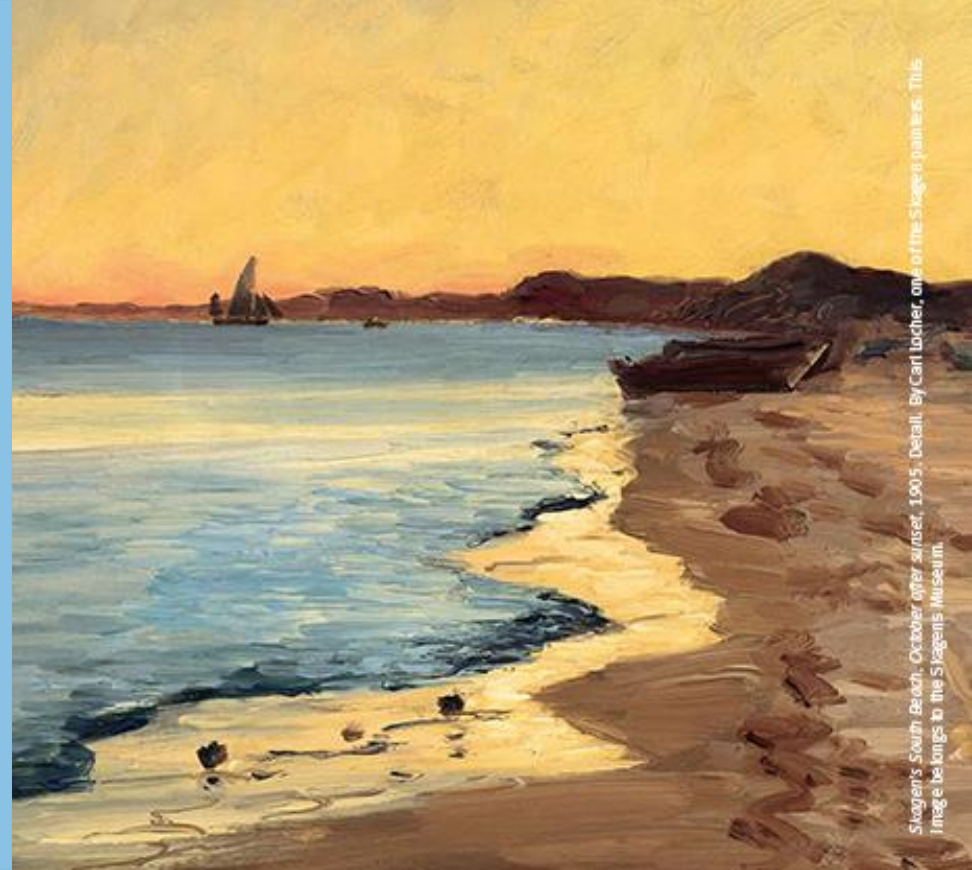




Torgeir Høien
Lead Manager



Jane Tvedt
Co-manager



Skagen's South Beach, October after sunset, 1905. Detail, by Carl Locher, one of the Skagen painters. This image belongs to the Skagens Museum.

SKAGEN Tellus

Status Report May 2016

The art of common sense



Key numbers as of 31 May 2016

EUR, net of fees

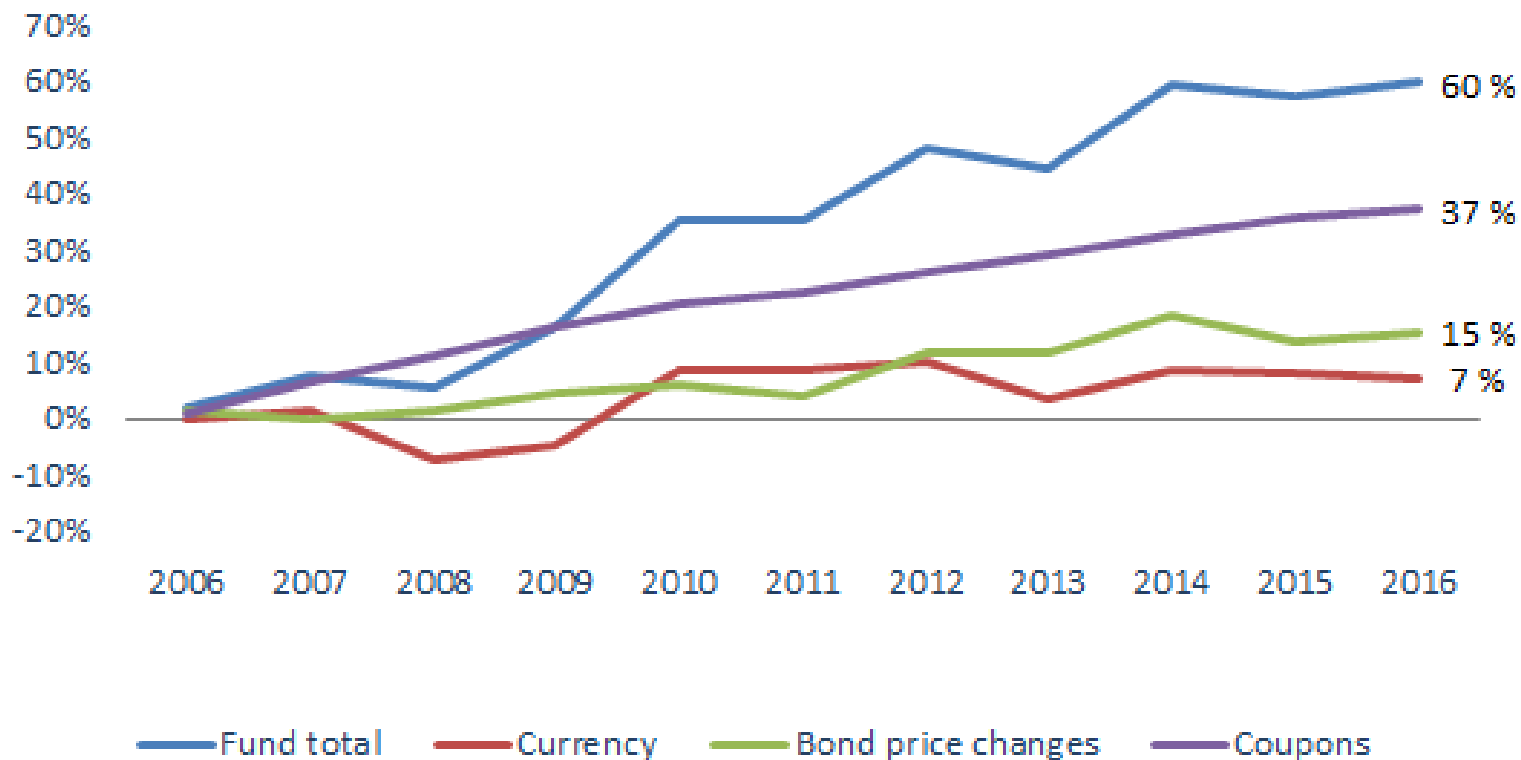
	May	QTD	YTD	1 years	3 years	5 years	Since inception*
SKAGEN Tellus A	0,7%	2,0%	2,2%	-4,2%	2,8%	5,2%	5,3%
JPM Broad GBI Unhedged	1,4%	2,1%	3,9%	5,1%	6,9%	5,5%	5,2%
Excess return	-0,7%	-0,1%	-1,7%	-9,3%	-4,1%	-0,3%	0,1%

**Inception date: 29/09/2006*

Benchmark index before 01/01/2013 was Barclay's Capital Global Treasury Index 3-5 years

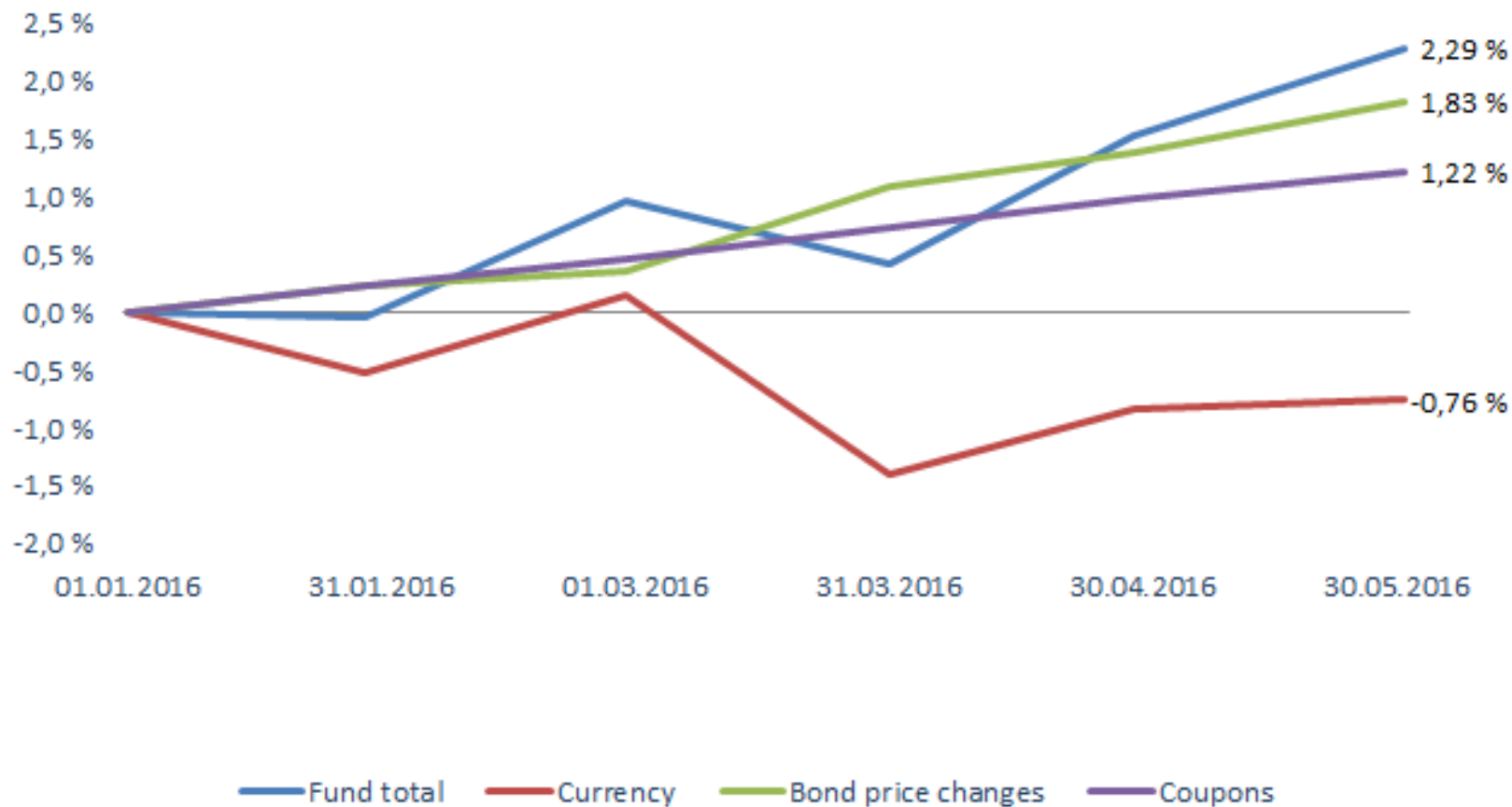
Unless otherwise stated, all performance data in this report relates to class A units, measured in EUR and is net of fees.

