

Strong end to the year

The fund delivered a strong return in the last quarter of the year, in December in particular, both in absolute and relative terms. In fact, the fund hit a new all-time-high at the end of the year as measured in Norwegian kroner. In December alone, three positions reached our price target – namely, STMicroelectronics, Nexans and Japanese Petroleum – and were consequently sold out. Thanks to a robust investment case pipeline, we initiated no fewer than four new positions in December. These are German truck and trailer component producer SAF-Holland, US life insurer Lincoln National, Japanese broadcaster Tokyo Broadcasting System and Spanish pulp/energy producer Ence.

A polarised equity market in 2019

The overall investment climate in 2019 was characterised by major uncertainty primarily caused by an on-off global trade war environment, with a focus on US and China relations. These volatile disruptions put major global investments on hold and ripped through the entire value chain from commodities and cyclical to industrials. This backdrop is an important contributor to the weak performance of value equities throughout 2019. It also pushed general equity investors further into seemingly "secure" and "low volatility" stocks with no particular concern for the underlying asset valuations. Overall, we believe global equity investors today are faced with an extremely polarised equity market. We currently observe that the valuation differential between cheap and expensive global stocks is at a record high; a polarisation price point which is reminiscent of the IT boom in 2000-2001. Importantly, this indicates a significant re-rating potential for traditional value assets compared to excessively-priced low volatility growth stocks, with some sectors at depressed valuations not seen since the aftermath of the financial crisis in 2008/2009. In addition, we believe market inefficiency has increased to a point where substantial opportunities have opened up for global active value investors and indeed also for activists and private equity investors.



Photo: Shutterstock

Massive rotation potential into value

Looking ahead to 2020, we believe there are several factors which may conspire to reverse the substantial underperformance of value equities. An intriguing cocktail of maturing growth rates in globally disruptive companies, adjustments in capital flows, thawing trade tensions, monetary and fiscal stimulus, and increased M&A activity could propel the rotation. Following a brief bounce at the start of 2019, deeper value equities in the US have staged an interesting come-back over the last few months, following a violent rotation in September.

Several positions hit price target

The fund ended the year on a strong note as several top ten positions re-rated and three positions hit our price target. In addition, Korean Re delivered an early Christmas surprise, as the shareholder payout was increased and the stock rose sharply in December. The company announced a minimum 25% payout and a share buyback program for 2.5m shares over the next 3 months. The shares still trade at exceptionally low valuation multiples of 0.4x P/B, indicating further upside ahead. Our position in Japanese producer of disaster prevention equipment Teikoku-Sen-I also rose higher in December as the company increased guidance for the year. Importantly, a main catalyst for the investment case has yet to be delivered, namely an increase in the payout ratio following the potential sale of its stake in property company Hulic. One of the stronger performers in 2019 was the German home improvement chain Hornbach Holding. We initiated the position in 2018 as the company temporarily struggled with profitability in its core operations. In 2019, the company delivered several upgrades to guidance as the core business stabilised. Despite gaining almost 55% in 2019 alone, we see continued upside as property values in Hornbach substantially exceed the current market cap.

We increased our position in Unicredit as the company has successfully completed its restructuring phase and is increasing focus on delivering capital returns to shareholders. Following a brief set-back in the share price of Fortuna Silver, we added to the position as the company is executing according to plan on the Lindero asset in Argentina, which will drive major production growth in 2020. The revenue mix will be more diversified between silver and gold in combination with a very competitive free cash flow yield in 2020 and beyond. We scaled down our position in Brazilian sugar and ethanol producer Sao Martinho as the shares have re-rated strongly in recent months. We sold out of AIG following a solid re-rating this year.



Photo: Shutterstock

Outlook for the fund

We end the year with 35 substantially undervalued positions of which more than 50% are in the small and mid-cap segment, with market caps of less than USD 10 billion. We have increased the concentration of our top ten positions, which now sits at 44%, in the middle of our target range of 40-50%. We head into the new year with a fresh portfolio of companies whereby more than half of our holdings are less than one year old. We believe that several parameters point to a massive rotation into value equities in the medium term and SKAGEN Focus is well-positioned to be a prime beneficiary in such an environment.

The fund is a concentrated global equity fund with a mandate to invest in all cap-sizes, geographies and sectors globally. With our concentrated portfolio of 30-35 core positions, we aim to generate absolute returns at a controlled level of absolute risk.

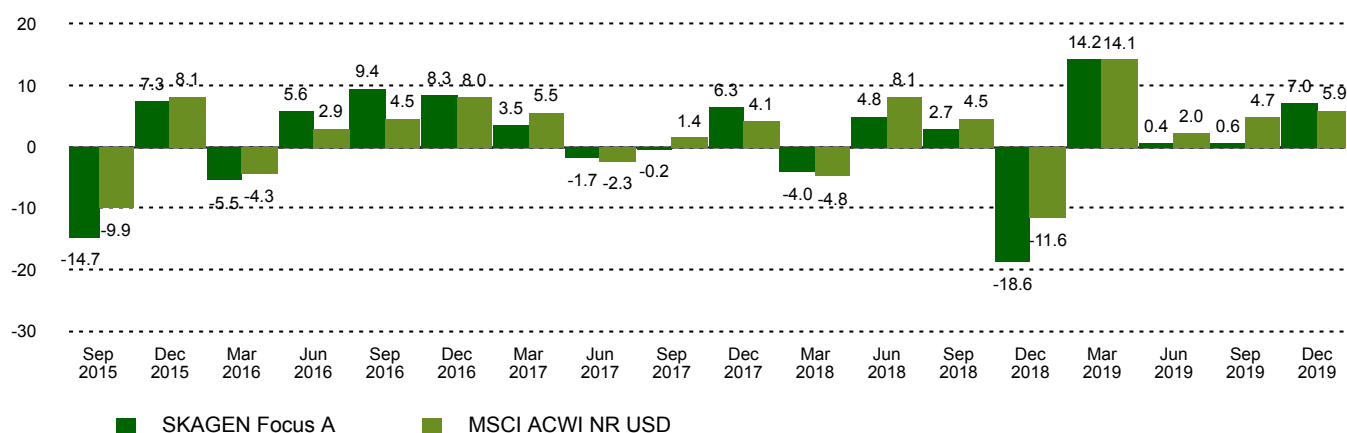
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	5.2%	1.3%
Quarter to date	7.0%	5.9%
Year to date	23.4%	29.0%
Last year	23.4%	29.0%
Last 3 years	3.9%	10.1%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	2.5%	7.2%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	13.30 EUR
Fixed management fee	1.60%
Total expense ratio (2018)	0.8%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	165.06 EUR
Number of holdings	35
Portfolio manager	Jonas Edholm

Quarterly Performance



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Sao Martinho SA	4.47	1.12
STMicroelectronics NV	2.49	0.95
Ivanhoe Mines Ltd	4.04	0.86
Avaya Holdings Corp	2.32	0.60
Fortuna Silver Mines Inc	2.00	0.57



Largest detractors

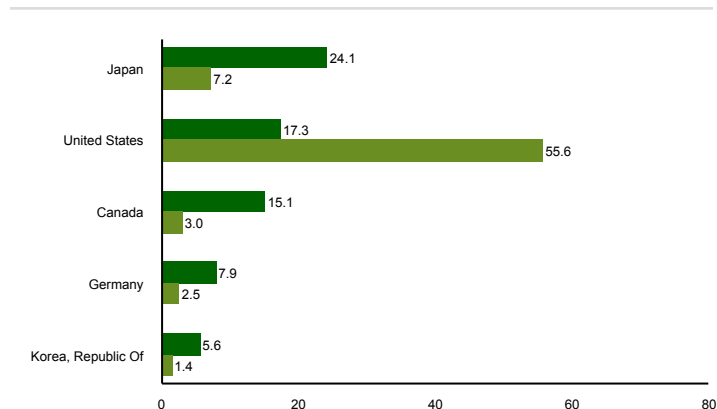
Holding	Weight (%)	Contribution (%)
China Unicom Hong Kong	4.47	-0.65
American International Group	3.75	-0.35
Canfor Pulp Products Inc	1.45	-0.22
Hyundai Motor Co	2.56	-0.17
thyssenkrupp AG	1.78	-0.12

Absolute contribution based on NOK returns at fund level

Top ten investments

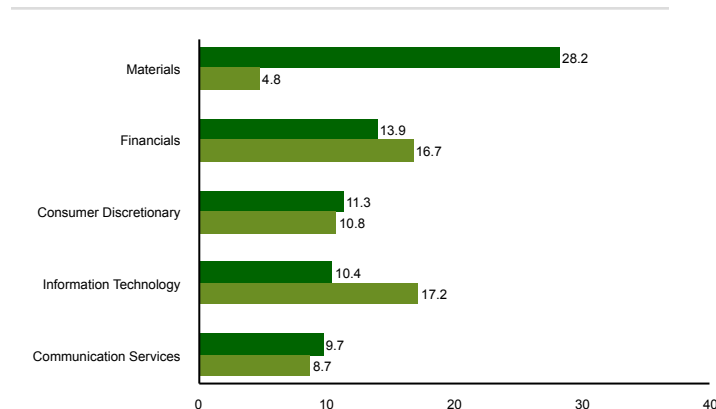
Holding	Sector	Country	%
OMV AG	Energy	Austria	5.2
Bank of Kyoto Ltd/The	Financials	Japan	4.8
Hitachi Ltd	Information Technology	Japan	4.6
Ivanhoe Mines Ltd	Materials	Canada	4.5
China Unicom Hong Kong Ltd	Communication Services	China	4.4
Dow Inc	Materials	United States	4.2
Toyota Industries Corp	Consumer Discretionary	Japan	4.2
Sao Martinho SA	Consumer Staples	Brazil	4.1
Roxgold Inc	Materials	Canada	3.8
Avaya Holdings Corp	Information Technology	United States	3.6
Combined weight of top 10 holdings			43.3

Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Contact



+46 8 555 979 00



kundservice@skagenfonder.se



SKAGEN AS, Box 11, 101 20
Stockholm

Important information

Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. 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 download 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 our local representatives. 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.