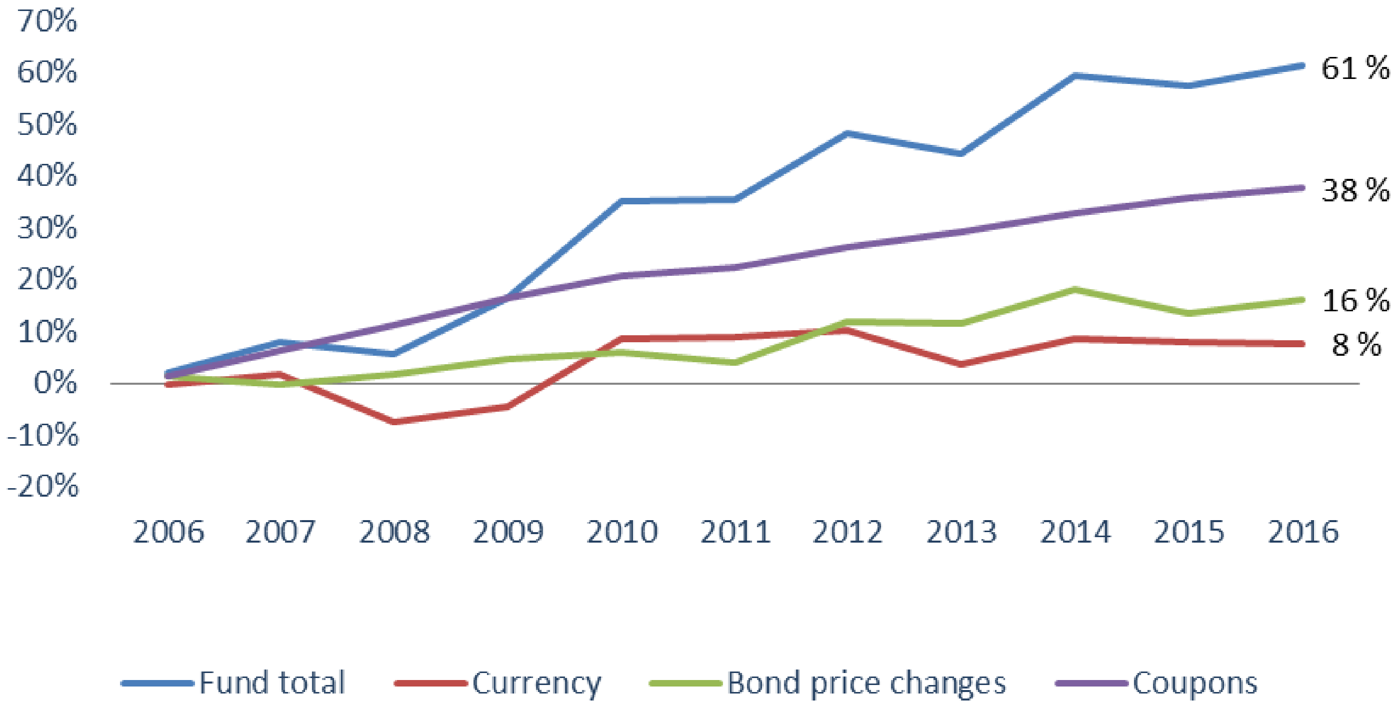
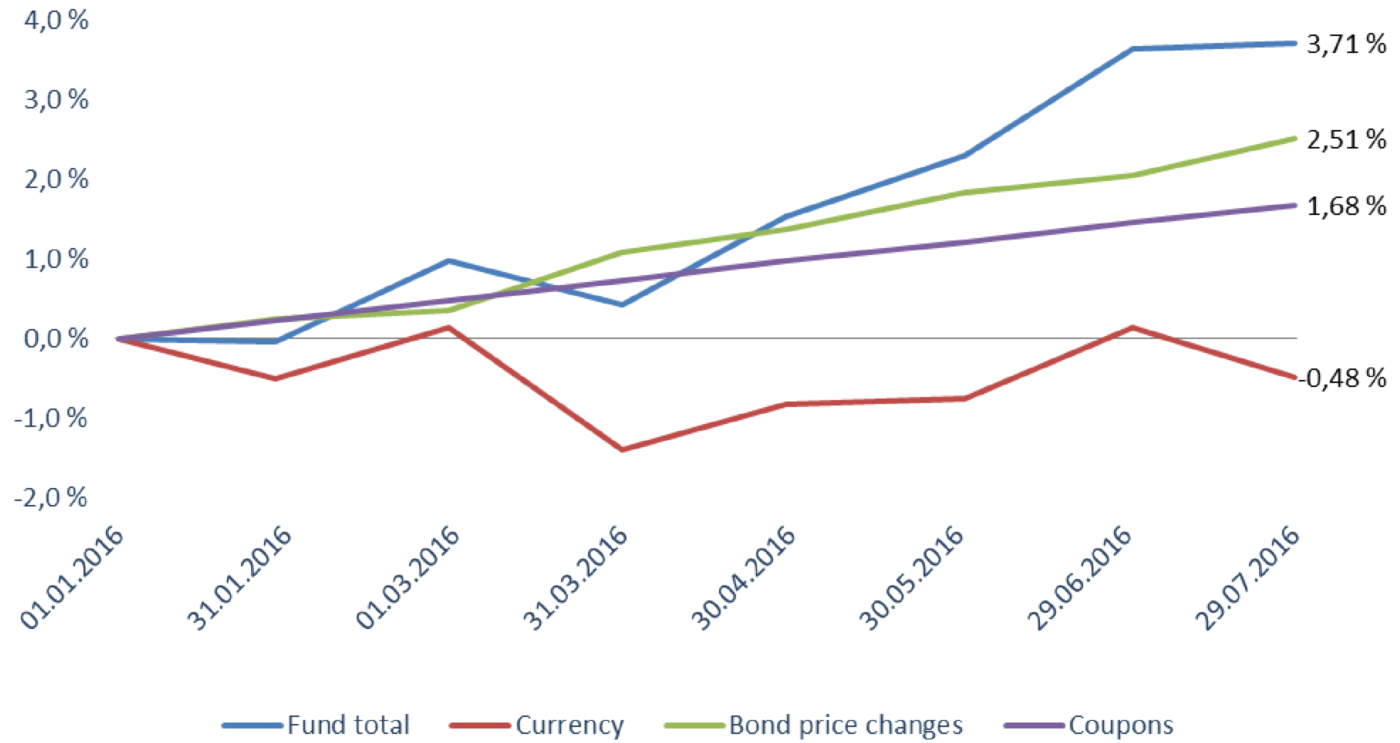
Accumulated returns since inception in EUR



