SKAGEN Vekst

Status Report – January 2017

The art of common sense

Summary – January 2017

- Barely had the New Year fireworks hit the ground when we were off to an explosive start to the year. In the first month of the year, SKAGEN Vekst* delivered a return of 3.0% versus a return of 1.3% for the combined benchmark**. The Nordic markets also had a strong month with all countries delivering a return of more than 2% in January. After the inauguration of the new US president in the middle of the month we anticipate exciting times ahead as the financial markets and world become accustomed to a new style of communication.

- Although 2017 got off to a strong start in terms of both relative and absolute returns, it is worth highlighting that there are several important elections coming up in 2017 that might impact market sentiment and potentially regulation. This may have an effect on companies' willingness to invest in continued development and growth. Although history has shown that for the long-term investor, this type of noise can be favourable for returns in the long run, the increased volatility could potentially be harmful in the short term. SKAGEN Vekst's clients who invested amidst the turmoil in January 2016 will have seen their investment gain 25% versus a rise of 15% for the index in a year (in EUR).

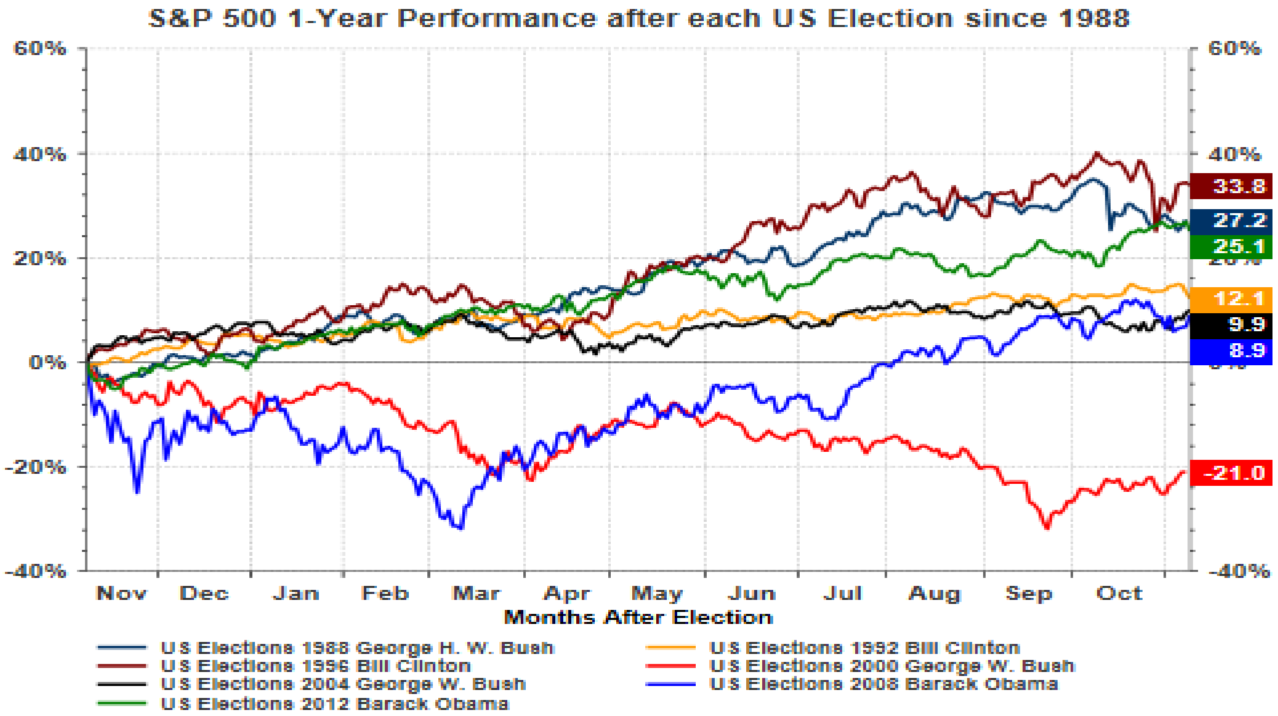
- Measured in NOK, the largest contributors in January were the aluminium producer Norsk Hydro, the smartphone and semiconductor manufacturer Samsung Electronics and the Norwegian investment company Bonheur. The fund's largest detractors were Citigroup, Norwegian and Continental.