Accumulated returns since inception in EUR



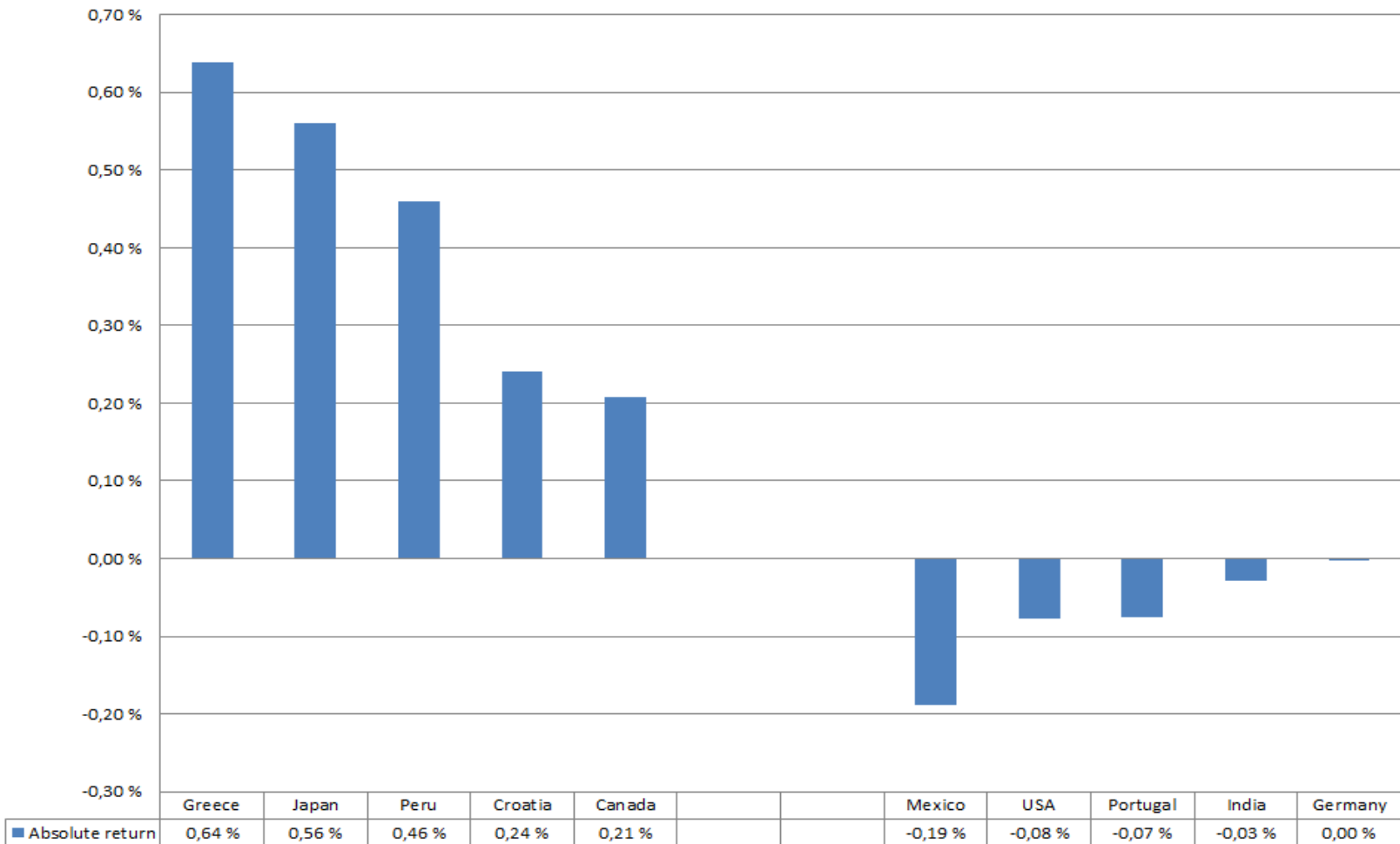
As of 31 May 2016

Accumulated returns year to date in EUR



As of 31 May 2016

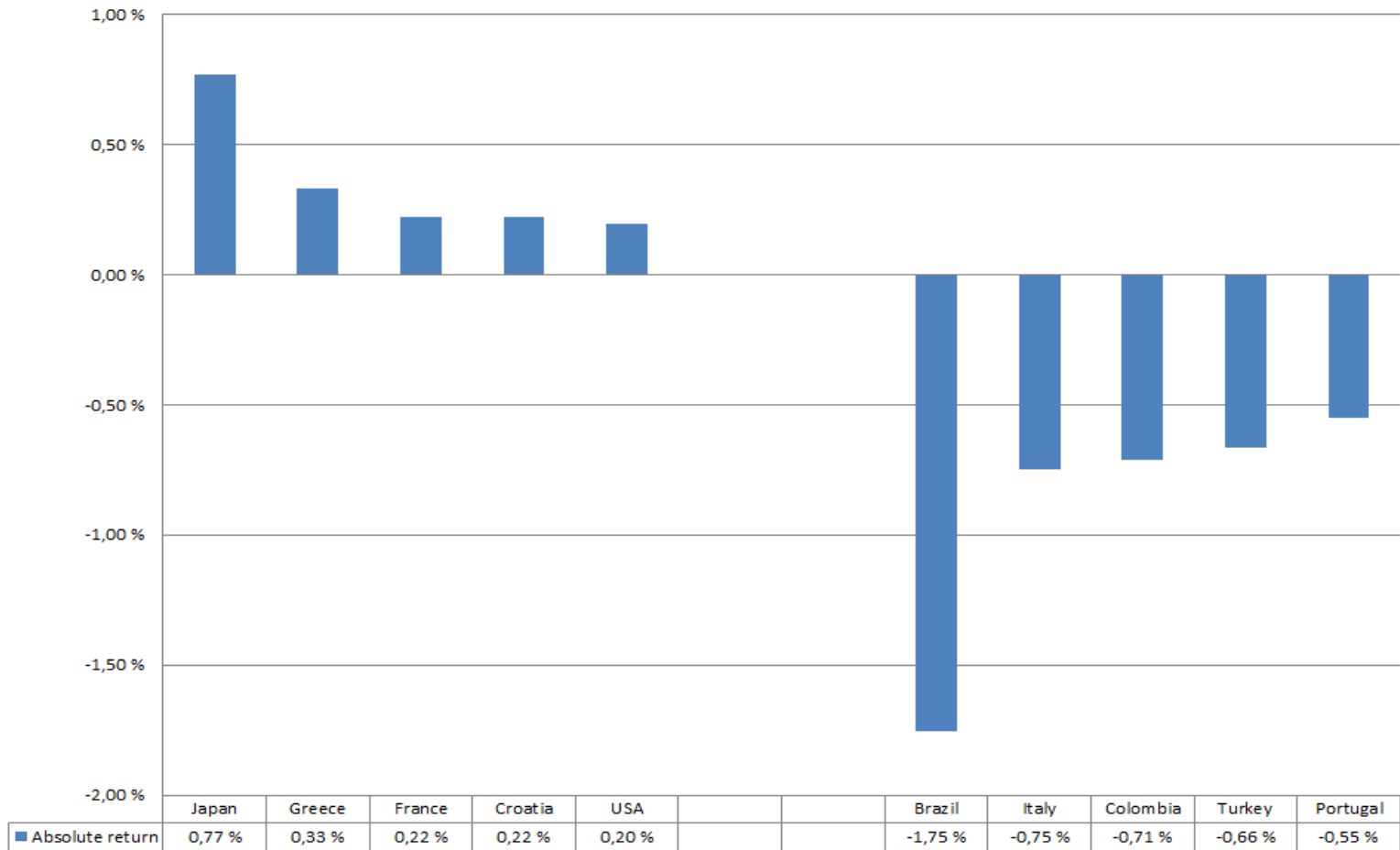
Top 5 best and worst contributors year to date



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

As of 31 May 2016

Top 5 best and worst contributors last 12 months



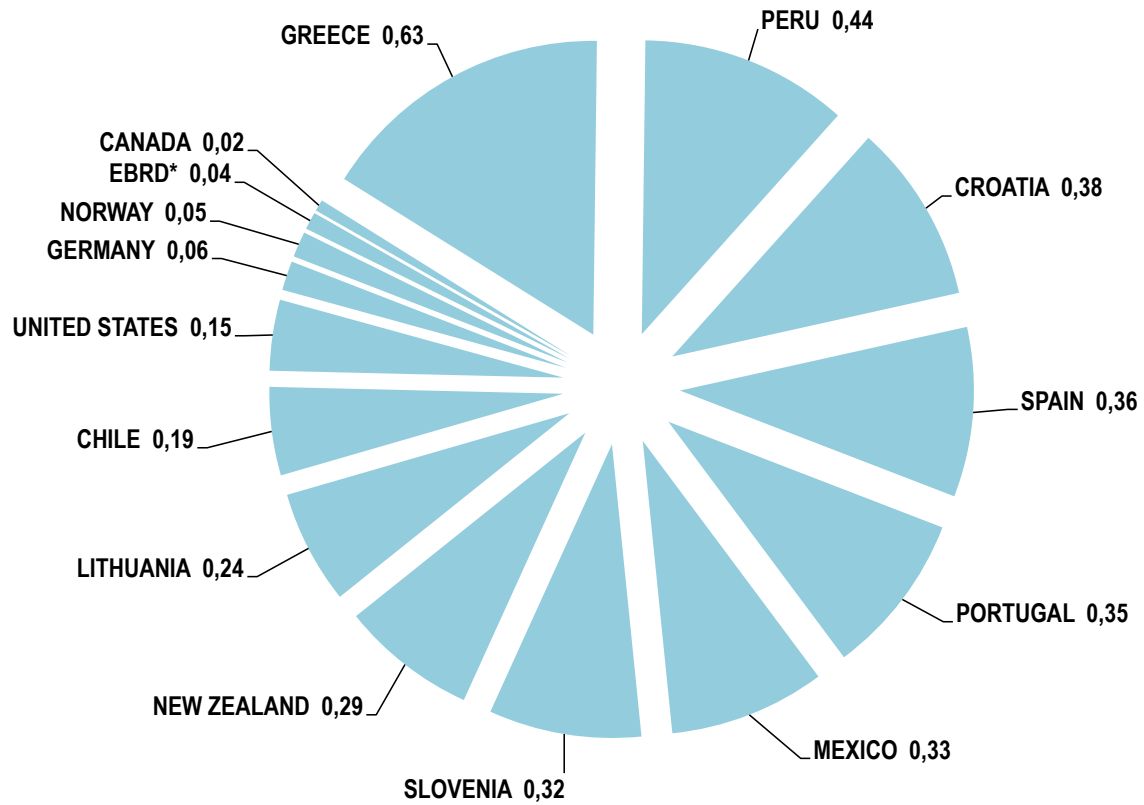
Contributing factors are interest coupons, bond price changes and currency fluctuations

As of 31 May 2016

Portfolio as of 31 May 2016

Holding Name	CRNCY	Holding	Percent	Maturity Date	Coupon
US Government	USD	12800	9,8	31.08.2016	0,5
US Government	USD	10800	8,2	30.06.2017	0,6
German Government	EUR	9350	8,0	10.03.2017	0,0
US Government	USD	10000	7,6	30.11.2016	0,9
Croatia Government International Bond	EUR	8300	7,2	30.05.2022	3,9
Canadian Government	CAD	10000	5,9	01.11.2016	1,0
Norwegian Government	NOK	60000	5,7	19.05.2017	4,3
Chilean Government	CLP	4410000	5,2	05.08.2020	5,5
Lithuanian Government	USD	5500	5,2	01.02.2022	6,6
Hellenic Republic Government	EUR	9000	5,0	24.02.2035	3,0
New Zealand Government	NZD	8000	5,0	17.04.2023	5,5
Spanish Government	EUR	5000	4,4	30.04.2025	1,6
Portugese Government	EUR	5000	4,3	15.10.2025	2,9
Peruvian Government	PEN	18000	4,2	12.08.2037	6,9
Slovenia Government	EUR	3500	4,0	30.03.2026	5,1
Mexican Government	MXN	60000	3,5	20.11.2036	10,0
European Bank Recon & Dev	INR	200000	2,3	19.03.2018	5,8

