SKAGEN Kon-Tiki

Status Report - January 2017

The art of common sense

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Summary – January 2017

- SKAGEN Kon-Tiki* was up 4.4% in January measured in EUR, outperforming the MSCI Emerging Markets Index which was up 3.5%. Emerging markets handsomely outperformed developed markets, which were up 0.4% in January.

- Our top three contributors in January were Brazilian bank Banrisul, South Korean electronics company Samsung Electronics, and Brazilian railroad operator Rumo. Banrisul rose on speculation of a possible privatisation of the regional government's 57% stake. In the event of a sale, minority shareholders have full tag-along rights. Samsung's shares continued their upward trajectory as the company reported solid fourth quarter results, an encouraging outlook and an increase in share buybacks. As for Rumo, the strong crop planting season (which drives demand for grain transportation) seen in Brazil has contributed to positive sentiment.

- The major detractors for the month were South Korean auto manufacturer Hyundai Motor, Indian IT services company Tech Mahindra and our Hungarian pharmaceutical company Richter Gedeon. Hyundai reported weak Q416 numbers, with operating profit down 33% YoY as operating margins fell to 4.2%. Going forward we see potential for operational improvements and higher returns to shareholders in the form of dividends or share buybacks. Tech Mahindra reported decent results on 30 January (organic growth of 8% YoY), but its share price has been weighed down by concerns over changes in US visa rules. As for Richter, there was no particular news during January.

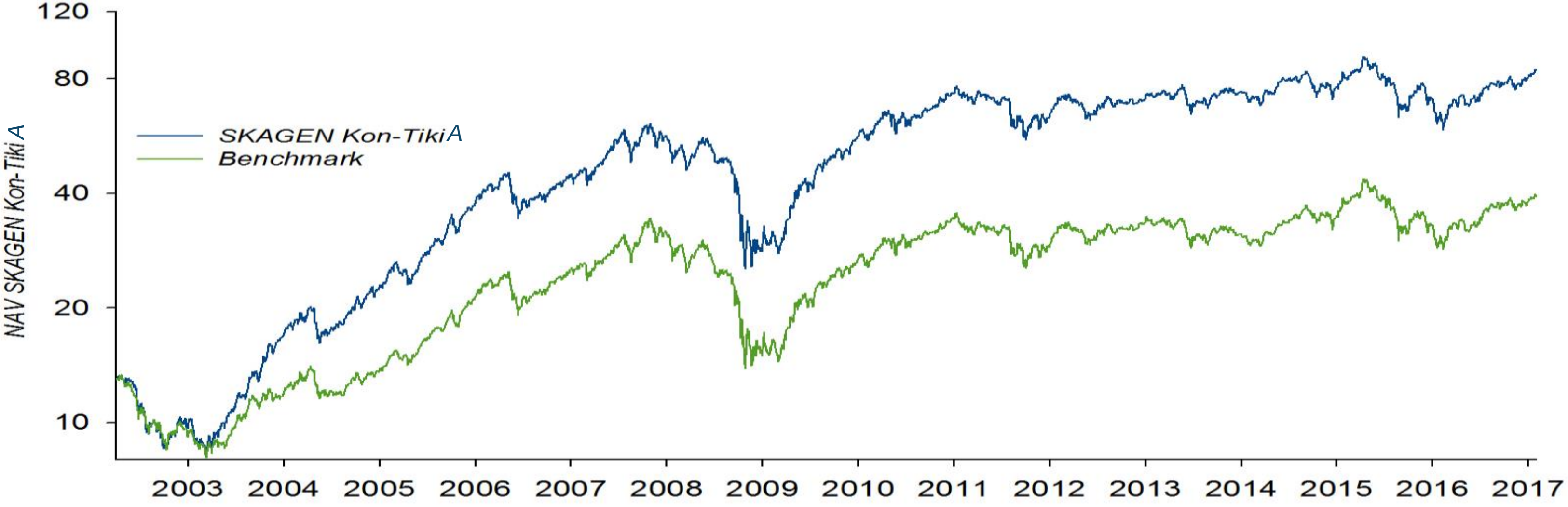
- Emerging markets continue to trade at a discount to developed markets, with a 2017e P/E of 12x and P/B of 1.4x for EM, compared with 17x and 2.2x for DM.

- The top 12 positions account for 51% of the fund (up from 45% at the beginning of 2015). The portfolio** remains attractively valued at a 2017e P/E of 9.2x and P/B of 1.0x. We currently see a 38% upside for our portfolio over a two-year horizon.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*
*** Portfolio valuation refers to top 35 positions.*