- SKAGEN Vekst consists of 53 positions with 93% of the fund invested in the 35 largest positions. During the month we re-entered the US/Israeli pharmaceutical company Teva and increased our stakes in Novo Nordisk and Gazprom. We trimmed holdings that have been approaching their price targets and the Norwegian medtech company Medistim was sold out. At the end of January 2017, SKAGEN Vekst was valued at 13.6x current year earnings versus the market at over 18x.

- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investment philosophy. We continue to buy companies we believe are undervalued and which will over time provide excess returns. The fund focuses on the Nordic region but has a global mandate.

** 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*

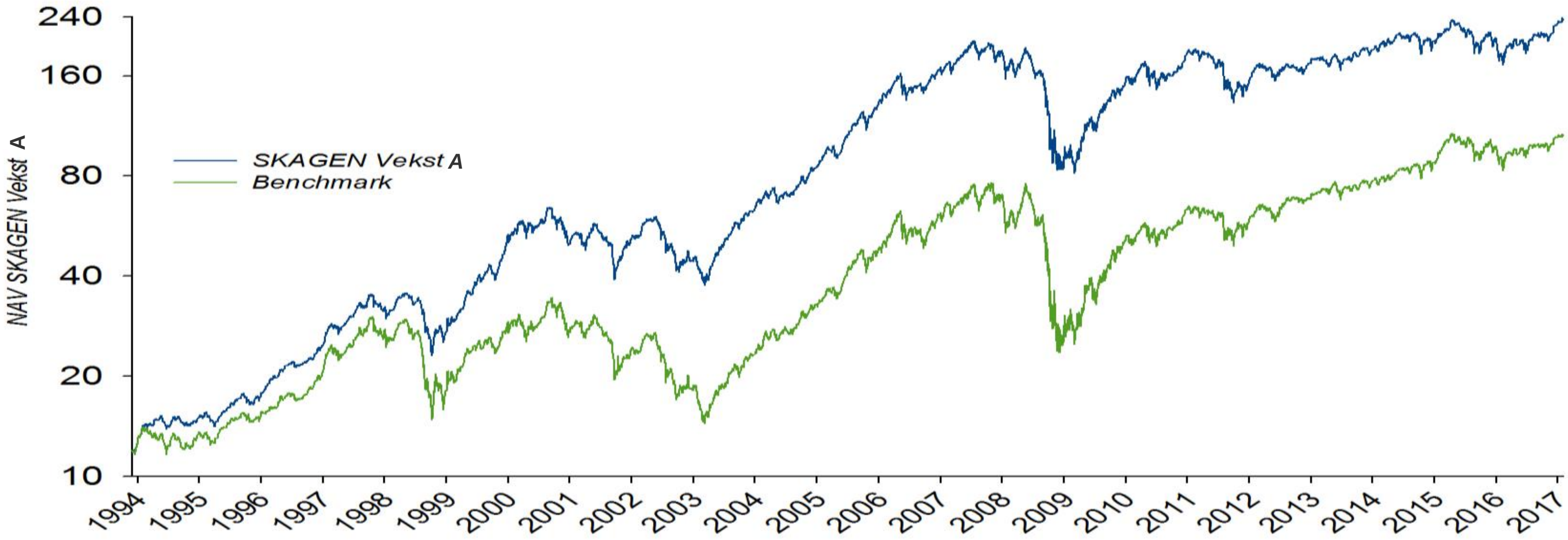
2017 promises to be a year of exciting political elections in Europe, which might impact stock markets and exchange rates. The likelihood of financial calamities increases in periods of political elections.