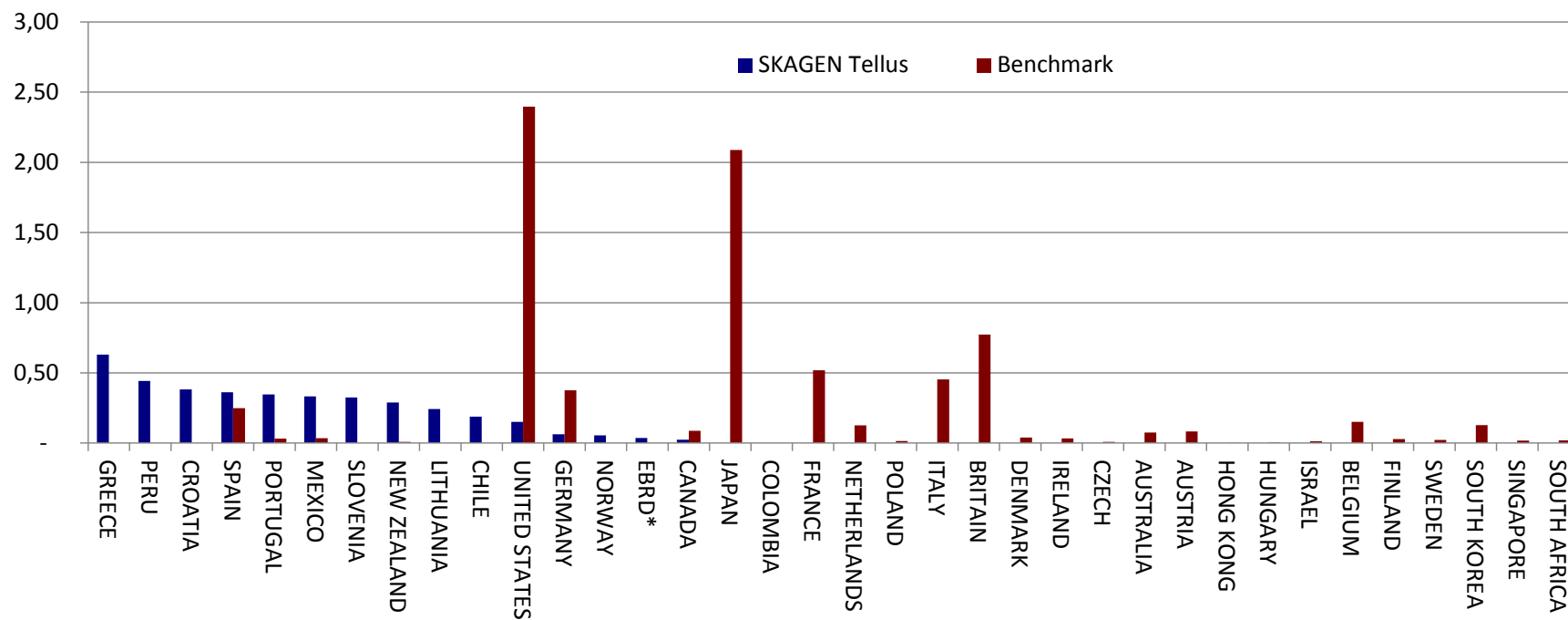
Interest rate risk exposure



EBRD* : European Bank of Reconstruction & Development

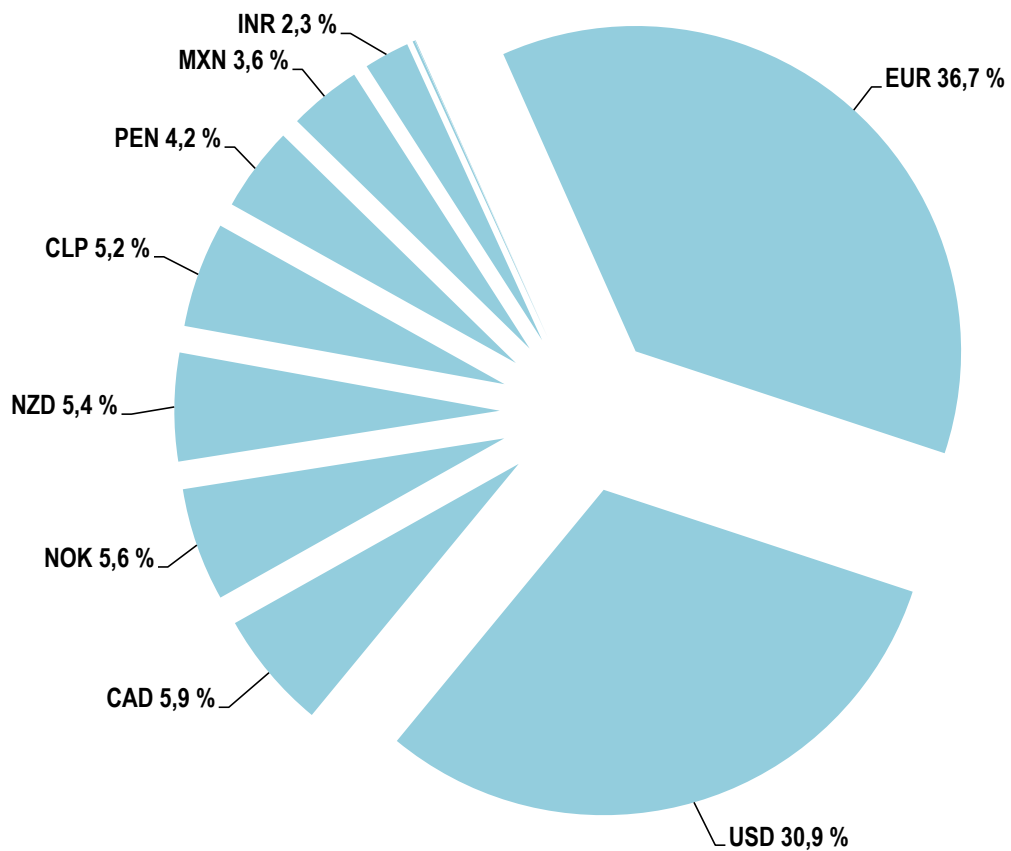
As of 31 May 2016

Interest rate exposure relative to benchmark



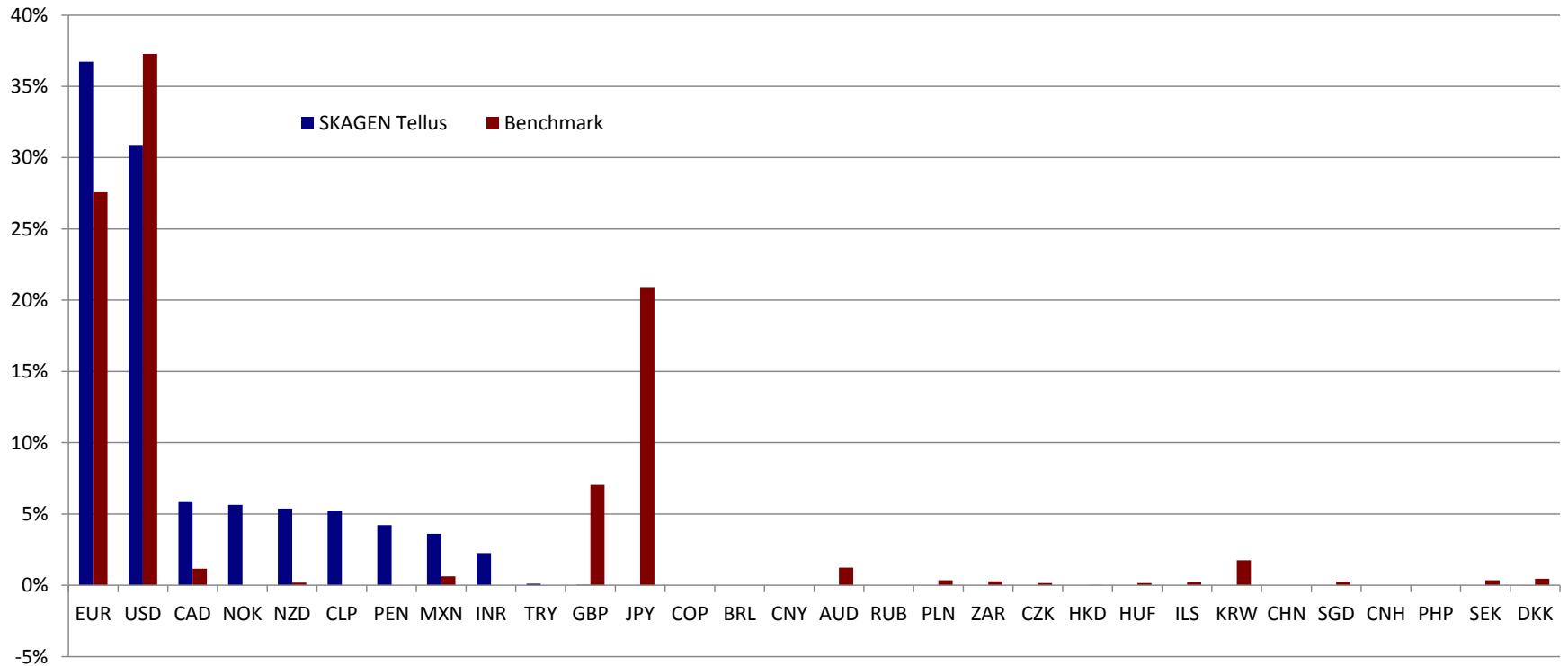
As of 31 May 2016

Currency exposure



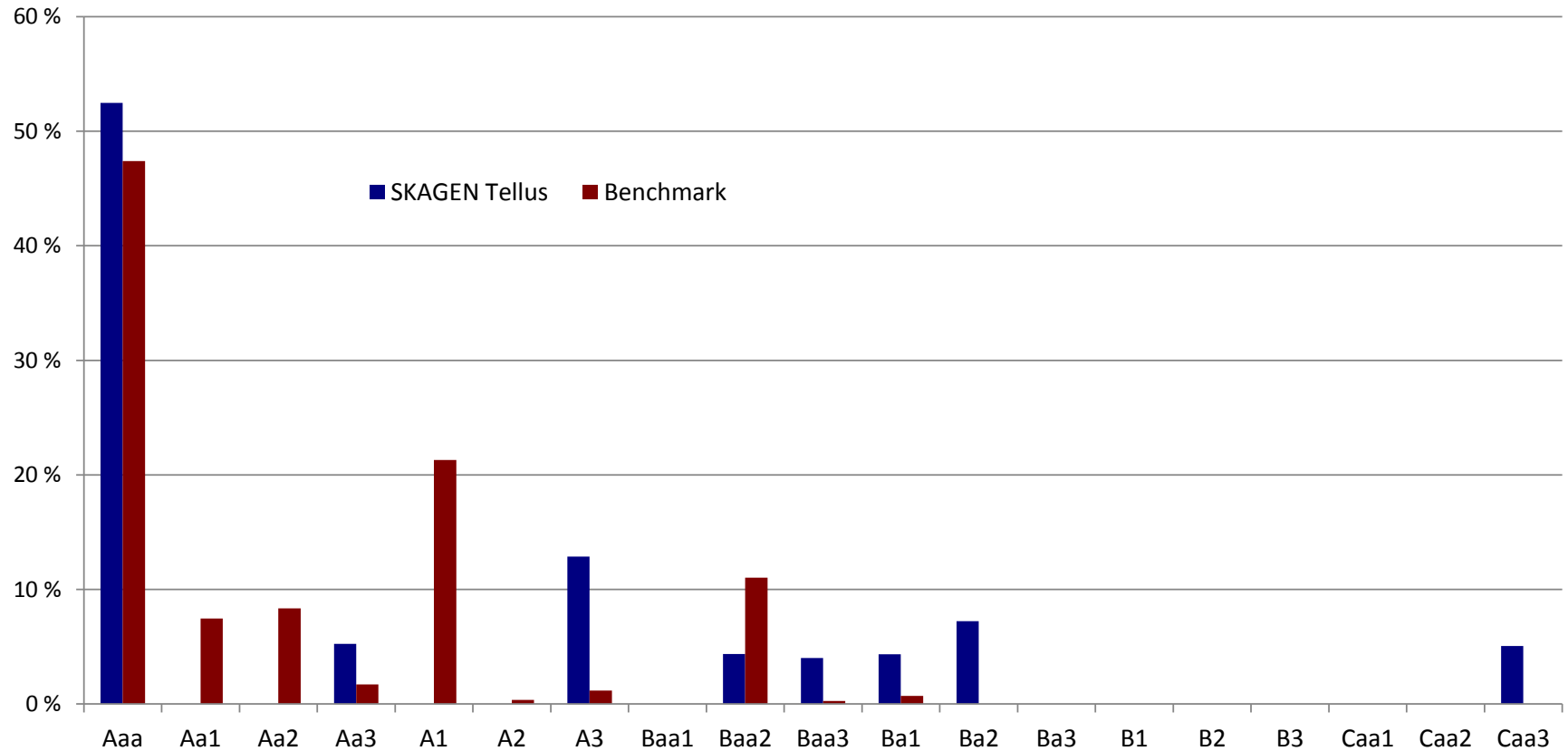
As of 31 May 2016

Currency exposure relative to benchmark



As of 31 May 2016

Moody's rating on Tellus' portfolio relative to benchmark



As of 31 May 2016

Why is SKAGEN Tellus invested in Chile?



The art of common sense



Investment case

- SKAGEN Tellus owns a local currency bond with a 5.5 percent bond that matures on 05.08.2020. The bond's current yield is 4 percent.
- We see the potential for bond price appreciation and a stronger Chilean peso (CLP).
- The 10-year government interest rate is now 4.5 percent. The inflation target is 3 percent. Surveys indicate that long-term inflation expectations are anchored in the target. The long-term ex ante real interest rate is thus about 1.3 percent. The CDS premium on government bonds is 110 basis points. This suggests that the market currently estimates the 10-year risk-free real interest rate at 0.2 percent. This compares to a risk-adjusted long-term real interest rate which is negative in most developed markets and some emerging markets.
- The price level in Chile is currently 55 percent of the price level in the US. The Chilean state has solid finances.
- Main risks: A further deterioration of the terms of trade, the implementation of social-democratic structural reforms, a prolonged overshoot of the inflation target due to widespread indexing.
- *Some basic information:*
- Chile is a politically stable democratic republic with a population of 18 million.
- PPP adjusted GDP per capita was USD 23 500 in 2015 according to the IMF.
- On the Frasier Institute's Economic Freedom Index, Peru is ranked number 10 out of 157 countries.
- Chile has an ease of doing business rank of 48 out of 189 from the World Bank.
- The World Economic Forum ranks Chile as number 35 out of 140 countries in their Global Competitiveness Report.

Economic trends

- After a decade with an average GDP growth rate above 4 percent, the economy slowed down markedly in 2015. From 2014 to 2015 GDP advanced 2.1 percent, and over the last three quarters of 2015 the average annual growth rate was just 0.5 percent. In the first quarter of 2016, however, GDP advanced at an annualised rate of 5.3 percent.
- The IMF forecasts annual growth of 1.5 percent in 2016. Activity indicators seem to confirm that growth in 2016 will be meagre, but the growth rate in Q1 2016 suggests that the IMF and activity indicators are too downbeat.
- Chile's terms of trade have deteriorated 25 percent since 2010, mainly due to lower copper prices. The price of copper fell 55 percent between February 2011 and January 2016. Since then the price of copper has risen slightly.
- The negative development in the terms of trade has probably been the main cause for low growth. But the economy has also been hit by higher uncertainty regarding implementation of economic reforms.
- The government launched a series of social-democratic programs in 2014. Chile has one of the least unionised labour forces in the OECD. Legislation now moving through congress makes it easier to carry out collective bargaining. The risk is that this could cause wages to increase faster than productivity and lead to higher unemployment. A positive element is policies that increase female labour force participation. The government is overhauling the educational system, among other things forbidding for-profit schools. Higher public spending is financed mainly by higher taxes on capital income.
- Chile's public finances are solid, with gross debt amounting to 17 percent of GDP and a net asset position at 4 percent of GDP. The government's budget is currently slightly negative, and the IMF projects that the gross debt to GDP ratio will rise to 22 percent in 2017. Chile is rated AA by S&P.
- From late 2013 to late 2014 the policy rate was lowered from 5 percent to 3 percent. During 2015 the policy rate was hiked to 3.5 percent. The central bank projects that inflation will be back on target in 2017. Inflation was 5.7 percent in August 2015 and is currently 4.2 percent.
- The major task for the new president and the new congress, which will be elected next year, is to further liberalise the economy, and keep the public finances as solid as they have been over the last years.

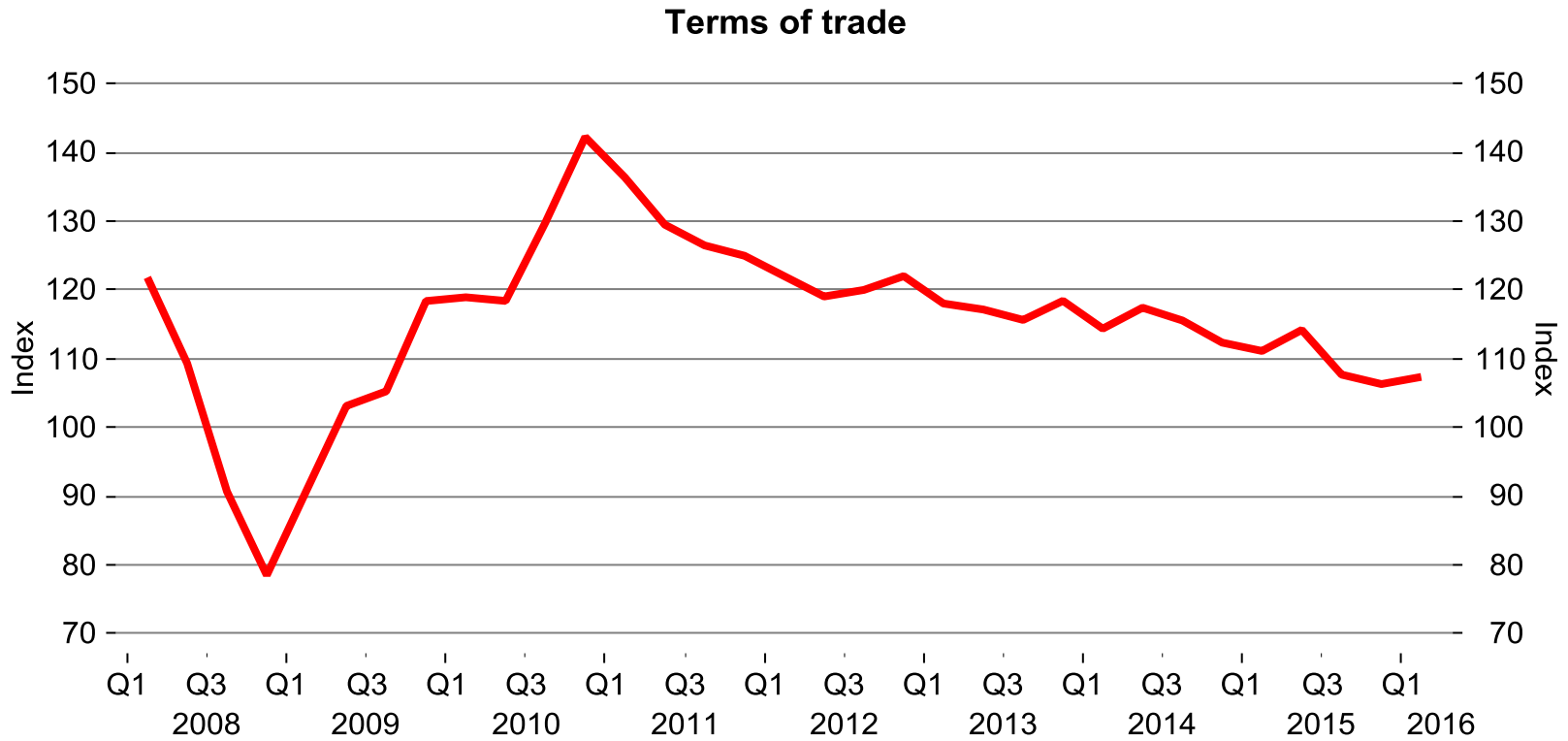
Politics

- Michelle Bachelet, head of the socialist party, has served as president since 2014. She was also the president from 2006 to 2010.
- Together with coalition parties, her party has a majority in the parliament. While Ms. Bachelet is no socialist, and Chile has one of the freest economies in the world, her current program is pushing Chile in a social-democratic direction.
- Ms. Bachelet, who won the presidential election by a wide margin, has slipped in opinion polls. Aside from the fallout of lower economic growth, she has suffered from a corruption case that engulfed her in-laws.
- The next general election is in 2017.



