

Southern Europe continues to deliver

SKAGEN Tellus delivered strong relative performance in the third quarter, mainly due to the fund's underweight in USD and JPY, both of which depreciated by around 3.5% relative to EUR in the quarter. Tellus is currently not invested in any JPY denominated bonds, while the index' JPY weight is 18.5%. The fund has a 15% position in USD while the index' USD weight is 38%.

The duration in Tellus is currently 4.5 years, which is substantially lower than the index's duration of 7.8 years. We only take interest rate risk in countries where there is still a solid case for a fall in the interest rate and/or the yield is very attractive.

The long-term yields in the large advanced economies were stable at the end of Q3 compared to the end of Q2. However, there was intra quarter volatility. The increased tension between North Korea and the US led to periods of flight to safety and a fall in the long-term yields in Germany and the US, amongst others.

Growth in the advanced economies is solid and it is picking up in emerging markets. The Fed is tightening monetary policy and the ECB is talking about it. In several emerging markets, inflation spiked after a drop in commodity prices led to a sharp depreciation of the exchange rate. The depreciation effects on inflation are now fading and inflation rates in many

emerging markets are falling, which leaves room for the central banks to cut policy rates.

Emerging markets still interesting

In the current interest environment where the credit spreads are low and the most likely direction for long-term interest rate is up, it is very important to be a "picky investor". Care needs to be taken when deciding which countries to invest in and how much duration risk to take.

During the quarter we added to the position in the Dominican Republic by buying a USD-denominated bond. We also increased the duration in India by buying a bond issued by the Asian Development Bank maturing in 2026. We believe the fall in inflation will lead to lower inflation expectations and a fall in long-term yields going forward.

We also added a new country to the portfolio, namely Uruguay. We find long-term yields in Uruguay very attractive, in particular given its strong credit metrics. Growth has been relatively resilient to the recessions in Brazil and Argentina and the authorities have demonstrated a clear commitment to putting the public finances on a sustainable track. Moreover, local currency bonds in Uruguay have only recently become available. Uruguay is in the process of opening up to international investors and developing a local yield curve.



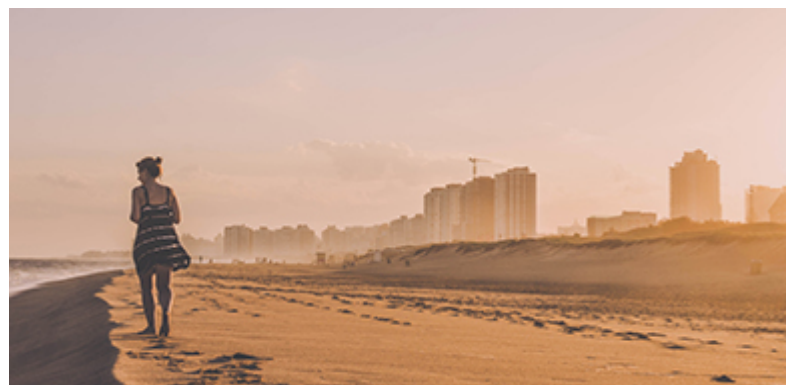
We increased the duration in India by buying a bond issued by the Asian Development Bank maturing in 2026. Photo: Bloomberg

Portugal upgraded

Yields fell on most of the bonds in the portfolio, but the best performers were Portugal and Croatia.

Portugal has been a very strong performer in 2017. Solid growth and responsible fiscal policy have led to a revaluation of the Portuguese country risk. The spread between the Portuguese and German 10 year bond yields has decreased by 160 basis points since the beginning of the year and 65 basis points in the last quarter. Moreover, S&P upgraded Portugal to investment grade in September. This is very positive for the investment and eliminated the risk of Portugal being excluded from the ECB QE program (a country needs to have an investment grade rating from at least one rating agency to be included in the program).

After very strong performance in both 2016 and 2017, we decided to take profit and reduce the position Croatia in Q3. We also reduced the position because of what we view as increased country risk. The problems in Agrokor, Croatia's largest company (60 000 jobs, 15% GDP) pose a risk to the country's fiscal situation. Agrokor, which is a privately owned company within retail and food, is facing significant financial difficulties and is now under state control. The risk is that the crisis will escalate and lead to a need for a government rescue.