Source: Thomson Reuters Datastream

SKAGEN Vekst results, January 2017

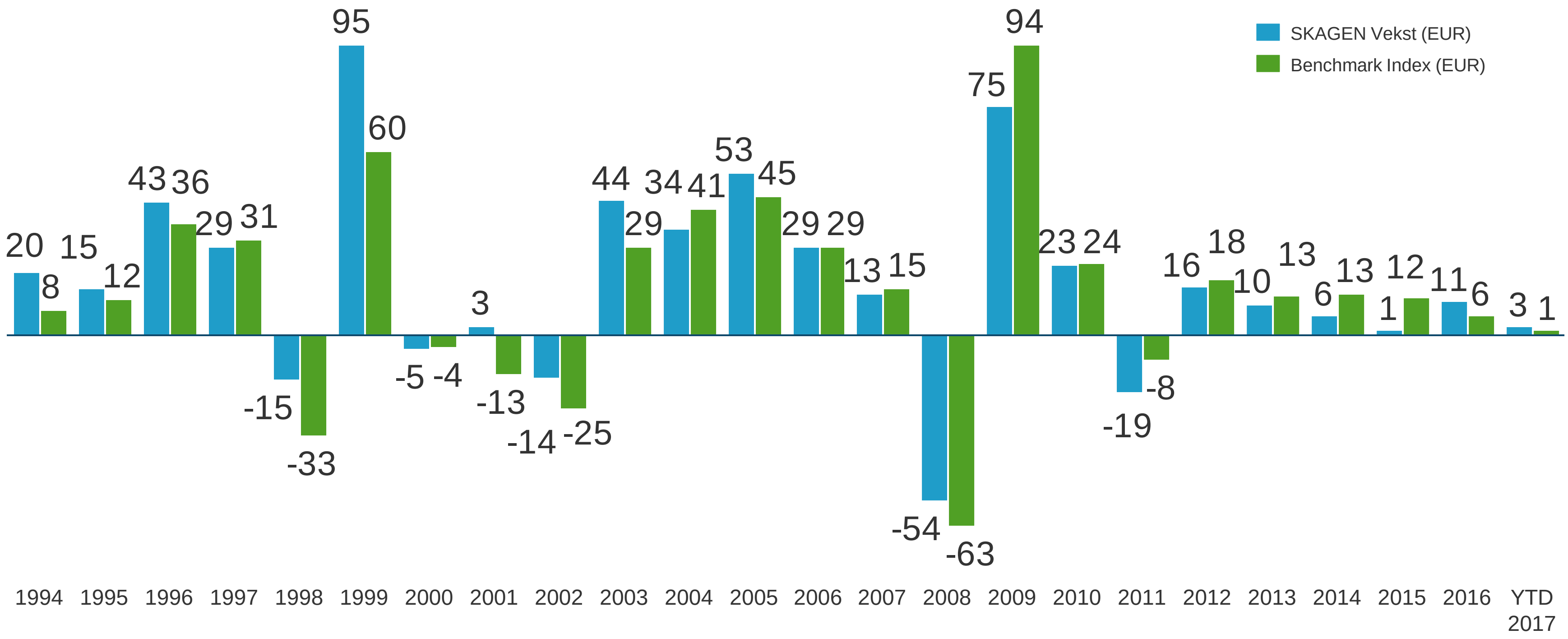
EUR net of fees



	January	QTD	2016	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	**3,0%**	**3,0%**	**10,8%**	**25,7%**	**7,3%**	**7,3%**	**3,3%**	**13,7%**
Benchmark index*	**1,3%**	**1,3%**	**6,0%**	**15,1%**	**11,7%**	**11,7%**	**5,0%**	**9,9%**
Excess return	**1,7%**	**1,7%**	**4,8%**	**10,6%**	**-4,4%**	**-4,4%**	**-1,7%**	**3,9%**

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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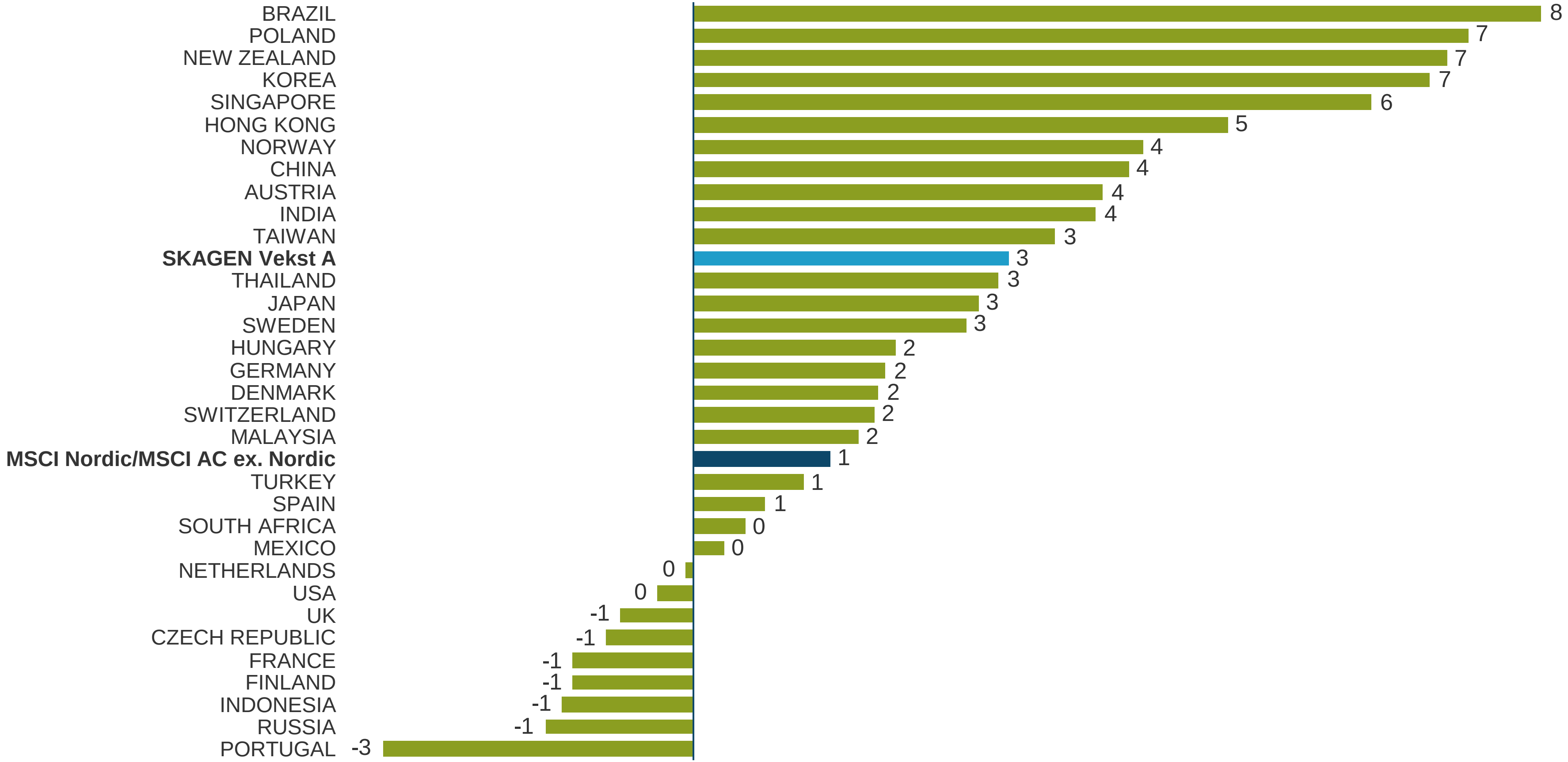
Markets in January 2017, EUR (%)



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Largest holdings SKAGEN Vekst, end of January 2017

SKAGEN Vekst has 53% 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	6,5 %	1 571 000	10,8	9,2	8,7	1,3	1 680 000
Continental AG	5,4 %	181	13,1	11,4	10,4	2,8	265
Carlsberg AS-B	5,0 %	622	17,1	15,1	13,6	2,1	847
Norsk Hydro ASA	5,0 %	47	17,4	14,2	13,4	1,3	45
Norwegian Air Shuttle	5,0 %	269	9,3	6,0	4,9	2,7	500
Citigroup Inc	4,3 %	56	10,7	9,4	8,2	0,8	75
Kinnevik AB-B	4,0 %	224	56,1	37,4	35,0	0,9	295
Hennes & Mauritz AB	3,9 %	250	22,2	16,7	14,7	6,8	400
Bonheur ASA	3,1 %	83	5,5	5,5	5,5	0,4	170
Ericsson LM-B SHS	3,1 %	52	89,1	21,6	13,1	1,2	75
Weighted average 10	45,4 %		13,4	10,8	9,6	1,2	41 %
Weighted average 35	92,4 %		13,6	10,9	9,2	1,3	35 %
Reference index			18,1	16,6	14,9	2,2	

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

Main contributors YTD 2017

Largest positive contributors

Company	NOK Millions
Norsk Hydro	46
Samsung Electronics	44
Bonheur	30
Wilh Wilhelmsen Holding	14
ABB	13
IM Skaugen	11
Swatch Group	10
Danske Bank	9
Volvo	8
Kinnevik	8

Largest negative contributors

Company	NOK Millions
Citigroup	-35
Norwegian Air Shuttle	-24
Continental	-13
Ericsson	-9
Kemira	-9
Kia Motors	-9
Telia	-8
Shire	-7
Cal-Maine Foods	-7
Philips	-7

Value Creation MTD (NOK MM): 76

NB: Contribution to absolute return

Most important changes Q1 2017

Holdings increased

Q1

Teva Pharmaceutical	(New)
Novo Nordisk	
Gazprom OAO	
Carlsberg	
Norwegian Air Shuttle	
Shire	

Holdings reduced

Q1

Medistim	(Out)
SAP	
Danske Bank	
Samsung Electronics	
Sodastream International	
Citigroup	
GCL-Poly Energy Holdings	

Key buys and sells in January 2017

Key buy

Teva Pharm

- The US/Israeli pharmaceutical company Teva has been reintroduced into the SKAGEN Vekst portfolio. After a very tough 2016, the noise around the company has continued, but as contrarians, we find the risk/return proposition attractive.
- As the generic business has become an increasingly larger part of the business, we believe this should be a very accretive and stable business in the years to come in a sector where the focus has become increasingly cost driven.
- SKAGEN Vekst previously exited Teva in March 2015. At that time the company was more dependent on sales of their MS drug Copaxone and the share price was roughly USD 63 versus USD 33 today.

Key Sell

Medistim

- The Norway-based medtech company was sold out of the portfolio after a decent run last year.
- Medistim has been a solid contributor to Vekst unit holders. The stock has been a four-bagger since late 2012. However, after last year's rally we believe the share price reflects the growth for the next few years.
- We invested the money from the sale into Novo Nordisk, which is currently a 2.5% position in SKAGEN Vekst.

Key earnings releases and corporate news, January 2017

Samsung Electronics (5.1%)

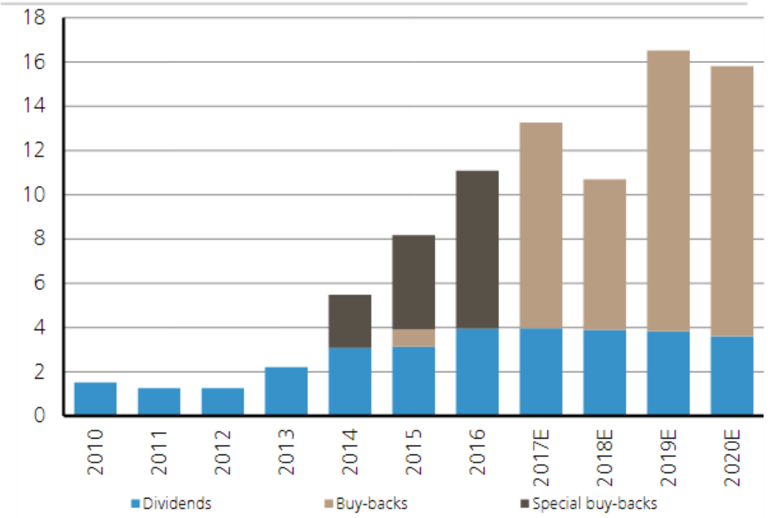
Samsung delivers solid year-end figures and continues its positive shareholder return focus with a USD 8bn share buyback program

Investment case implications

Positive. Lower contribution from FX strength and apparent lack of non-recurring gains mean that the underlying result is even stronger than we thought after the preliminary result. Contrary to last year, management was optimistic on 2017 outlook, mainly driven by component divisions but also due to the absence of recall costs which hurt 2016 profit by KRW c6tr or a c17% drag. Consensus operating profit for FY17 of KRW 39tr still seems low as the Q416 operating profit – excluding the Note 7 recall costs – was KRW 11.8tr; in a quarter which has yet to capture the full benefit of the upswing in memory prices.

Going through broker updates, the majority is still working with fairly conservative assumptions for FY17 which should ensure a continuous positive revision trend. The announced buyback exceeded sell-side expectations. We note that the net cash position is now above the guided comfort level, which together with the expected superior earnings outlook, gives room for upside to capital distribution plans. The pending acquisition of Harman will consume USD 8.5bn (KRW c9.9tr), but we believe Samsung will also sell some assets pending the sale of its printer division to HP for USD c1.1bn. Despite higher organic CAPEX for 2017 and net outlay from M&A, significantly higher operating profit should leave FCF for FY17 at least in line with FY16. This should ensure a continuously high level of share buyback for FY18 as well, unless another large acquisition takes place.

Figure 18: Samsung pay-out to shareholders (Won tn)



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

Continental (5.4%)

Very good cash flow in final months of 2016 and good but conservative guidance for 2017

Conti was expected to deliver a good performance update for Q2 2016 and the data shows that the company lived up to their own expectations. Cash flow was stronger so net debt declined more than expected and ended the year at EUR 2.8bn.
For the general automotive market they see 2-3% unit growth in Europe, LatAm and Asia and a 3% decline in the NAFTA region. Guidance for 2016 is 5% revenue growth and the EBIT margin guidance of “above 10.5%” is a replay of their conservative communication for each start of a year since 2014. Cash flow guidance for 2017 is 2.0bn, which means Conti will be net cash by mid-May 2018 unless they make a major acquisition or extraordinary payment to shareholders.
The preliminary results confirm the investment thesis and the target price of EUR165 a few years down the line (up 40% plus dividends).

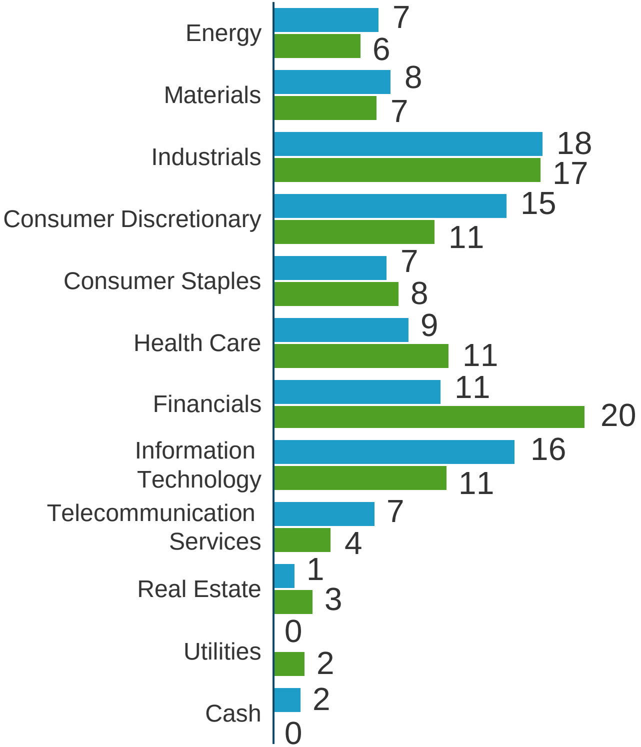
3U Update
Unpopular: Apart from Schaeffler that controls 46% of Conti, it has a loose shareholder book. 60% of sell-siders have a sell or hold rating

Under-researched: It is a EUR 37bn market cap German automotive company, so has good coverage in the financial community and media. Financial community has decided that Conti is not in the lead for electric engine boosters despite Conti being the first with a 48 volt engine and an order book of EUR 1.2bn at the end of 2016 .