President Michelle Bachelet

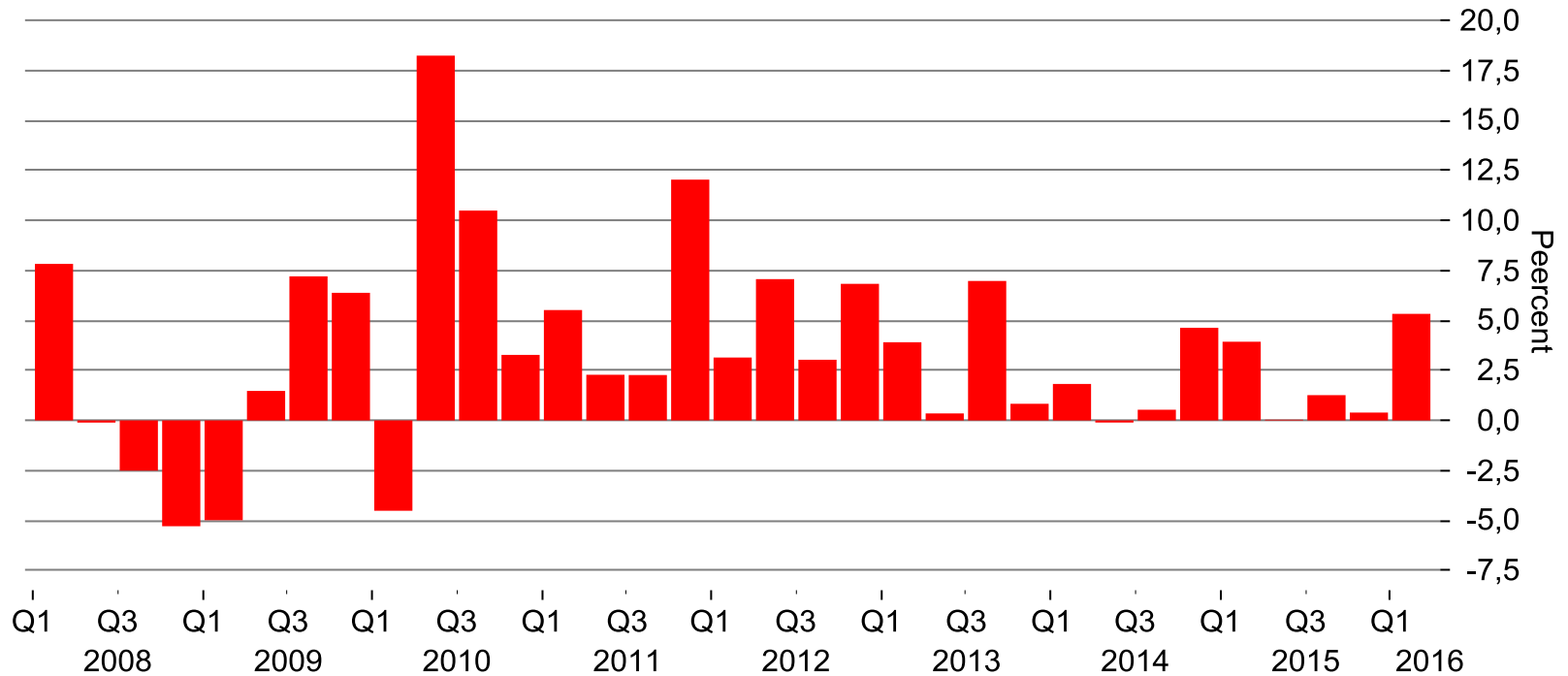
Terms of Trade



Source: **Macrobond**

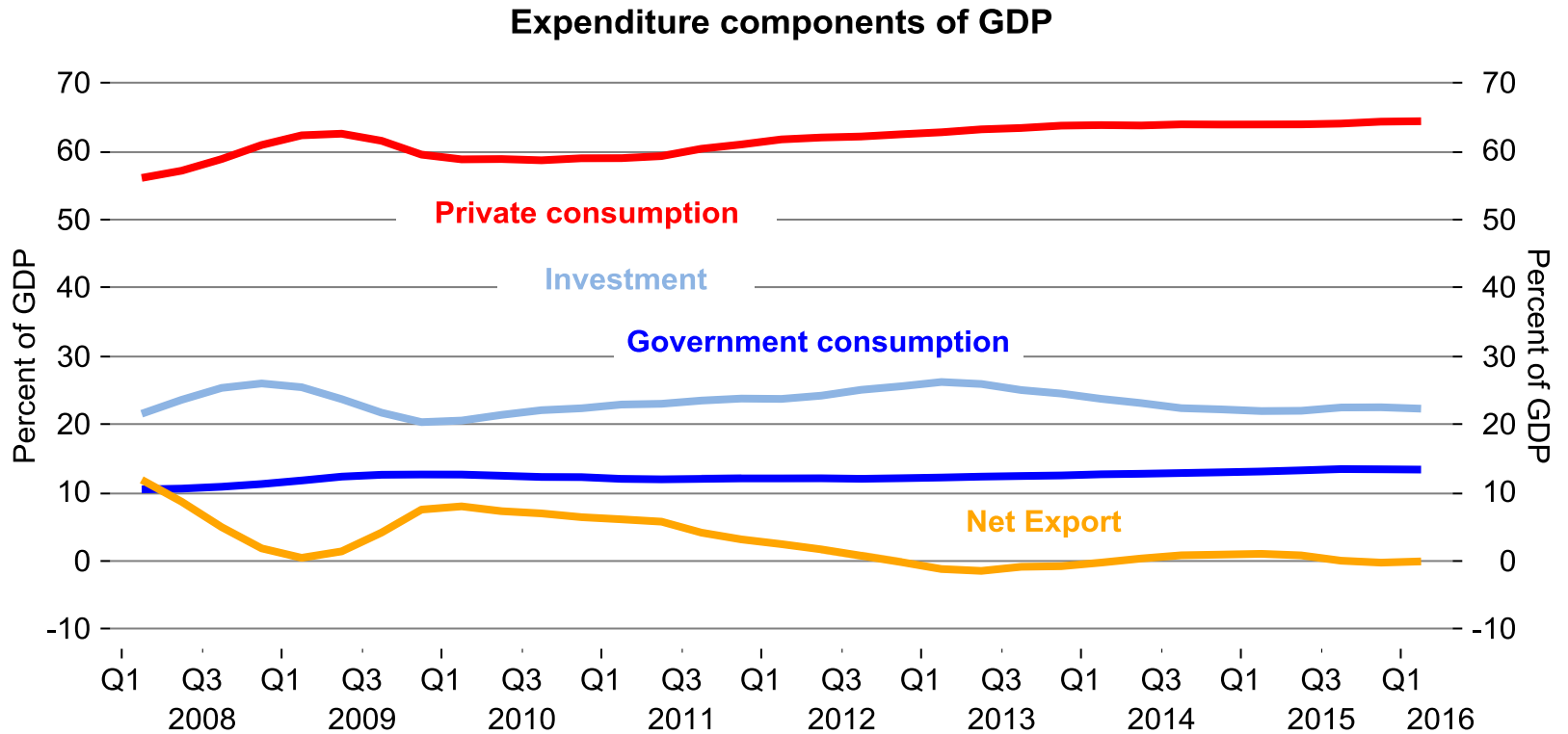
GDP

Annualized quarterly GDP growth



Source: **Macrobond**

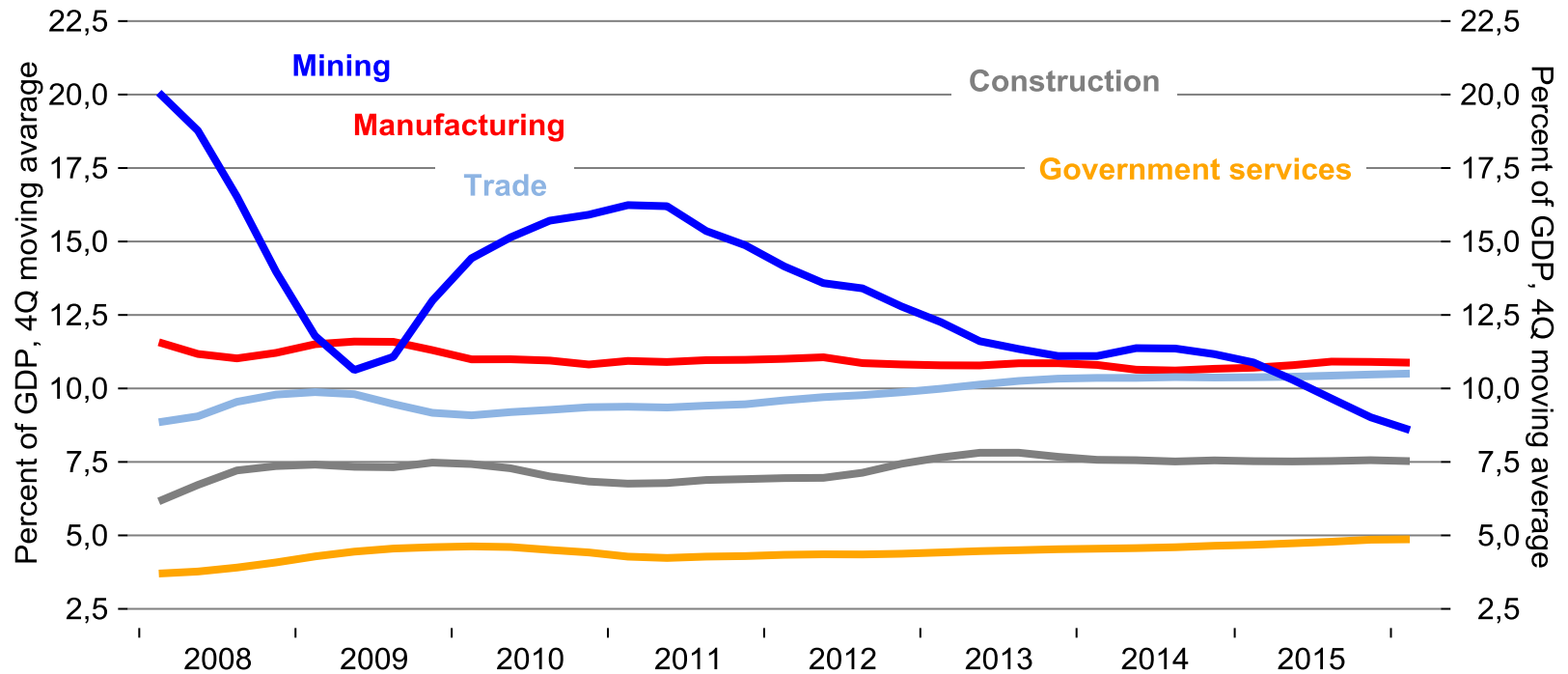
The use of GDP



Source: **Macrobond**

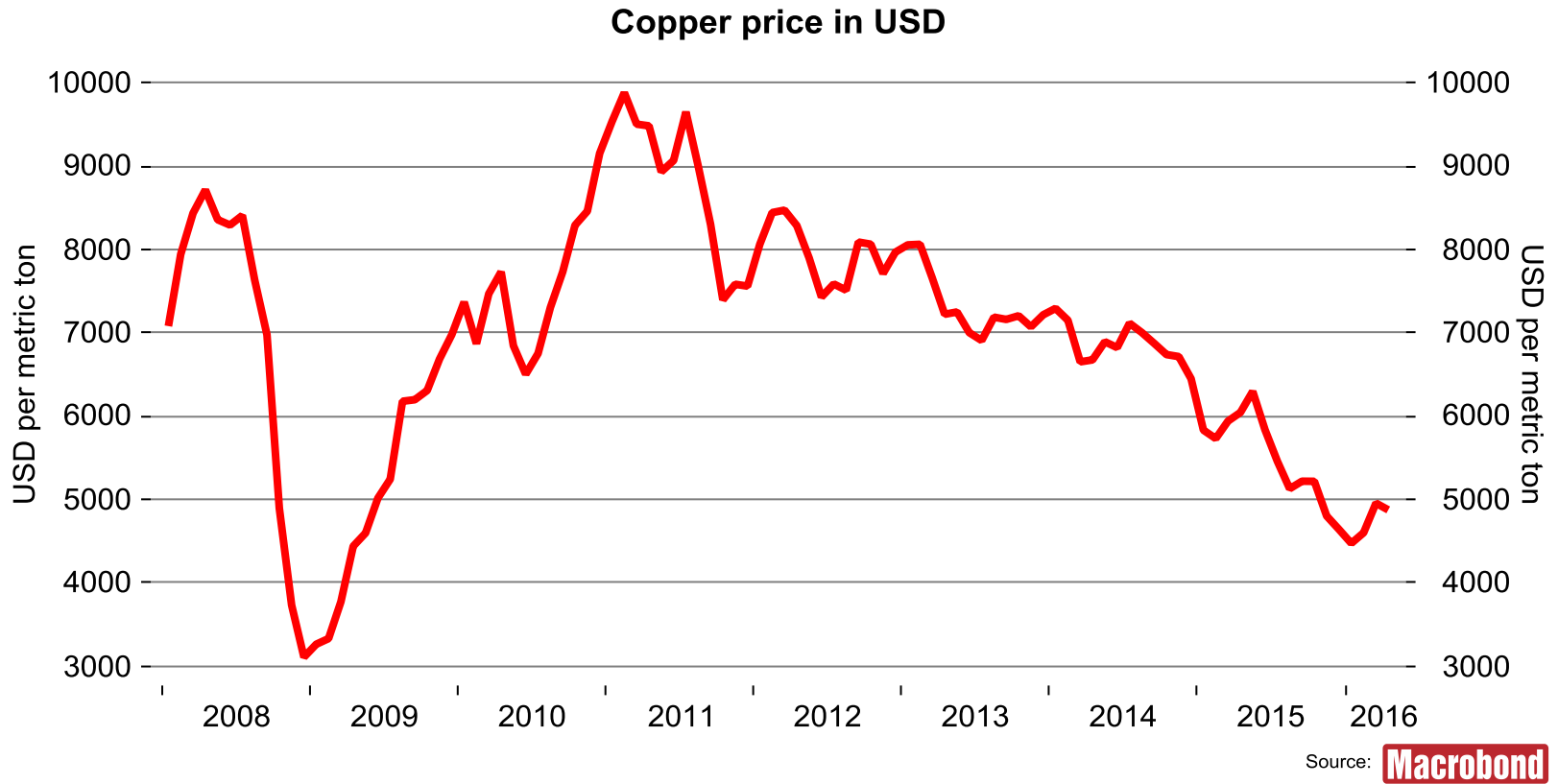
Output Components of GDP

Some output components of GDP

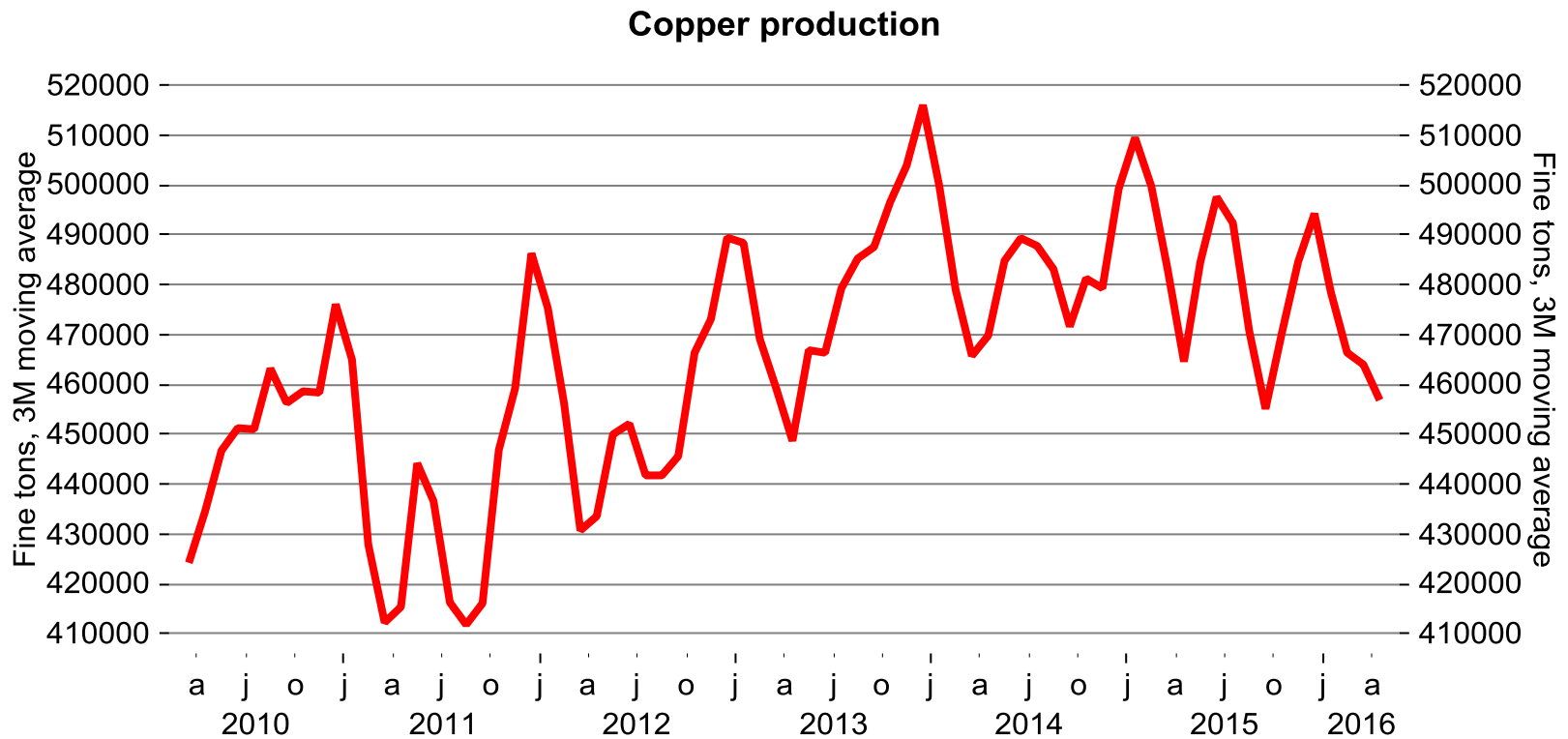


Source: **Macrobond**

Copper Price



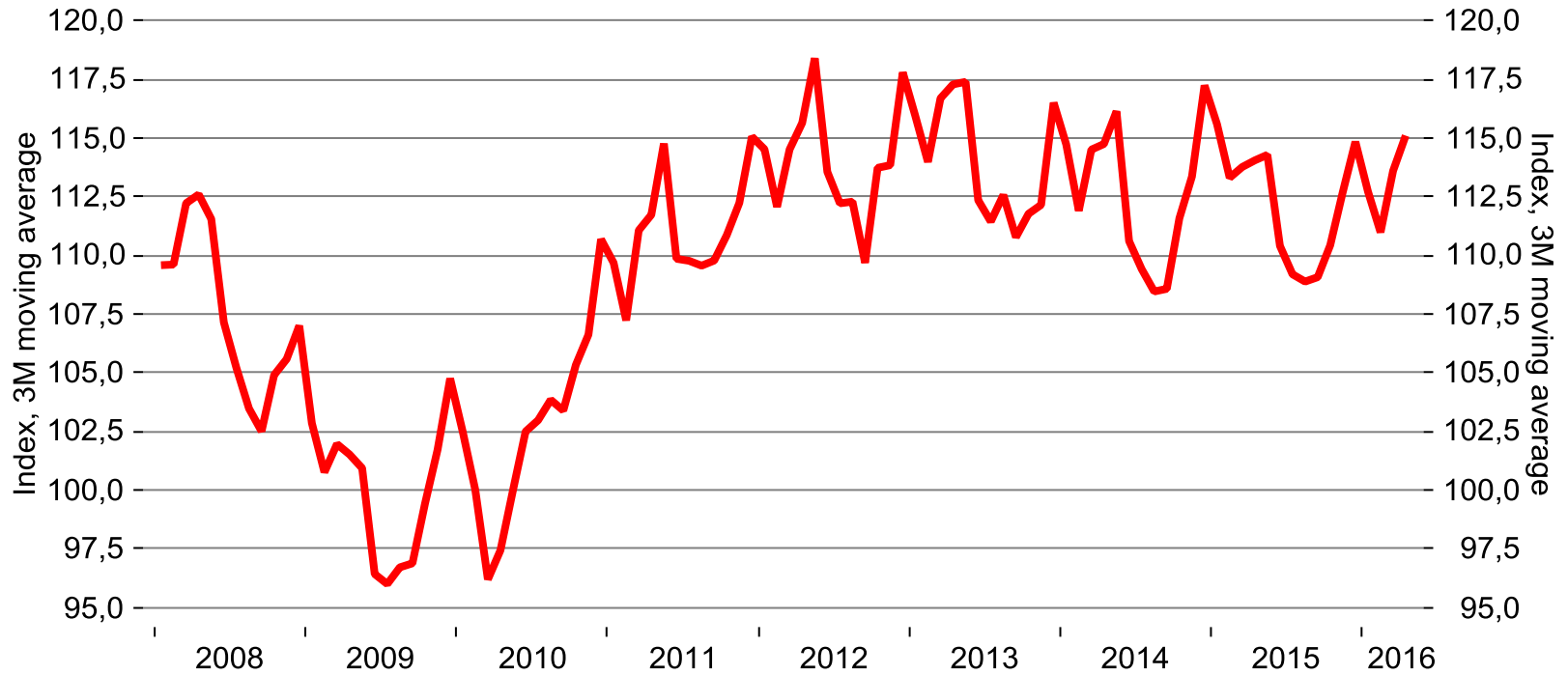
