SKAGEN Vekst
Status Report – May 2016

The art of common sense

Summary – May 2016

- With the warmer May weather came calmer Nordic markets after the recent uncertainty. In euro terms the fund was up 0.7% versus the combined Nordic/Global index* that was up 2.7%. With the fairly strong performance for the market, the index is now down 1% year-to-date, versus the fund which is down 0.8%, or 20 basis points ahead year to date.

- Measured in NOK, the largest contributors in May were Oriflame, SAP and Sodastream. The largest detractors were Norwegian, Solstad Offshore and Norsk Hydro.

- Even though the month of May saw better returns across the Nordic market, the relative performance in Vekst was somewhat subdued. This was mainly caused by the fund's lower US share than the index (4.5% rise in the USD/NOK rate in a month) and our larger positions in industrials (mainly Norwegian) had a tougher time of it.

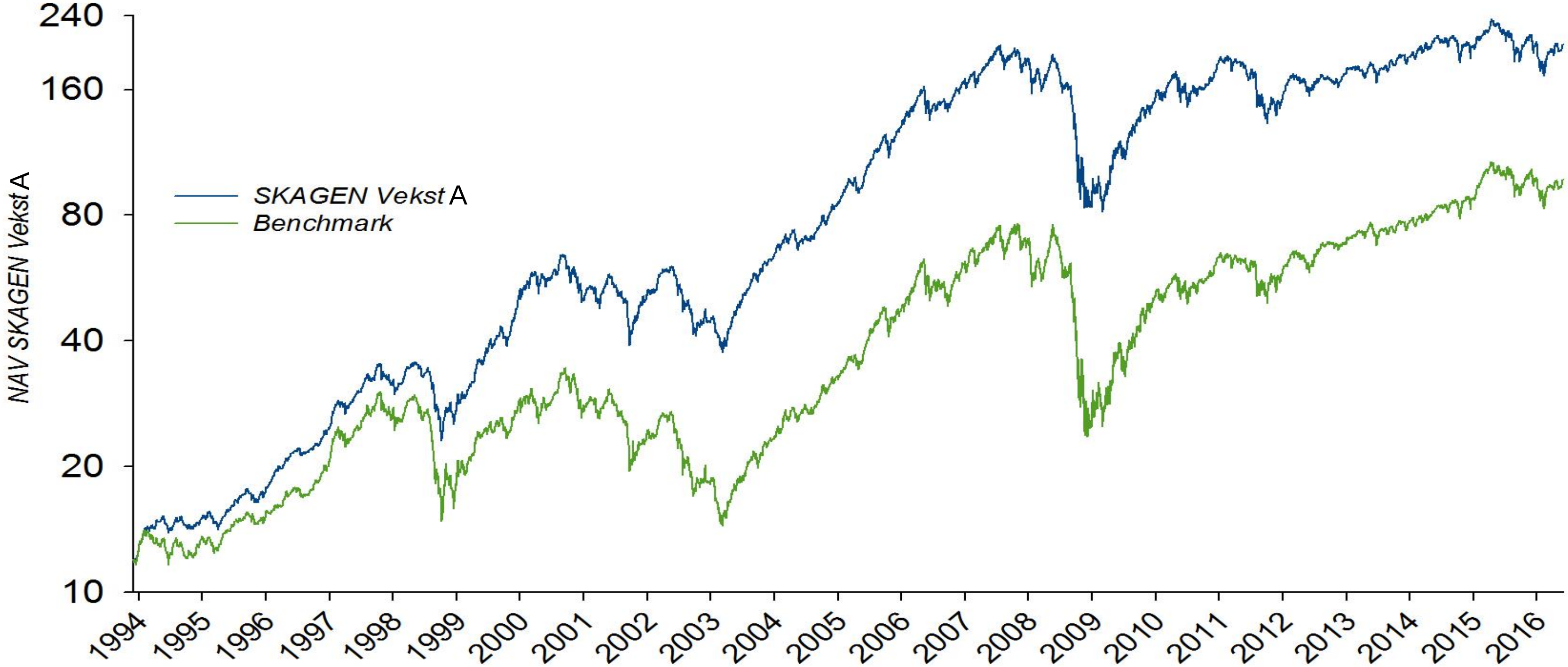
- SKAGEN Vekst consists of 53 positions with 92% of the fund invested in the 35 largest positions. During the month we participated in the IPO of Philips Lighting and disposed of Eidesvik Offshore.

- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investing philosophy. We continue to buy companies we believe are undervalued and which will over time provide excess returns. Currently the top 35 positions in the fund trade at a 12x P/E versus the index at over 16x for this year.

