

## Emerging markets continue to deliver

Emerging market equities continued to deliver a decent return, both on an absolute basis and relative to developed market equities. Proof of recovery in earnings across the EM universe is a key driver, which has supported a notable flow into the asset class after significant outflow during 2013-2015. Deceleration of inflation in many emerging economies allows for interest rate cuts. This supports equity valuation, as the cost of equity declines. However, the valuation gap relative to developed market equities is still significant, measured on almost all metrics.

Our Korean holdings demonstrated a solid performance during the period helped by expectations of an improvement in governance after the change in government. President Moon and his administration have made specific suggestions on how to improve minority shareholder protection. Positive measures carried out by Samsung Electronics in terms of capital allocation and governance should encourage changes among other Korean companies.

Our Turkish investments also supported return in the period. While political and geopolitical issues are still apparent, our companies have strong market positions, solid balance sheets and low valuation. In addition, some of the holdings mainly have risk exposure abroad, making their affiliation with Turkey flawed. In a world where companies are increasingly expanding outside their home market, place of listing becomes more and more irrelevant.

Our Brazilian holdings contributed negatively to return. Political turmoil

created uncertainty with accusations of corruption involvement by President Temer. This turmoil might delay needed reforms.

### Key buys

We invested in two new companies during the quarter, namely China Unicom and LM Ericsson.

China Unicom is the third largest mobile operator in China. The company is valued at four times operating cash flow, which is a meaningful discount to EM operators. CU is one of the first companies to participate in China's pilot mixed ownership reform program. We expect this to result in positive governance changes. By bringing in private shareholders like some of the major internet companies and introducing a management incentive scheme for the first time, they will create a new culture and decision-making process that should make this a successful operational turnaround case with better CAPEX efficiency. If our thesis plays out, they should also get a head start in the 5G era by gaining access to a valuable spectrum.

LM Ericsson has been part of the other SKAGEN equity funds' portfolios for some time. The company is in the midst of a restructuring process, headed by the new CEO. We believe this process will accelerate further with the activist fund Cevian disclosing more than 5 percent ownership. We expect to see a leaner and more efficient company after this.



China Unicom is the third largest mobile operator in China. Photo: Bloomberg

### Key sells

During the quarter, we exited tyre maker, Apollo Tyres. The company has been in our fund since 2012 and we now find it fully valued after almost tripling our initial investment. We exited Sistema on litigation risk following a large claim from Rosneft, as we are uncertain about the objectivity of the Russian legal system. We sold OCI Co. and GCL-Poly Energy after a revised view on the solar industry outlook, whereby Chinese players are causing disruption to the supply/demand balance. We also sold out of investment bank, EFG-Hermes Holding, after strong share price appreciation.



One of our Korean holdings, Samsung Electronics, demonstrated a solid performance during the period. Photo: Bloomberg

### Outlook

Over the past two years, we have concentrated the portfolio to focus on our single best ideas. At the end of June, our portfolio consisted of 53 companies with the 35 largest holdings accounting for 85 percent of fund's net worth. The reduction in the number of companies also frees up more time for us to search for new ideas, challenging existing portfolio holdings. The value proposition of our portfolio continues to be evident. The largest holdings are valued at a weighted P/E of 10x our estimates for this year, which is a meaningful discount to EM in general at 12x consensus forecasts. On trailing P/BV, our portfolio is valued at 1.1x. This is a material discount to EM in general at 1.7x. We see an average weighted upside for our portfolio of 29 percent. At our target prices, the portfolio would be valued at 13x earnings for the current year.

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.