Copper Production



Source: **Macrobond**

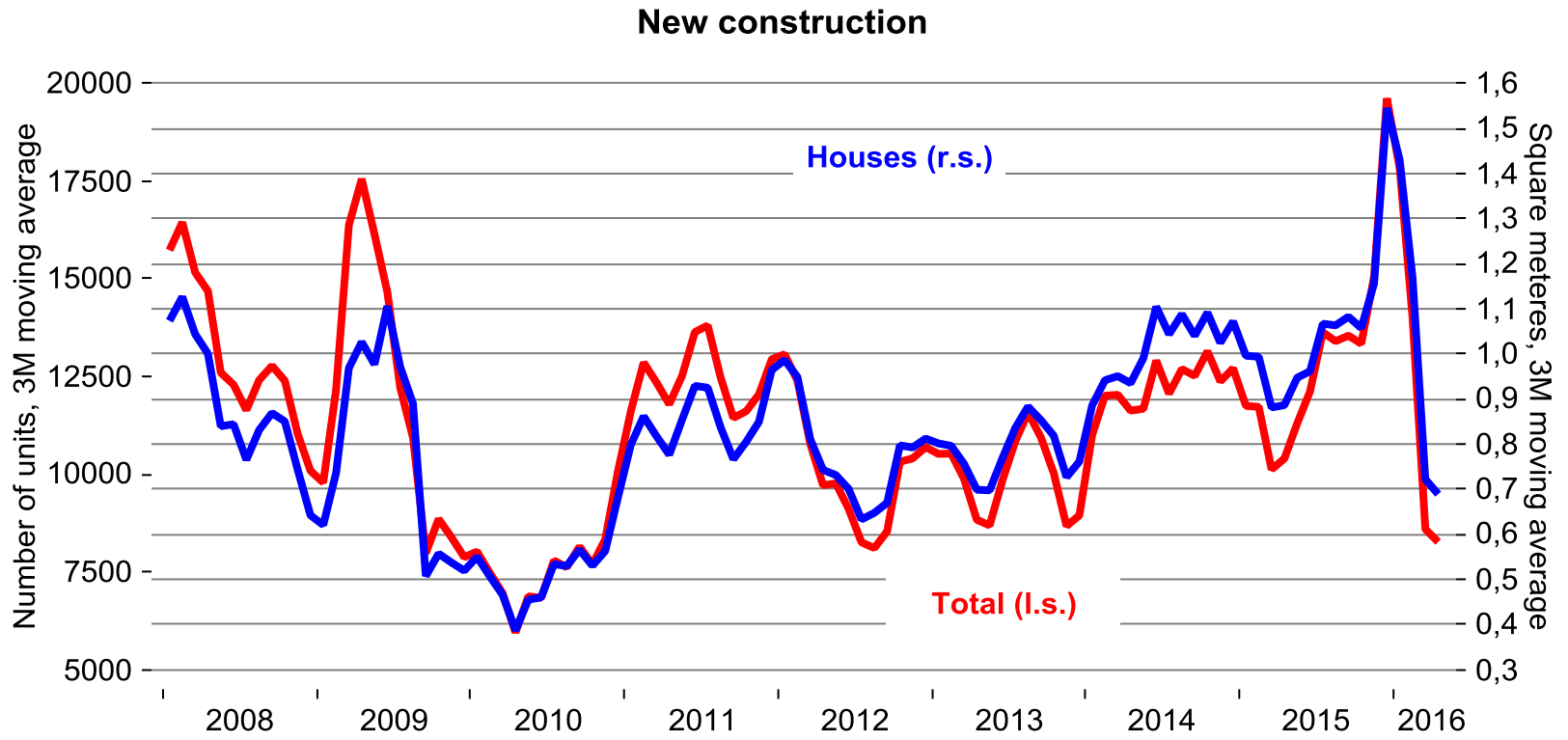
Manufacturing

Manufacturing production



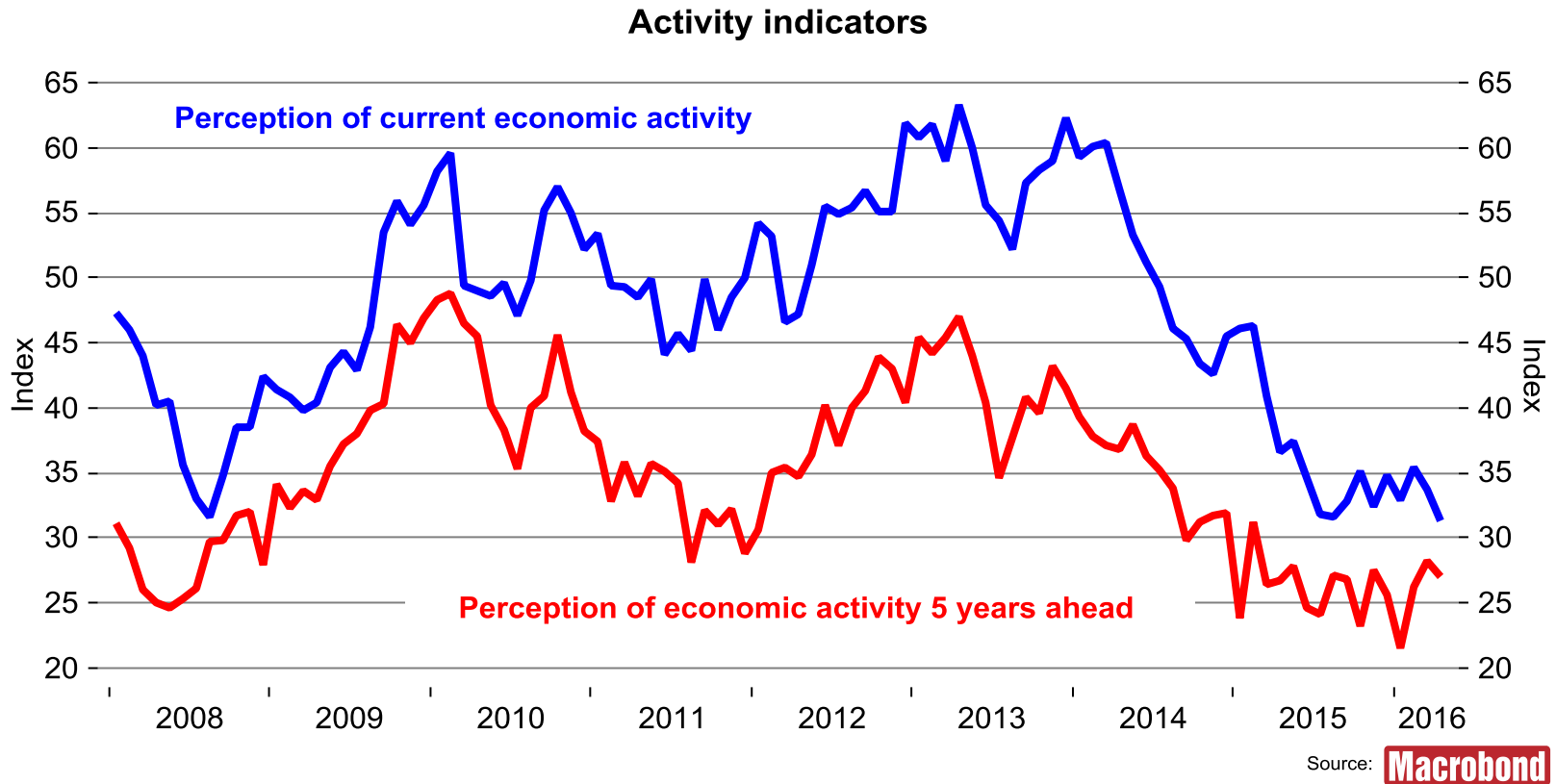
Source: **Macrobond**

Construction



Source: **Macrobond**

Activity Indicators



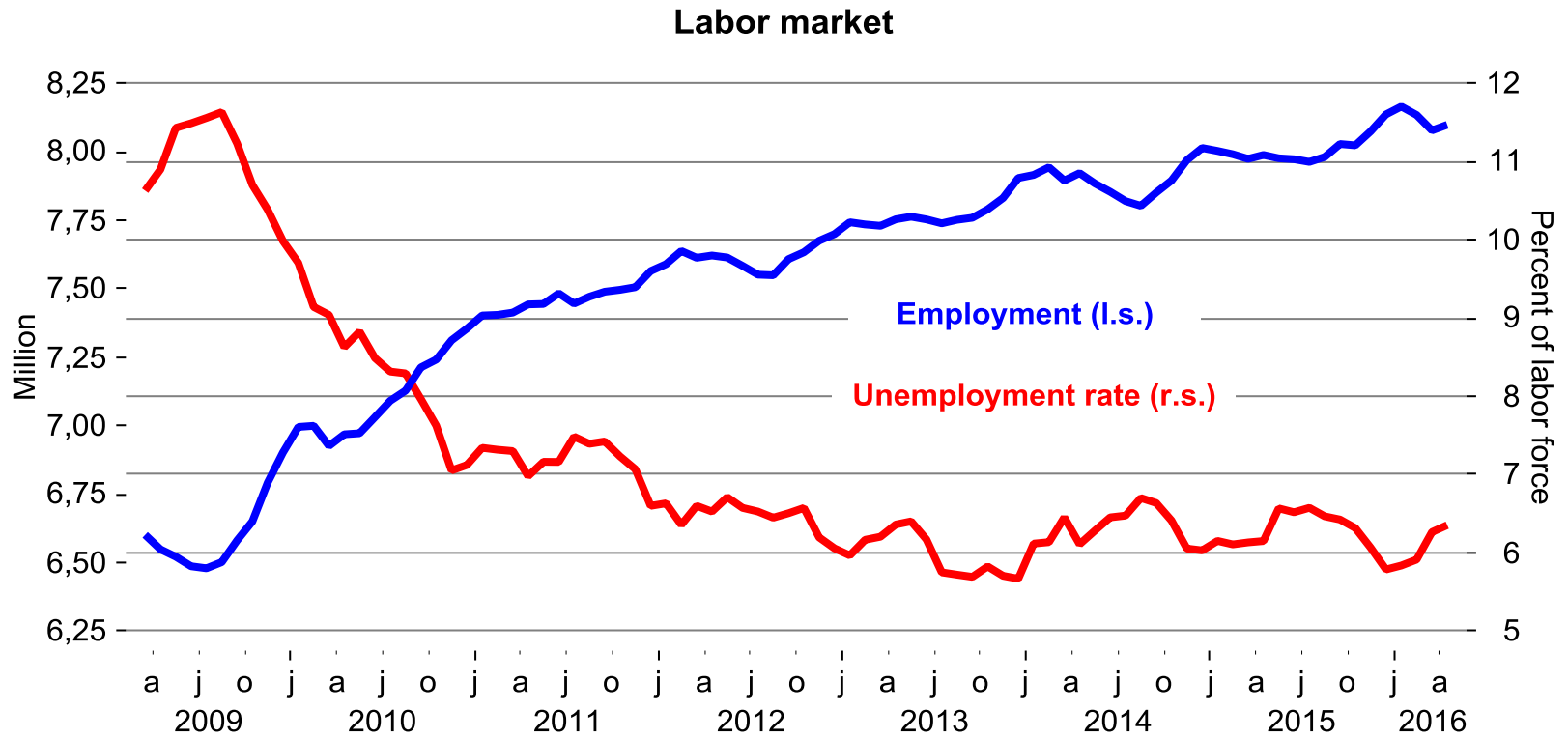
Stock Market

Equity index



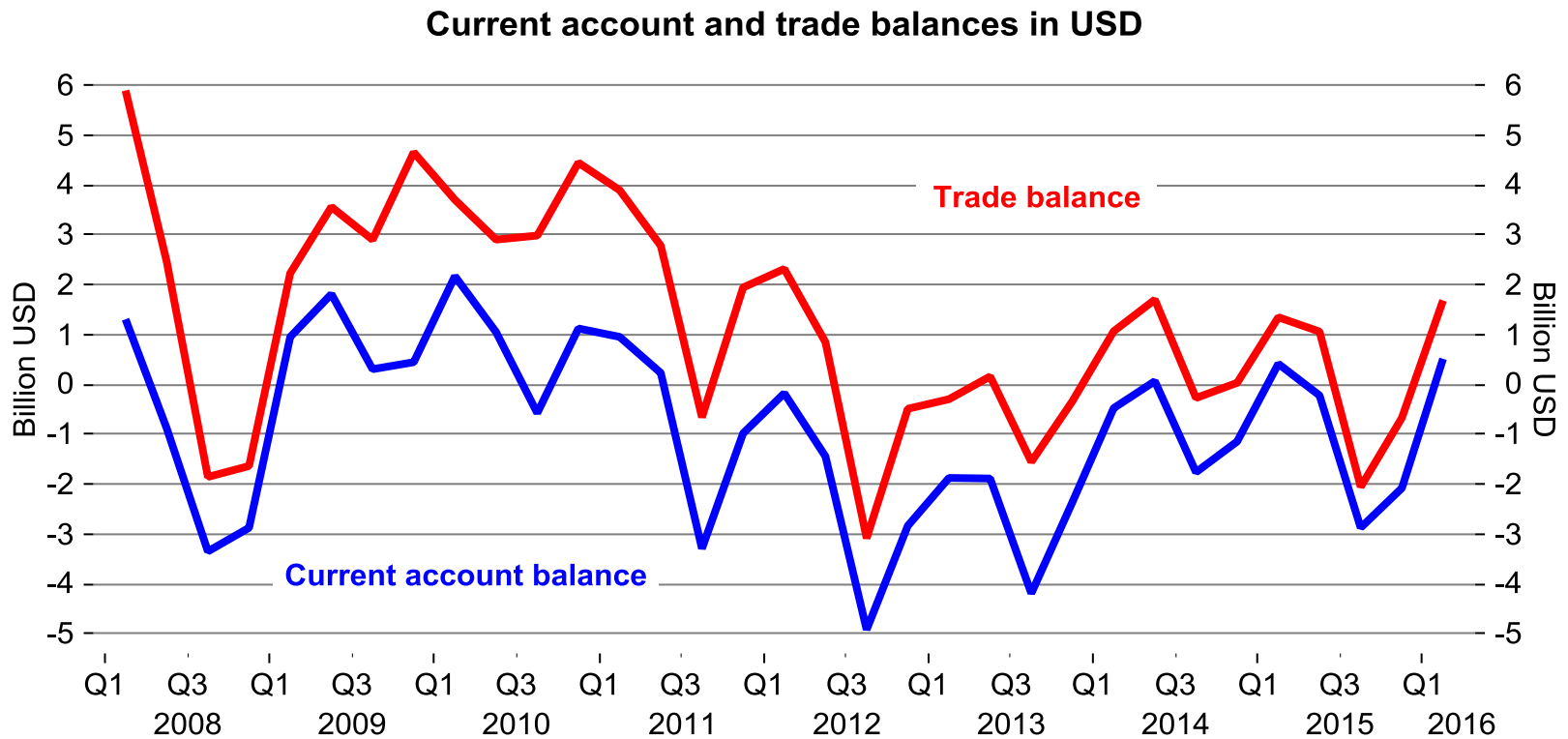
Source: **Macrobond**

Labour Market



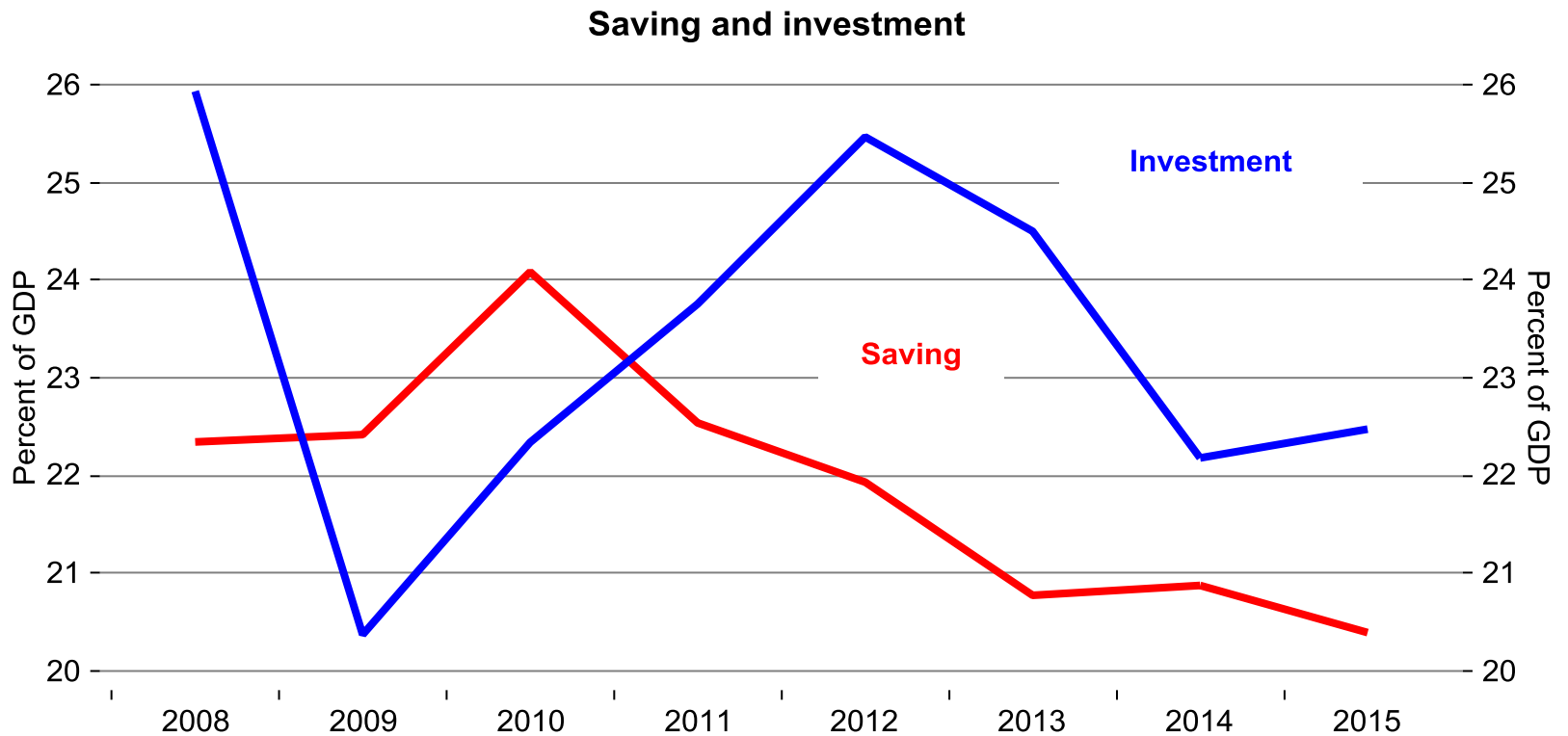
Source: **Macrobond**

Current Account and Trade Balances