Unless otherwise stated, all performance data in this report is in EUR, for class A units and is net of fees.
** SKAGEN Vekst's benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World Index*

Results, May 2016

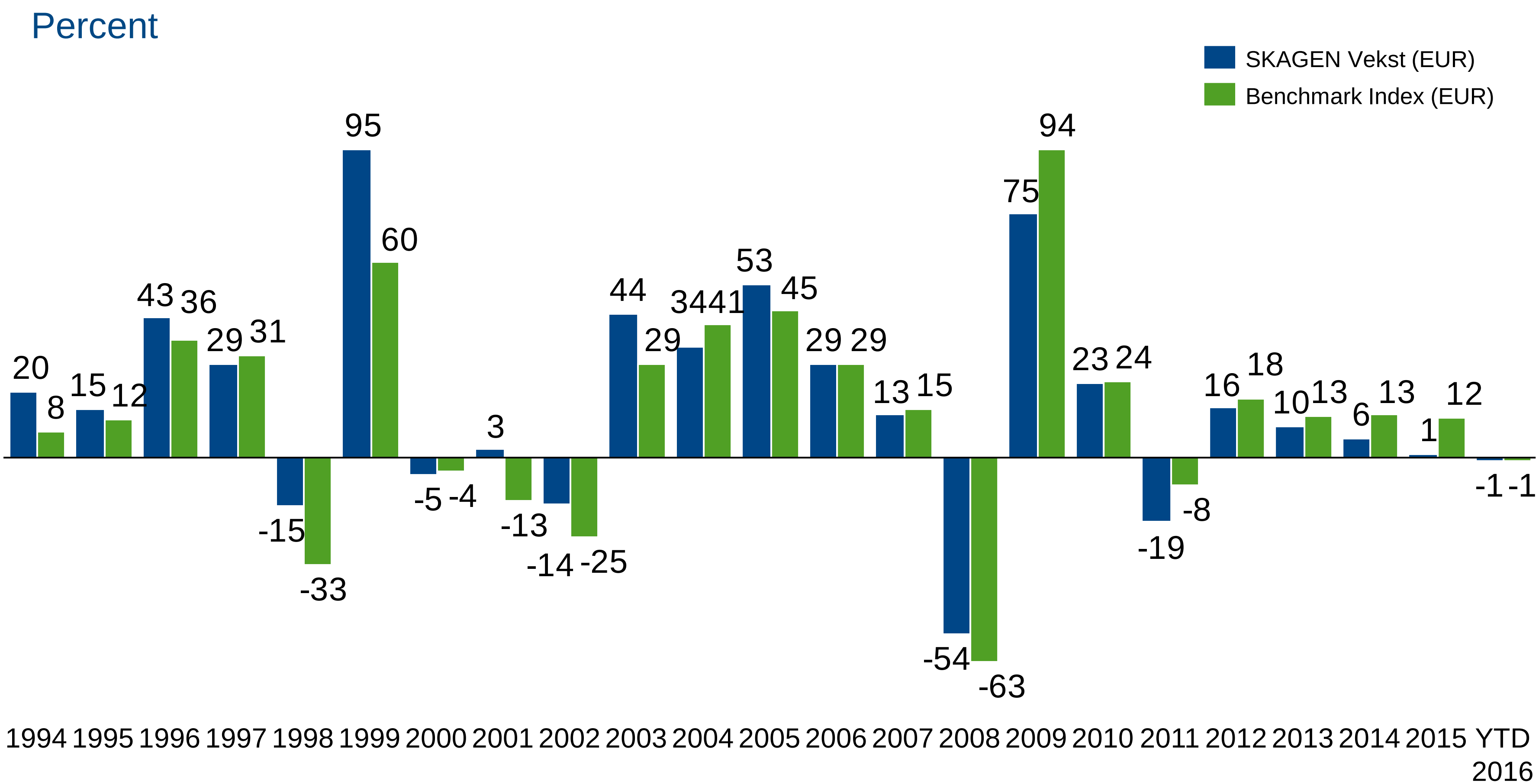
EUR, net of fees



	May	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	0,7%	2,9%	-0,8%	-10,1%	3,7%	2,2%	3,3%	13,5%
Benchmark index*	2,7%	3,9%	-1,0%	-6,3%	9,1%	9,0%	5,7%	9,8%
Excess return	-2,0%	-1,0%	0,2%	-3,9%	-5,4%	-6,8%	-2,4%	3,7%

Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

Annual performance since inception



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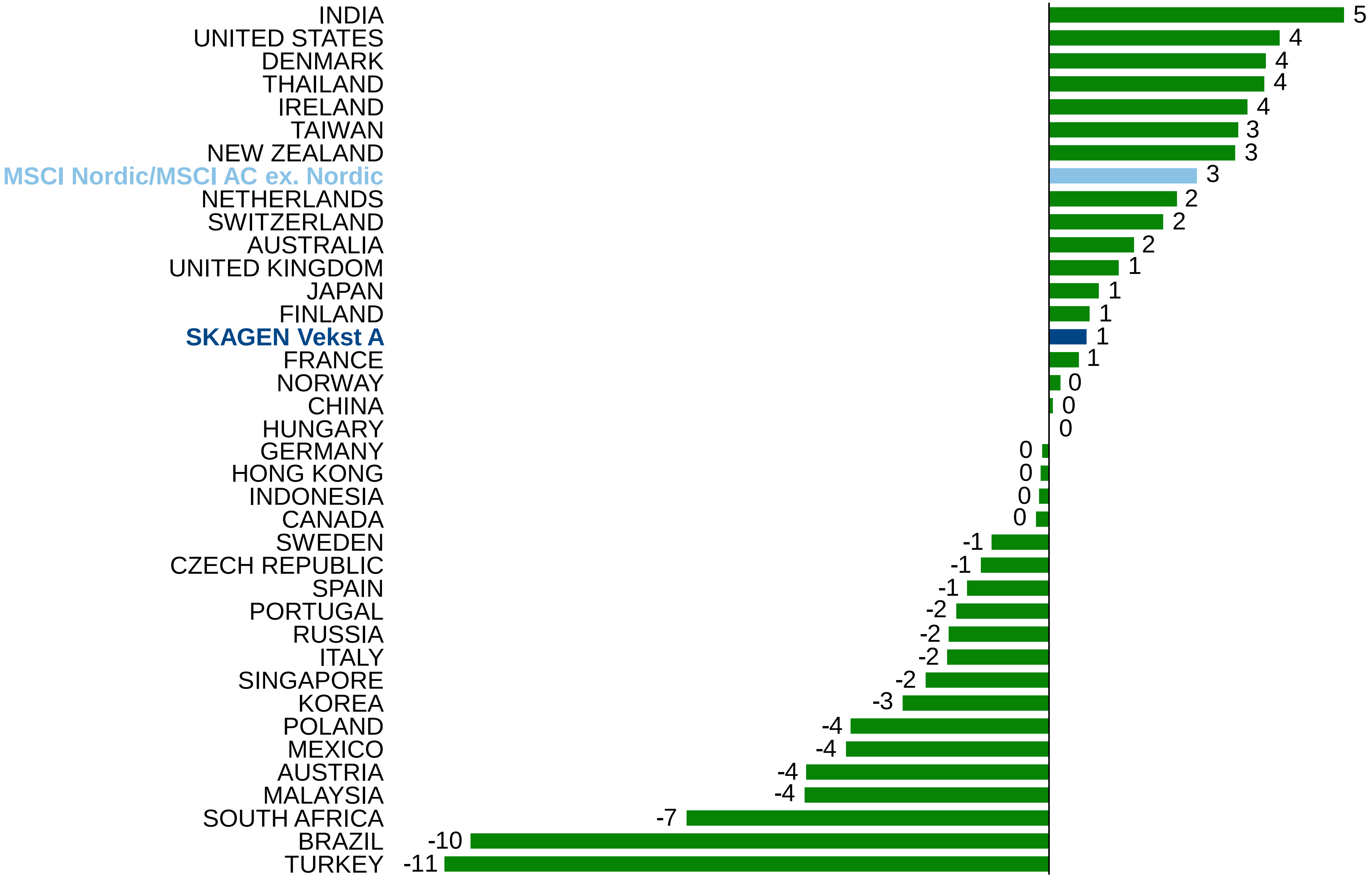
Markets in May 2016 in EUR (%)