SKAGEN Kon-Tiki A results, January 2017

EUR, net of fees

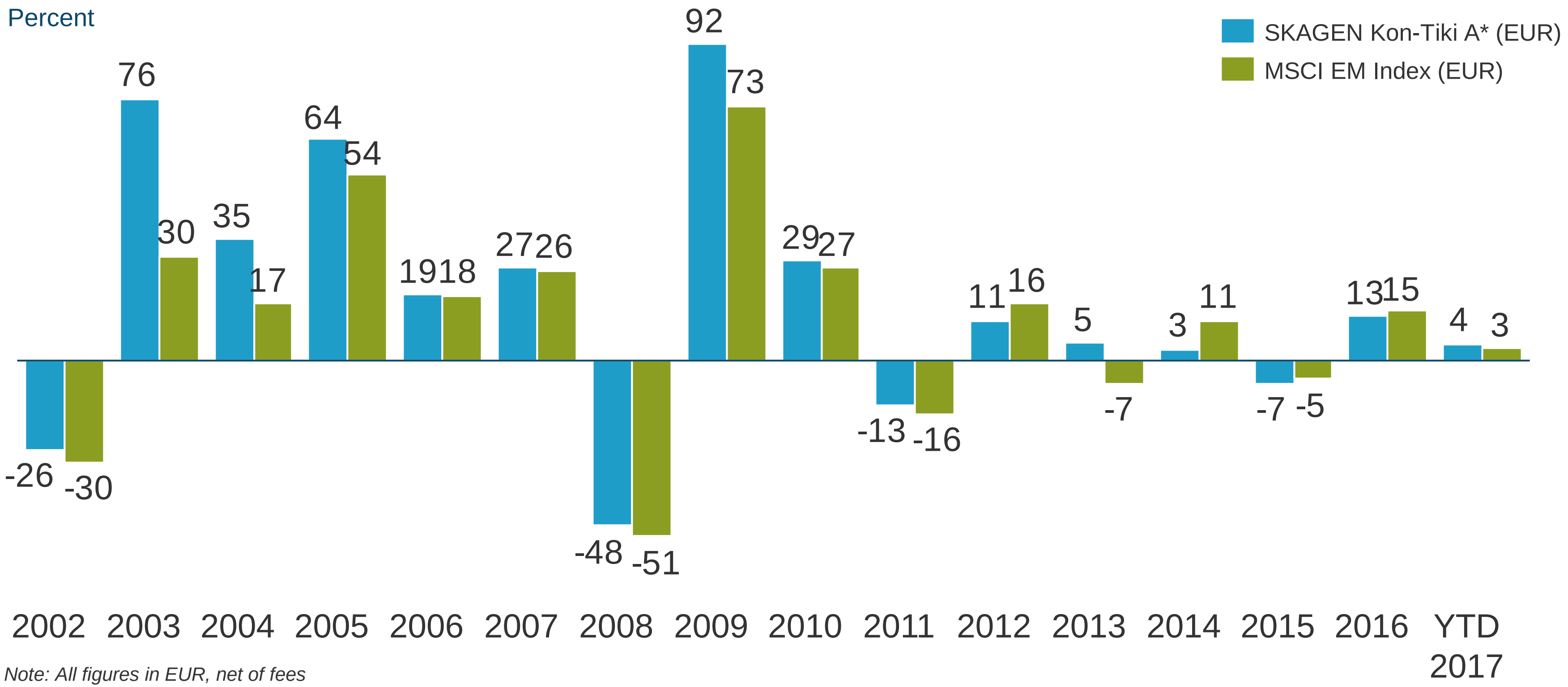


	January	2016	1 year	3 years	5 years	10 years	Since inception
SKAGEN Kon-Tiki A	4,4%	12,9%	28,5%	5,8%	3,9%	6,5%	13,4%
MSCI EM Index	3,5%	14,6%	26,8%	9,6%	4,3%	4,5%	7,7%
Excess return	0,9%	-1,7%	1,7%	-3,8%	-0,3%	2,0%	5,7%

Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 5 April 2002*

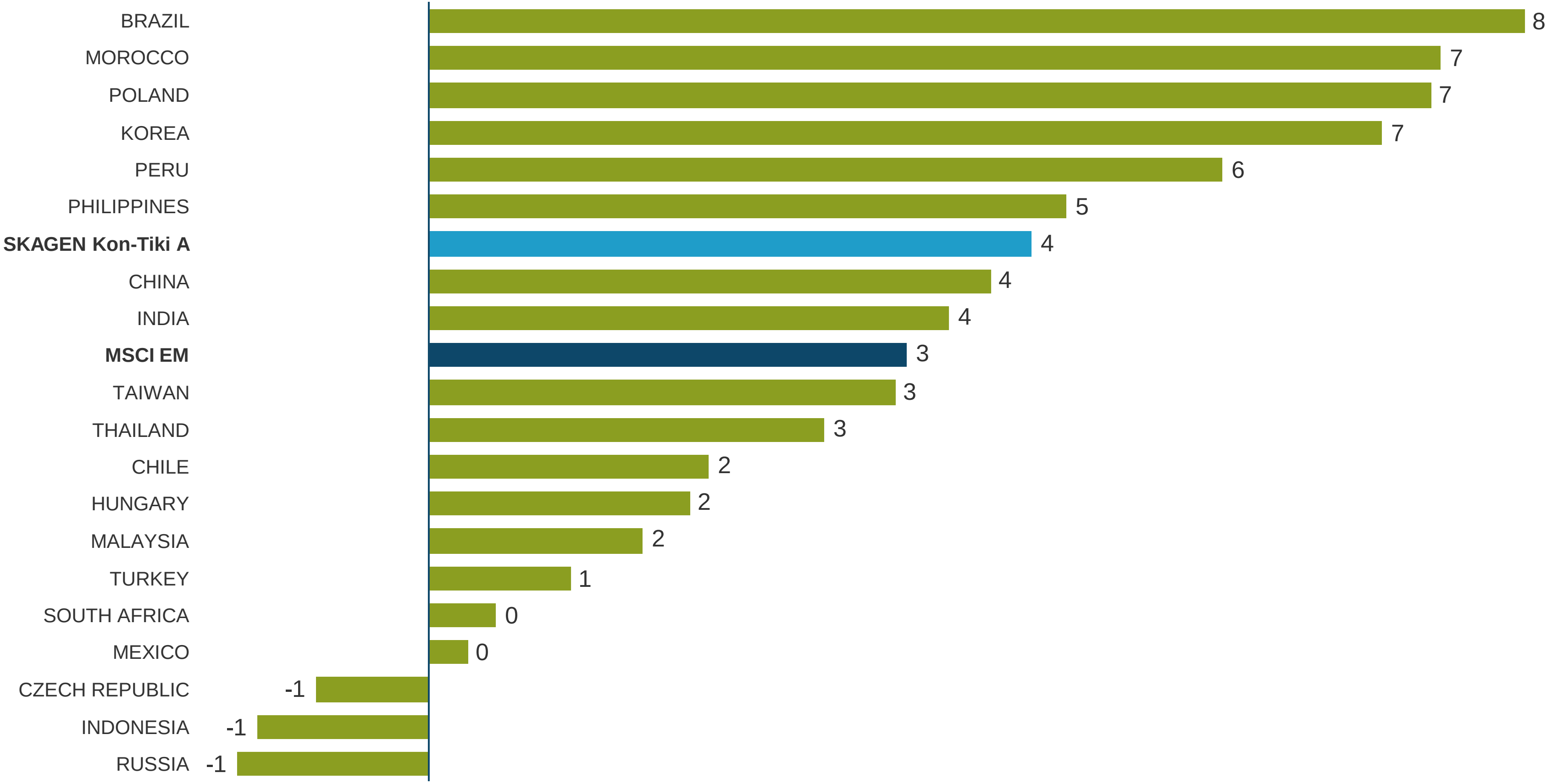
Annual performance since inception*

SKAGEN Kon-Tiki A has beaten the index in 11 out of 15 years



Note: All figures in EUR, net of fees
** Inception date: 5 April 2002*

Emerging markets in January 2017, EUR (%)



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Main contributors and detractors - January 2017

Largest contributors

Company	NOK Millions
Banrisul	350
Samsung Electronics	202
Rumo Logistica Operadora	77
Naspers	50
Bharti Airtel	46
Cosan	43
SBI Holdings	40
ABB	37
Cia Brasileira de Distribuicao	32
Samsung SDI	32

Largest detractors

Company	NOK Millions
Hyundai Motor	-66
Tech Mahindra	-62
Richter Gedeon	-32
Haci Omer Sabanci Holding	-32
Tullow Oil	-26
East African Breweries	-24
Kiatnakin Bank	-20
Korean Reinsurance Co	-19
Apollo Tyres Ltd	-18
EFG-Hermes Holding	-18

Value Creation YTD (NOK MM): 667

NB: Contribution to absolute return

Most important changes SKAGEN Kon-Tiki - Q1 to date 2017

Holdings bought

Q1

- Bangkok Bank (New)
- East African Breweries

Holdings sold

Q1

- China Shipping Development (Out)
- Euronav (Out)
- Frontline (Out)
- ABB
- Richter Gedeon
- Samsung Electronics
- X5 Retail Group
- Hyundai Motor

Holdings increased and decreased - January 2017

Key buys

- **Bangkok Bank (New)**: We see good risk/reward as the company is priced at a price-to-book ratio of 0.8x (close to the lows of the 2008/09 financial crisis). With limited downside, any improvement in loan growth and credit quality should provide good upside for the shares.

- **East African Breweries**: We believe short-term headwinds and macro uncertainty in Kenya have led to a valuation that underestimates EABL’s sustainable competitive advantage in an attractive market.

Key sells

- **China Shipping Development (Out)**
- **Euronav (Out)**
- **Frontline (Out):**
- We sold out of these three shipping companies as we currently see better risk/reward opportunities elsewhere.

- **ABB:** We continued to reduce the position as it approached our target price

- **Richter Gedeon:** We trimmed the position on strength.

- **Samsung Electronics:** We trimmed the position as it approached our target price.

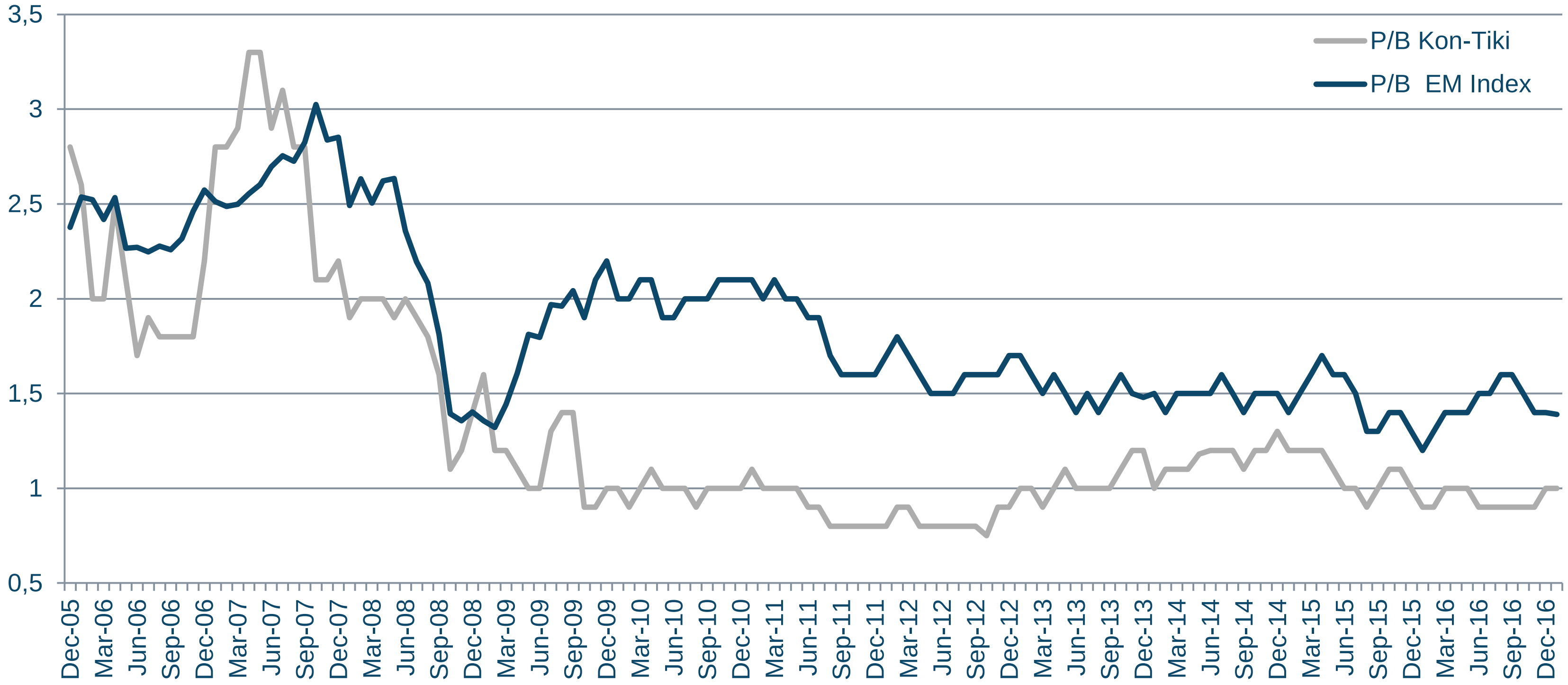
Largest holdings in SKAGEN Kon-Tiki

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Samsung Electronics	7.4	1 571 000	9.8	6.3	1.1	1.3	1 900 000	21
Hyundai Motor	7.1	93 100	4.4	3.7	0.3	4.4	170 000	83
Naspers	4.7	155	34.6	23.9	6.0	0.3	218	40
Mahindra & Mahindra	4.7	1 240	16.5	12.4	2.6	1.0	2 000	61
Sabanci Holding	4.2	10.0	6.9	6.2	0.9	1.5	14	40
X5 Retail Group	3.9	2 055	19.8	15.8	4.5	0.0	2 391	16
Richter Gedeon	3.8	6 195	20.7	17.0	1.8	1.2	7 500	21
Cosan Ltd.	3.7	25.5	8.5	7.3	1.1	1.4	33	28
Banrisul	3.5	15.5	9.6	7.8	1.0	5.3	18	16
State Bank of India	3.0	260	16.3	11.8	0.9	1.0	300	15
SBI Holdings	3.0	1 564	11.2	10.4	0.9	2.9	2 500	60
Kinnevik	2.5	225	45.1	37.6	0.8	3.4	312	38
Weighted top 12	**51.3**		**10.1**	**8.1**	**1.0**	**1.8**		**39**
Weighted top 35	**84.6**		**12.2**	**9.2**	**1.0**	**1.9**		**38**
Emerging market index			**13.4**	**12.0**	**1.4**	**2.9**		
Top 35 @ price target			**15.9**	**13.3**	**1.5**	**1.3**		

As of 31 January 2017

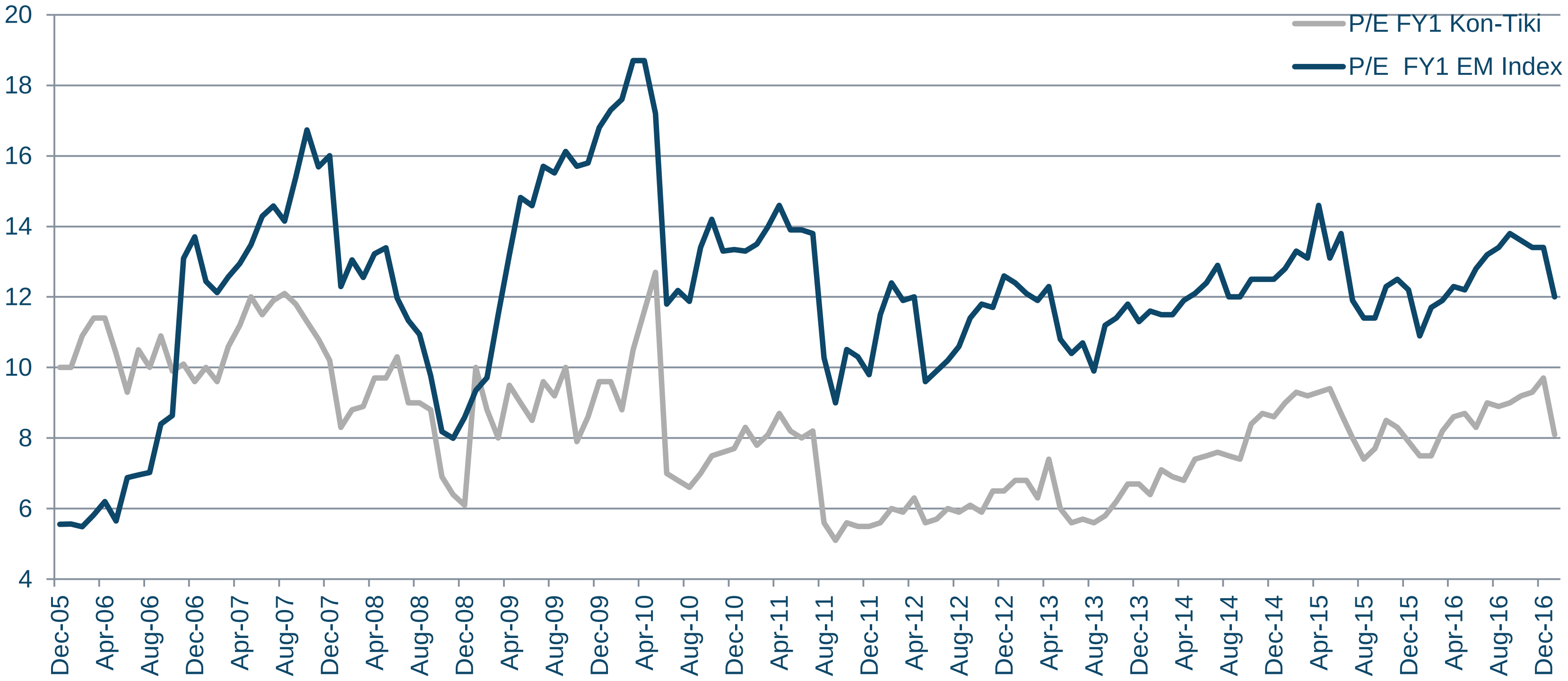
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reporting currency for Naspers, X5 and Cosan.

