SKAGEN Vekst A

All data in EUR as of 28/06/2019 unless otherwise stated.

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Tug-of-war

The last quarter offered investors a good dose of volatility as the market shifted focus between a worsening outlook for a potentially full-blown trade war between China and the US and comments from the Fed, indicating that the case for easing monetary policy has strengthened. The overall result was a small increase in global equity markets. SKAGEN Vekst performed better than the overall market due to very strong performance from some of our large holdings.

Contributors
The two standout performers this quarter were the Norwegian renewable energy company Bonheur and the Russian gas company Gazprom. Bonheur has long been a favourite of ours, as the market has completely overlooked the fact that the company has altered its asset mix away from money-draining oil services towards profitable renewable energy assets. Bonheur's presence at a conference in late February clearly helped investor awareness of the story, and in May we saw the first sell-side analyst take up official coverage of the stock. While the stock has done well, the company still trades at a massive discount to underlying values and other renewable energy-related stocks. We also see further upside as the company continues to become more transparent and has great potential to improve its governance structure.

Another strong performer was Gazprom. Our core thesis has centred around a belief that the company trades at a very attractive dividend yield despite an extremely low pay-out ratio, and it was only a question of time before we would get meaningfully higher dividends. The company surprised everyone in May by changing their minimum pay-out ratio to 25% - thereby doubling the dividend. The company also announced plans that they would gradually move towards a 50% pay-out ratio over the coming 3 years – thereby doubling the dividend once again. While the stock has done well following these announcements, we still see significant upside, as the stock will trade at a dividend yield well north of 10% once the company moves to a 50% pay-out ratio. We also still think the market fails to see how a higher dividend will add some discipline to the company's bloated capex program.

Our two oil service companies Borr Drilling and Northern Drilling were among the largest detractors to absolute return over the past three months. While the fundamental picture in terms of utilisation and day-rates are still moving in the right direction, it is not improving as fast as investors had hoped. It clearly does not help that oil companies continue to maintain their mantra of restrained use of capital for growth. While the above-mentioned stocks have not developed in exactly the way we had hoped, we still see them as attractive long-term investments as the current environment will lead to an adjustment on the supply side.

Portfolio activity
2018 was a perfect storm for a number of re-insurance companies, among them Korean Re, as the world was hit by an unusually high number of natural disasters. At the current valuation, the market is pricing in a scenario where 2018 is the new normal. While we have no insights into the recurrence of natural disasters going forward, we expect a rational industry to implement aggressive price increases to help restore profitability. We have already seen signs of price hikes, but as the stock has not reacted, we decided to increase our position in Korean Re.

We also increased our position in Gazprom as we think the initial reaction to the Gazprom announcement regarding its pay-out ratio underestimates the long-term positive implication on its capital allocation discipline.

In order to fund these investments, we reduced our position in AP Møller-Maersk following strong performance in April. We also reduced our position in the US-based meat producer Tyson Foods as the stock has done extremely well following the outbreak of African swine fever in China. Continued solid performance also led us to reduce the global property and casual insurance company Chubb.

Photo: Bloomberg

Photo: Bloomberg

Outlook
While global stocks have generally fared well since the end of the financial crisis, the performance has been unevenly distributed. This has resulted in a situation where quality growth stocks trade at historically high valuations, while more capital-intensive industries often trade at valuation multiples not far below financial crisis levels. Importantly, a number of these companies have now become so cheap that the dividend yield is comparable to the normalised total return you would expect from the stock market.

Thus, while the overall market does not look particularly cheap, we find underlying pockets of opportunities. For this reason, we have continued to move the portfolio towards more classic value cases. As always, this is done taking a bottom-up approach, favouring companies trading at depressed valuations, offering clear triggers, and paying an attractive dividend yield.

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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.