As of 31 July 2016

Accumulated returns year to date in EUR



As of 31 July 2016

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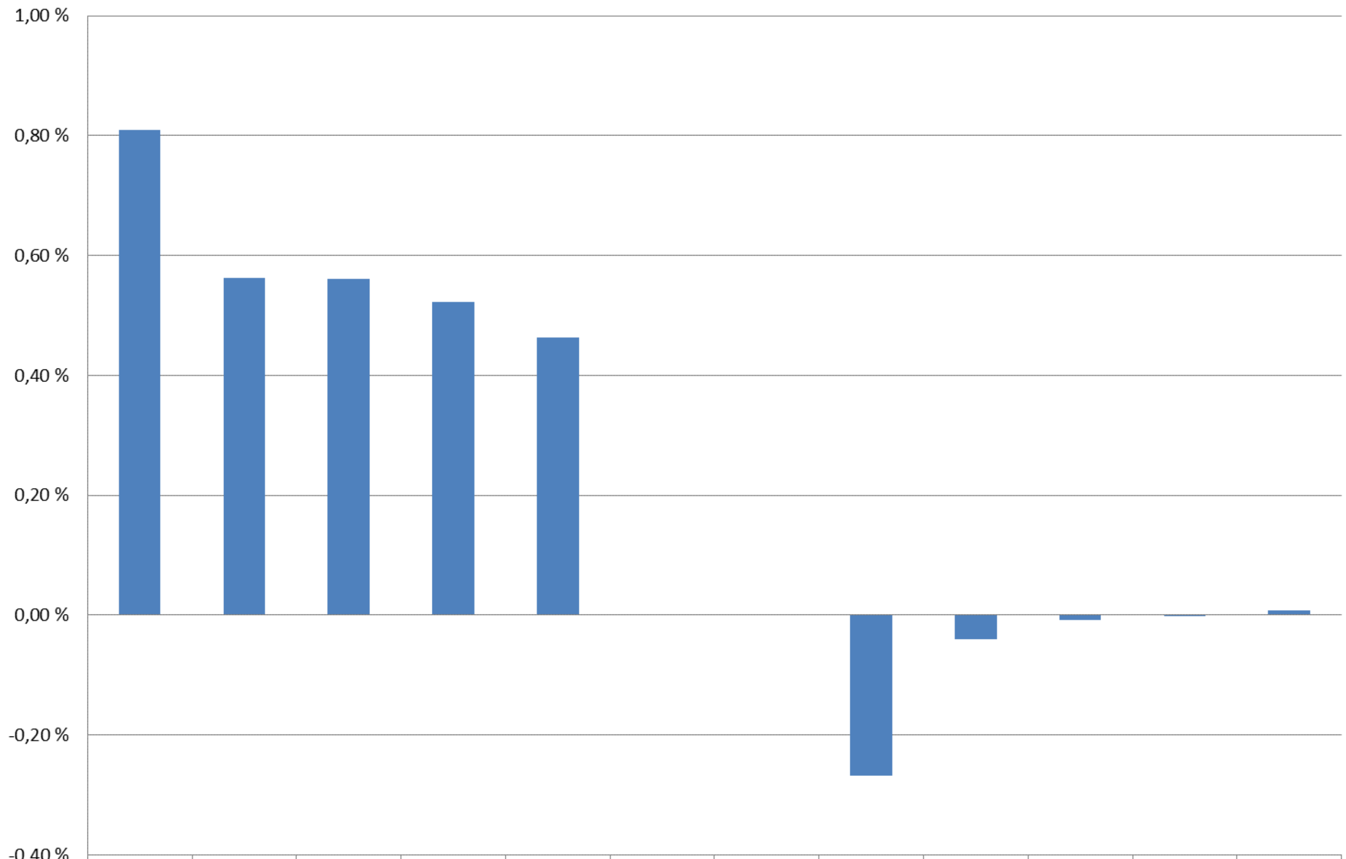
Top 5 best and worst contributors year to date