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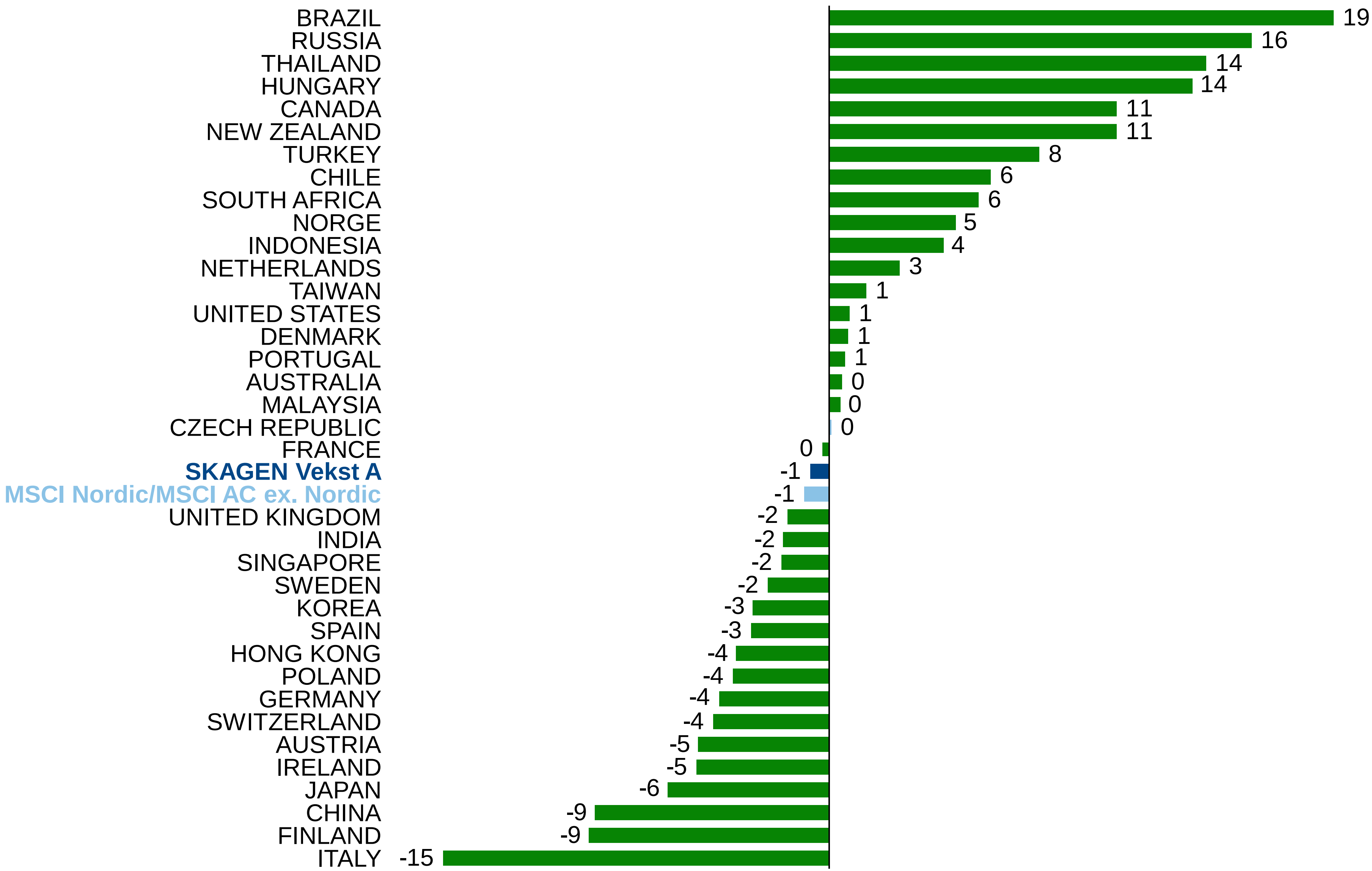
Markets YTD in 2016 in EUR (%)



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Largest holdings SKAGEN Vekst, end of May

SKAGEN Vekst has 54% of its portfolio invested in the Nordic countries.

	Weight in portfolio	Price	P/E 2016e	P/E 2017e	P/E 2018e	P/B trailing	Target price
Samsung Electronics	6,6 %	1 062 000	7,7	7,4	7,1	0,9	1 300 000
Continental AG	6,2 %	193	12,3	10,5	9,5	3,0	285
Norsk Hydro	5,4 %	33	13,3	10,3	9,5	0,9	45
Carlsberg	5,3 %	645	21,1	18,4	16,5	2,3	822
SAP	5,1 %	73	18,7	16,8	15,4	3,8	97
Norwegian Air Shuttle	4,8 %	342	9,0	6,8	6,2	6,2	500
Citigroup	4,6 %	47	9,1	8,3	7,4	0,7	65
Philips	3,8 %	24	17,3	14,0	12,4	1,9	30
Ericsson	3,8 %	64	13,8	11,6	10,9	1,4	130
ABB	3,4 %	173	21,5	16,5	14,5	3,1	220
Weighted top 10	**49,1 %**		**12,3**	**10,5**	**9,6**	**1,51**	**39%**
Weighted top 35	**91,7 %**		**11,7**	**9,1**	**8,1**	**1,06**	**45%**
Reference index			**16,3**	**14,9**	**13,5**	**2,07**	

Earnings estimates are based on net cash earnings when meaningful.
Multiples are calculated using the same method as the index.

Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Cosmetics AG	37
SAP SE	33
Sodastream International Ltd	21
Roche Holding AG	17
Koninklijke Philips NV	15
Citigroup Inc	14
H Lundbeck A/S	14
Sberbank of Russia	14
Carlsberg A/S	13
Continental AG	12

Largest negative contributors

Company	NOK Millions
Norwegian Air Shuttle AS	-29
Solstad Offshore ASA	-9
Norsk Hydro ASA	-9
Cal-Maine Foods Inc	-8
Hennes & Mauritz AB	-7
Bonheur ASA	-6
Yazicilar Holding AS	-6
Danieli & Officine Meccaniche SpA	-5
Swatch Group AG	-5
Kia Motors Corporation	-5

Value Creation MTD (NOK MM): 152

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup Inc	39
Norwegian Air Shuttle AS	36
Oriflame Cosmetics AG	34
ABB Ltd	20
Sberbank of Russia	19
Sodastream International Ltd	19
Rec Silicon ASA	18
Volvo AB	18
Roche Holding AG	16
H Lundbeck A/S	13

Largest negative contributors

Company	NOK Millions
Ericsson LM-B SHS	-53
Samsung Electronics Co Ltd	-44
Continental AG	-16
Telia Co AB	-13
Kia Motors Corporation	-11
Solstad Offshore ASA	-11
Cal-Maine Foods Inc	-10
Strongpoint ASA	-6
GCL-Poly Energy Holdings Ltd	-6
Swatch Group AG	-6

Value Creation QTD (NOK MM): 125

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Cosmetics AG	55
Volvo AB	39
Lundin Petroleum AB	28
Sberbank of Russia	24
Norwegian Air Shuttle AS	23
Casino Guichard Perrachon SA	19
Norsk Hydro ASA	17
Carlsberg A/S	15
Wilh Wilhelmsen Holding ASA	13
ABB Ltd	13

Largest negative contributors

Company	NOK Millions
Continental AG	-88
Credit Suisse Group AG	-87
Ericsson LM-B SHS	-63
Citigroup Inc	-60
Samsung Electronics Co Ltd	-60
Kia Motors Corporation	-31
Frontline Ltd	-27
Investment AB Kinnevik	-26
Solstad Offshore ASA	-20
Nippon Seiki Co Ltd	-16

Value Creation YTD (NOK MM): -286

NB: Contribution to absolute return

Most important changes 2016

Holdings increased

Q1

Hennes & Mauritz AB	(New)
eBay Inc	(New)
Catena AB	(New)
Golden Ocean Group Ltd	
Investment AB Kinnevik	
Roche Holding AG	
Ericsson LM-B SHS	

Q2

Swatch Group AG	(New)
Philips Lighting NV	(New)
Nirvana Asia Ltd	(New)
Ericsson LM-B SHS	
eBay Inc	
Kemira OYJ	
Hennes & Mauritz AB	

Holdings reduced

Q1

FLSmidth & Co A/S	(Out)
Localiza Rent a Car SA	(Out)
Bang & Olufsen A/S	(Out)
YIT Oyj	(Out)
Tribona AB	(Out)
Casino Guichard Perrachon SA	
ABB Ltd	

Q2

Casino Guichard Perrachon SA	(Out)
Eidesvik Offshore ASA	(Out)
Lundin Petroleum AB	
Telia AB	