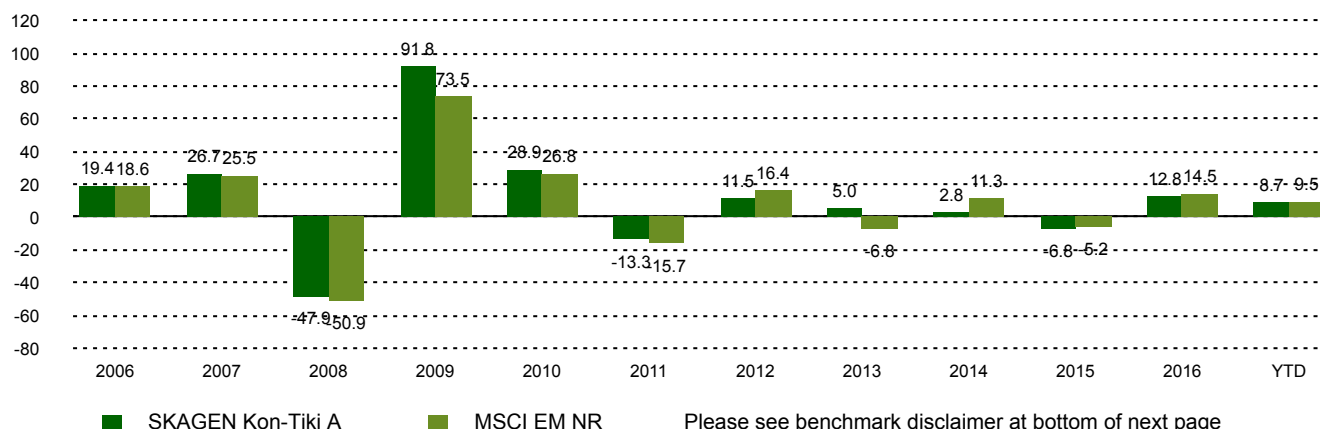
## Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Quarter to date	-2.6%	-0.7%
Year to date	8.7%	9.5%
Last year	20.5%	20.6%
Last 3 years	3.3%	7.4%
Last 5 years	5.8%	6.2%
Last 10 years	4.8%	3.6%
Since start	13.3%	7.9%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	87.37 EUR
Fixed management fee	2.00%
Total expense ratio (2016)	1.81%
Benchmark index	MSCI EM NR
AUM (mill.)	3552.53 EUR
Number of holdings	53
Lead manager	Knut Harald Nilsson

## Performance last ten years



## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
Samsung Electronics	7.45	0.86
Hyundai Motors	7.77	0.67
LG Electronics	2.54	0.64
Naspers	5.31	0.53
Sabancı Holding	4.57	0.52



### Largest detractors

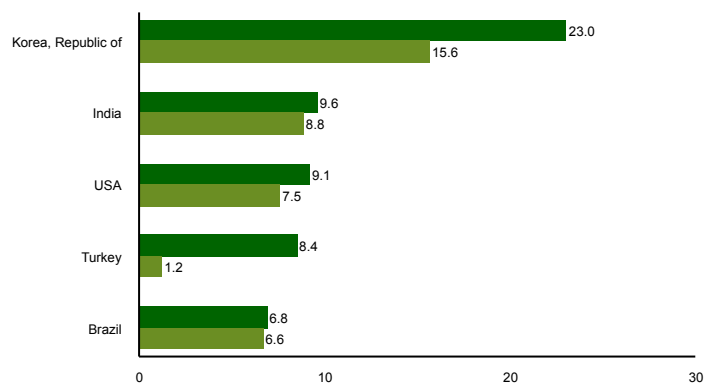
Holding	Weight (%)	Contribution (%)
Cosan Ltd	3.14	-0.89
Golar LNG	2.29	-0.48
Barrisul	2.62	-0.46
Tullow Oil	1.18	-0.45
Systema	0.44	-0.41

Absolute contribution based on NOK returns at fund level

## Top ten investments

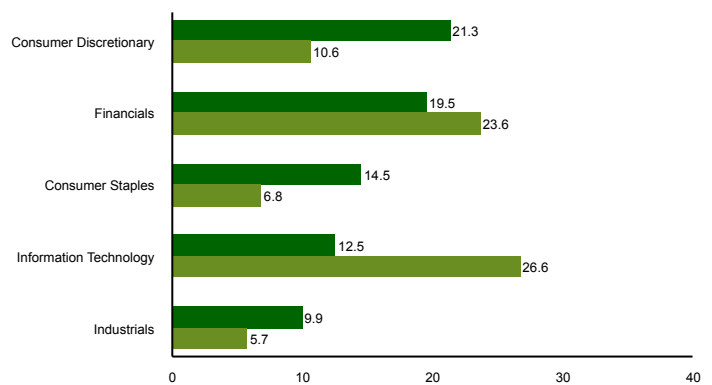
Holding	Sector	Country	%
Hyundai Motor	Consumer Discretionary	Korea, Republic of	7.74
Samsung Electronics	Information Technology	Korea, Republic of	7.03
Naspers	Consumer Discretionary	South Africa	4.53
Sabanci Holding	Financials	Turkey	4.50
Mahindra & Mahindra	Consumer Discretionary	India	3.80
X5 Retail Group	Consumer Staples	Russia	3.69
Richter Gedeon	Health Care	Hungary	3.40
State Bank of India	Financials	India	3.05
Kinnevik	Telecommunication Services	Sweden	2.79
LG Electronics	Consumer Discretionary	Korea, Republic of	2.71
Combined weight of top 10 holdings			43.24

## 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

Unless otherwise stated, performance data relates to class A units and is net of fees. 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.

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.