P/BV for SKAGEN Kon-Tiki versus emerging markets



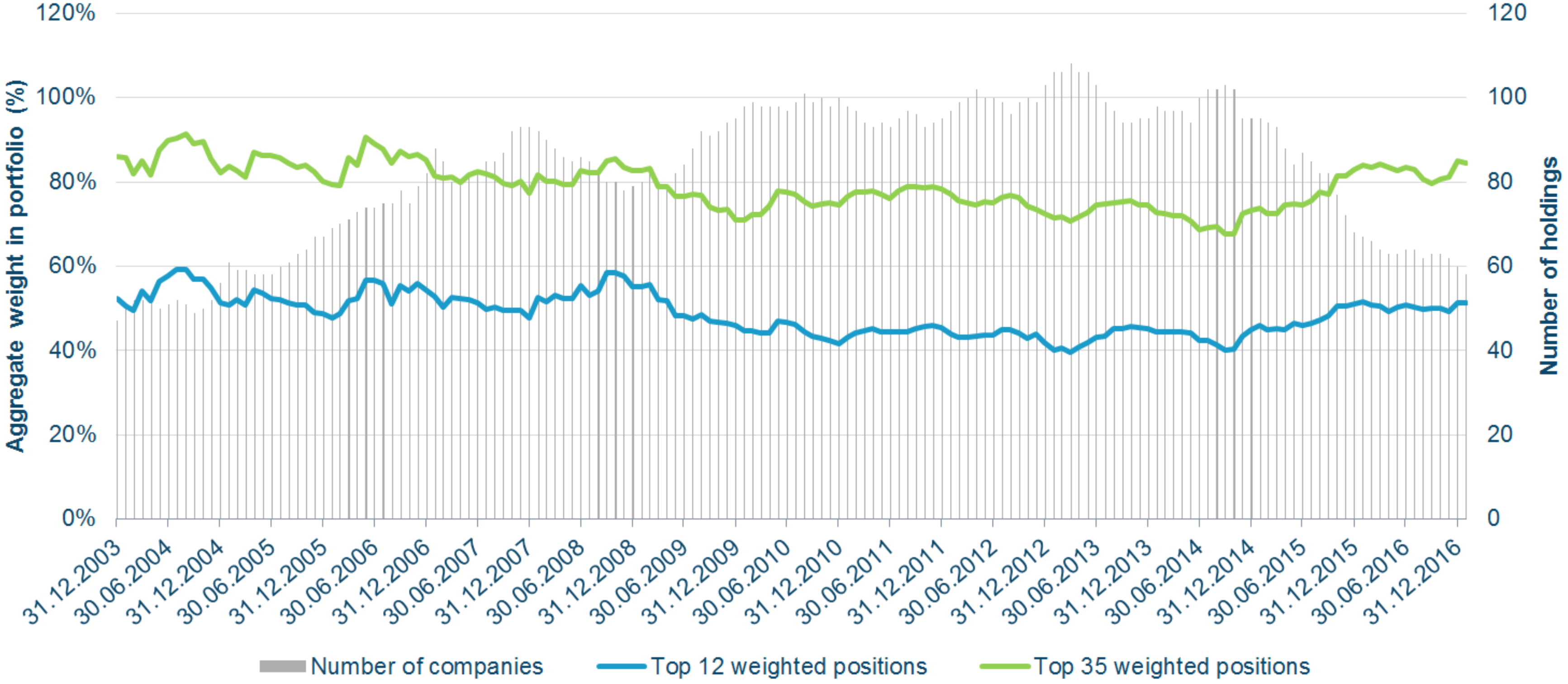
Top 12 positions as of 31 January 2017

P/E for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 January, 2017

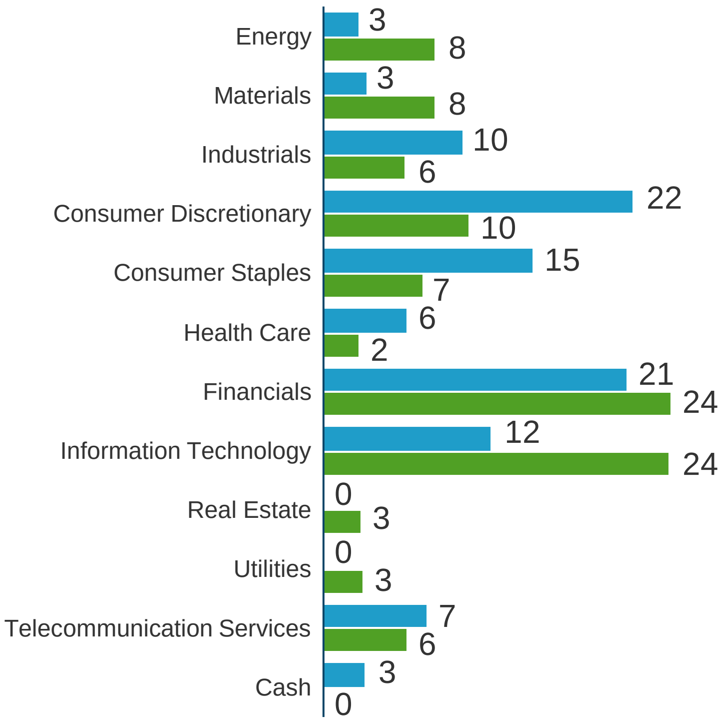
SKAGEN Kon-Tiki portfolio concentration



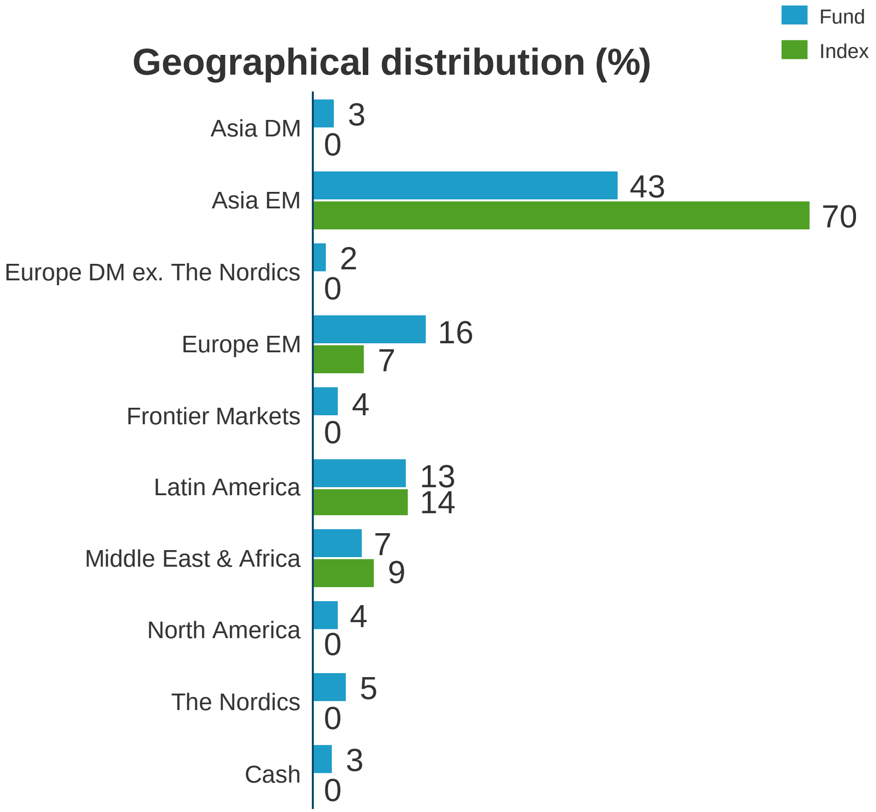
Source: SKAGEN AS as of 31 January 2017

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution (%)