We find long-term yields in Uruguay very attractive, in particular given its strong credit metrics. Photo: Bloomberg

Performance depressed by currencies

The depreciation of the USD relative to the EUR was negative for our dollar-denominated investments and put a drag on the absolute performance in the third quarter. The dollar depreciated by 3.4% in Q3. Most of our emerging market investments also suffered from weaker currencies versus the EUR.

Our investments in Norway, Canada and Chile benefited from currency appreciation relative to EUR. Higher commodity prices were supportive of these currencies. Furthermore, two rate hikes by Bank of Canada contributed to a stronger Canadian dollar.

Brexit-related risk has led to a weaker pound in 2016 and to a fall in the value of our UK bonds. In September this turned and we saw a sharp appreciation of GBP after hawkish statements by the Bank of England. They stated that the market consistently underestimates the likelihood of a rate increase. The GBP ended the quarter 0.5% weaker relative to EUR.

SKAGEN Tellus invests primarily in bonds and certificates issued or guaranteed by governments from around the world.

The fund is suitable for those with at least a three year investment horizon. Investors must be able to tolerate currency fluctuations.

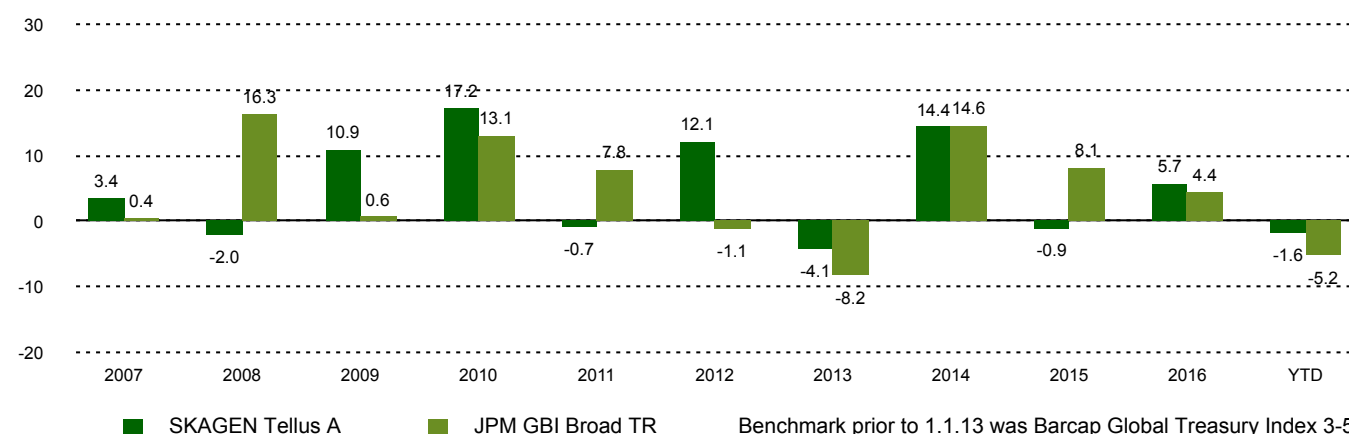
Historical performance (net of fees)

Period	SKAGEN Tellus A	Benchmark index
Last Month	0.4%	-0.5%
Quarter to date	-0.3%	-1.8%
Year to date	-1.6%	-5.2%
Last year	0.1%	-7.4%
Last 3 years	1.8%	3.4%
Last 5 years	2.7%	1.5%
Last 10 years	4.6%	4.8%
Since start	4.8%	4.1%

Fund Facts

Type	Fixed income
Domicile	Norway
Launch date	29.09.2006
Morningstar category	Global Bond - EUR Biased
ISIN	NO0010327786
NAV	12.63 EUR
Fixed management fee	0.80%
Benchmark index	JPM GBI Broad TR
AUM (mill.)	95.73 EUR
Duration	4.45
WAL	5.97
Yield	3.10%
Number of holdings	15
Lead manager	Jane Tvedt