Source: **Macrobond**

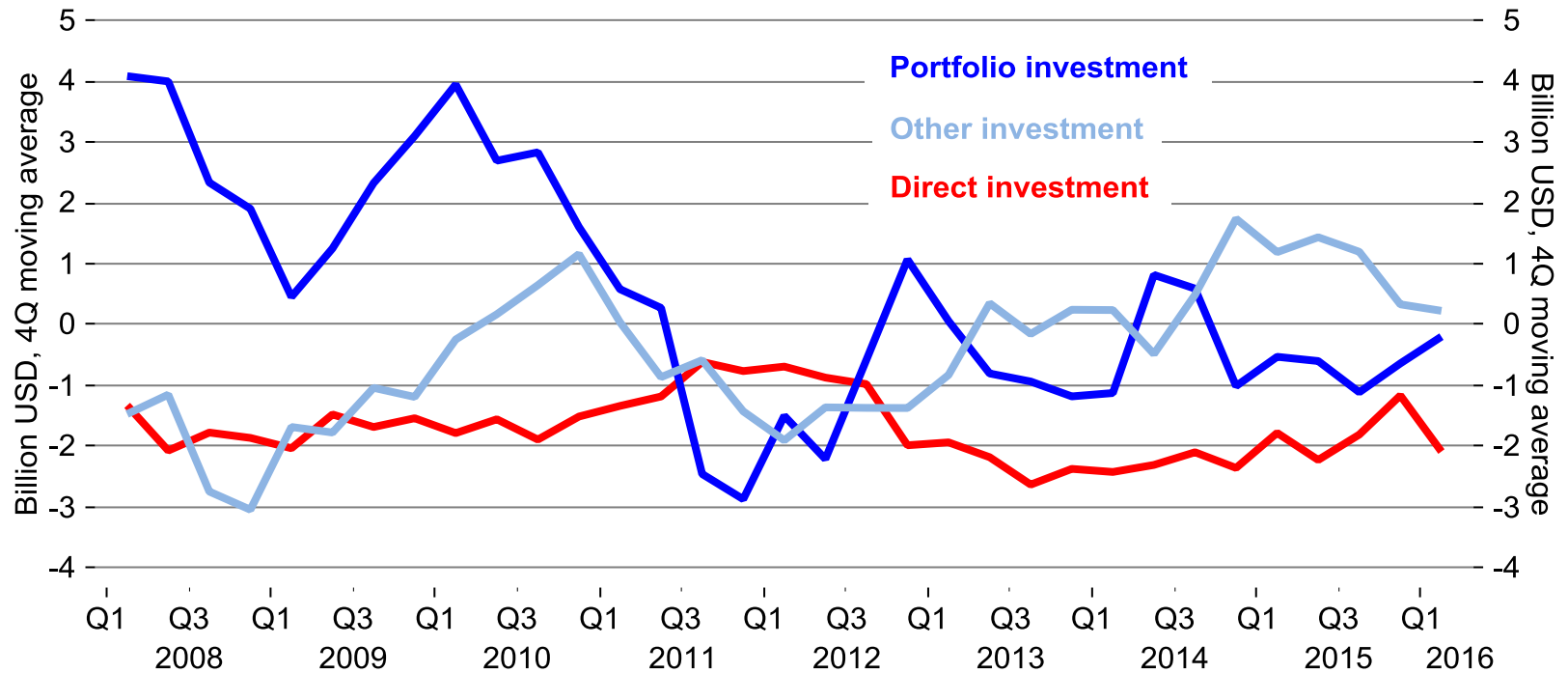
Saving and Investment



Source: **Macrobond**

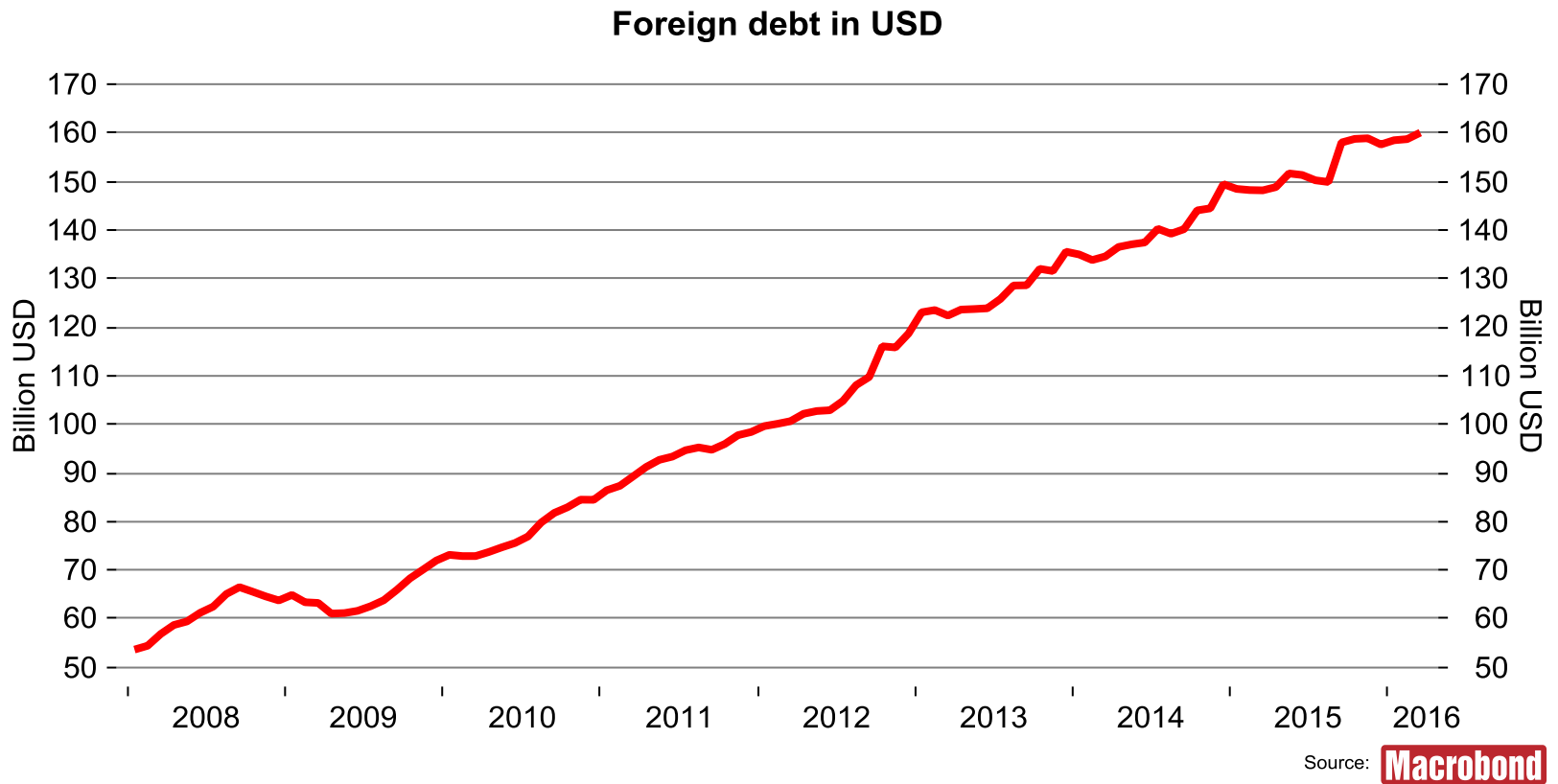
Net Capital Import

Net foreign investment in Chile

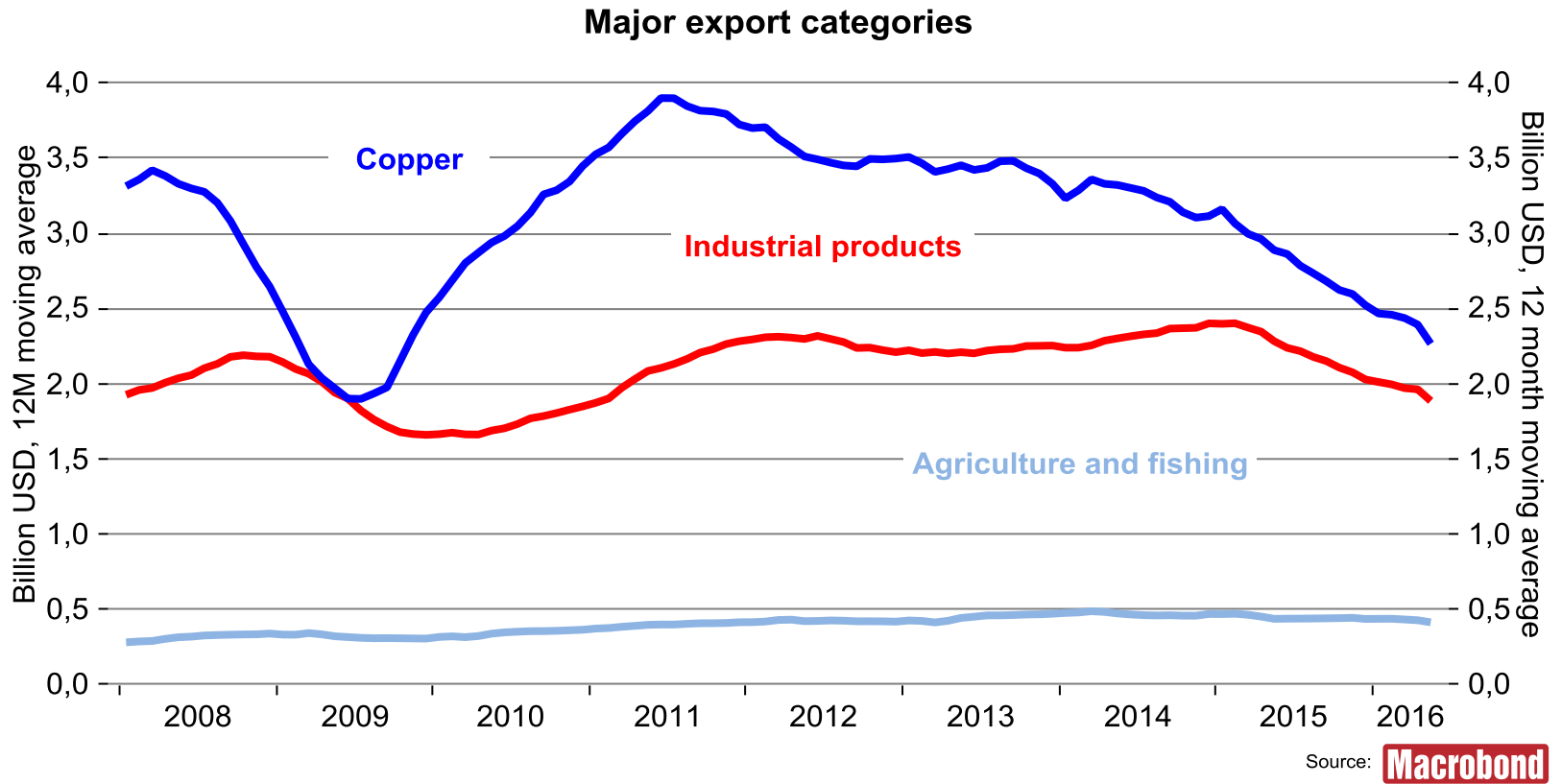


Source: **Macrobond**

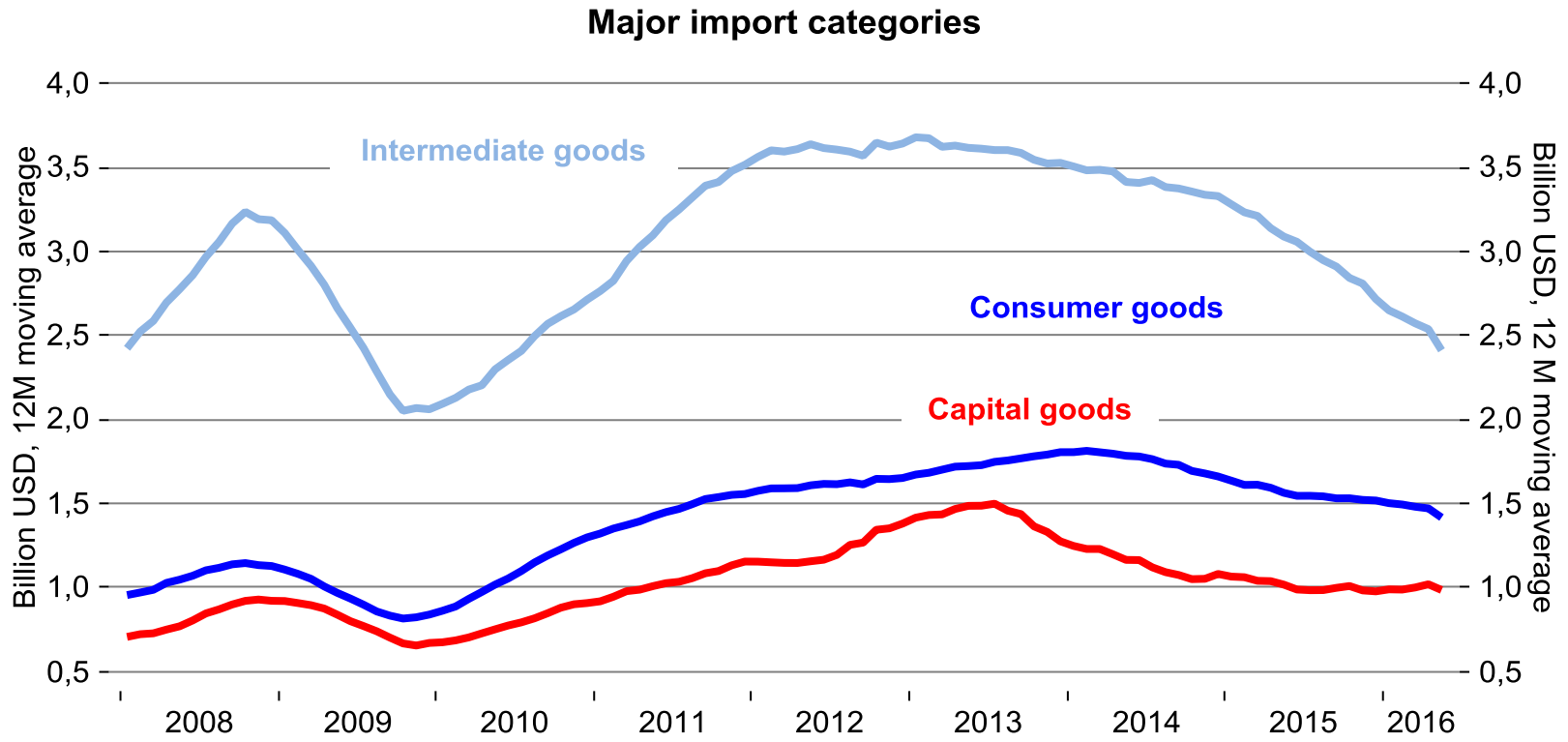
Foreign Debt



Export Components

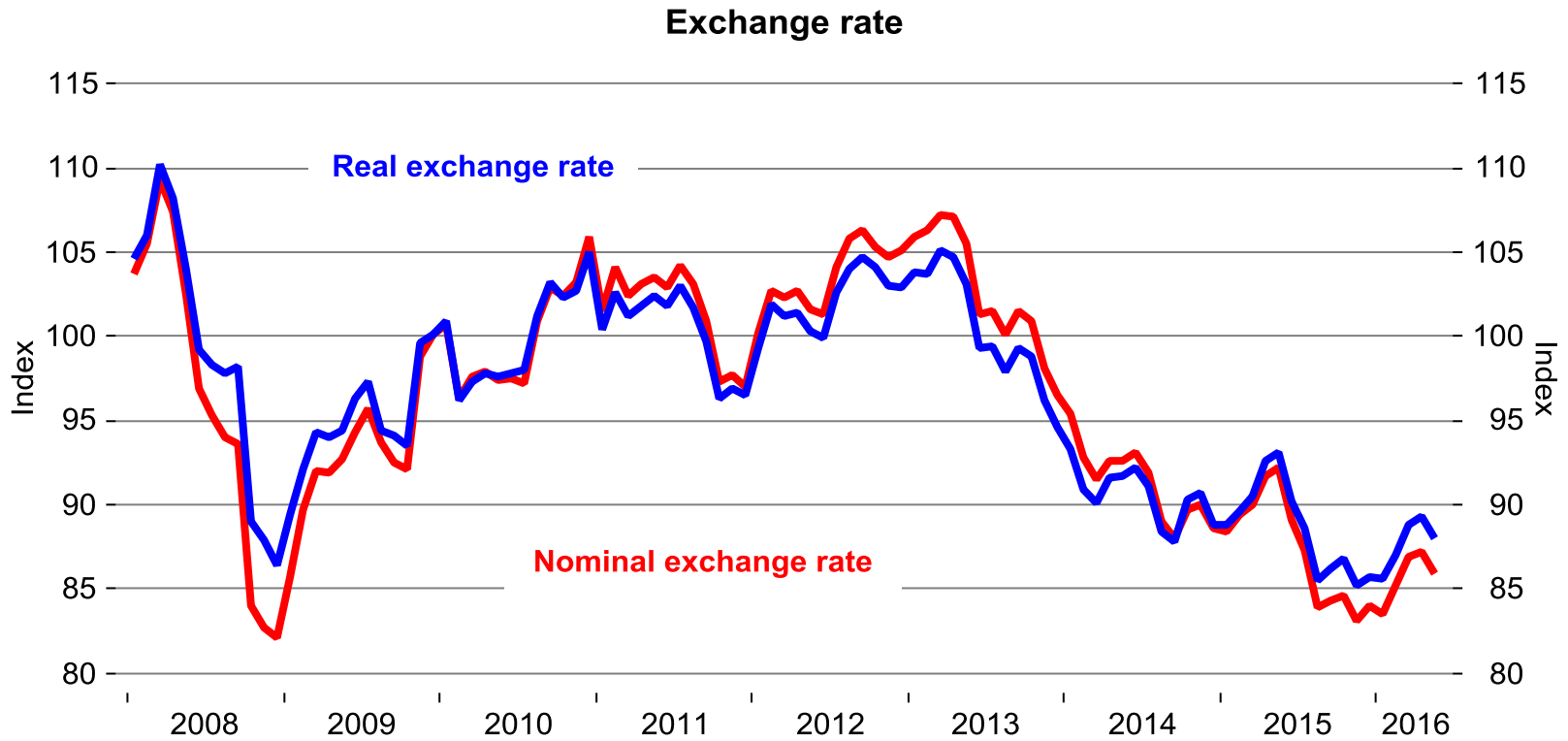


Import Components



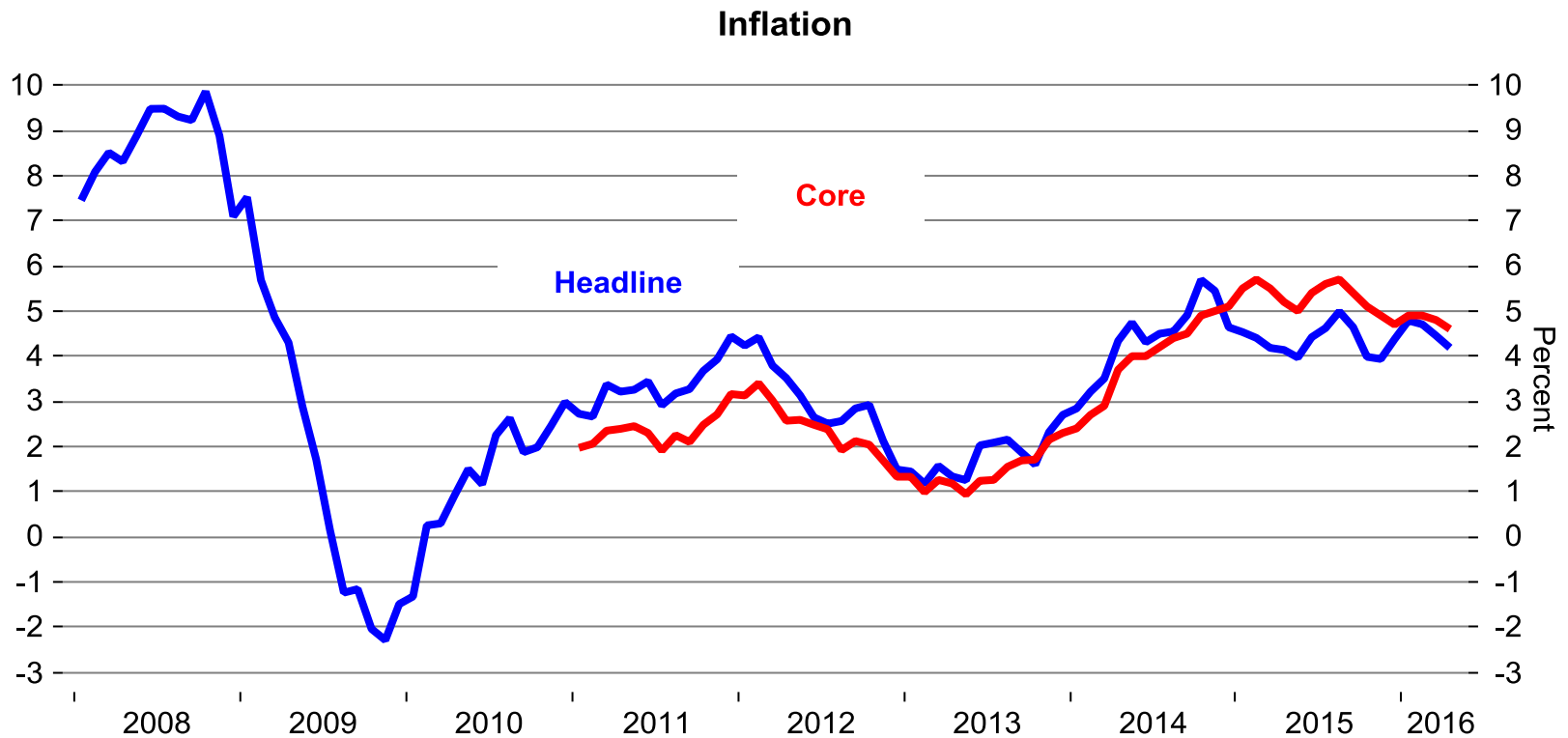
Source: **Macrobond**

Exchange Rate



