

A quarter dominated by buy-outs

The fund posted a solid absolute return in the quarter, well ahead of the underlying equity markets. The operating environment is gradually adjusting as a potentially more structural increase in inflationary pressure is taking shape at the same time as global central banks are planning the tapering of another great experiment, namely quantitative easing. Volatility has been increasing for both equities and bonds on a global basis. A normalisation of interest rates and risk premiums may indeed be underway, which should make near or mid-term earnings generation capacity more attractive than longer duration assets with high valuation multiples.

Four buy-out offers in the third quarter

As contrarian and price driven investors, we aim to identify substantially undervalued assets on near or mid-term earnings multiples with solid and often underappreciated tangible assets. When stocks become too cheap, industrial interest awakens as was the case in the third quarter. The fund received no less than four buy-out offers in the period. During the summer, the restructured mobility service company EuropCar received a firm offer from a Volkswagen-led consortium at a premium of around 20%, and around 80% higher than when we initiated the position in May.

Our UK spirits producer Stock Spirits received a buy-out offer from private equity firm CVC at a healthy 45% premium to last trade. We exited the stock at price target following this announcement.

Pilgrim's Pride, the US based chicken producer, received a buy-out offer from its main owner JBS at a premium of around 22% of the last traded price. We initiated the position in the depths of the pandemic at around half of the current equity price.

Finally, in September, our UK bus operator Stagecoach was approached by peer National Express and was offered a 25% premium to the last share price in a stock swap. We think the potential combined unit offers

great value and the position remains in the portfolio.

Key buys

With our broad and unconstrained mandate, we continue to find very interesting assets trading at a substantial discount to mid-term earnings with solid tangible asset bases. A new position in the fund is US small cap movie theatre operator and hotel chain Marcus Corporation. An opportunity emerged in the company as the pandemic-induced lockdown had a temporary negative impact on earnings, combined with uncertainty around the movie studios' strategy for launching new titles. Following a misguided attempt to launch on streaming platforms and in movie theatres simultaneously, many studios have now determined that a 30-45 day exclusive window is the superior economic model. We have established a 2.8% position in the investment case as of quarter end. We believe the stock trades at a substantial discount to normalised earnings and has a solid tangible asset support base as they own most of their own real estate.

We also added the sprawling Japanese conglomerate Panasonic to the fund in the quarter. Much like other Japanese companies with several business lines, the company is now on a path to restructure and streamline its operations by selling off non-core assets and investing into their highest quality segments. We believe the company is trading at a significant discount to its sum-of-the-parts value and the battery segment in particular appears to be overlooked by investors.

There is growing evidence that near-term tangible catalysts are taking shape in Canadian package company Cascades. Following the sale of its European subsidiary Reno de Medici, we believe a split of the company into tissue and packaging may be on the cards. This would substantially crystallise value and we added to our position in September.



Photo: Shutterstock

Key sells

We sold out of our position in US food retailer Albertsons in the quarter. The position was initiated about one year ago at USD 15-16/share, following a rather poorly executed IPO. The shares hit our price target of USD 30 per share during September as food-at-home was stronger than anticipated and the pension risk has been more or less eliminated. The shares also displayed an eye-popping short interest at the time of inception which has now largely been closed. Albertsons is the best performer in the fund so far this year.

Following a sharp re-rating, we trimmed our position in Japanese staffing company Pasona. The stock is still trading at a substantial discount to its asset value, but valuation of the main asset appears stretched at current price points.



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Outlook

A normalised investment environment will probably bring more focus and re-rating potential for assets with undervalued near-term earning streams with solid tangible asset bases at the expense of more expensive longer duration assets. These areas of the equity market are our primary hunting grounds as contrarian and price-driven investors. There are currently 44 positions in the portfolio, with more than 50% upside to our aggregated portfolio-weighted price targets.

SKAGEN Focus is a high conviction equity fund that seeks to generate long-term capital growth by investing in a portfolio of global companies with a bias towards small and mid-cap companies.

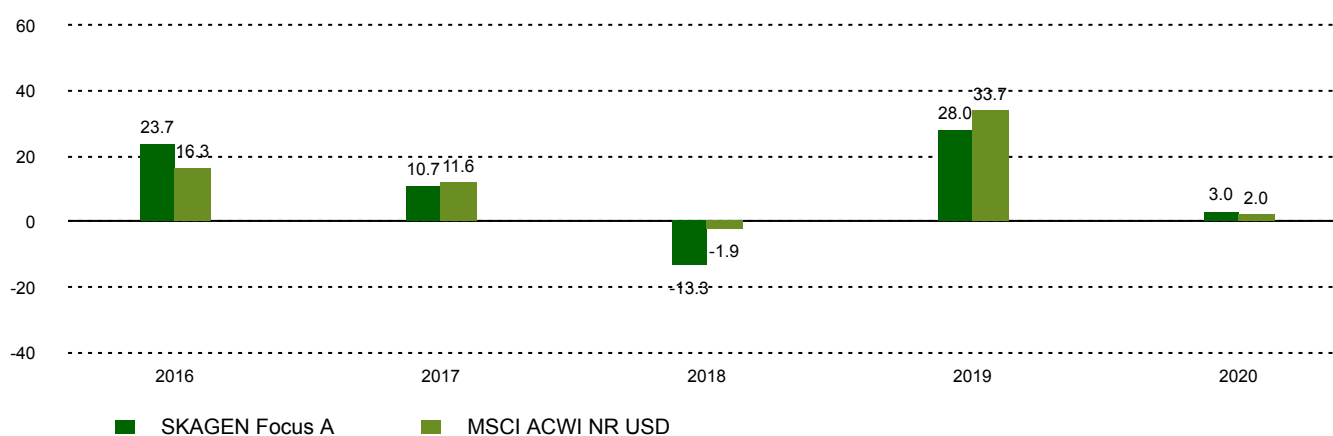
Historical performance (net of fees)