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Portugese Government	7.70	0.36
Croatia	7.02	0.31
Norwegian Government	10.52	0.18
Republic of Chile	6.48	0.10
Republic of Slovenia	5.02	0.08



Largest detractors

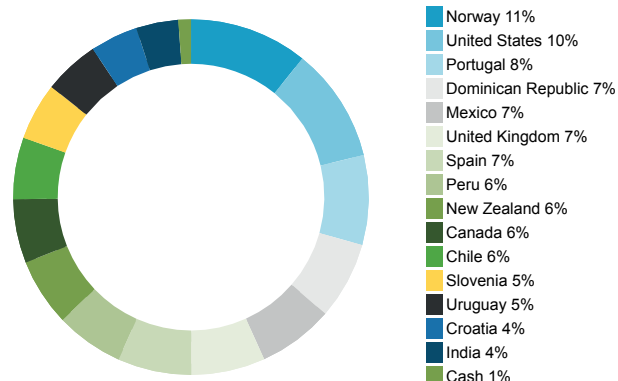
Holding	Weight (%)	Contribution (%)
US Government	12.26	-0.40
Mexican Government	6.78	-0.28
UK Government	9.76	-0.24
New Zealand Government	6.05	-0.22
Asian Development Bank	1.63	-0.09

Absolute contribution based on NOK returns at fund level

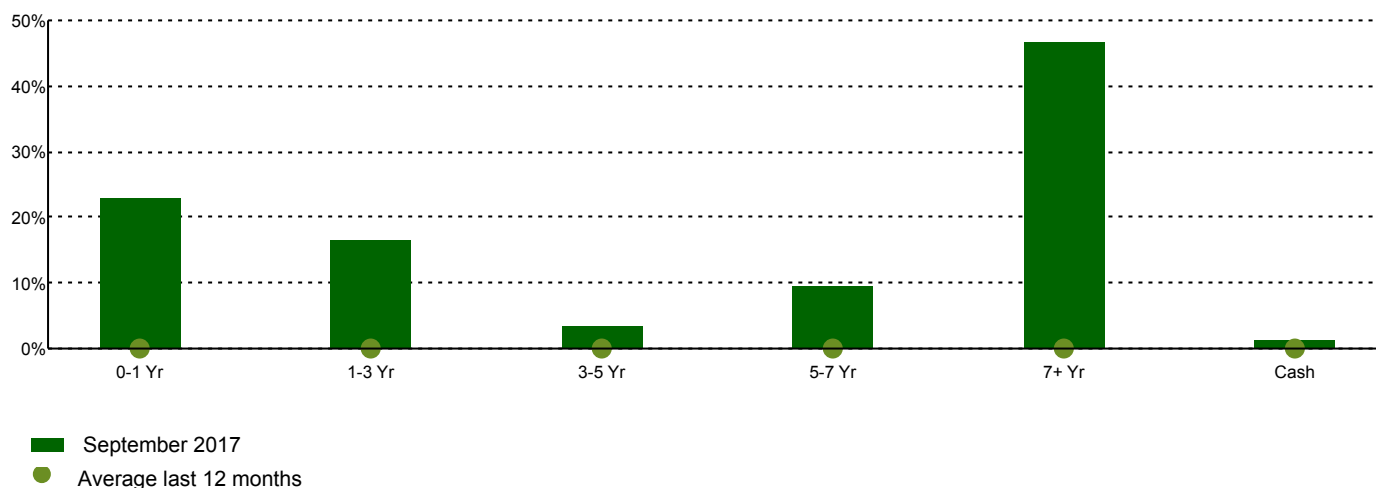
Top 10 investments

Holding	Percentage of Fund
Norwegian Government	10.8
US Treasury N/B	10.4
Portugese Government	8.2
Dominican Republic	7.0
Mexican Government	6.9
UK Government	6.7
Spanish Government	6.7
REPUBLIC OF PERU	6.2
NEW ZEALAND GOVERNMENT	6.1
Canadian Government	5.8
Total	74.8

Country exposure



Maturity structure



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Important information

Unless otherwise stated, performance data 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 skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can find more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or branch office. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.

