



Skagen reef's lightskip, 1892. Detail. By Carl Lochner, one of the Skagen painters. The picture is owned by the Skagens Museum.

# SKAGEN Kon-Tiki

## Status Report – November 2015

The art of common sense

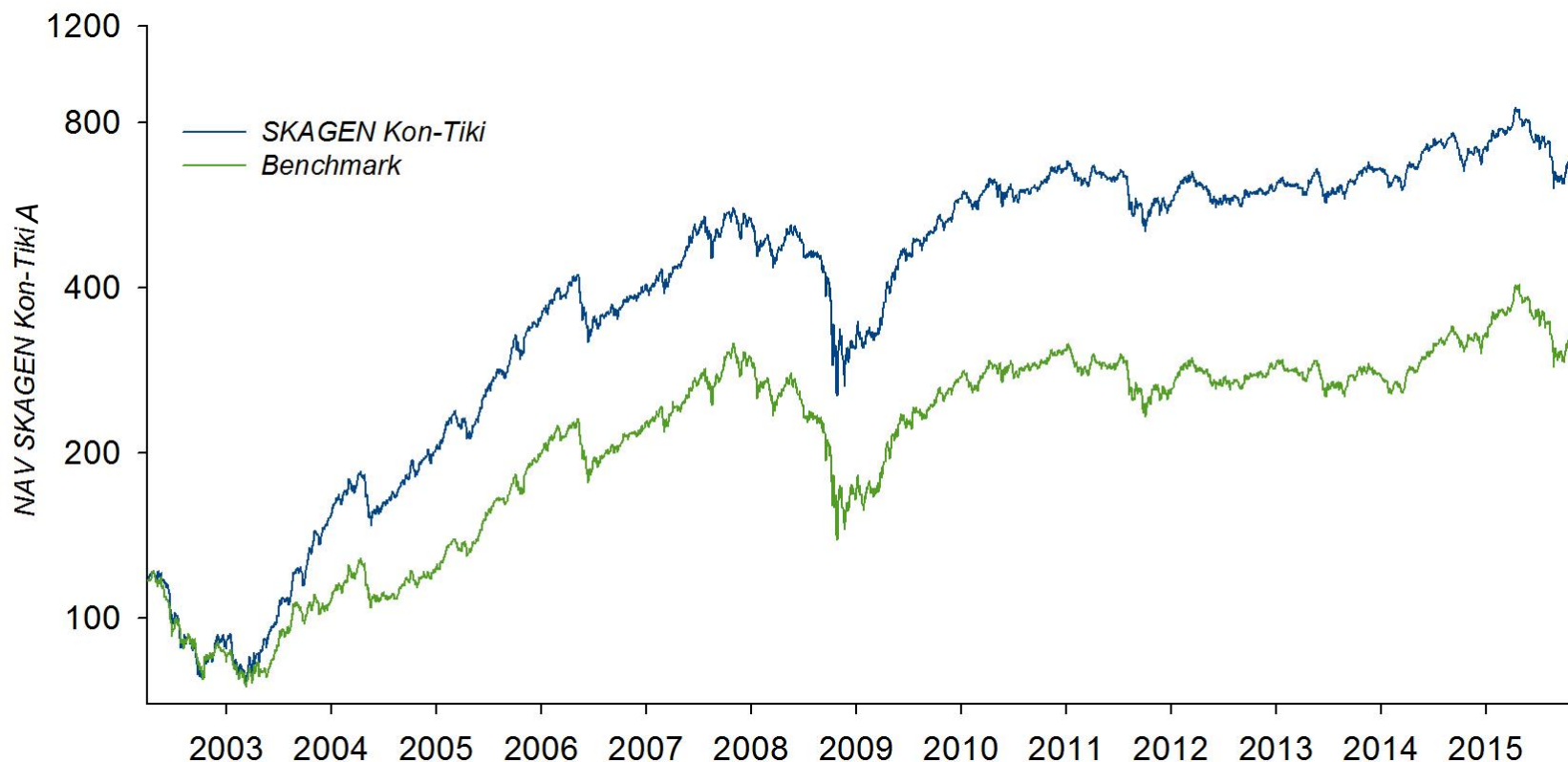


# Highlights – November 2015

- SKAGEN Kon-Tiki\* was up 1.3% in November, while the MSCI Emerging Markets index was down 1.0% measured in SEK. So far this year SKAGEN Kon-Tiki is down 3.1% compared to the index which is down 2.9%.
- Our top three performers in November were the Indian vehicle manufacturer Mahindra & Mahindra, Indonesian telecom company Indosat and our pharmaceutical manufacturer Richter Gedeon. For Mahindra we are finally seeing signs that the recent sluggish volume trends are turning around. Indosat reported strong results and there are signs that the industry is becoming more rational. Richter reported good quarterly numbers, and investors' perception of the company is starting to change after the FDA approval of Vraylar (bipolar disorder and schizophrenia drug).
- At the bottom of the performance list for November were Samsung Electronics, the Turkish conglomerate Sabanci and the Brazilian iron ore producer Vale. Samsung Electronics fell back a little (on no major news) after the exceptionally strong October performance. Sabanci fell with the volatile Turkish market despite reporting better than expected quarterly results. Vale on the other hand is struggling with low raw material prices and was also affected by the Samarco accident (50% ownership).
- We added no new positions in November, but continued to sell out of positions where we see less conviction. Eros International was sold on concerns about accounting practices. The Malaysian rubber glove manufacturer Supermax was sold after a good 40% gain so far this year. We sold out of our tiny position in Japanese Kuribayashi Steamship due to sizing and portfolio consolidation, and our Indian aluminium manufacturer Hindalco was sold as we now believe that growth in the recycling unit will be insufficient to offset the negative risk-reward of the aluminium market and increasing financial leverage. Lastly, our Russian bank investment Sberbank was sold after a strong run since our initial investment at the end of May.
- Emerging markets continue to trade at a discount to developed markets, with a 2015e P/E of 12.3 and P/B of 1.4x for EM, compared with 17.2x and 2.1x for DM.
- The top 12 positions now represent almost 51% of the fund (from 45% at the beginning of the year). In the same period we have reduced the positions in the fund from 95 to 72. The fund's portfolio remains attractively valued at a 2015e P/E of 9.1x and P/B of 1.0x. We now see 53% upside for our portfolio in a two-year perspective.

# Results, November 2015

SEK, net of fees



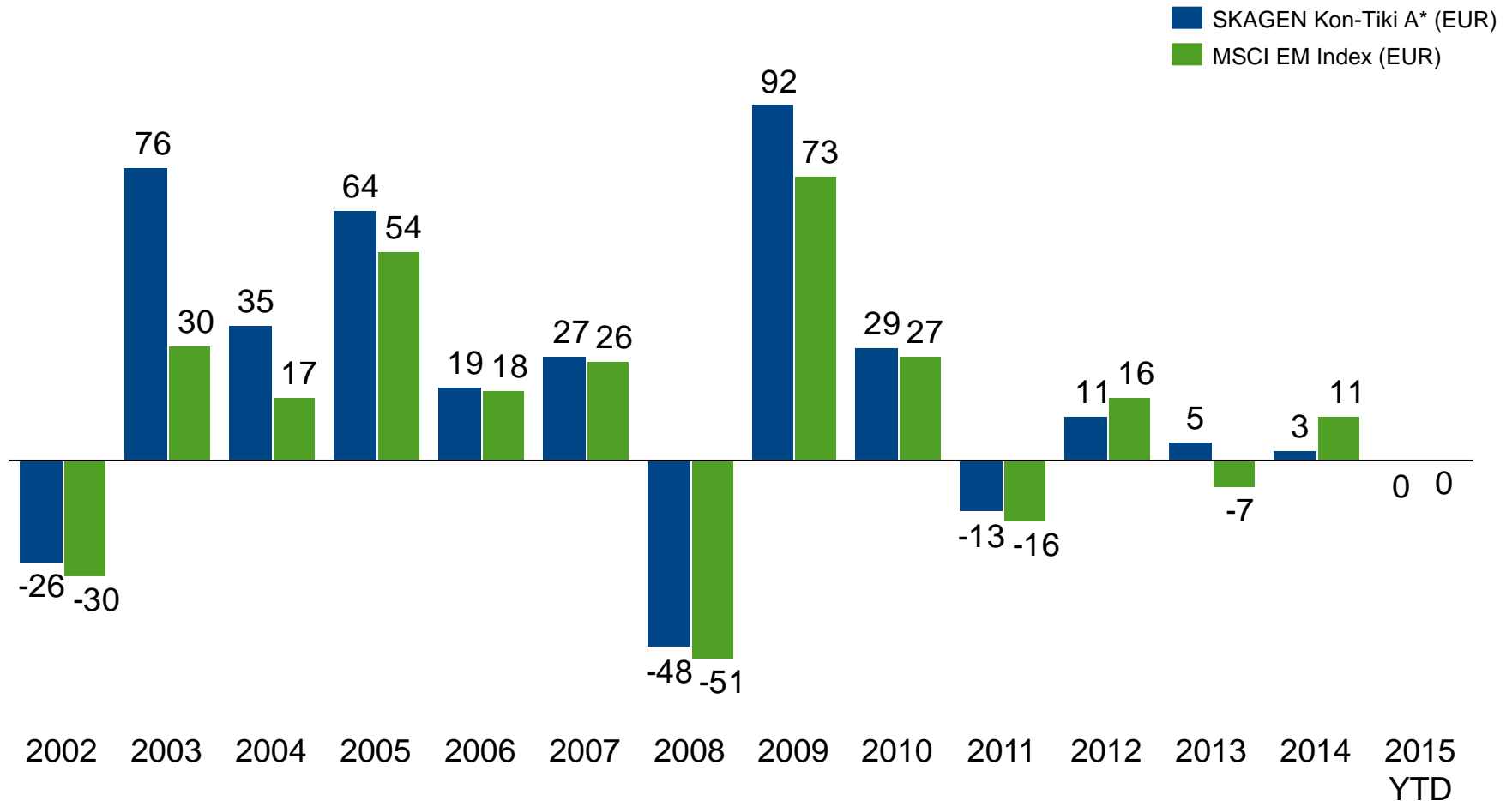
	November	QTD	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Kon Tiki A	1,3%	10,4%	-3,1%	-2,8%	5,3%	1,5%	7,1%	13,9%
MSCI EM Index	-1,0%	7,2%	-2,9%	-2,6%	4,5%	1,2%	4,8%	7,6%
<b>Excess return</b>	<b>2,4%</b>	<b>3,1%</b>	<b>-0,2%</b>	<b>-0,2%</b>	<b>0,8%</b>	<b>0,3%</b>	<b>2,3%</b>	<b>6,3%</b>

Note: All returns beyond 12 months are annualised (geometric return)

