

## A tough quarter

Most equity indices fell into the red at the end of the quarter. The Nordic markets were no exception, with almost all of them eradicating the gains from early 2018. The previously optimistic outlook of a positive macro environment has been replaced by fear of tighter financial conditions and higher interest rates and concerns around global trade. In the Nordics, both Finland and Norway had a slightly less volatile quarter, and the increase in oil price in particular had a positive effect on the Norwegian market. In Sweden and Denmark the broader international companies' markets fell in line with global markets.

SKAGEN Vekst had a tough first quarter, underperforming the index by roughly two percent. As the quarter came to an end, it appears as though a market correction has taken hold of the equity market and fear is rising fuelled by trade war concerns. Towards the end of the quarter, we saw higher volatility and former tech favourites have taken a breather from a multiyear rally. Despite the market jitters, absolute economic growth appears robust and should support positive earnings momentum.

### Key contributors

Despite the recent weakness in tech shares, the best contributor to SKAGEN Vekst in the quarter was Applied Materials, which continued to benefit from a favourable memory market combined with a strong client base, allowing for healthy margins also in 2018. We used the strong performance to reduce the position by 20% over the quarter after the share price rallied over 30% from February lows to its March high. Overall, we reduced our exposure to tech companies in the second quarter by three percent, also reducing our exposure in Broadcom and selling out of SAP in early January.

Telecoms was the strongest sector in the portfolio in the quarter, with Swedish Telia coming back onto investors' radars as they continue to execute on their strategy of exiting central-Asian markets and focusing on

core operations in the Nordics and Baltics. Just as the quarter ended, they also announced the sale of their minority stake in the music-streaming service Spotify, which provided a healthy profit of 2.4x invested capital in less than three years. While this is not a major event for Telia, it contributes to rebuilding investors' confidence in management's capital allocation abilities.

Our financial holdings also did well, with Russian Sberbank benefitting from strong performance, increased confidence in the domestic Russian market and a very favourable market position, which sets the bank up for further gains. The Russian economy is also helped by stronger oil prices and, unlike most of the western world, there is room for interest rate cuts which also supports strong earnings momentum in Russia's largest bank.

The stronger energy prices and renewed optimism also benefitted our energy companies Lundin Petroleum and Gazprom and our oil service companies Borr Drilling and Northern Drilling. In the quarter we invested in the European oil major Shell. Although the price development of oil is fairly unpredictable in our view, the company's more prudent investment decisions over the last couple of years should allow for healthy earnings and returns to shareholders going forward. Over the quarter, we increased our energy exposure by roughly three percentage points.

At the other end of the scale, our materials exposure to aluminium and steel detracted the most from performance. With aluminium prices down over 10%, Norsk Hydro was the largest single detractor to performance in the quarter. Clearly, the increased US tariffs had a negative impact on global prices, but specific production issues in Brazil with potential pollution concerns followed by political meddling were not taken lightly and sent the share price down over 25% from peak. We believe the company is doing all they can to mitigate the issues in Brazil and has fair and transparent communication to the market.



The stronger energy prices and renewed optimism also benefitted our energy company Gazprom. Photo: Bloomberg



Telecoms was the strongest sector in the portfolio in the quarter, with Swedish Telia coming back onto investors' radars. Photo: Bloomberg

### Headwinds

Our recent investment in the German-based Lufthansa met some tough headwinds in the market and lost over 15%. Clearly the market is uncertain about the favourable position the airline has held over the past year in the domestic market and adjoining countries of over 90%. However, both we and the company are clear that there is likely to be greater competition this year. We believe the increased focus on operations after the merger with the failed Airberlin and the agreement with pilots and cabin crew allow for better yield management and stronger earnings. At its current price of 5.5 times earnings over the next couple of years, we see good potential for further price appreciation as the market recognises the potential in Europe's largest airline.

### Outlook

Summing up we still believe the market is set to move higher in 2018, though short-term developments have understandably unnerved investors. We believe first quarter earnings could help calm things down again. Short-term issues have held back several of our names and the likely resolution of these could hopefully lead to outperformance further down the line. We remain pragmatic, but admit that volatility is likely to remain higher going forward. For an active manager this brings opportunities.

The fund selects low-priced, high-quality companies in the Nordic region and from around the world.

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.

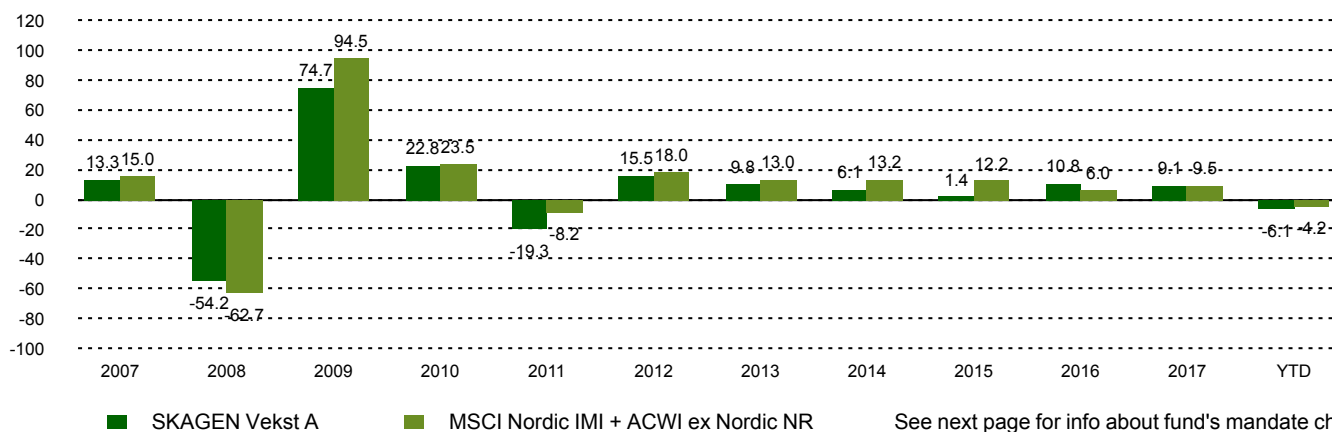
## Historical performance (net of fees)