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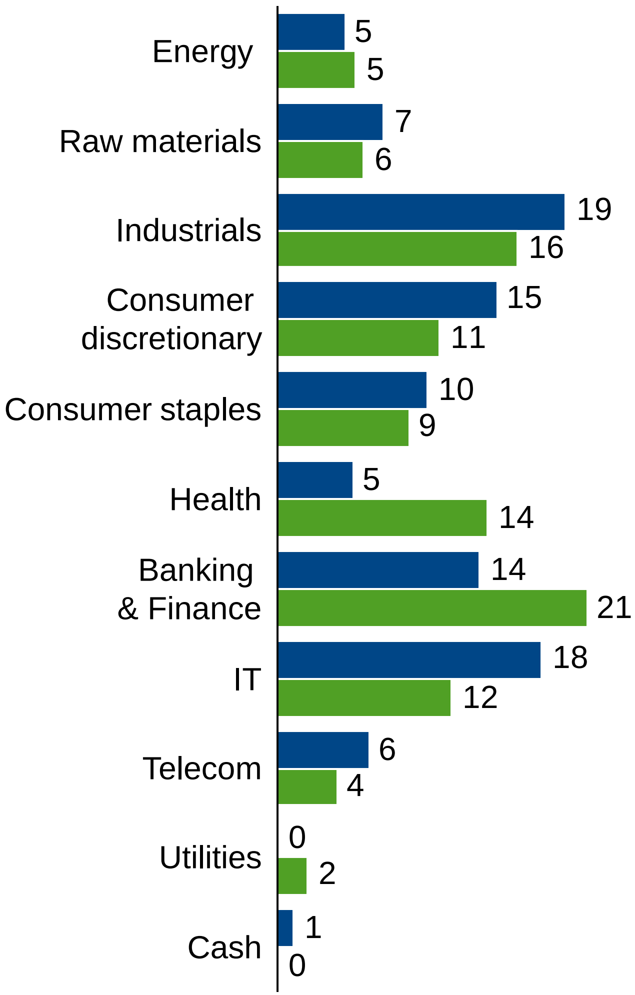
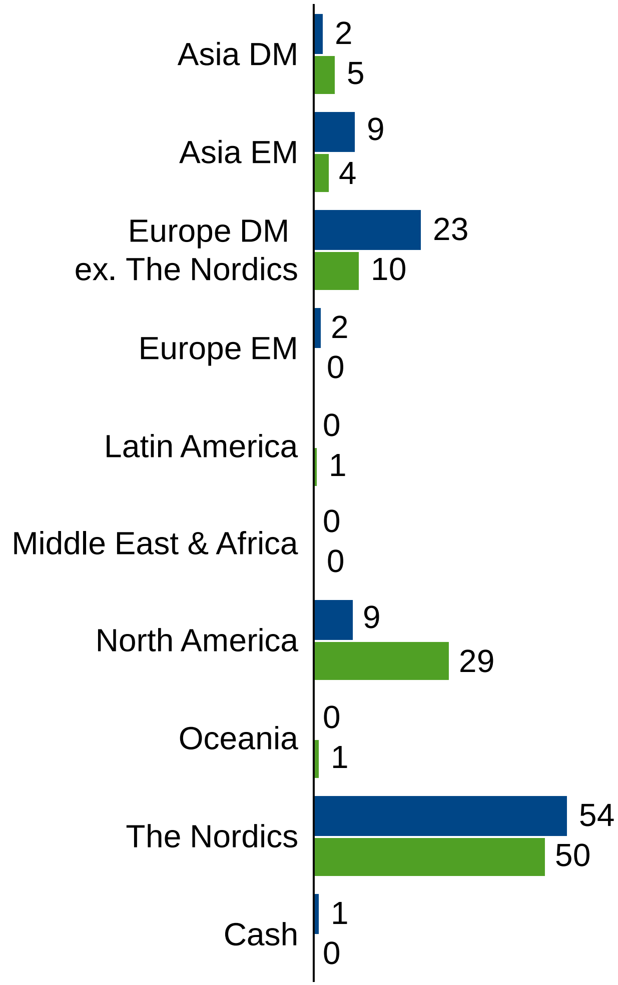
Sector and geographical distribution vs. index (percent)

Fund
Index

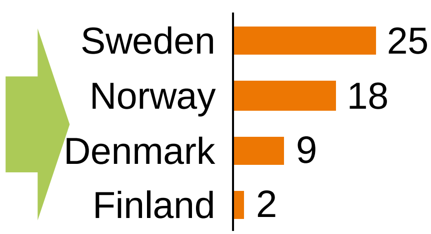
Sector distribution



Geographical distribution



Nordics in SKAGEN Vekst



Key buy and sell, May 2016

Key buy

Philips Lighting

- SKAGEN Vekst bought into the Dutch-based light maker in May as the company was brought to the market through an IPO.
- The company's competence ranges from traditional lightbulbs to high-end LED and new light technologies. Main client segments range from private households to large-scale city developments.
- The company has tried to sell to other industrial partners and attempted financial ventures but failed, so it was brought to the market at a valuation we found attractive.

Key sell

Eidesvik Offshore

- The Norwegian Offshore vessel company was sold after a fairly long exit period.
- As offshore oil development looks rather challenging going forward any hopes of a quick return to profitability seem to be diminishing for the smaller operators.

Key earnings releases and corporate news, May 2016

Continental (6.2%)

Good revenue and EPS growth. Cash flow guidance upped 10% to EUR 2bn in 2016

The investment thesis for Continental is that it is a structural winner in automotive technology and is funded by good profitability in the tyre business. The initial investment thesis of improved cash flow to reduce net debt and hence make value in the EV transition has played out as the company will be debt free in 2017.
Conti released final 1Q 2016 data that showed 3% revenue growth and 11% EPS growth. The main macro driver – global car registrations – showed 1% growth to 22.1m units with 8% growth in China and Europe, while Brazil and Russia declined 28% and 17% respectively.
For Conti, the moving parts in the quarter were good performance in the Tyre division with 17% growth in EBITDA and a 3% decline in Automotive EBITDA. The Automotive performance is slightly disappointing as Conti's home turf is Europe and apparently they didn't fully capture the 8% volume growth. Performance in Powertrains was poor as a number of model upgrades were put into operation in the quarter. As production ramp-up comes after the upgrade, the rest of 2016 looks positive and management was confident about this.
Cash conversion was good and net debt declined EUR 0.2bn in the quarter to EUR 3.1bn. With updated guidance the net debt position will be around EUR 1.3bn by end 2016, making the company overcapitalised, so we expect communication on how they will spend the money later in 2016.