\* Inception date: 5 April 2002

# SKAGEN Kon-Tiki has beaten the index in 11/13 calendar years

Percent

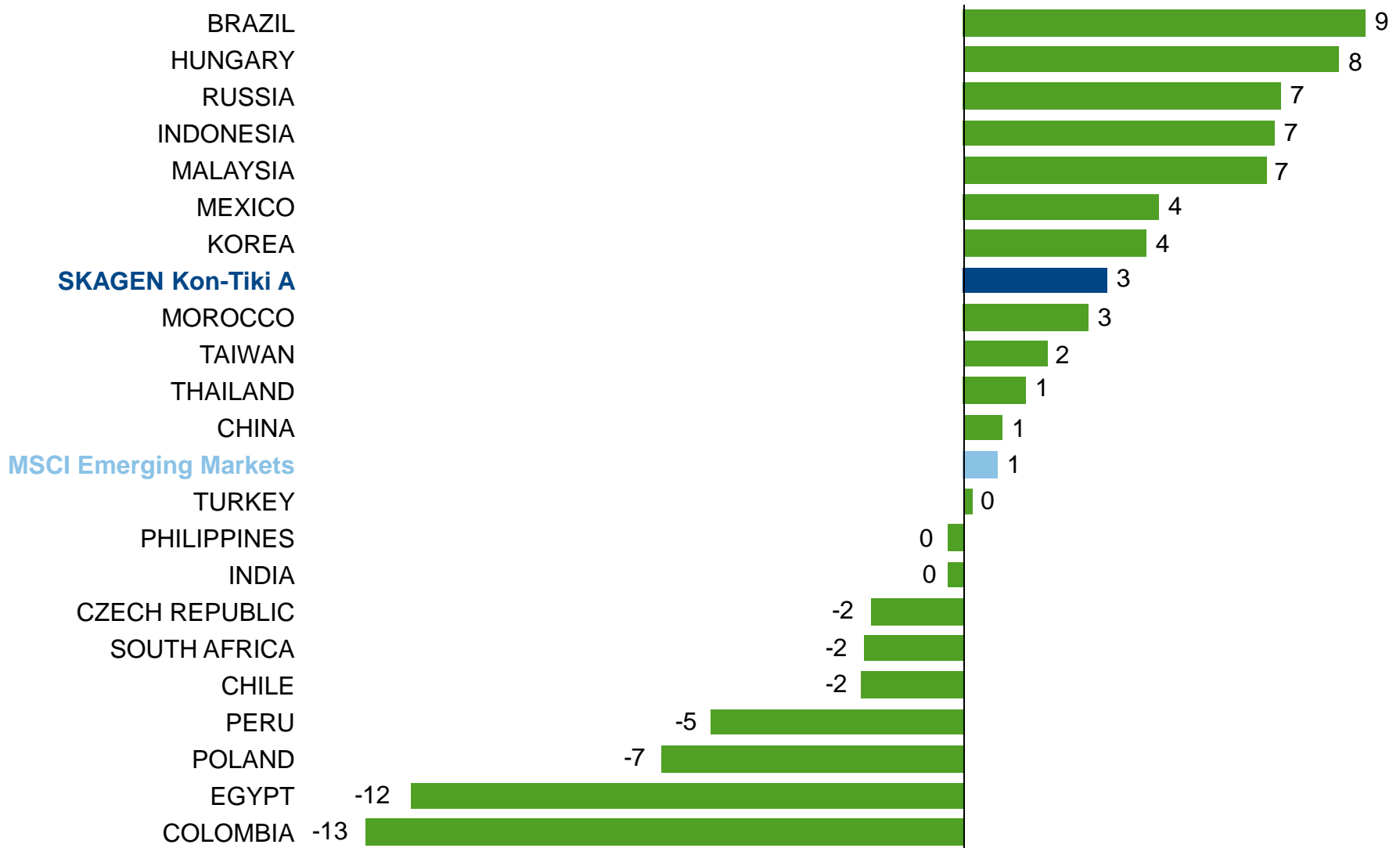


Note: All figures in EUR, net of fees

\* Inception date: 5 April 2002

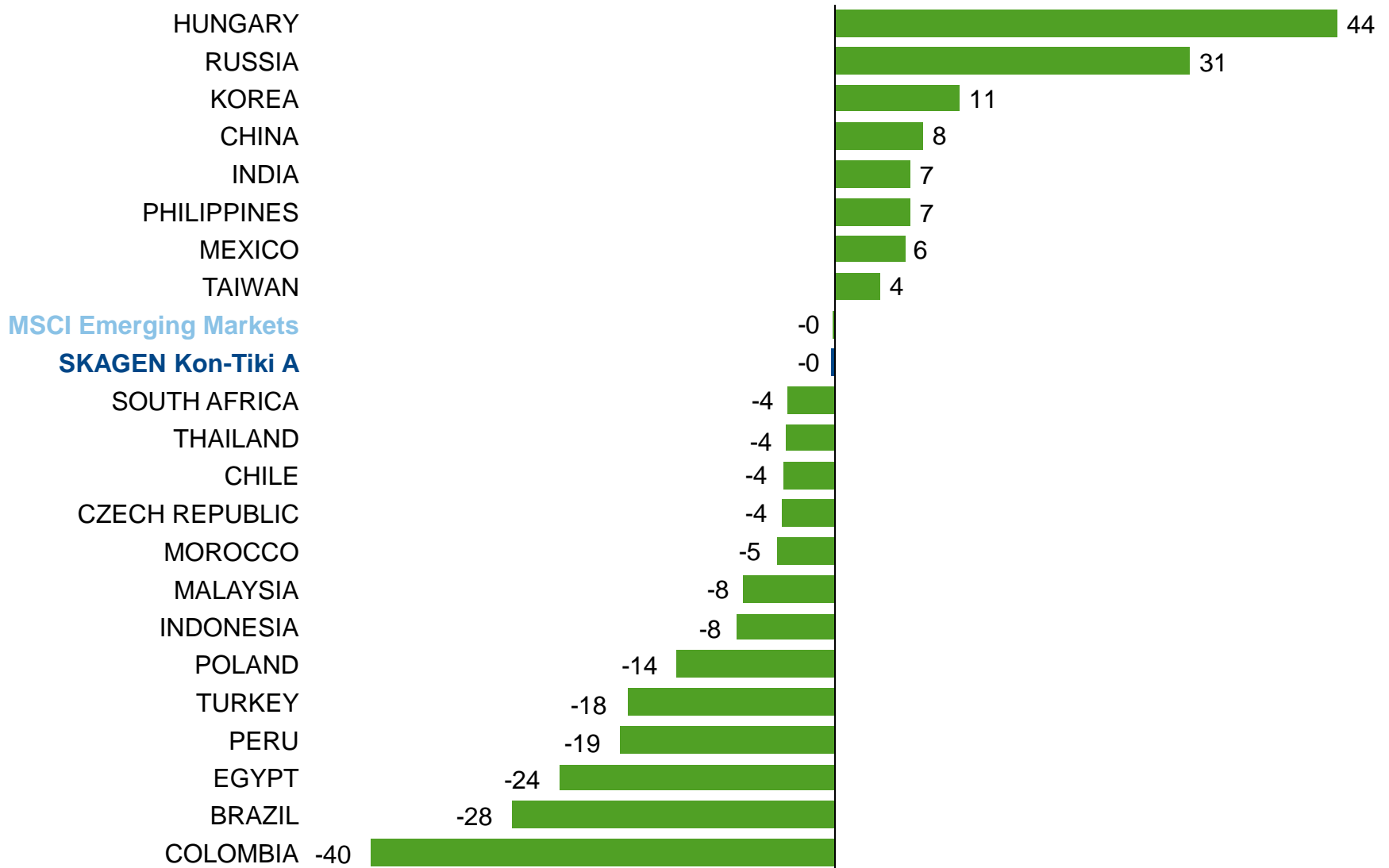
# Emerging markets, November 2015 (in EUR)

Percent



# Emerging markets, YTD 2015 (in EUR)

Percent



# Main contributors MTD 2015

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Mahindra & Mahindra Ltd	265
Indosat	190
Richter Gedeon	189
LG Electronics	158
X5 Retail Group NV	104
State Bank of India	102
Lenovo Group Ltd	64
Cosan Ltd	60
Samsung SDI Co Ltd	59
Naspers Ltd	53

**Value Creation MTD (NOK MM):**

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Samsung Electronics	-238
Sabancı	-147
Vale	-105
Yazicilar	-64
UPL	-55
Bharti Airtel	-51
Marfrig Global Foods	-34
Bidvest	-29
China Shipping Development	-28
GCL-Poly Energy Holdings	-25

**656**

*NB: Contribution to absolute return*

# Main contributors QTD 2015

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Samsung Electronics Co Ltd	807
Indosat	274
Richter Gedeon	251
X5 Retail Group	238
Naspers	221
LG Electronics	213
Mahindra & Mahindra	140
Cosan	124
Frontline 2012	123
Hyundai Motor	116

