SKAGEN Kon-Tiki A

All data in EUR as of 31/12/2019 unless otherwise stated.

Increased appetite for risk led to EM outperformance

2019 was an eventful year with very strong equity returns despite a yield curve inversion, trade war, a global manufacturing recession, contracting EPS growth, Brexit, the Trump impeachment inquiry and geopolitical risks all being high on the agenda.

The last quarter of the year was characterised by renewed optimism in equity markets. Falling interest rates and central bank easing in the face of trade-war tensions sent investors on a renewed hunt for higher-yielding assets. This was later backed by emerging signs of increased economic activity. As we head into 2020, and despite some obvious risks on the horizon, we remain cautiously optimistic that the longest ever expansion still has room to run, even as it becomes more vulnerable.

Growth is expected to recover gradually in 2020, with an acceleration in key emerging markets like Brazil, India and Russia. A widening of the EM-DM growth differential should be favourable for EM equities, and we saw early signs of this in Q4 – contrary to the strong underperformance throughout the rest of the year.

Headwinds for value

Kon-Tiki had a tough time keeping up with the MSCI EM index in the quarter and therefore underperformed for the year as a whole. Kon-Tiki's value-based investment philosophy continued to face strong headwinds in EM, illustrated by the unusually large performance gap between the MSCI EM Value and Growth components of the index. However, Kon-Tiki outperformed the Value index, and we are encouraged by the strong profit contribution from some of the newly generated ideas that have entered the portfolio over the past 12-18 months.

Largest contributors

Samsung Electronics rebounded firmly in the quarter as the 2020 memory cycle looks more promising with a recent spot market price rebound, normalised channel inventories, a potential datacentre chip demand upside, the 5G phone theme and the lagging impact of the 2019 capex cut leading to a possible supply shortage. Samsung continues to trade at a very attractive valuation, and we continue to see room for accelerated shareholder returns.

For Euronav, a combination of regulatory, seasonal and geopolitical events created the strongest crude-tanker environment since 2008. On top of this, with a regulatory change opening up for quarterly dividends, we expect positive news in 2020. The company continues to reiterate they do not want to start a new ordering cycle, and that excess cash, which is significant at the current strong day rates, should be paid out to shareholders.

Atlantic Sapphire has gone from strength to strength over the past two years with a continued de-risking of the business model by reaching critical milestones in the development of land-based salmon farming. We are proud to have played an important funding role at a very critical stage of this revolutionary land-based salmon farming company. This is clearly the most ESG friendly and sustainable protein production source we have come across in the investment universe.

Brazilian conglomerate Cosan continued its strong run on the back of improving signs of a potential simplification of its group structure combined with continued buy backs and strong cashflows. They are beneficiaries of higher sugar and ethanol prices, while the newly announced interest in a natural gas growth strategy makes strategic sense.

Gedeon Richter, a Hungarian based pharmaceutical company, enjoyed a strong end to the year with an impressive sales acceleration in their most important product, Vraylar. Since receiving the additional bipolar depression indication, prescriptions have accelerated significantly, paving the way for increased peak sales.

Largest detractors

Tullow Oil was the largest detractor in the quarter, after a surprise announcement that previous game-changing oil-finds offshore Guyana were heavy oil with a high sulphur content. This put into question the commercial viability of their assets in the area. With the CEO and Exploration Director leaving, a business review is underway with a need to take action to underpin cashflow generation after a very disappointing production update. We have sold out of the position on mistrust of the management team, the Board's control structures and their communication strategy which has misled investors.

We also sold out of Turkish Air immediately after Turkey's Syria offensive due to heightened geopolitical risk.

Photo: Bloomberg

Photo: Bloomberg

China Unicom has been weak after recent disappointing subscriber numbers combined with a fear of "national service" pressure to lower 5G subscription prices and phone subsidies in order to roll out 5G more quickly in China. As they are trading at 2x EV/EBITDA, we view the downside as relatively protected. The 5G co-build/co-share with China Telecom should lead to a network on par with the market leader in terms of coverage and depth at reduced capital expenditure.

Hyundai Motor was down in the quarter despite an upbeat capital markets day where they laid out a detailed roadmap for a sustainable increase in margins through cost savings. The combination of earnings upgrades and improved shareholder returns is not reflected in the current valuation.

Outlook

Despite a strong absolute return in 2019, Kon-Tiki remains attractively valued staying true to our value-based investment philosophy. With a diversified portfolio consisting of 46 companies trading on less than 8.5x 20e P/E and 1x P/B, this offers valuation protection compared to the MSCI EM index which trades on more than 11x and 1.6x, respectively. To put the case for EM equities in perspective, the MSCI World index is trading at a big premium, at more than 17x and 2.6x.

Quarterly Report

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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.

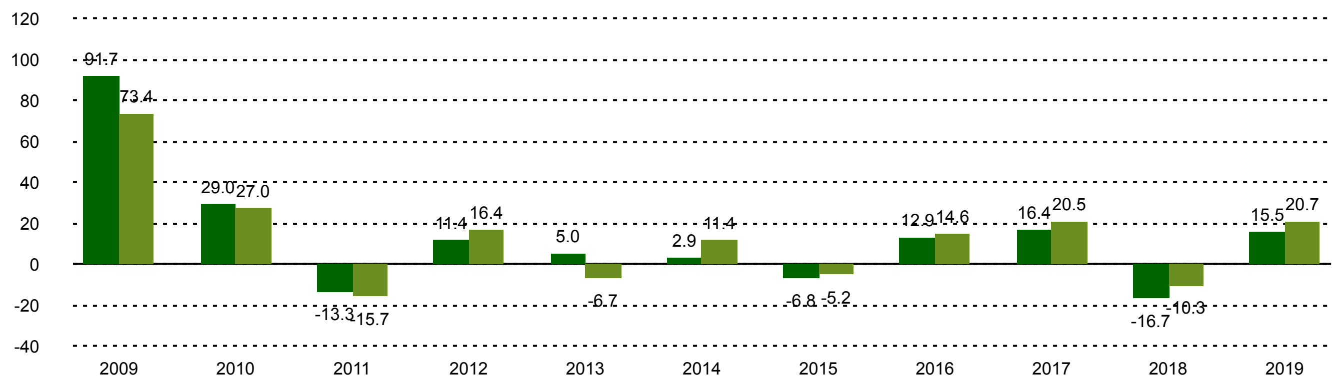
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	4.9%	5.3%
Quarter to date	5.9%	8.5%
Year to date	15.5%	20.7%
Last year	15.5%	20.7%
Last 3 years	3.8%	9.3%
Last 5 years	3.3%	7.2%
Last 10 years	4.7%	6.2%
Since start	11.5%	7.8%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	90.01 EUR
Fixed management fee	2.00%
Total expense ratio (2018)	1.16%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1789.16 EUR
Number of holdings	46
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Please see benchmark disclaimer at bottom of next page

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Samsung Electronics Co	8.00	1.23
Euronav NV	3.12	0.84
Atlantic Sapphire AS	3.27	0.66
Cosan Ltd	1.51	0.61
Richter Gedeon Nyrt	2.14	0.56

Largest detractors

Holding	Weight (%)	Contribution (%)
Tullow Oil PLC	0.95	-0.90
China Unicom Hong Kong	2.84	-0.43
Hyundai Motor Co	4.49	-0.30
Turk Hava Yollari AO	0.36	-0.29
Bangkok Bank PCL	2.40	-0.23

Absolute contribution based on NOK returns at fund level

Quarterly Report

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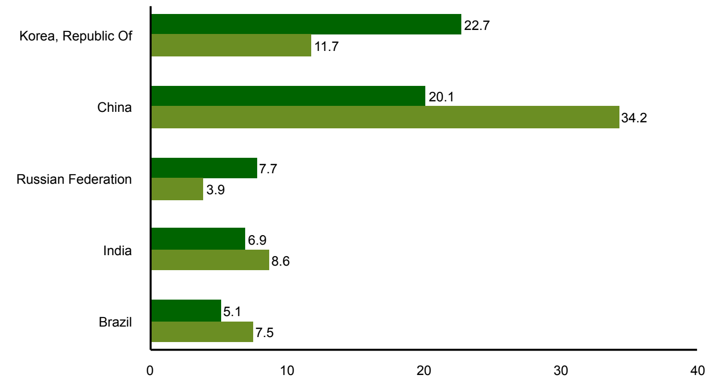
Top ten investments

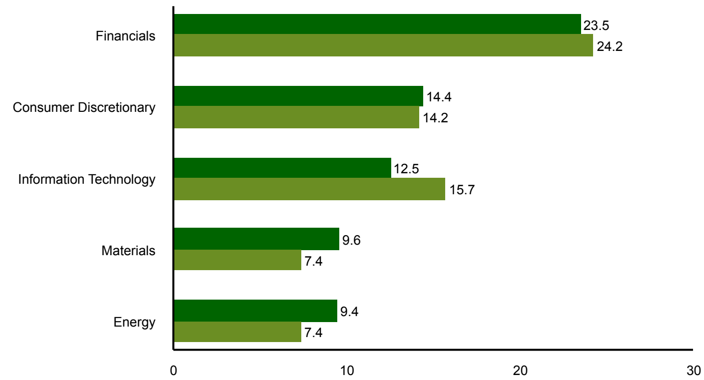
Holding	Sector	Country	%
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	7.6
Ping An Insurance Group Co of China Ltd	Financials	China	6.0
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	4.3
Atlantic Sapphire AS	Consumer Staples	Norway	3.7
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	3.4
Royal Dutch Shell PLC	Energy	Netherlands	3.2
Naspers Ltd	Consumer Discretionary	South Africa	3.2
Euronav NV	Energy	Belgium	3.2
Bank Of China Ltd	Financials	China	3.1
Ivanhoe Mines Ltd	Materials	Canada	3.1
Combined weight of top 10 holdings			40.8

Country exposure (top five)



SKAGEN Kon-Tiki A MSCI EM NR USD

Sector exposure (top five)



SKAGEN Kon-Tiki A MSCI EM 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.

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.