Geographical distribution (%)



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Key earnings releases and corporate news - January 2017

Hyundai Motor (7.1% weight)

4Q16 results:

Implications for the investment case: While headline numbers looked weak, we think bad will turn better very soon. Early this month, HMC announced what we saw as an ambitious volume growth guidance of +5% YoY for 2017. Management does not see the target as overoptimistic, but rather sees upside to sales targets for most markets. They explained this positive stance by support from introduction of new models and demand recovery in important EMs (recall that Hyundai's sales are geared towards emerging markets). A contained global inventory level is also helpful. We expect margins to improve in 2017 driven by better utilisation, FX and new models. Implied valuation of P/E 1x for the auto business is incredibly cheap. While governance has improved, we find progress too slow and hope the board listens to investors' suggestions regarding a share buy-back.

Summary: Q416 operating profit of KRW 1,021bn declined 33% YoY and 4% QoQ despite revenues +11% QoQ. Thus, operating margin of 4.2% fell 60bp QoQ and 190bp YoY to the lowest we have seen since we invested in May 2009. So why is the margin falling when revenues are up? The clue to this lies in accounting. Vehicles sold in Q4 were mainly produced in Q3, when the company had low utilisation and thus high unit cost per vehicle due to production loss from the strike at Korean plants. Another element is warranty costs. The KRW weakened by 10% versus the USD during Q416 (has since appreciated 3%). A higher USD is a long-term positive to earnings, but a headwind short term as the company will have to raise its warranty provisions in KRW. Finally, profit from its US financing subsidiary has been under pressure due to competition and pressure on residual value from lease fleet and auto financing. Management states that they now see that bottoming out, although do not expect any near term recovery. Net cash in auto operation is KRW 14.4tr (KRW 53.6k per share) despite a CAPEX heavy Q416. Global inventory, including dealers, is at 2.1 months or close to its lowest level since November 2014. Final dividend was flat at KRW 3,000 per share (KRW 4,000 including interim), which was somewhat disappointing and due to weaker-than-expected Q416 net profit. However, payout ratio is going in the right direction. FY16 ratio of 19% is up from 17% for FY15 and 11% for FY14.

Valuation: Core auto operation is valued at P/E of 1.2x for 2016, based on pref. share price adjusted for net cash and value of finance operation.

Key earnings releases and corporate news - January 2017 (cont.)

X5 Retail Group (3.9% weight)

Q416 results:

Implications for the investment case: Slightly positive. The numbers were in line with our expectations, but better than the market feared after competitor Magnit posted a weaker 9% sales growth (and negative LFLs). With the major competitor struggling with execution, 2017 looks promising for X5 as a retail turnaround usually takes longer than expected. After the recent share price strength, X5 is still not an expensive company in light of 20-25%/25-30% topline/earnings growth p.a. over the next few years. However the investment story is changing as expectations move higher and the hurdle for positive surprises increases.

Summary: X5 reported Q416 sales of RUB 291bn, up 27.5% YoY on the back of a 7.5% rise in LFL (with traffic +1.8% and basket +5.6%) and 20% sales growth contribution from a 29.1% increase in selling space. A slight deceleration in December (26.2% growth) is mostly explained by slowing inflation. In 2016 they refurbished 1185 discounters, including 219 in the last quarter, and 62 supermarkets. Together with new store openings, this means the share of stores operating under the new concept is 94% for discounters (70% a year ago) and 52% for supermarkets (25% a year ago). They also accelerated renovation of their hypermarkets, rejuvenating 5 in Q4, bringing the total number to 7 for the whole year. We are seeing positive signs that hypermarkets and supermarkets might be turning around as well, currently representing 25% of sales in the quarter. The story so far has only been about the discounters (31% sales growth in Q4), so a potential turnaround of these formats might be the next leg of the story.

X5 opened 576 discounters in Q416 and 2098 in FY16, which is a record for the company. The deceleration of LFLs in Q4 seems to be a sector-wide trend due to slowing food inflation, cold weather affecting the frequency of visits and pressure on sales densities from new openings. This is something we will track closely in the coming quarters, especially the sales density decrease (which could have the simple explanation of the changing geographical mix of stores with more openings in the regions, but we are increasingly focused on the risk of cannibalisation from high store growth).

Valuation: X5 still ranks as one of the cheapest grocery retailers in the EM universe with sector trading at a median 17e EV/EBITDA of close to 10x compared to X5 at 7x. Our 2 year forward price target (recently upgraded) of USD 39 (2017/18e EV/EBITDA of 8.5/6.9x and EV/Sales of 0.6/0.5x) implies a multiple contraction from the current level (9x EV/EBITDA and 0.7x EV/Sales) given the expected strong growth in the next few years.