| Period          | SKAGEN Vekst A | Benchmark index |
|-----------------|----------------|-----------------|
| Last month      | -5.7%          | -4.9%           |
| Quarter to date | -6.1%          | -4.2%           |
| Year to date    | -6.1%          | -4.2%           |
| Last year       | -3.5%          | -0.5%           |
| Last 3 years    | 1.7%           | 2.0%            |
| Last 5 years    | 5.6%           | 8.3%            |
| Last 10 years   | 3.5%           | 6.4%            |
| Since start     | 13.0%          | 9.5%            |

## Fund Facts

|                            |                                     |
|----------------------------|-------------------------------------|
| Type                       | Equity                              |
| Domicile                   | Norway                              |
| Launch date                | 01.12.1993                          |
| Morningstar category       | Global Flex-Cap Equity              |
| ISIN                       | NO0008000445                        |
| NAV                        | 234.32 EUR                          |
| Fixed management fee       | 1.00%                               |
| Total expense ratio (2017) | 2.13%                               |
| Benchmark index            | MSCI Nordic IMI + ACWI ex Nordic NR |
| AUM (mill.)                | 854.98 EUR                          |
| Number of holdings         | 35                                  |
| Lead manager               | Øyvind Fjell                        |

## Performance last ten years



## Contributors in the quarter



### Largest contributors

| Holding                 | Weight (%) | Contribution (%) |
|-------------------------|------------|------------------|
| Applied Materials Inc   | 5.30       | 0.24             |
| Sberbank of Russia PJSC | 3.12       | 0.19             |
| Anglo American PLC      | 2.12       | 0.17             |
| Borr Drilling Ltd       | 1.24       | 0.15             |
| Lundin Petroleum AB     | 1.85       | 0.07             |



### Largest detractors

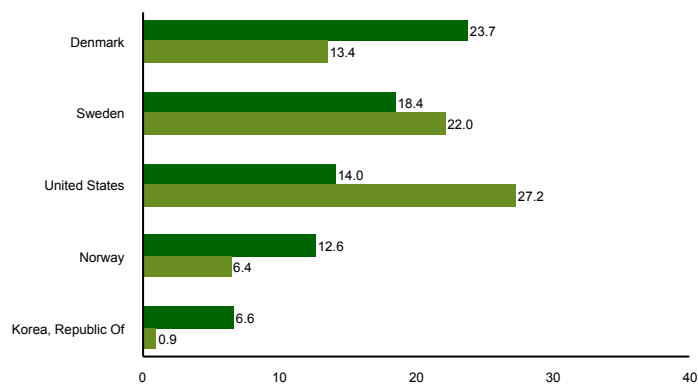
| Holding               | Weight (%) | Contribution (%) |
|-----------------------|------------|------------------|
| Norsk Hydro ASA       | 3.51       | -1.01            |
| Lonza Group AG        | 5.61       | -1.00            |
| Novo Nordisk A/S      | 7.82       | -0.94            |
| Deutsche Lufthansa AG | 4.24       | -0.91            |
| Outokumpu OYJ         | 1.87       | -0.59            |

Absolute contribution based on NOK returns at fund level

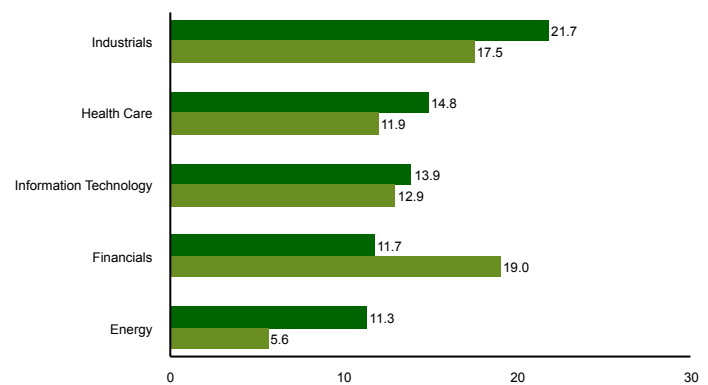
## Top ten investments

| Holding                            | Sector                 | Country            | %    |
|------------------------------------|------------------------|--------------------|------|
| Novo Nordisk                       | Health Care            | Denmark            | 7.8  |
| Samsung Electronics                | Information Technology | Korea, Republic Of | 6.6  |
| Lonza Group AG                     | Health Care            | Switzerland        | 5.3  |
| DSV                                | Industrials            | Denmark            | 5.0  |
| Carlsberg                          | Consumer Staples       | Denmark            | 4.9  |
| Applied Materials                  | Information Technology | United States      | 4.7  |
| Volvo                              | Consumer Discretionary | Sweden             | 4.5  |
| Citigroup                          | Financials             | United States      | 4.1  |
| Deutsche Lufthansa AG              | Industrials            | Germany            | 4.1  |
| Kinnevik                           | Financials             | Sweden             | 3.9  |
| Combined weight of top 10 holdings |                        |                    | 50.9 |

## Country exposure (top five)



## Sector exposure (top five)



■ SKAGEN Vekst A ■ MSCI Nordic IMI + ACWI ex Nordic 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.

Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its funds in Norway to investing a minimum of 50% of its funds in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than they are today. Prior to 1/1/2014, the benchmark index was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX).