

## A tale of two markets

2021 turned out to be a tale of two markets. Developed market (DM) equities continued to power ahead and ended the year on a high note. This was despite signs of accumulating risks with fears of stagflation creeping in, supply shortage concerns and worries about peak growth with the emergence of Omicron and hawkish taper remarks by the Fed. Conversely, emerging market (EM) returns have been close to the bottom end of cross asset scorecards for much of this year, with EM equities, dollar sovereign credit and currencies all underperforming their counterparts. Low vaccination rates in EM have made them more vulnerable at the same time as many EM countries have endured a tightening bias throughout the year in an effort to rein in inflationary pressures and pre-empt the coming tightening by the Fed in order to alleviate risks of capital flight.

China, which represents almost one third of the index, dragged EM down in the aftermath of credit and regulatory tightening across sectors in pursuit of their common prosperity goals. Concerns about the financial stability of the property sector continued to be a headwind with Evergrande being suspended and defaults by other property developers. We expect a slightly more supportive policy environment in 2022 as China refocuses on stability, while decarbonisation and deleveraging might take a back seat for a while. The credit cycle could be at an inflection point after a year of tightening and we have hopefully seen the peak of regulatory pressure.

### Contributors and detractors

The last quarter of the year proved to be a tough one for Kon-Tiki, which underperformed the benchmark even though some of the largest negative contributors for the year ended up being the biggest positive contributors of the quarter.

Chinese insurance group Ping An finally saw some relief after a persistently falling share price throughout the year. We added to the position amidst weakness as we regard it to be a high-quality company trading at a deep valuation discount. The company's transformation over recent years fuelled by technology should help it turn the corner in its agency strategy, which should in turn boost agent productivity. The

integrated financial ecosystem remains a distinct moat for additional cross-selling opportunities. We are therefore optimistic about its longer-term growth opportunities and near-term recovery potential.

Brazilian pulp and paper producer Suzano saw the tide start to turn with signs of improving pulp market dynamics, healthy demand and a continued weakening of the BRL. Their competitive cost positioning and growth profile secures strong recurring FCF generation which we like combined with a strong capital allocation track-record.

Land-based salmon farming company Atlantic Sapphire is working on rebuilding trust after several setbacks in recent quarters. More detailed and timely updates from the company and delivery according to set KPIs in the short term should make 2022 an exciting year for the company.

Ivanhoe Mines continued to be a strong contributor also in the last quarter of the year. The past few months have been eventful with the recent commissioning and a stronger than expected ramp-up of what we regard to be the best copper mine in the world. Its superior copper production growth profile combined with one of the lowest unit costs gives Ivanhoe an advantage in a world that needs more copper for the green transition.

Conversely, we also saw some of the strongest positive contributors of the year become negative contributors in the last quarter. Cash and carry operator Assai (listed name Sendas, recently spun out of Brazilian retailer GPA) experienced weakness after a major acquisition of hypermarket stores from GPA which was deemed expensive by the market. Although this will be dilutive in the near term, we see it as a strategically compelling deal in the medium term.

Sberbank, which has also been a strong YTD contributor also experienced a setback. They continued to deliver solid results which exceeded expectations. However, Putin threatening to invade Ukraine has led to increased tensions with a risk of tighter Western sanctions that could harm the Russian economy.



Photo: Shutterstock



Photo: Ivanhoe Mines

### Portfolio activity

We exited Sabanci in the fourth quarter and gradually increased our weighting in select companies on weakness, particularly in China. We also added to our position in Samsung Electronics. We financed this by trimming our positions in some of the fund's best performing companies such as Sberbank, Ivanhoe Mines and our Vietnamese holdings.

### Outlook

We have strong conviction in the attractiveness of the fund's underlying positions and the overall portfolio composition and patiently wait for the market to recognise their true value. The weakness of EM equities and Kon-Tiki's recent underperformance mean the portfolio is trading at an unwarranted discount to both our estimate of fair value (with an aggregated estimated upside of close to 60%) as well as on an absolute level (22x P/E of 7.3x versus the EM index at 10.8x). At the same time, EM equities are trading at a historically high discount to DM equities.

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.

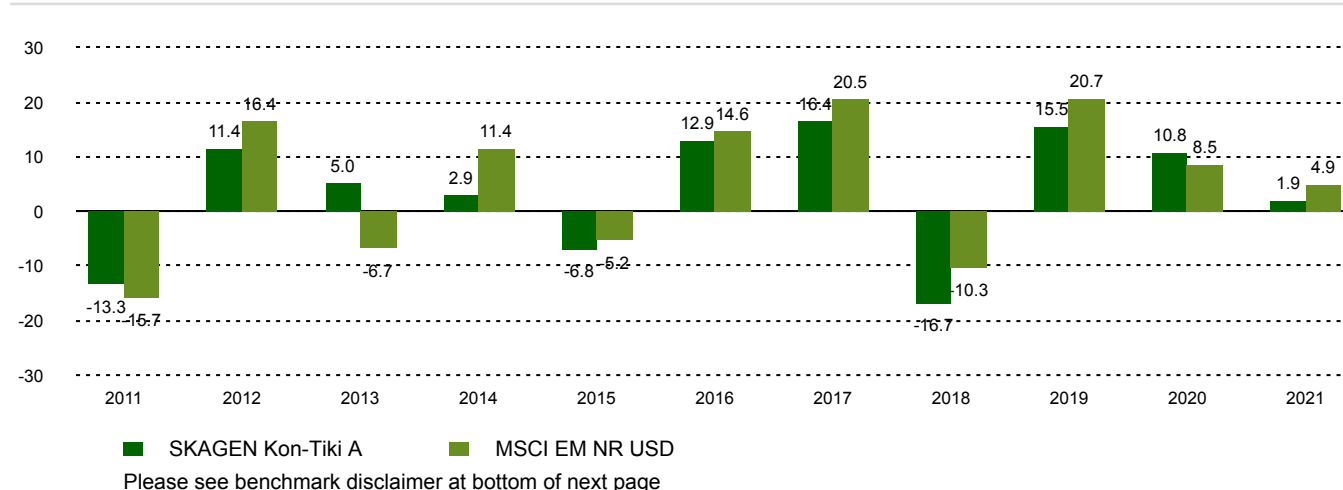
## Historical performance (net of fees)

| Period          | SKAGEN Kon-Tiki A | Benchmark index |
|-----------------|-------------------|-----------------|
| Last month      | 2.3%              | 0.8%            |
| Quarter to date | -1.5%             | 0.6%            |
| Year to date    | 1.9%              | 4.9%            |
| Last year       | 1.9%              | 4.9%            |
| Last 3 years    | 9.3%              | 11.1%           |
| Last 5 years    | 4.8%              | 8.2%            |
| Last 10 years   | 4.8%              | 6.9%            |
| Since start     | 10.9%             | 7.7%            |

## Fund Facts

|                            |                                     |
|----------------------------|-------------------------------------|
| Type                       | Equity                              |
| Domicile                   | Norway                              |
| Launch date                | 05.04.2002                          |
| Morningstar category       | Global Emerging Markets Equity      |
| ISIN                       | NO0010140502                        |
| NAV                        | 101.65 EUR                          |
| Fixed management fee       | 2.00%                               |
| Total expense ratio (2020) | 2.18%                               |
| Benchmark index            | MSCI EM NR USD                      |
| AUM (mill.)                | 1457.87 EUR                         |
| Number of holdings         | 46                                  |
| Portfolio manager          | Fredrik Bjelland<br>Cathrine Gether |

## Performance last ten years



## Contributors in the quarter

### Largest contributors

| Holding                 | Weight (%) | Contribution (%) |
|-------------------------|------------|------------------|
| Ivanhoe Mines Ltd       | 1.75       | 0.44             |
| Ping An Insurance Group | 6.50       | 0.41             |
| Suzano SA               | 3.16       | 0.29             |
| Atlantic Sapphire ASA   | 1.39       | 0.27             |
| Prosus NV               | 4.03       | 0.25             |

### Largest detractors

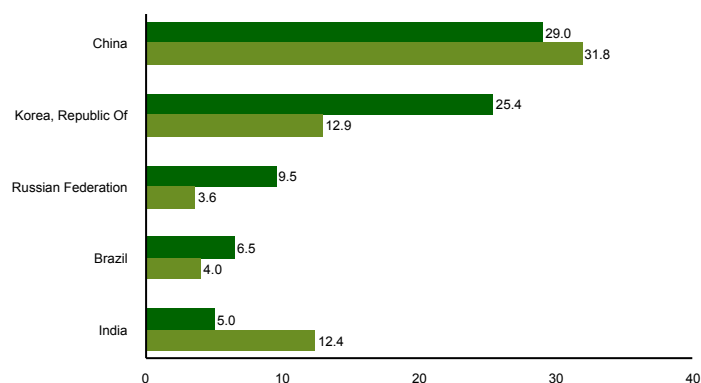
| Holding                   | Weight (%) | Contribution (%) |
|---------------------------|------------|------------------|
| Sendas Distribuidora SA   | 2.70       | -1.12            |
| Sberbank of Russia PJSC   | 4.02       | -0.57            |
| LG Chem Ltd               | 2.09       | -0.52            |
| Alibaba Group Holding Ltd | 3.05       | -0.47            |
| X5 Retail Group NV        | 2.91       | -0.44            |

Absolute contribution based on NOK returns at fund level

## Top ten investments

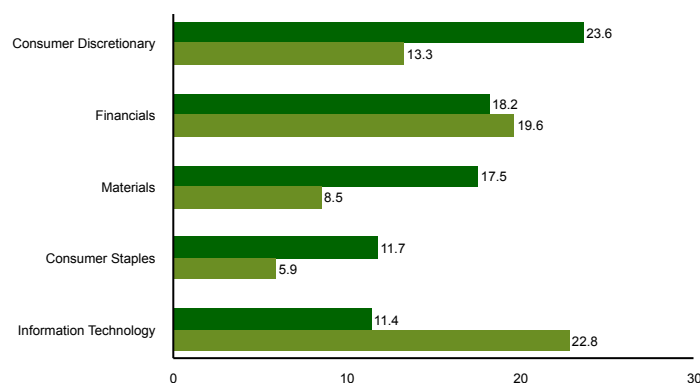
| Holding                                 | Sector                 | Country                   | %    |
|---|------------------------|---------------------------|------|
| LG Electronics Inc                      | Consumer Discretionary | Korea, Republic Of        | 7.3  |
| Ping An Insurance Group Co of China Ltd | Financials             | China                     | 6.6  |
| Samsung Electronics Co Ltd              | Information Technology | Korea, Republic Of        | 6.2  |
| Hyundai Motor Co                        | Consumer Discretionary | Korea, Republic Of        | 4.2  |
| Cnooc Ltd                               | Energy                 | China                     | 4.2  |
| UPL Ltd                                 | Materials              | India                     | 4.0  |
| Prosus NV                               | Consumer Discretionary | China                     | 3.8  |
| Sberbank of Russia PJSC                 | Financials             | Russian Federation        | 3.5  |
| Suzano SA                               | Materials              | Brazil                    | 3.4  |
| Hon Hai Precision Industry Co Ltd       | Information Technology | Taiwan, Province Of China | 2.6  |
| Combined weight of top 10 holdings      |                        |                           | 45.9 |

## Country exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM NR USD

## Sector exposure (top five)



■ SKAGEN Kon-Tiki A ■ MSCI EM 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.

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.