3U update
Unpopular: It saves lives and prevents injuries in traffic so everybody should like it. The investment community is divided, with active investors selling out and being replaced by passive funds. Half of the sell-side analysts are positive.
Under-researched: Continental is followed by analysts that also cover Michelin, BMW, etc., so the tech side of Conti is most likely less appreciated.
Undervalued: More than 50% upside based on 5% revenue growth, 11% EBIT margin, good cash conversion and cash back to shareholders in the form of dividends and stock buybacks as the company is close to debt free. P/E target as market and due to mix of growth, sound financial position and cyclical nature of parts of its business => target price around EUR 300 including dividends in 2016 and 2017 or more than 50% upside.

Facts
Group sales EUR 9.9bn +3%, EBITDA EUR 1.5bn + 7%, EBIT EUR 1.1bn +8% and EPS EUR 3.67 +11%
Divisional performance:
Automotive sales EUR 6.0bn +3%, EBITDA EUR 0.7bn -3% on poor performance in Powertrain unit
Tyre/ContiTech sales EUR 3.9bn +5% and EBITDA EUR 0.8bn +17%. ContiTech sales up 7% and good margin.

Key earnings releases and corporate news, May 2016 (cont.)

Oriflame (2.5%)

Strong growth continues in Asia and LatAm.

Asia & Turkey (34% of sales) and LatAm (10% of sales) continued to report double-digit growth and increased profitability. Some reversal of the negative trend in the CIS (29% of sales), but this region remains uncertain with sustained external and margin improvement challenges. The positive sales momentum has continued into the second quarter. Oriflame is focusing on digitalisation of the business model, and so far they have achieved a lot. In 2015 they had 60 million visitors and 175 million site visits, 90% of all orders were made online and they have more than 7 million Facebook fans. Their app is called Oriflame Makeup Wizard. We still see encouraging underlying business performance, especially in the online development. We also like the debt reduction and the re-installed dividend.

3U Update

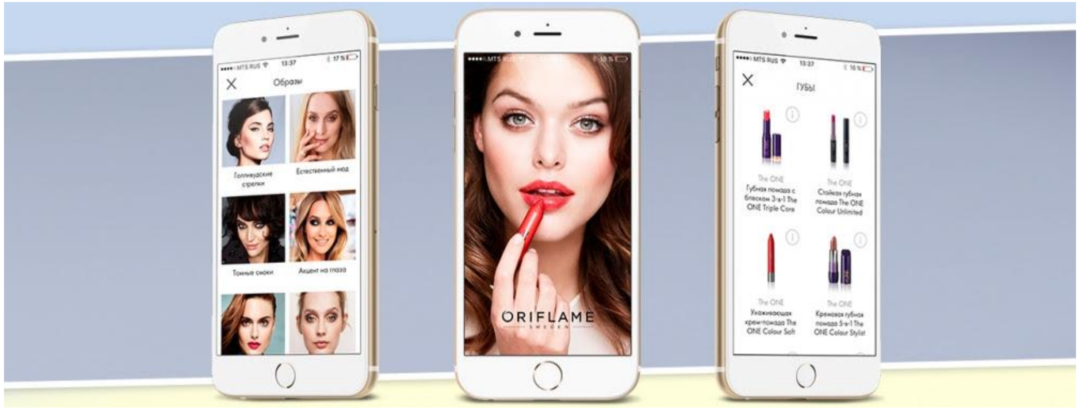
Unpopular: Yes, 70% sell/hold. But the huge short interest in the stock has been reduced to only 4% ahead of this report.

Under-researched: No, 10 analysts cover the company, and most are locals.

Undervalued: Less, as more investors have seen the growth story in Asia and LatAm. We will hang in there until we see the stock exceed SEK 225.

Fact

- Oriflame reported increased local currency sales of 10% (-1% in euro) to EUR 306m. EBITDA at EUR 28m, and net profit at EUR 11m. Unit sales down 6% while price/mix +16%. Number of consultants down 9% to 3.1m (huge decrease in CIS, 10% increase in Asia).