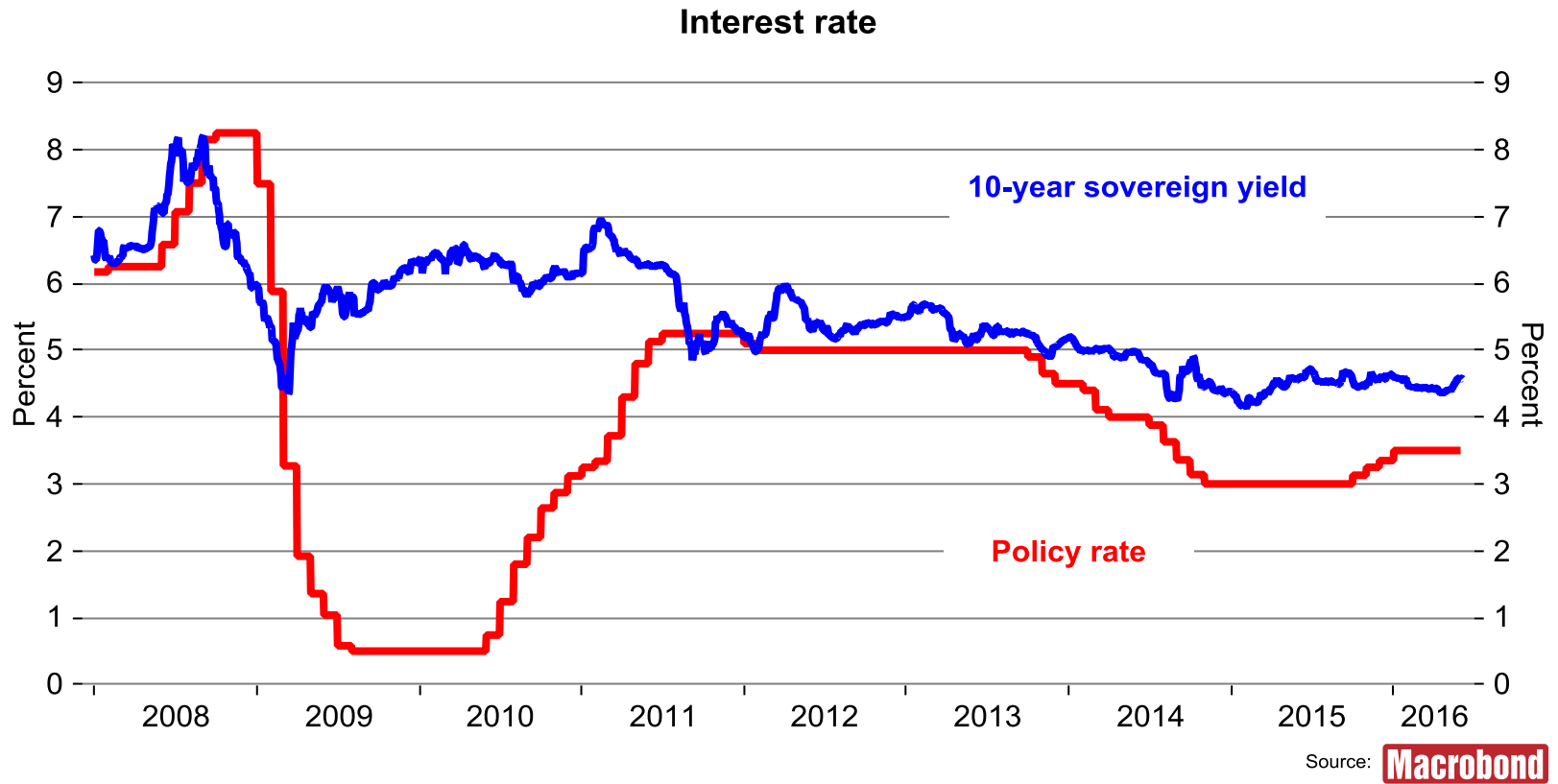
Source: **Macrobond**

Consumer Prices

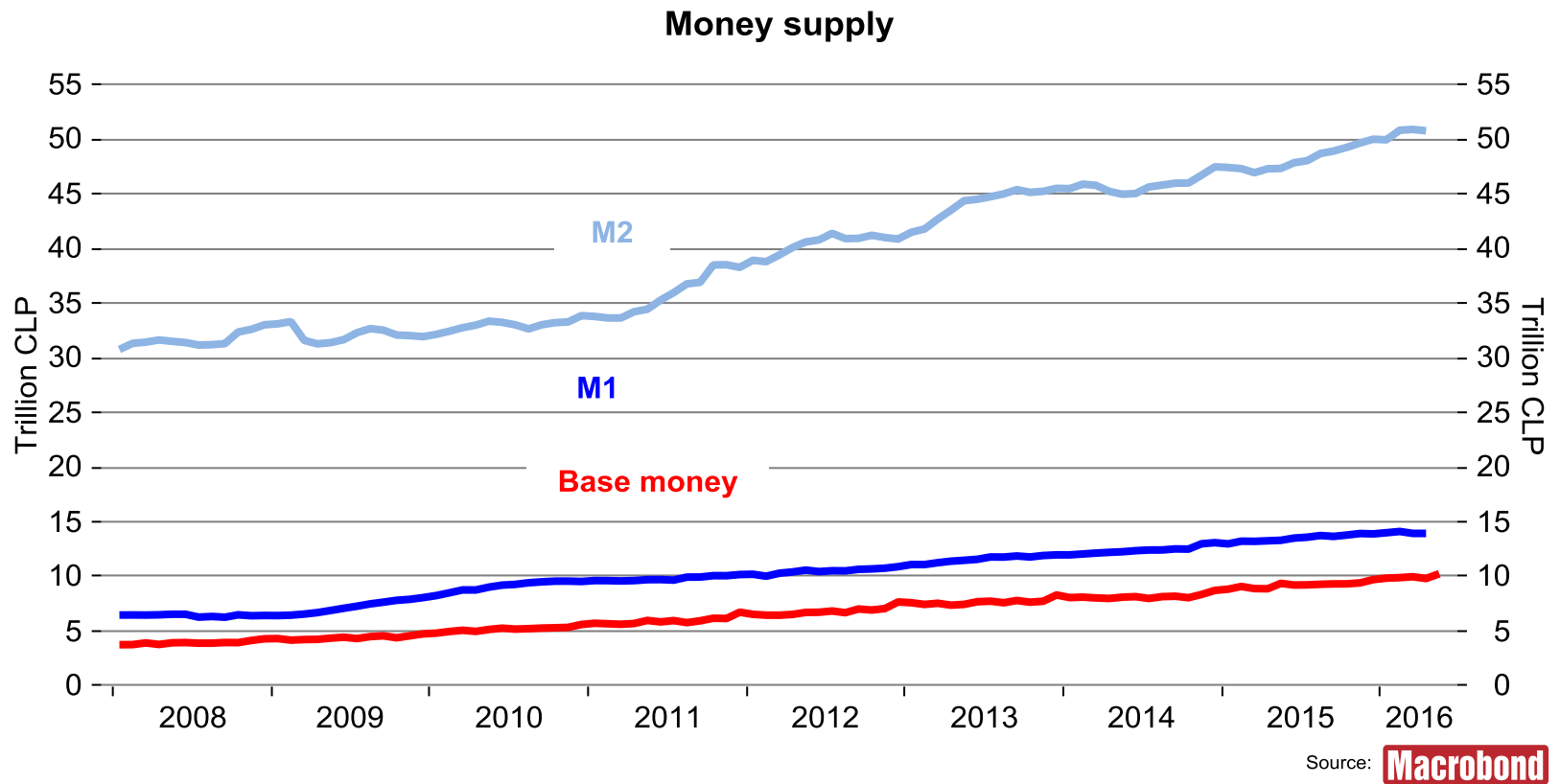


Source: **Macrobond**

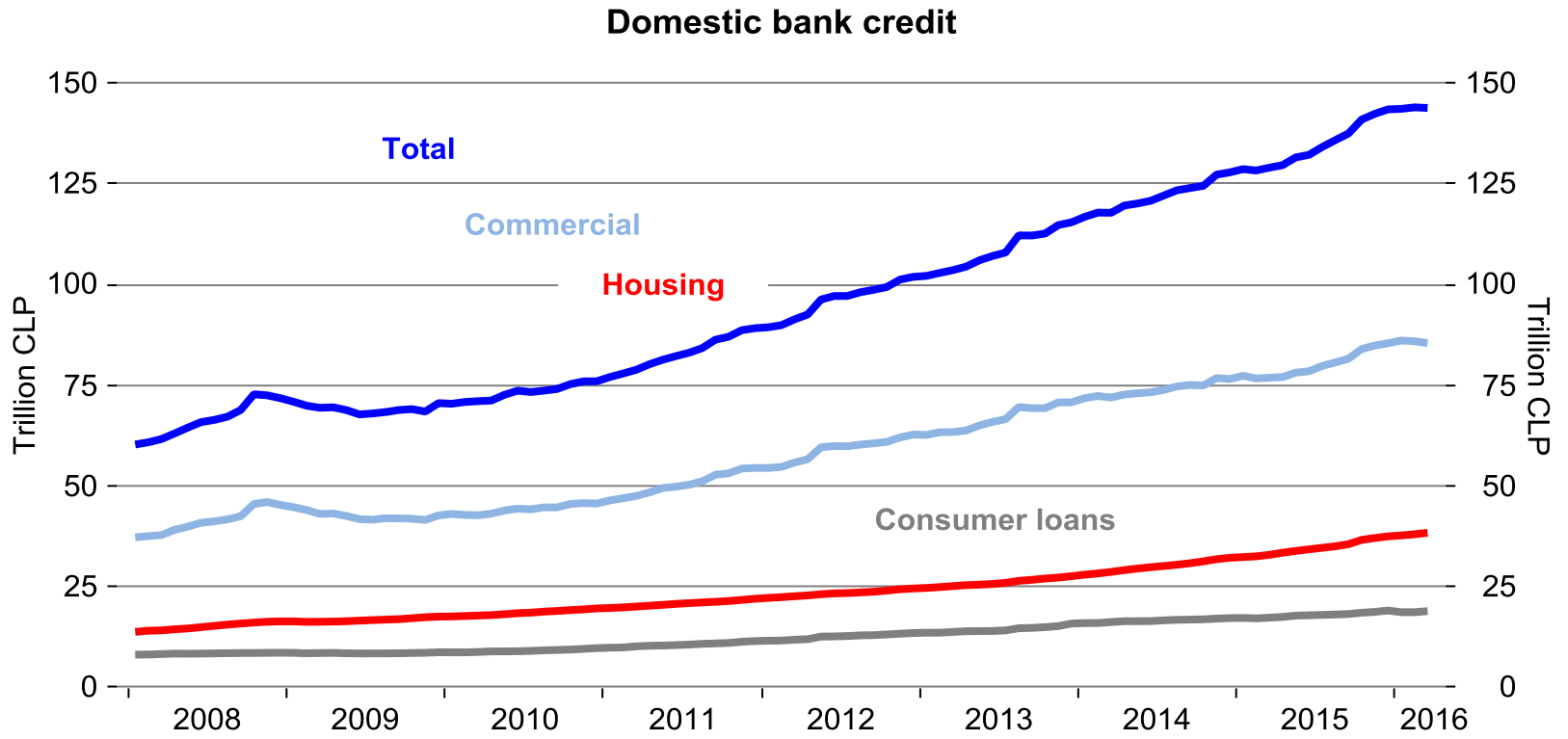
Interest Rates



Money Supply



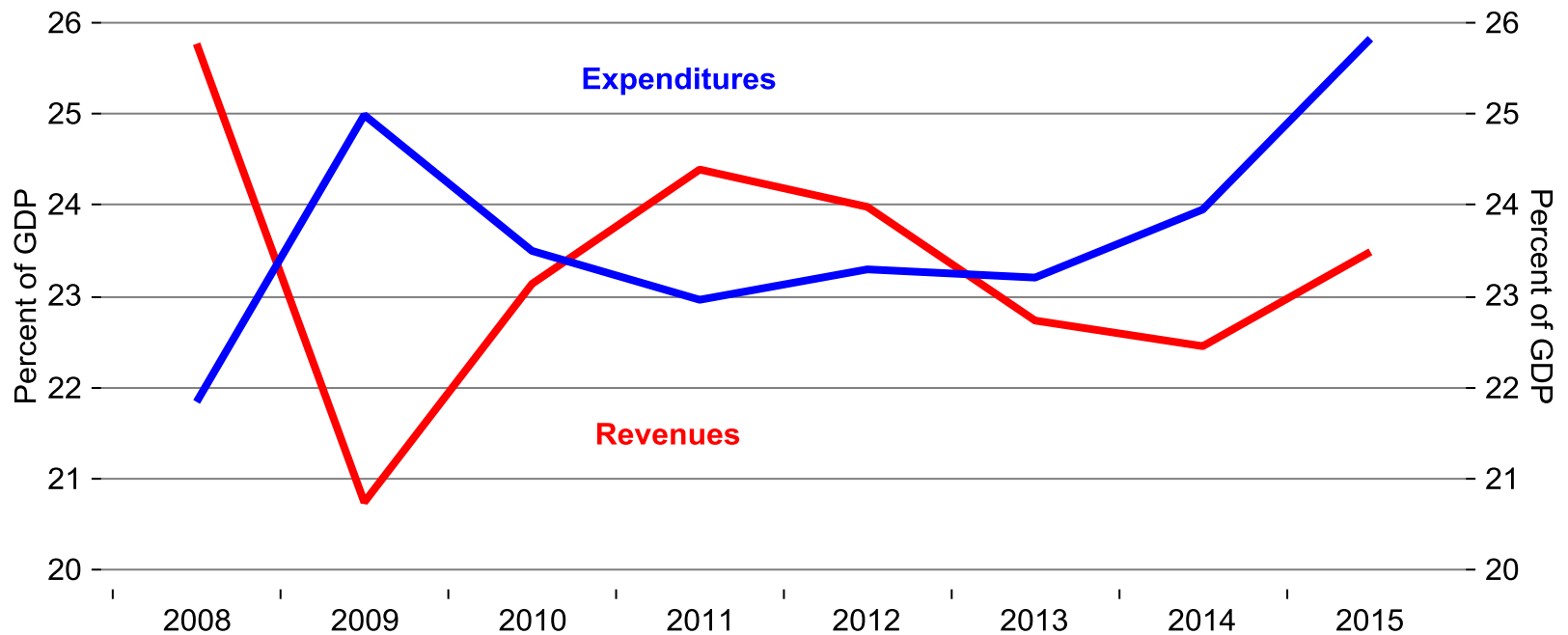
Bank Credit



Source: **Macrobond**

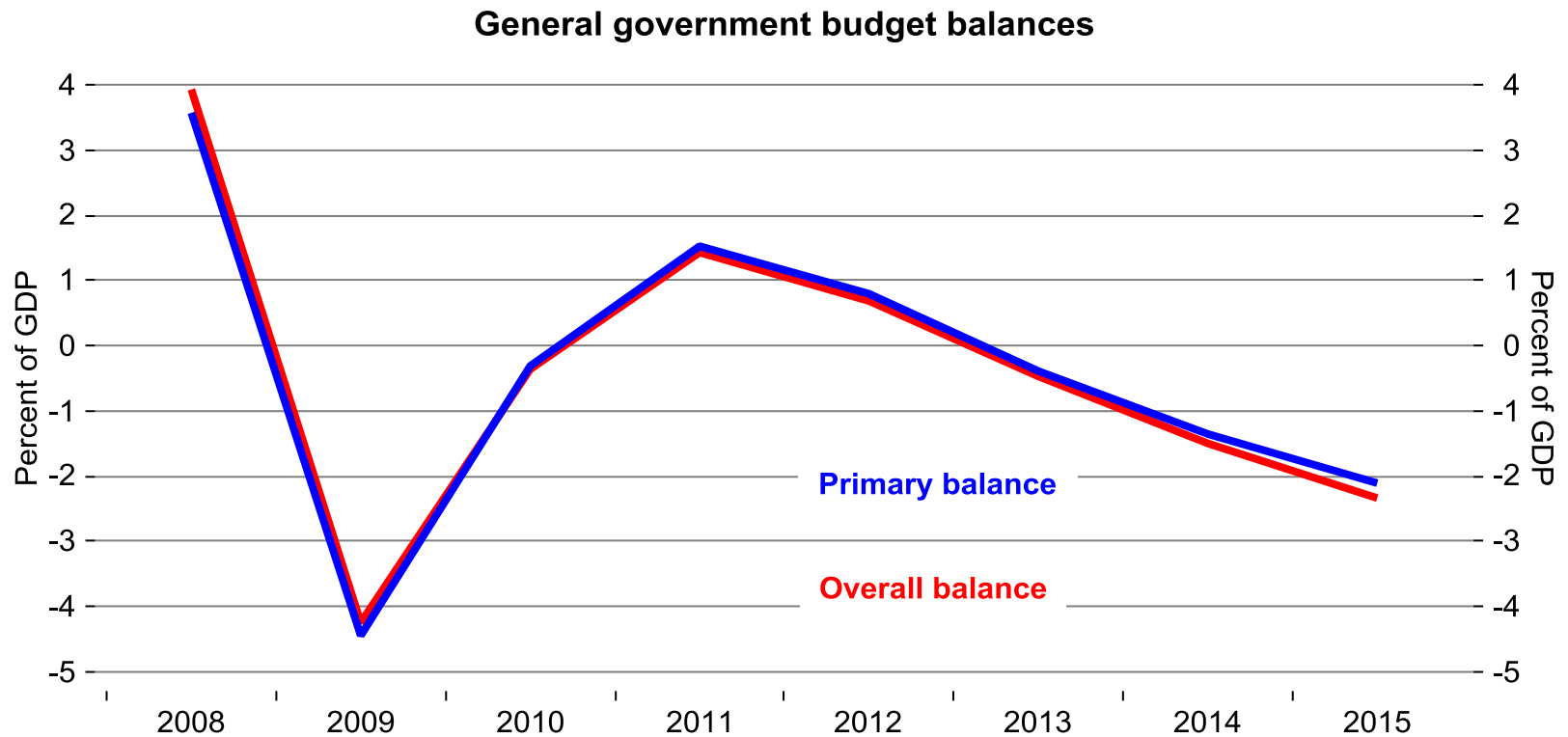
Government Income and Spending

General government revenues and expenditures



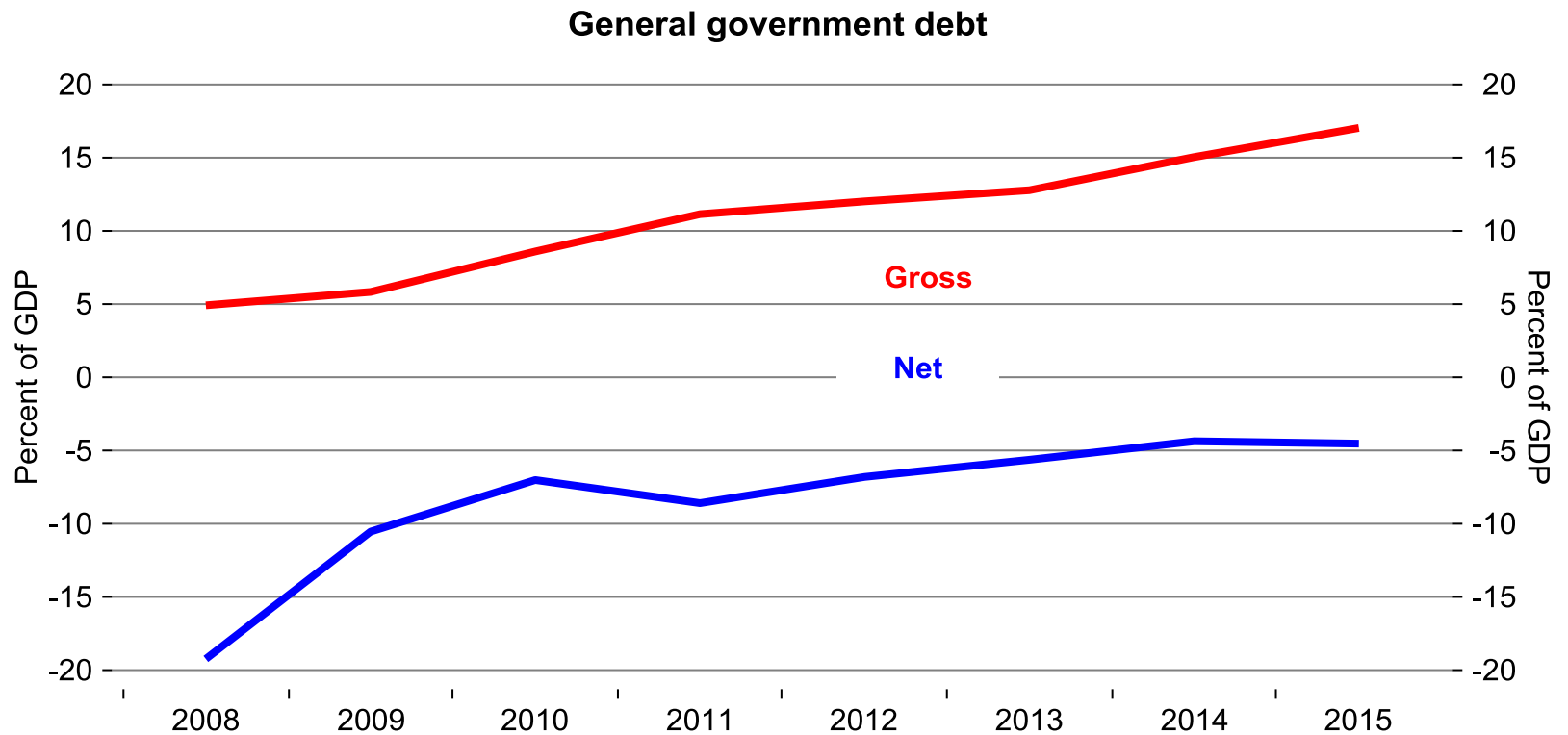
Source: **Macrobond**

Public Budget Balances



Source: **Macrobond**

Public Debt



Source: **Macrobond**

For more information please see:

[SKAGEN Tellus A on our web pages](#)

[SKAGEN's Market report](#)

[Latest comments by Torgeir Høyen](#)

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.

SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct, however, makes reservations regarding possible errors and omissions. statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice.

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