	Peru	New Zealand	Japan	Chile	Croatia			Mexico	USA	Portugal	Germany	India
Absolute return	0,81 %	0,56 %	0,56 %	0,52 %	0,46 %			-0,27 %	-0,04 %	-0,01 %	0,00 %	0,01 %

Contributing factors are interest coupons, bond price changes and currency fluctuations

As of 31 July 2016

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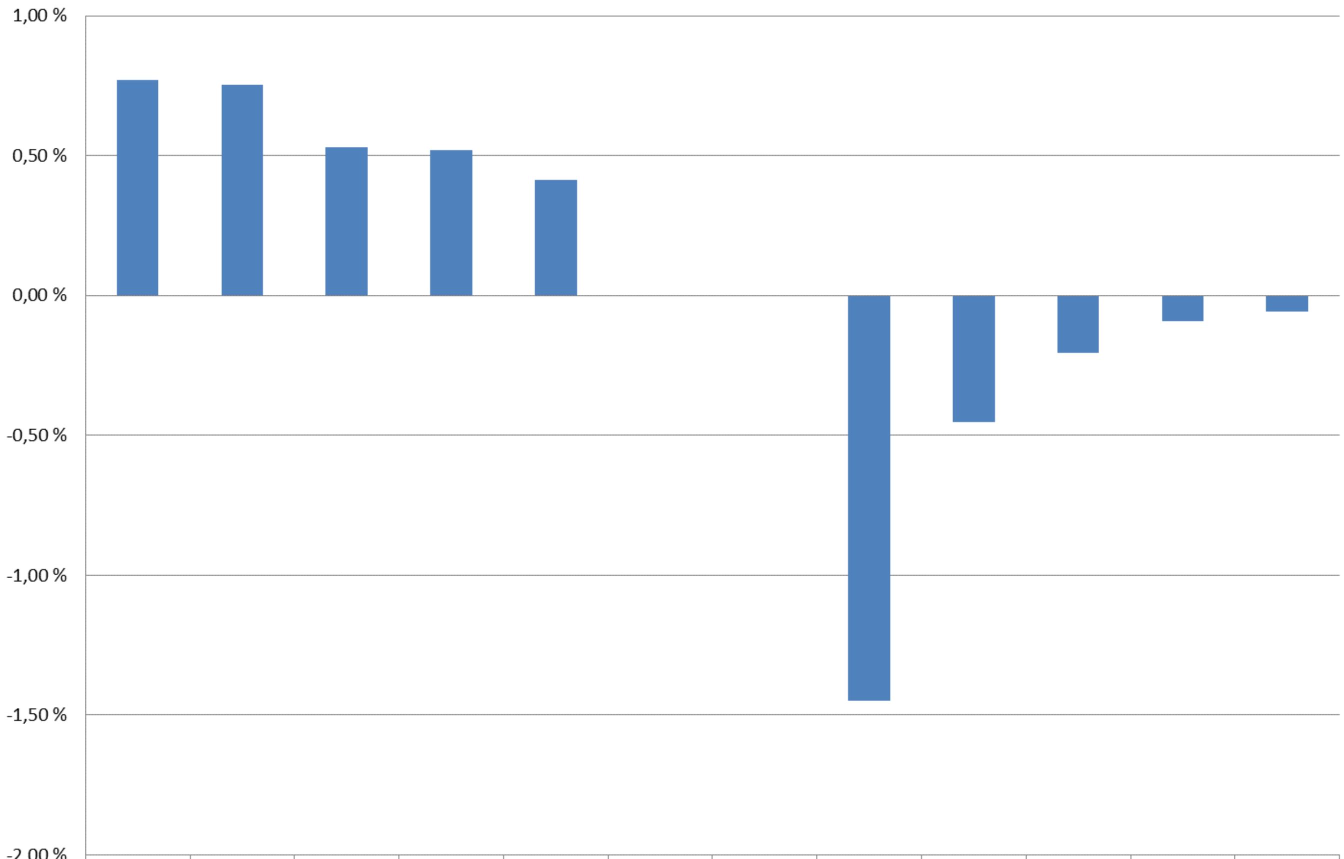
Top 5 best and worst contributors last 12 months



	Japan	New Zealand	Peru	USA	Croatia			Brazil	Mexico	Colombia	India	Norway
Absolute return	0,77 %	0,75 %	0,53 %	0,52 %	0,41 %			-1,45 %	-0,45 %	-0,20 %	-0,09 %	-0,06 %