Philips Lighting (LIGHT NA) EUR 20

History, business model and source of investment case

- LIGHT is a spinoff from Royal Philips. Global market leader in the c. EUR 70bn lighting industry which is growing at c. 3% p.a.
- Total sales of EUR 7.5bn roughly split between 43% LED / 57% Conventional lighting (2015)
- Industry in the midst of a technology transition in which traditional lamps are being replaced by LED. As a result LED share of sales will be more than 50% in 2016.
- Business model is also changing from in-house production selling to distributors (old lamps) towards outsourced production and direct solution selling which includes professional services and long-term contracts (complete lighting solutions for buildings, etc.).
- ESG: No major issues identified

Investment rationale

- Failing a private sale of the company, Royal Philips sold a c. 30% stake in the LIGHT IPO with the probable intention of placing the remaining stake in later stages after share price appreciation.
- The highly discounted price of the IPO (@ EV/Sales 0.5x) is explained by overly negative views among investors over the rapid fall-off in conventional lighting, lower free float and share overhang. Also, the complicated carve-out prior to the IPO left many confused about the company's financials, for instance its pension liability.
- Despite its scale, LIGHT is behind its major competitors on profitability and should be able to narrow this gap over time.
- LED business model is less capital intensive and company will thus invest below depreciation over the next couple of years which generates high free cash flow.

Triggers

- Short term: Able to return to growth already in 2017 as the LED market is growing more than 10% p.a. despite further fall-off in conventional lighting.
- Mid term – Improve profitability within the LED business which is lagging competitors, especially in the US and thus be able to increase shareholder distribution.
- Long term – build portfolio of long-term contracts with municipalities and other players which gives good visibility.

Risks

- LED industry is highly competitive and company has lost market share over the last couple of years in China and the US. Steep decline in lamps (conventional lighting) requires additional restructuring which clouds results.
- Company track record of M&A is poor and the strong cash flow over the next 24 months might make management trigger happy.

Price target

- On flat sales of EUR 7.2bn (management guides 3% p.a.) and EBITA margin 7% (management guides 9-13%) company could be able to make c. EUR 3/share FCF which supports 50% upside (10x3 = target price EUR 30)

PHILIPS
Lighting

Key Figures		
Market cap	EUR	4.0bn
Net debt (cash)	EUR	0.9bn
Daily turnover	EUR	NA
No. of shares o/s		150m
P/cf 2016e		7x
P/cf 2017e		7x
P/BV trailing		1x
ROE 2016e		8%
Dividend yield 2016		0.0%
No of analysts with Sell/Hold		N:A

lighting.philips.com

The largest companies in SKAGEN Vekst

Samsung Electronics, the Korean electronics group, has enjoyed very solid growth in consumer electronics, especially smartphones. Pole position in global semiconductor market. Cash generation is very strong and the company has historically wisely invested in new business areas – solar power and healthcare are on the roadmap for the future.

Continental AG produces tyres for cars and trucks and makes auto technology such as power trains, safety systems and automated drive systems. The replacement cycle for tyres is becoming stretched in some markets, so near-term earnings look promising. In the longer term Continental's pole position in global auto technology provides a good backdrop for substantial growth.

Norsk Hydro ASA is a Norwegian aluminium and renewable energy company headquartered in Oslo. Norsk Hydro is one of the largest aluminium companies worldwide. It has operations in some 50 countries around the world and is active on all continents. The Norwegian state holds a 34.3% ownership interest in the company, which employs approximately 13,000 people.

Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.

SAP SE is a German multinational software corporation that makes enterprise software to manage business operations and customer relations. SAP is headquartered in Walldorf, Baden-Württemberg, with regional offices in 130 countries.

The largest companies in SKAGEN Vekst (continued)

Norwegian Air Shuttle is the leading Nordic-based low cost airline, which in 2015 flew over 26m passengers. The fleet of airliners and the route network are growing rapidly proving the concept of Norwegian local low cost airline, to Nordic, to European and to Global reach.

Citigroup Inc. or Citi is an American multinational banking and financial services corporation headquartered in Manhattan, New York City. Citigroup was formed from one of the world's largest mergers in history by combining the banking giant Citicorp and financial conglomerate Travelers Group in October 1998.

Koninklijke Philips N.V. is a Dutch diversified technology company headquartered in Amsterdam with primary divisions focused in the areas of electronics, healthcare and lighting. In May 2016 it listed their lighting division as a separate company.

Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and has today a revenue of 227bn SEK. Ericsson had 33% market share in the 2G/3G/4G mobile network infrastructure market in 2014.

ABB (ASEA Brown Boveri) is a Swedish-Swiss multinational corporation headquartered in Zurich, Switzerland, operating mainly in robotics and the power and automation technology areas. ABB is one of the largest engineering companies as well as one of the largest conglomerates in the world. ABB has operations in around 100 countries, with approximately 135,000 employees in December 2015 and reported global revenue of USD 35.5 billion for 2015.

For more information please visit:

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Information about SKAGEN Vekst on our website

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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