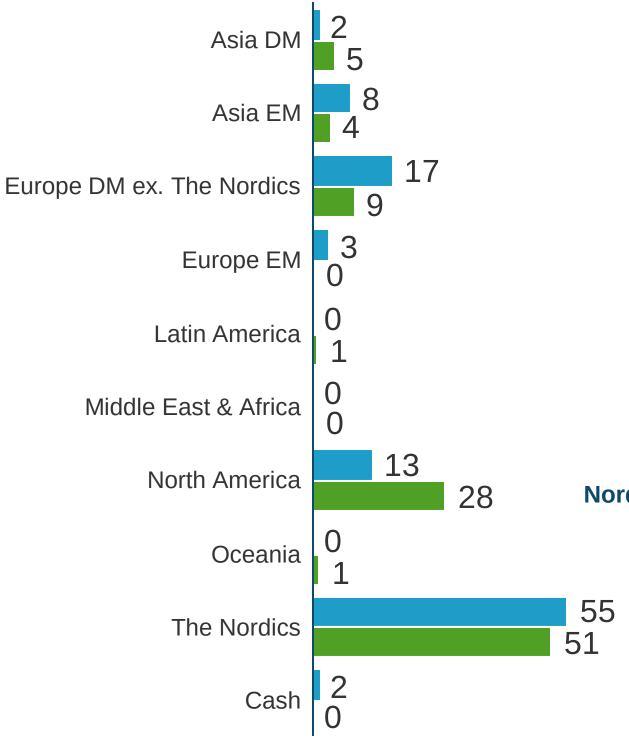
Undervalued: The business is a 5% revenue grower with good profitability and cash conversion. According to a conservative forecast it will have a EUR 47bn revenue stream in 2018-19 with 15-16% EBITDA margin and gross cash formation of EUR 4bn. Fair value for a liquid company with a profile is a P/E of 14x, which is EUR 210, but target does not include forward growth and the company’s target of EUR 50bn revenues in 2020; a priority to give more cash to shareholders.

SKAGEN Vekst sector and geographical distribution

Sector distribution

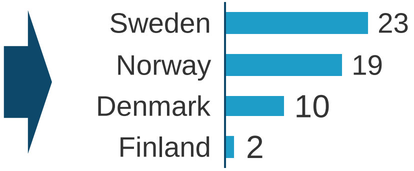


Geographical distribution



Fund
Index

Nordics in SKAGEN Vekst



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. Longer term, Continental's pole position in global auto technology provides a good backdrop for substantial growth.

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.

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.

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.

The largest companies in SKAGEN Vekst (continued)

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.

Kinnevik AB is a Swedish investment company that was founded in 1936 by the Stenbeck, Klingspor and von Horn families. Kinnevik is an active and long-term owner and its investments are made primarily in technology-based services aimed at consumers.

H&M (Hennes & Mauritz) is a Swedish multinational clothing-retail company, known for its fast-fashion clothing for men, women, teenagers and children. H&M operates in 62 countries (ranked 2nd in the world) with over 4,000 stores and as of 2015 employed around 132,000 people. The first store was opened on the high street of Västerås, Sweden in 1947.

Bonheur is a Norwegian holding company linked to the Olsen family. The company is listed on Oslo Stock Exchange and has ownership in numerous companies within energy (both traditional and renewable), shipping and other sectors. Bonheur merged with the other Olsen controlled holding company Ganger Rolf ASA in May 2016.

Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and today has a revenue of SEK 227bn. Ericsson had a 33% market share in the 2G/3G/4G mobile network infrastructure market in 2015.

For more information please visit:

Latest Market report
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.