| Period | SKAGEN Focus A | Benchmark index |
|-----------------|----------------|-----------------|
| Last month | 0.7% | -2.9% |
| Quarter to date | 4.4% | 1.2% |
| Year to date | 24.5% | 18.4% |
| Last year | 43.1% | 23.6% |
| Last 3 years | 9.4% | 11.9% |
| Last 5 years | 11.2% | 13.7% |
| Last 10 years | n/a | n/a |
| Since start | 8.1% | 10.6% |

Fund Facts

| | |
|----------------------------|------------------------|
| Type | Equity |
| Domicile | Norway |
| Launch date | 26.05.2015 |
| Morningstar category | Global Flex-Cap Equity |
| ISIN | NO0010735129 |
| NAV | 179.19 SEK |
| Fixed management fee | 1.60% |
| Total expense ratio (2020) | 1.70% |
| Benchmark index | MSCI ACWI NR USD |
| AUM (mill.) | 1758.54 SEK |
| Number of holdings | 45 |
| Portfolio manager | Jonas Edholm |

Performance last ten years



Contributors in the quarter



Largest contributors

| Holding | Weight (%) | Contribution (%) |
|-------------------------|------------|------------------|
| Albertsons Cos | 3.39 | 2.07 |
| Pasona Group Inc | 1.91 | 0.89 |
| Pilgrim's Pride Corp | 2.16 | 0.82 |
| Stock Spirits Group PLC | 0.97 | 0.80 |
| LOTTE Fine Chemical Co | 2.45 | 0.75 |



Largest detractors

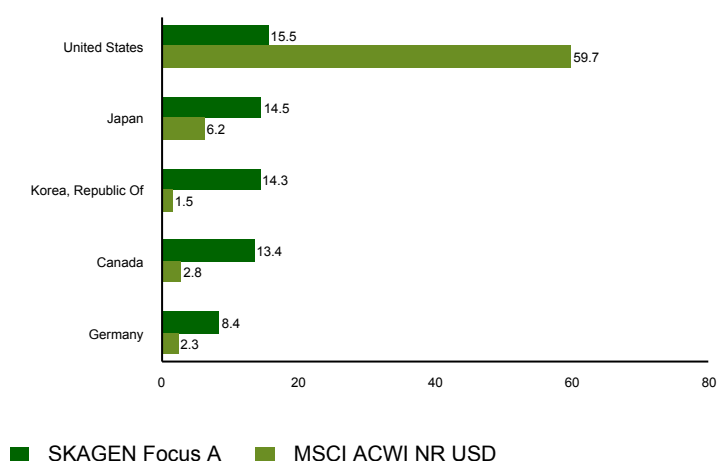
| Holding | Weight (%) | Contribution (%) |
|-----------------------|------------|------------------|
| Fortuna Silver Mines | 2.82 | -0.95 |
| Avaya Holdings Corp | 2.50 | -0.76 |
| Ubisoft Entertainment | 2.81 | -0.44 |
| Canfor Pulp Products | 2.24 | -0.40 |
| Ivanhoe Mines Ltd | 3.92 | -0.35 |

Absolute contribution based on NOK returns at fund level

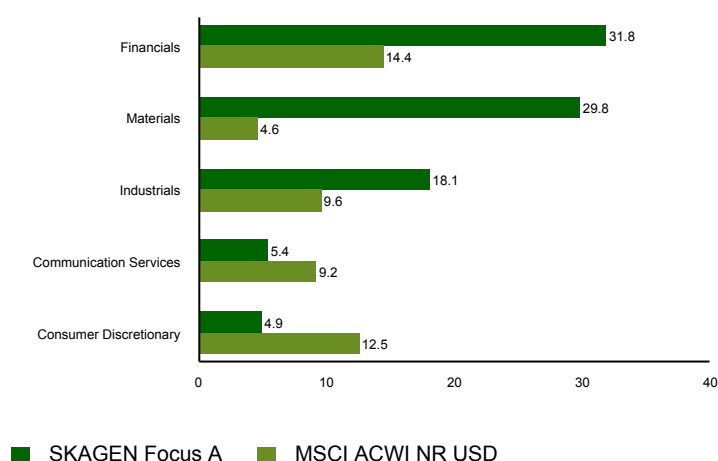
Top ten investments

| Holding | Sector | Country | % |
|--|------------------------|--------------------|------|
| KB Financial Group Inc | Financials | Korea, Republic Of | 4.2 |
| Sixt SE | Industrials | Germany | 4.1 |
| Cascades Inc | Materials | Canada | 4.1 |
| Panasonic Corp | Consumer Discretionary | Japan | 3.9 |
| Raiffeisen Bank International AG | Financials | Austria | 3.8 |
| Ivanhoe Mines Ltd | Materials | Canada | 3.3 |
| China Communications Services Corp Ltd | Industrials | China | 3.3 |
| Korean Reinsurance Co | Financials | Korea, Republic Of | 3.2 |
| Argonaut Gold Inc | Materials | United States | 3.1 |
| Nova Ljubljanska Banka dd | Financials | Slovenia | 3.0 |
| Combined weight of top 10 holdings | | | 36.0 |

Country exposure (top five)



Sector exposure (top five)



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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.