Bangkok Bank (BBL TB), THB 165

Mean reversion	Special situation	Long term value builder
25%	10%	65%

History and description of business (numbers based on 9M16 unless otherwise stated)

Founded in 1944, Bangkok Bank is Thailand's clear market leader in corporate and SME banking and has the country's largest retail customer base. Loan split (Sept 16): Large corporates 41%, SME 31%, Consumer 13%, International 15%

- Loan by industry (Sept 16): Manufacturing 25%, Utilities and Services 21%, Commercial 16%, Housing 11%, Real Estate & Construction 9%, Agri and mining 2%, others 16%

Solid and conservatively run with a strong balance sheet means they can grow without funding limitations:

- Liabilities: 84% deposits, 16% others. Loan to deposit ratio of 90.3% compared to Thai banks of 97%.
- NPL ratio of 3.4% (THB 73bn) with 160% provision coverage (highest in the industry) and 6.1% LLR/loans
- Solid capital base with 17.3% tier 1 ratio and 19.2% total capital adequacy ratio. 7.8x assets/equity (2015).
- Income breakdown: 61% net interest income, 23% fee income and 16% other income. NIM of 2.33% (up 22bps YoY)
- Cost/income of 47.8% (up due to provisions for contingencies, back to 44.9% in Q3). Opex breakdown: personnel 51%, premises & equipment 20%, tax & duties 7%, other 22%.
- ROA of 1.1% and ROE of 8.5%

Why opportunity exists / investment rationale

Bangkok Bank is the most cyclically exposed bank stock in Thailand (72% of loans to corporates/SME). Due to lacklustre credit growth and asset quality deterioration, they have recently seen a PB derating. Going forward, we believe NPLs and credit costs will peak this year. Further, Bangkok Bank should be one of the primary beneficiaries of the significant infrastructure investment projects in Thailand, as they are now entering a new investment cycle that will revive demand for corporate loans.

Risks

*Consensus too high? *Prolonged political unrest *Higher than expected NPL formation rate *Failure to control costs in periods of challenging revenue outlook *Fee pressure from ePayment Master Plan

Target price: THB 225 gives 45% upside and is based on 2018e 0.9x P/B plus dividends of THB 18 over 2 years. It used to trade at 1.2x in 2010-2013, but ROE has declined from 13%. The Thai banking sector is at 1.1x P/B.

Key figures:

Market cap	THB	311bn
	USD	8.6bn
Tier 1		16.9%
CAR		18.8%
P/E FY17e		8.9x
P/E FY18e		8.0x
P/BV trailing		0.85x
P/BV 17e		0.75x
ROE 9M16		8.5%
ROA 9M16		1.1%
Dividend Yield		4.4%
Daily turnover	USD	15m
No of analysts		28
with sell/hold		54%

Owners

Stock Exchange of Thailand 35%, State Street 5.3%

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The 10 largest companies in SKAGEN Kon-Tiki

Samsung Electronics is one of the world's largest producers of consumer electronics, with over 155,000 employees. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces appliances, cameras, printers, PCs and air-conditioning units.

Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 5m cars in 2015 and has a c5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

South African listed media and internet holding company incorporated in 1915. They have a strong Pay-TV business in South Africa and Sub-Saharan African countries and a fast growing internet division focused on commerce, communities, content, communication and games. They hold a 34% stake in Chinese Tencent and 29% of Russian Mail.ru.

Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (with a 50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of utility vehicles and tractors in India).

Turkey's leading and financial conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family.

The 10 largest companies in SKAGEN Kon-Tiki (continued)

X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarkets under the Perekrestok brand, hypermarkets under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment. They are also in the middle of an aggressive expansion and refurbishment period.

Hungarian pharmaceutical company established in 1901 with focus on Central and Eastern Europe. Transitioning from a generic-focused manufacturer to a more specialised one through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Vraylar). Significant upside potential from US marketing approval of Vraylar and extended usage of Esmya is not reflected in the current valuation.

Cosan is one of the largest Brazilian energy conglomerates with almost 80 years of history. Present within gas distribution, fuel distribution (5800 gas stations), convenience stores (950 stores at gas stations), sugar and ethanol production (24 mills with 68m ton crushing capacity), lubricants, land development and railways/logistics (25% market share of grain transportation for export).

Brazilian regional savings bank, with #1 position in Rio Grande Do Sul. Banrisul focuses on payroll loans to consumers and working capital and other loans to SMEs, which – together with an attractive deposit franchise (c80% of funding) – has generated high returns. The regional government owns 57% of the bank.

Largest bank in India with 17% market share (c25% including 5 associate banks). Also present in the life insurance, asset management and investment banking sectors. 15,000 branches, 32,000 ATMs, 400 mil+ accounts and over 220,000 employees. Upside potential from banking and economic reforms in India.

For more information please visit:

Our latest Market report
Information on SKAGEN Kon-Tiki A on our web pages

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 skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments.