

Stockpicking focus in a volatile environment

In a volatile quarter, the global equity market as represented by the index MSCI AC World declined marginally in Q3 as tariff talks, lower interest rates and geopolitical events rattled investors. SKAGEN Global outperformed the index in Q3 and the fund ended the quarter ahead of its benchmark as measured YTD as well as over one-year and three-year periods.

Attribution

The fund's three strongest performers based on absolute return in Q3 were Intercontinental Exchange (ICE), Beazley and Microsoft. The US exchange operator ICE, owner of the New York Stock Exchange, continued to execute in a disciplined manner. We believe that the share price does not yet fully reflect ICE's superior strategic position nor its ability to drive further innovation in the industry. We regard management highly and view their capital allocation skills as an underappreciated intangible asset within the group.

The specialist insurer Beazley advanced in the quarter. The stock has been out of favour in the past year due to market concerns around capital buffers after two years of heavy natural catastrophes that took a heavy toll on earnings. During this period, we have closely analysed and monitored the company. Our due diligence points to a temporary blip rather than a structural problem and we have retained our high conviction in the holding. With a (so far) benign hurricane season, capital concerns are subsiding and the market's focus is slowly turning back to the strong specialty insurance secular growth story that underpins the long-term investment case. Once the company comes through the current soft patch, we believe there could be material upside in the name over the next few years.

Finally, the American IT giant Microsoft, which has resided in the SKAGEN Global portfolio for nearly nine years, executed well with both operating margin and free cash flow margin expanding notably. The company once again benefitted from the structurally growing cloud-computing segment.

The fund's three largest detractors in Q3 were SAP, ADP and LVMH. The German multinational software company SAP reported comparatively weak numbers for Q2 with cash flow once again coming in below expectations. Our holdings in ADP and LVMH, both of which have a cyclical tilt, declined somewhat as macro sentiment deteriorated.



Photo: Bloomberg

Key sells

We exited the Finnish pulp and paper company UPM and the German real estate firm Deutsche Wohnen. We also sold our shares in the German software behemoth SAP due to persistently weak cash flow generation and heightened risk of further earnings quality erosion in order to hit financial targets. Finally, Mayr-Melnhof Karton, the Austrian packaging company with a strong management team, left the portfolio as its fundamentals look increasingly uninspiring.

Key buys

We initiated four new positions in Q3: LVMH, Baxter International, Visa and ADP. The leading French luxury goods maker LVMH has strengthened its grip on the global luxury goods consumer by developing an impressive set of brands and products. In our view, the company will benefit disproportionately from its digital prowess and brand equity management; two examples of intangible assets that we consider underappreciated by the wider market.

Baxter International is a global healthcare company specialising in renal care and hospital products. In 2015, the company spun off its biopharmaceutical business into a new entity called Baxalta. Since the spin-off, Baxter's new management team has improved margins, but we think profitability can go higher yet. Moreover, we believe the balance sheet optionality combined with prudent capital allocation is underappreciated and will be a source of material shareholder value over the next 3 to 5 years.

Visa is a financial services company with a dominating position in the global payment space. Similar to our investment in MasterCard, Visa will likely benefit from the secular transition from cash to digital payments for the consumer to business (C2B) segment. However, our investment hypothesis increasingly focuses on the next paradigm shift in the payment landscape, namely the changing flows for business to business (B2B), business to consumer (B2C), government to consumer (G2C) and peer to peer (P2P). The investment opportunity derives from the uncertainty around which player(s) will ultimately be the winner(s) in this turf war. We contend that both MasterCard and Visa are well placed to succeed and there is no reason why multiple players cannot benefit from the technological development over the next decade. Meanwhile, superb cash generation and a strong balance sheet (enjoying an AA- rating by S&P) provide Visa with a big war chest for funding internal and external investment opportunities.

Automatic Data Processing (ADP) is a leading global operator of human capital management solutions. The company also offers services ranging from payroll and HR to tax and compliance administration. ADP has a significant opportunity to expand its customer base with mission-critical services that generate substantial amounts of cash.

Separately, we participated in the equity raise by the Faroese salmon farming company Bakkafrost to support its acquisition of a majority stake in the Scottish Salmon Company.



Photo: Bloomberg

Outlook

We remain focused on bottom-up stock-picking in a business climate characterised by substantial noise and tension around trade, politics and regulation. The portfolio remains attractively valued.

The fund selects undervalued companies from around the world, including emerging markets, with attractive risk-reward for long-term investors.

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.

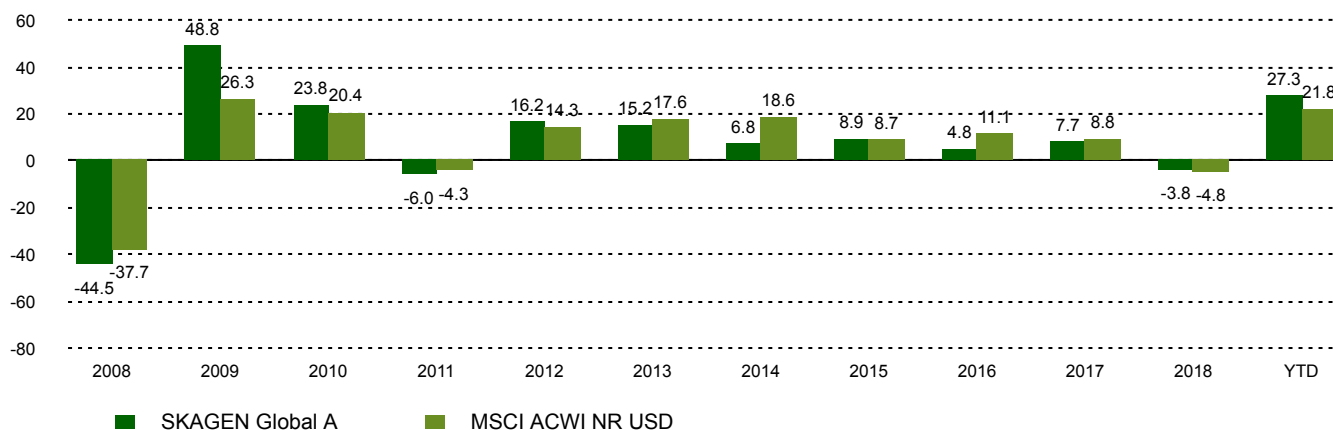
Historical performance (net of fees)

Period	SKAGEN Global A	Benchmark index
Last month	1.7%	3.2%
Quarter to date	7.5%	4.7%
Year to date	27.3%	21.8%
Last year	14.4%	7.7%
Last 3 years	12.0%	10.9%
Last 5 years	8.2%	9.8%
Last 10 years	10.5%	11.5%
Since start	13.7%	4.9%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	07.08.1997
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0008004009
NAV	210.55 EUR
Fixed management fee	1.00%
Total expense ratio (2018)	1.07%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	2913.99 EUR
Number of holdings	37
Portfolio manager	Knut Gezelius

Performance last ten years



The benchmark index prior to 1/1/2010 was the MSCI World Index.

Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Intercontinental Exchange Inc	5.96	0.82
Beazley PLC	4.75	0.78
Microsoft Corp	5.25	0.55
Home Depot Inc	2.83	0.50
Alphabet Inc	2.63	0.48



Largest detractors

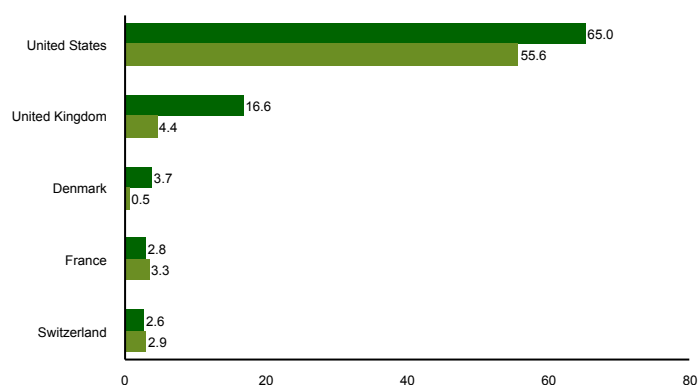
Holding	Weight (%)	Contribution (%)
SAP SE	1.37	-0.15
Automatic Data Processing	0.26	-0.05
LVMH Moet Hennessy Louis Vuitton	0.80	-0.02
Visa Inc	0.29	-0.02
Mayr Melnhof Karton AG	0.92	-0.01

Absolute contribution based on NOK returns at fund level

Top ten investments

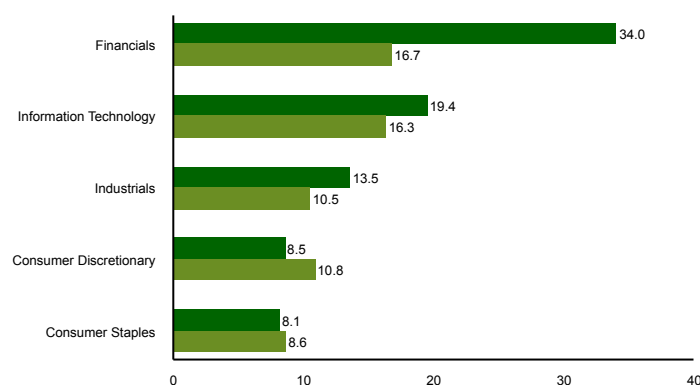
Holding	Sector	Country	%
Intercontinental Exchange Inc	Financials	United States	6.0
Microsoft Corp	Information Technology	United States	5.2
Beazley PLC	Financials	United Kingdom	5.1
Unilever NV	Consumer Staples	United Kingdom	4.4
Hiscox Ltd	Financials	United Kingdom	4.4
Marsh & McLennan Cos Inc	Financials	United States	3.9
DSV A/S	Industrials	Denmark	3.7
Accenture PLC	Information Technology	United States	3.5
Mastercard Inc	Information Technology	United States	3.2
JPMorgan Chase & Co	Financials	United States	3.0
Combined weight of top 10 holdings			42.5

Country exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR USD

Sector exposure (top five)



■ SKAGEN Global A ■ MSCI ACWI NR USD

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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.