Quarterly Report

SKAGEN Kon-Tiki A

All data in SEK as of 30/06/2018 unless otherwise stated.

Strong case for active management

In a matter of weeks, the sentiment around the global economy has moved from a positive picture of synchronized global growth to a more complex one. An escalation in trade tensions between the US and China has led to heightened concern that a trade war will weaken global economic growth. Coupled with a backdrop of rising interest rates and a stronger dollar, this has led to recent weakness in emerging market equities and foreign exchange rates.
Global investors are increasingly discerning in their country exposures. This ties in with what we have been advocating for some time; emerging markets (EM) are highly heterogeneous and therefore subject to specific risks and potential rewards. In the current volatile environment, there is a strong case for investors to turn to active management over passive. Company fundamentals should return to the forefront of investor's minds. These types of market open up opportunities for stock-pickers like SKAGEN Kon-Tiki.

Key contributors

Longstanding holding Mahindra & Mahindra has been a strong performer recently riding the strong rural recovery underway in India. Forecasts of a third consecutive year of normal monsoon together with the government's continuing spend across rural-oriented projects ahead of elections augur well for the rural economy, from which Mahindra derives almost three quarters of profits. The company has seen continuous market share gains in the Indian tractors and pickup-up segments to 43% and 62%, respectively. We have unwound almost 50% of the position on the back of the recent strength.
Telecom equipment producer Ericsson rebounded after reporting results which gave confidence that the company can deliver on the cost reduction program and turnaround plan. Ericsson has been going through a tough period, which is also one of the reasons why we have invested. There is now an opportunity to fundamentally overhaul the organisation before the 5G investment cycle ramps up, which will put Ericsson in a great position. Interestingly, activist investor Cevian's acquisition of an additional stake during the quarter implies confidence by the largest shareholder that the transformation plan is moving ahead.
Another positive development, in an otherwise weak Brazilian market, came from Brazil's second largest beef processor Marfrig which seems close to concluding the sale of their food services subsidiary Keystone. China Shineway, a leading supplier of traditional Chinese medicine, continued to climb higher in Q2 on the back of better than expected results and signs of a sales turnaround. We took advantage of recent strength and reduced the position by around one third.
Banrisul, the largest bank in Southern Brazil, reversed from being the major contributor in Q1 to a major detractor in Q2. We managed to sell almost one third of the position before the share price fell. We see increased volatility in Brazil ahead of the election later this year, and are therefore reluctant to add to the position.
LG Electronics was weak during Q2, mostly due to trade war concerns and subsidiary LG Display's deteriorating financials. Their core business remains robust with falling LCD panel prices, rising OLED TV sales and an improving home appliance revenue mix driven by premium products. Our longer-term investment thesis remains intact.
Turkish conglomerate Sabanci was also weak in Q2. Operationally their assets continue to deliver with results ahead of market expectations. However, recent political uncertainty in Turkey has been a major headwind for the overall equity market as well as the Turkish lira development. Almost 50% of the value of Sabanci is related to their 41% stake in Akbank. Even with the current elevated cost of equity in Turkey, a P/BV of 0.8x is attractive with RoE in excess of 16% for the bank operations.

Key sells

We exited Gree Electric during the quarter, after a short but profitable journey. We invested in Gree for two main reasons; an under-appreciated industry up-cycle that would see Gree deliver record earnings and accelerating shareholder remuneration on the back of continued high dividend payout ratio. The fundamental part of our thesis played out even stronger than we expected, but management's decision to suspend the dividend for 2017 was a clear violation of our investment thesis. As a result, we exited the position.
Our focus on increased sell discipline in the portfolio can also be seen through our exit of Bollore. Bollore's African holdings came in the spotlight after Vincent Bollore was placed under formal investigation relating to suspected bribery of foreign officials in Africa through one of their previous subsidiaries. We are in no position to judge whether rules have been broken, but a long drawn out investigation is likely to put a lid on the share price and we decided to move on due to heightened governance risk.
We also exited Kinnevik at levels close to our price target.

Another positive development, in an otherwise weak Brazilian market, came from Brazil's second largest beef processor Marfrig. Photo: Unsplash

Mahindra has been a strong performer recently riding the strong rural recovery underway in India. Photo: Bloomberg

Key buys

Robam Appliances entered the portfolio in Q2. Robam is a Chinese kitchen appliance manufacturer with a premium brand position built on design and quality that has displaced foreign competitors. They are fully focused on China and generate one third of sales via eCommerce channels. Robam is in a net cash position, is highly cash generative and faces limited financial risk. We believe the shares trade at a material discount to intrinsic value due to a sudden growth slowdown and subsequent profit warning ahead of our entrance. We believe the slowdown was largely self-inflicted due to a change in online pricing strategy and the top-line momentum should recover during the course of 2018.

Outlook

We expect continued volatility in the months ahead. We continue to focus on a bottom-up stock picking approach in the hunt for cheap companies that will outperform in the current environment. Our portfolio consists of 44 companies with a weighted P/E ratio of less than 9x and P/BV of 1x. This is a 25% P/E discount to the MSCI EM index and a 45% discount to the MSCI DM index.

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The fund selects low-priced, high-quality companies, mainly in emerging economies.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

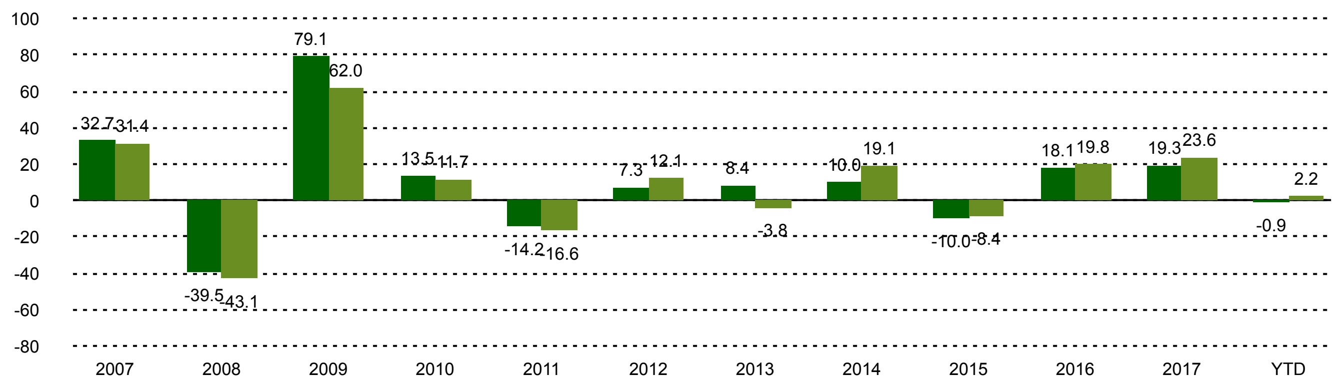
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	-3.8%	-2.6%
Quarter to date	-0.5%	-0.2%
Year to date	-0.9%	2.2%
Last year	8.4%	14.9%
Last 3 years	6.8%	8.4%
Last 5 years	8.7%	11.2%
Last 10 years	6.5%	6.4%
Since start	13.4%	8.7%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	910.46 SEK
Fixed management fee	2.00%
Total expense ratio (2017)	1.59%
Benchmark index	MSCI EM NR
AUM (mill.)	26293.04 SEK
Number of holdings	44
Portfolio manager	Cathrine Gether & Fredrik Bjelland

Performance last ten years



SKAGEN Kon-Tiki A MSCI EM NR Please see benchmark disclaimer at bottom of next page

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Mahindra & Mahindra Ltd	4.28	0.86
Ericsson	3.06	0.69
SHINEWAY PHARM	1.83	0.52
Golar LNG Ltd	3.99	0.49
Marfrig Global Foods SA	1.41	0.42

Largest detractors

Holding	Weight (%)	Contribution (%)
Banrisul	2.38	-1.04
LG Electronics Inc	3.40	-0.83
Haci Omer Sabanci Holding AS	3.42	-0.75
Cosan Ltd	2.25	-0.53
Indosat Tbk PT	1.09	-0.44

Absolute contribution based on NOK returns at fund level

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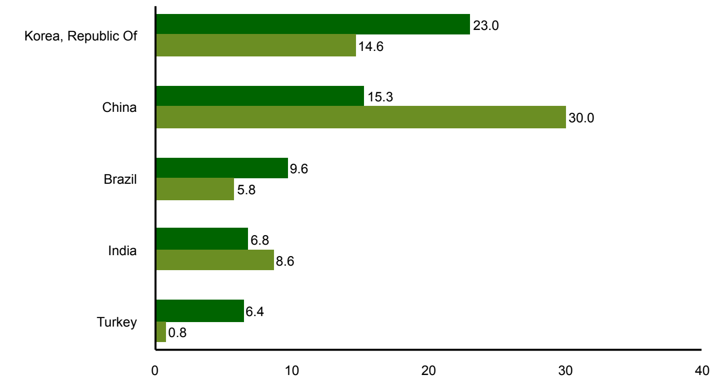
Top ten investments

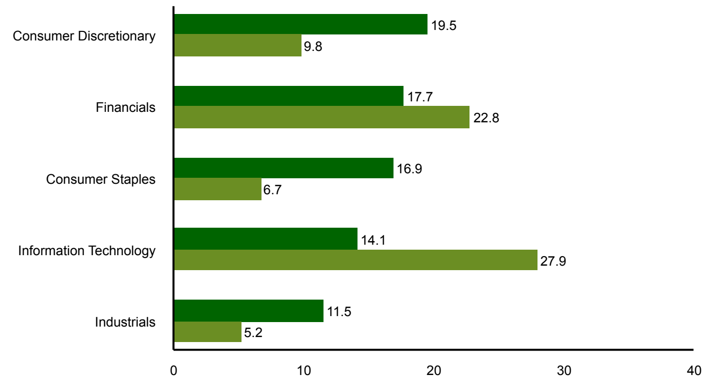
Holding	Sector	Country	%
Samsung Electronics	Information Technology	Korea, Republic Of	6.6
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	5.9
Naspers	Consumer Discretionary	South Africa	5.4
Golar LNG	Industrials	United States	4.1
Haci Omer Sabanci Holding	Financials	Turkey	3.4
Borr Drilling	Energy	Norway	3.4
LG Electronics	Consumer Discretionary	Korea, Republic Of	3.3
Ericsson	Information Technology	Sweden	3.2
Mahindra & Mahindra	Consumer Discretionary	India	3.2
Cia Brasileira de Distribuicao	Consumer Staples	Brazil	3.0
Combined weight of top 10 holdings			41.5

Country exposure (top five)



SKAGEN Kon-Tiki A MSCI EM NR

Sector exposure (top five)



SKAGEN Kon-Tiki A MSCI EM NR

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Important information

The benchmark index is the MSCI EM Index (net total return), this index did not exist at the inception of the fund and consequently the benchmark index prior to 1/1/2004 was the MSCI World AC Index. This is not reflected in the table/graph above which shows the MSCI EM Index since the funds inception.