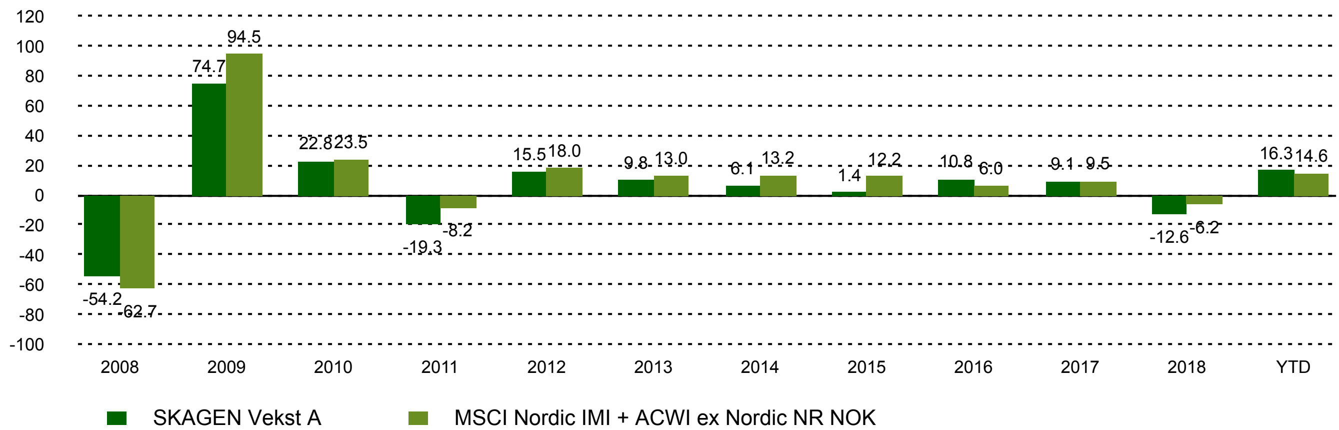
Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last month	5.0%	4.5%
Quarter to date	4.0%	1.7%
Year to date	16.3%	14.6%
Last year	3.6%	5.3%
Last 3 years	9.2%	9.0%
Last 5 years	4.0%	8.0%
Last 10 years	8.3%	13.1%
Since start	12.7%	9.5%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	253.45 EUR
Fixed management fee	1.00%
Total expense ratio (2018)	1.00%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR NOK
AUM (mill.)	744.93 EUR
Number of holdings	50
Portfolio manager	Søren Christensen

Performance last ten years



See next page for info about fund's mandate change.

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Bonheur ASA	3.64	1.23
Gazprom PJSC	1.99	0.92
Yara International ASA	3.68	0.64
DSV A/S	3.47	0.57
Citigroup Inc	4.68	0.52

Largest detractors

Holding	Weight (%)	Contribution (%)
Northern Drilling Ltd	1.65	-0.56
Borr Drilling Ltd	1.17	-0.55
Baidu Inc	0.91	-0.31
Novo Nordisk A/S	6.49	-0.24
Golar LNG Ltd	1.65	-0.23

Absolute contribution based on NOK returns at fund level

Quarterly Report

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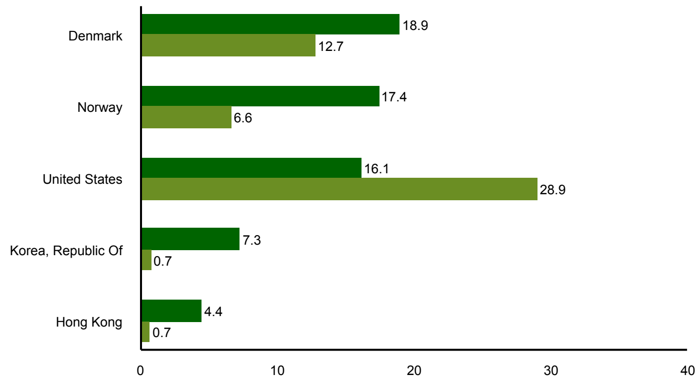
Top ten investments

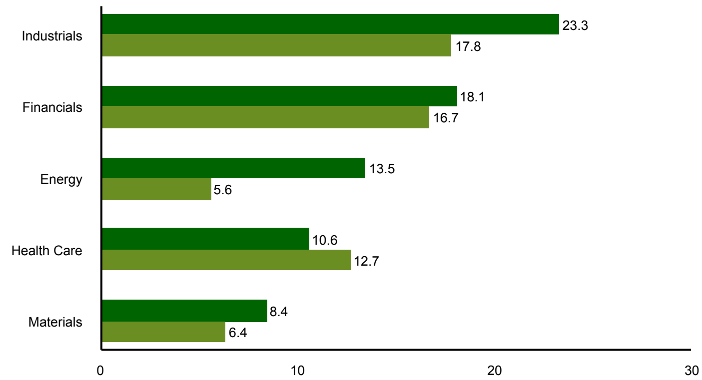
Holding	Sector	Country	%
Novo Nordisk	Health Care	Denmark	6.6
Citigroup Inc	Financials	United States	4.7
Bonheur ASA	Industrials	Norway	4.1
Samsung Electronics	Information Technology	Korea, Republic Of	4.1
Yara International ASA	Materials	Norway	4.0
Royal Dutch Shell PLC	Energy	Nicaragua	3.7
DSV A/S	Industrials	Denmark	3.6
CK Hutchison Holdings Ltd	Industrials	Hong Kong	3.3
Carlsberg A/S	Consumer Staples	Denmark	3.1
Kinnevik AB	Financials	Malaysia	3.0
Combined weight of top 10 holdings			40.1

Country exposure (top five)



SKAGEN Vekst A MSCI Nordic IMI + ACWI ex Nordic NR NOK

Sector exposure (top five)



SKAGEN Vekst A MSCI Nordic IMI + ACWI ex Nordic NR NOK

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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.

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).