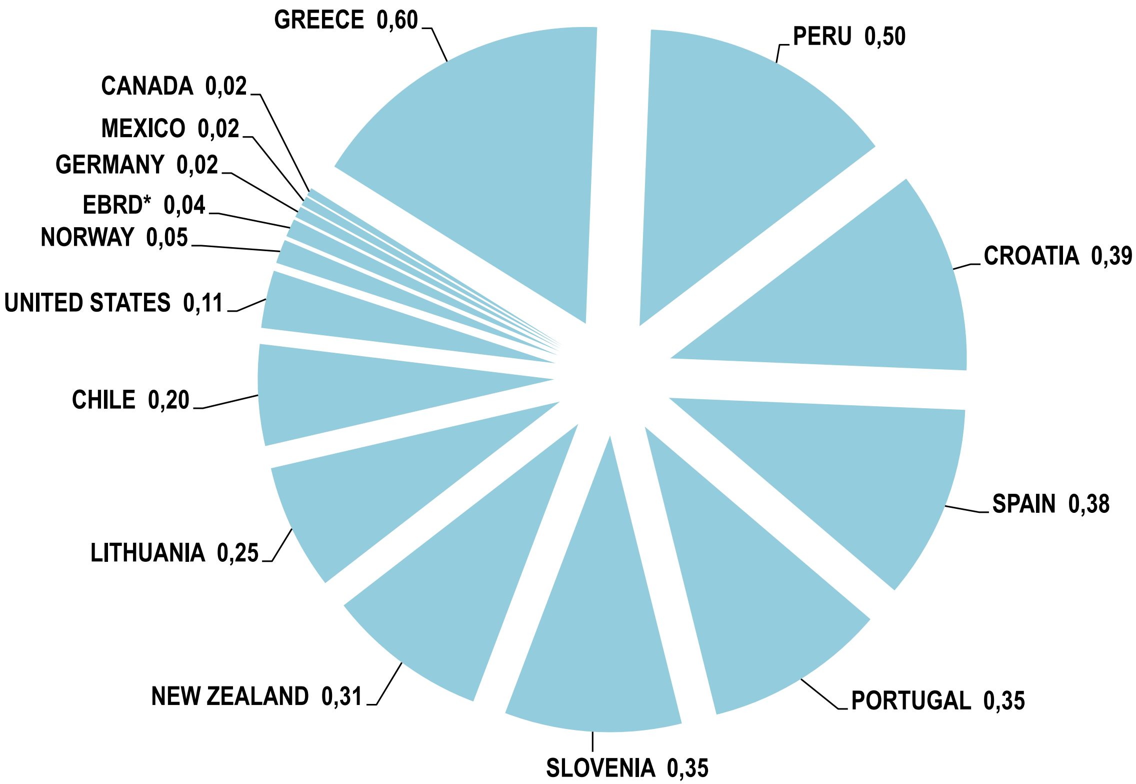
Contributing factors are interest coupons, bond price changes and currency fluctuations

As of 31 July 2016

Portfolio as of 31 July 2016

Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	12800	10,0	31.08.2016	0,5
US Government	USD	10800	8,5	30.06.2017	0,6
US Government	USD	10000	7,8	30.11.2016	0,9
Croatia Government International Bond	EUR	8300	7,6	30.05.2022	3,9
Canadian Government	CAD	10000	6,0	01.11.2016	1,0
Norwegian Government	NOK	60000	5,8	19.05.2017	4,3
Chilean Government	CLP	4410000	5,7	05.08.2020	5,5
New Zealand Government	NZD	8000	5,6	17.04.2023	5,5
Lithuanian Government	USD	5500	5,4	01.02.2022	6,6
Mexican Government	MXN	120000	5,1	15.12.2016	7,3
Hellenic Republic Government	EUR	9000	4,9	24.02.2035	3,0
Peruvian Government	PEN	18000	4,7	12.08.2037	6,9
Spanish Government	EUR	5000	4,7	30.04.2025	1,6
Portugese Government	EUR	5000	4,5	15.10.2025	2,9
Slovenia Government	EUR	3500	4,3	30.03.2026	5,1
German Government	EUR	4000	3,5	10.03.2017	0,0
European Bank Recon & Dev	INR	200000	2,4	19.03.2018	5,8

Interest rate risk exposure



EBRD* : European Bank of Reconstruction & Development

As of 31 July 2016

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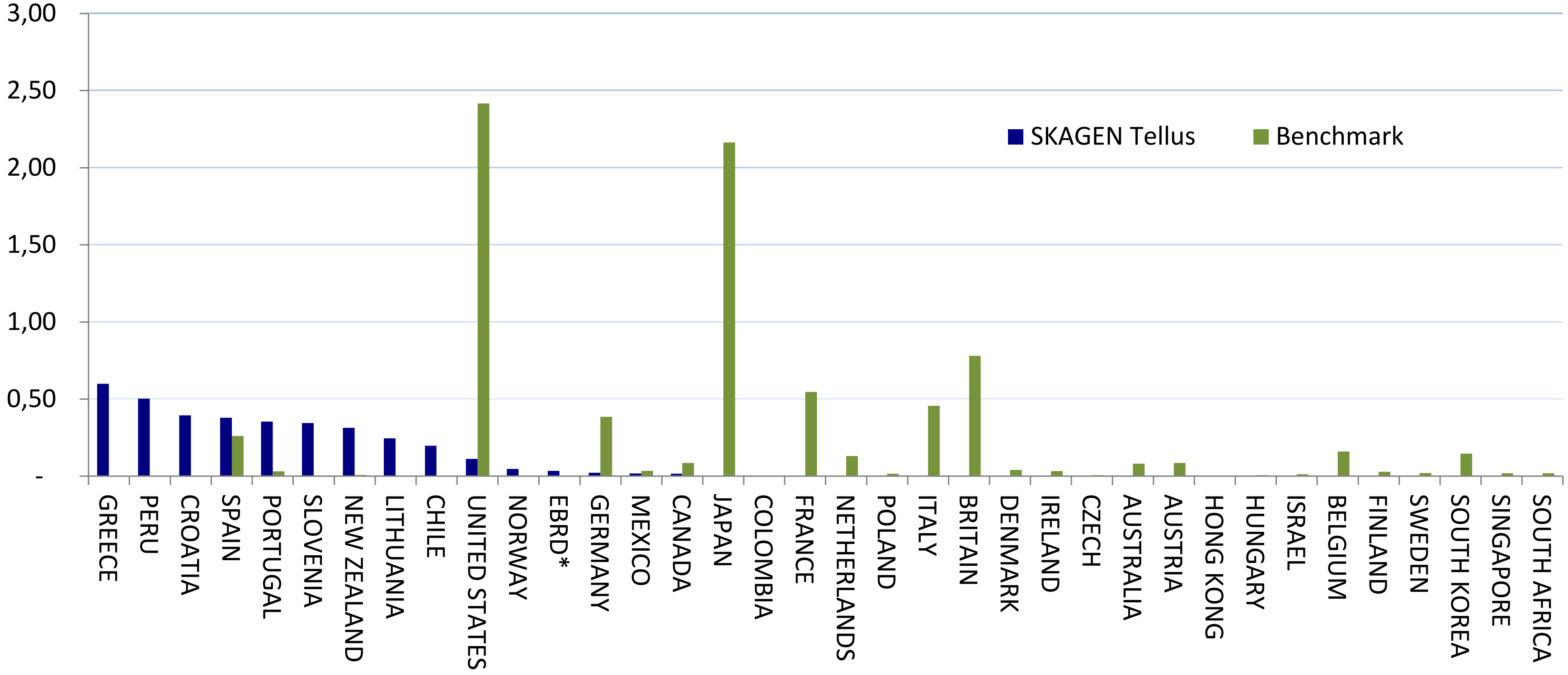
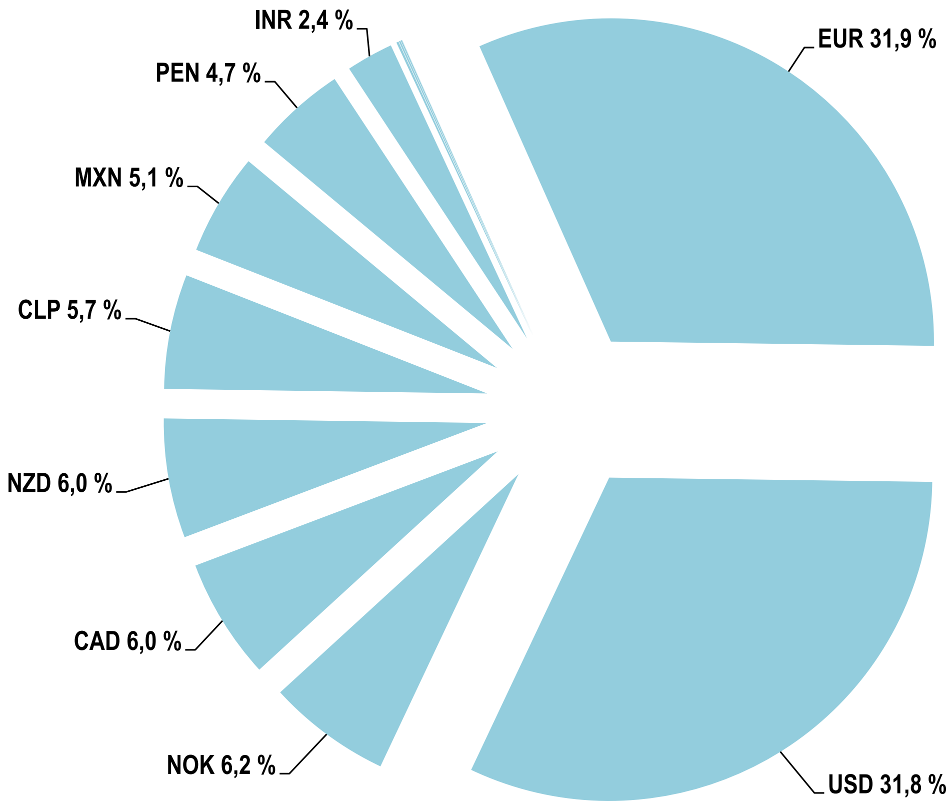
Interest rate exposure relative to benchmark



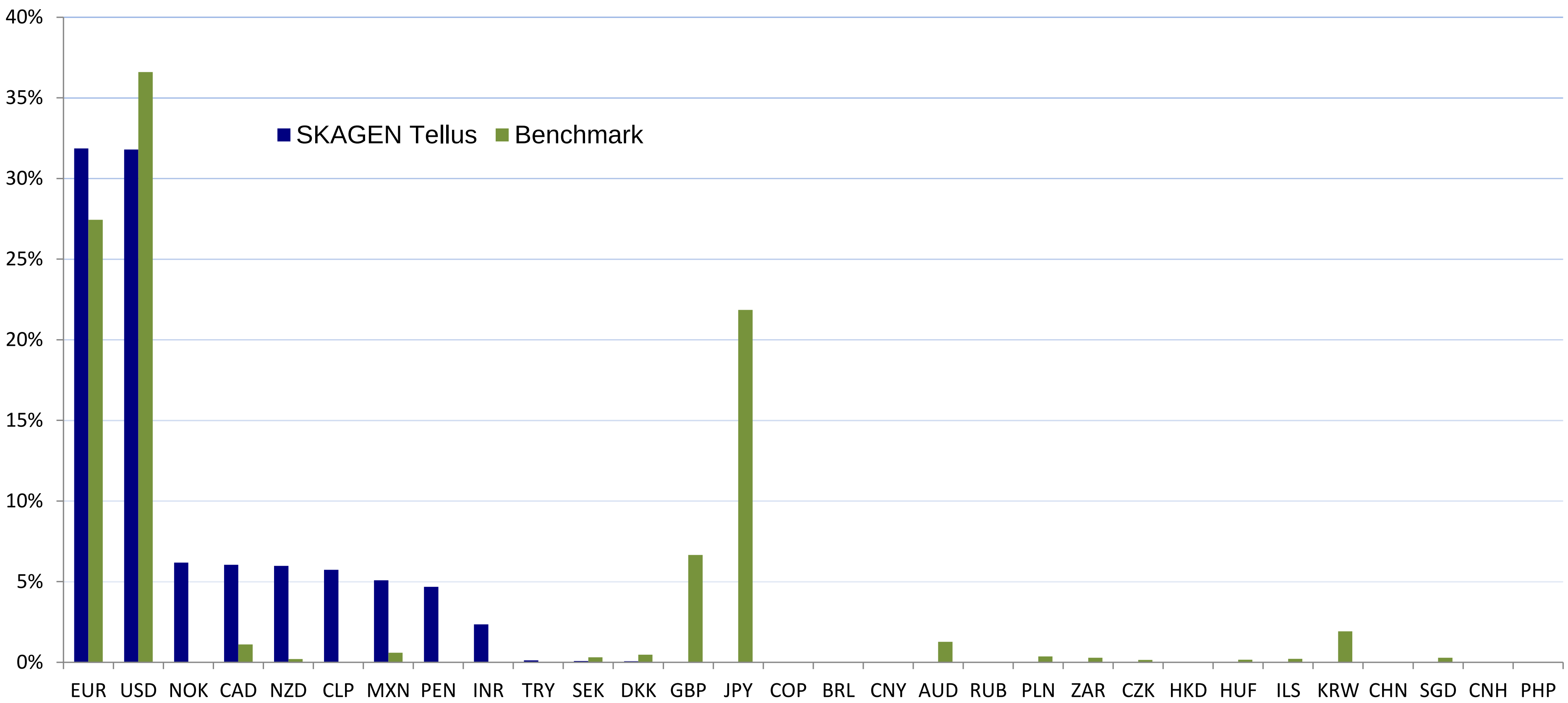
As of 31 July 2016

Currency exposure



As of 31 July 2016

Currency exposure relative to benchmark



As of 31 July 2016

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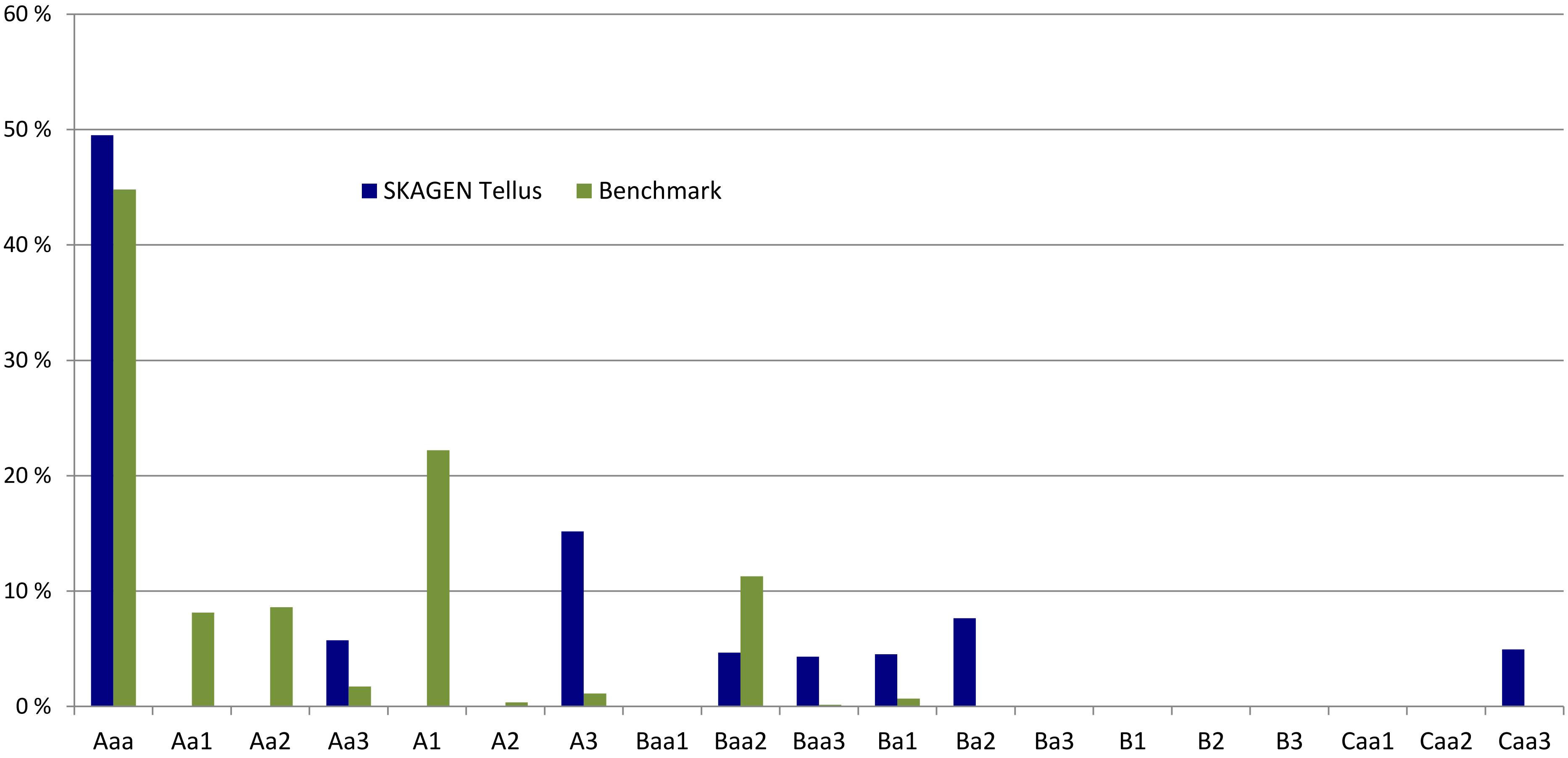
Moody's rating on Tellus' portfolio relative to benchmark



As of 31 July 2016

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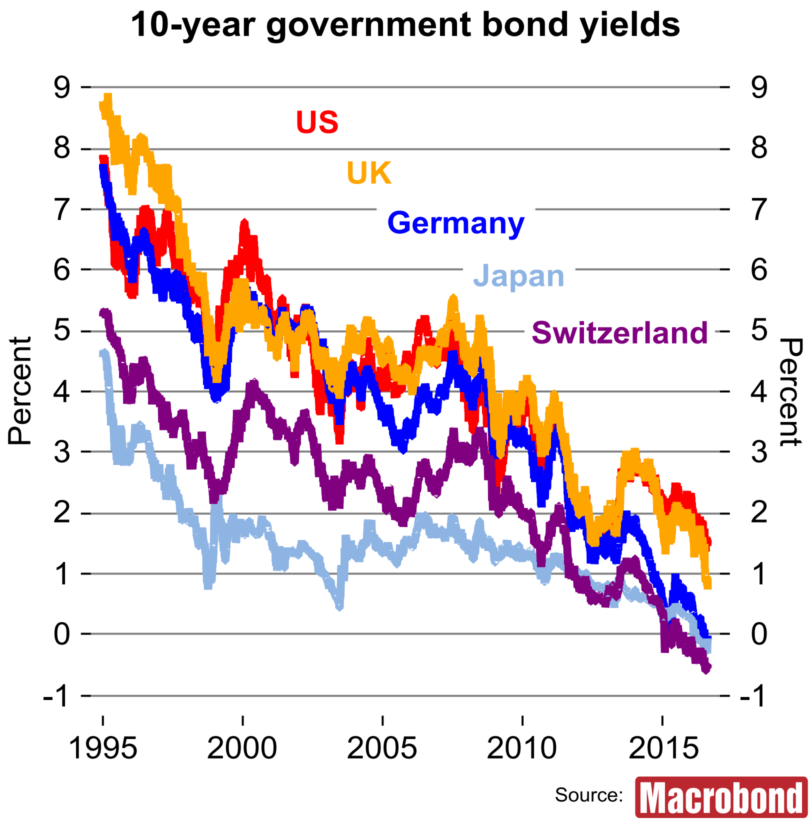
Why are government bond rates so low?

It is widely known that government bond yields are currently very low, clustering around zero for maturities up to 10 years.

Yields have fallen significantly since the start of the great recession. However, lower bond yields are not just a recent phenomenon. Long-term interest rates have been on a downward trend since the early 80s. The US Treasury's 10-year bond, for example, which now yields 1.5%, yielded 15.8% when it peaked in September 1981.

Why is it that long-term interest rates have fallen so much, and what lies in store for the coming years?



The role of inflation expectations

The main driver of lower long-term interest rates has been a significant fall in expected inflation. Investors now need much less compensation for expected inflation.

Lower inflation expectations have been a wide-spread phenomenon in developed markets.

In the US, expected inflation the next year as measured by consumer surveys, has dropped from close to 10% in early 1980 to 2.5%.

In the US it has been possible since the late 90s to read expected US inflation from financial markets. The market currently expects just 1.5% inflation on average over the next 10 years. That is down from 3.3% in 1997.

The story is the same in other developed markets, with just minor numerical adjustments.

How low is the real interest rate on government bonds?

By adjusting bond yields for expected inflation, one gets the expected real interest rate, i.e. the yield as measured in anticipated purchasing power.

It is this expected real interest that is important for investors who purchase government debt, and for the governments which finance part of their expenditure by issuing debt.

In the US, this real interest rate has also fallen in the period since it has been possible to measure the market's expected inflation rate. Currently the expected real yield on 10-year government bonds is around zero.

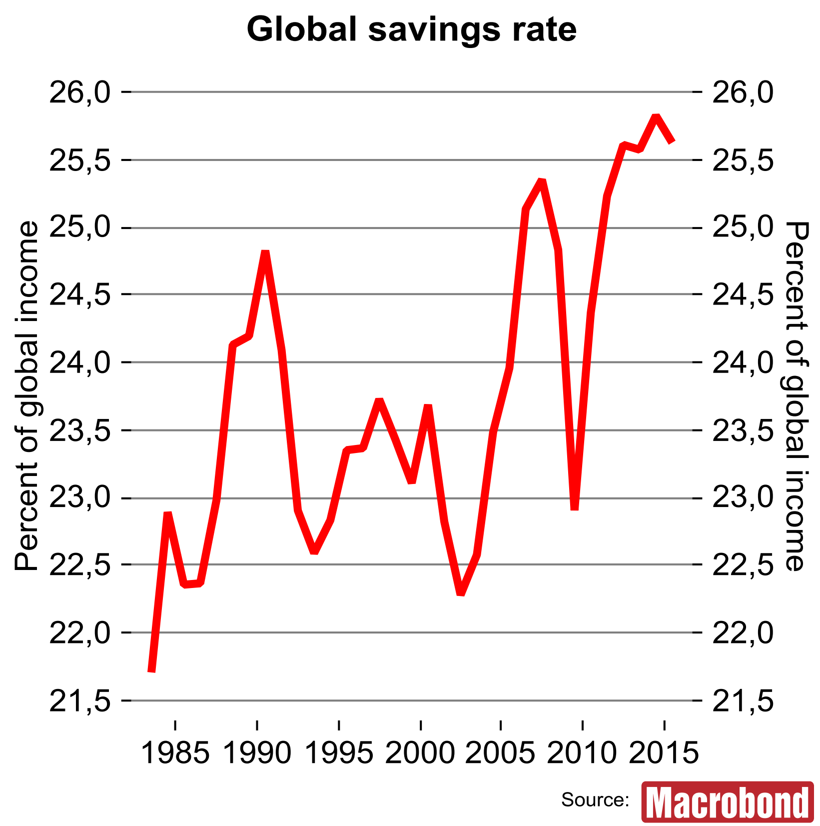
Note that the long-term expected real interest rate was even lower four years ago, when it almost fell to -1%. We have seen the same kind of development in most advanced economies.

What is behind the drop in expected real interest rates?

One not insignificant reason for the drop in advanced economies' long-term real interest rates is a growing need by the global economy to hold a certain portion of the wealth in liquid and perceived risk-free bonds. Much of the global growth over the last three decades is due to emerging markets; economies whose governments are not yet able to supply the market with liquid and perceived risk-free bonds.

The other major factor has been a higher growth rate in the propensity to save relative to the propensity to invest. In order to balance out saving and investment, real interest rates have dropped. The reason for this development is mostly likely demographic. Aging increases the necessity to save, and reduces the need to equip new workers with capital.

Third, the great recession has cut expected real interest rates by temporarily enhancing both of the factors mentioned above.



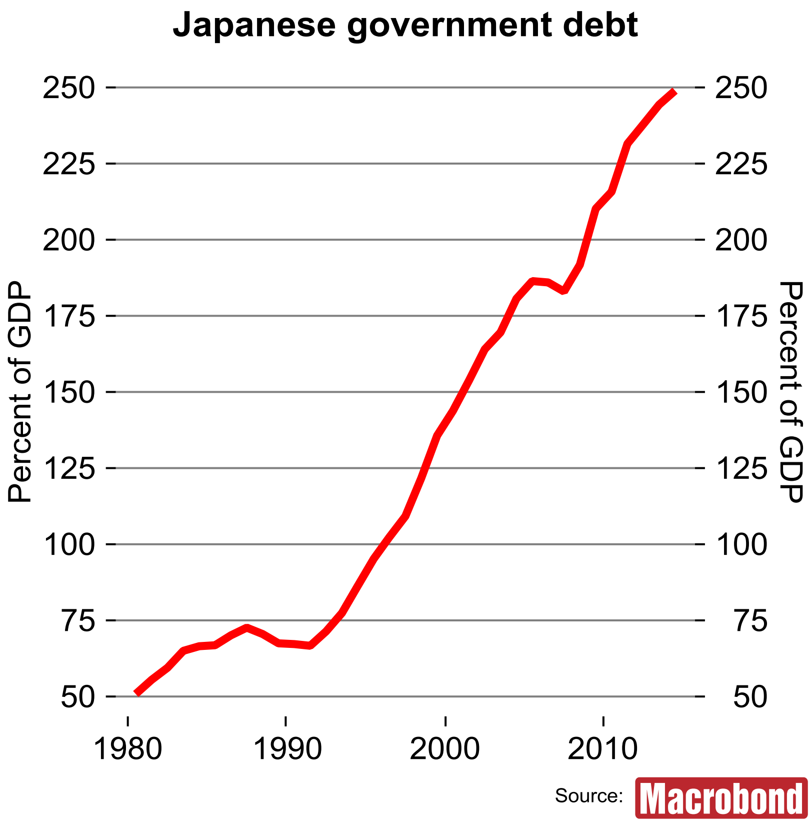
Where is the yield on government bonds heading?

Expected inflation in most advanced countries is likely to remain low. This puts a ceiling on government bond yields for the foreseeable future.

The global economy has recovered from the great recession. Hence the third temporary factor for low expected real interest rates is currently not relevant. Evidence from the US and other economies suggests that the expected long real interest rate on government bonds reached their cyclical nadir in 2011/2012.

The two other factors behind low real interest rates are likely to persist for some time. China and other emerging economies are not yet able to produce globally liquid and perceived credit-safe government bonds. Also, the demographic transition is not yet finished. This suggests that the current level of expected real interest rates is "sustainable".

Other factors can, and probably will, come into play. The market could for example lose trust in Japanese government finances. That would cause a spike in Japanese inflation and in the yields on governments bonds.



For more information please see:

SKAGEN Tellus A on our web pages
SKAGEN's Market report

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.

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