**Value Creation MTD (NOK MM):**

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Eros International Media	-101
Vale	-70
Golden Ocean Group	-59
UPL	-54
Marfrig Global Foods	-52
Yazicilar	-45
Sabancı	-36
Diamond Bank	-33
Norwegian Air Shuttle	-33
Apollo Tyres	-30

**3293**

*NB: Contribution to absolute return*



# Main contributors YTD 2015

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Samsung Electronics Co Ltd	581
Richter Gedeon	561
X5 Retail Group	523
Frontline 2012	420
Mahindra & Mahindra	355
Naspers	320
Moscow Exchange	296
Shiseido	264
Indosat	220
Kiwoom Securities	207

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Banrisul	-602
Vale	-459
AirAsia	-433
Sabancı	-406
Cosan	-332
Hyundai Motor Co	-308
Hindalco Industries Ltd	-248
State Bank of India	-222
Aveng Ltd	-203
Tullow Oil PLC	-196

**Value Creation YTD (NOK MM): 1488**

*NB: Contribution to absolute return*

# Holdings increased and decreased, November 2015

## Key buys during November

### **Samsung SDI**

We continued to add to the position. Three key triggers are: increasing global electric vehicle and hybrid vehicle penetration; potential battery contract with Tesla; and sales recovery of Samsung handsets, as SDI is a key supplier of batteries, electronic materials and screens.

## Key sells during November

### **Hindalco (Out)**

Aluminium recycling unit growth not sufficient to offset negative risk-reward of the aluminium market and increasing financial leverage.

### **Eros (Out)**

Questions surrounding the company's accounting practices caused us to exit the position.

### **Kuribayashi Steamship (Out)**

We sold out given the limited size potential and due to portfolio consolidation.

### **Supermax (Out)**

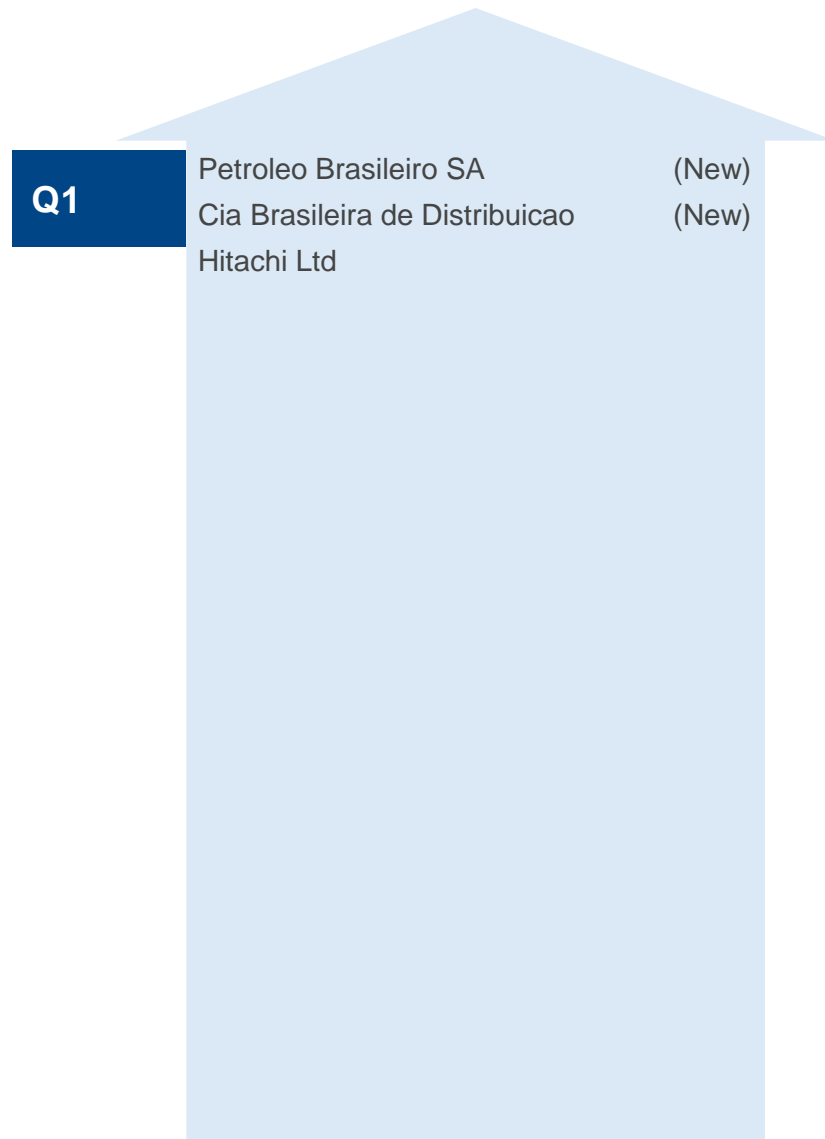
We sold out due to the strong share price performance so far this year despite little operational improvement from the company.

### **Sberbank (Out)**

We sold out as the risk-reward is now skewed differently given the strong share price performance since we initiated the position in May combined with uncertain developments in Russia.

# Most important changes Q1 2015

## Holdings increased



**Q1**

## Holdings reduced



# Most important changes Q2 2015

## Holdings increased

Q2

China Shipping Development	(New)
Sberbank of Russia	(New)
Eros International Media Ltd	(New)
Haci Omer Sabanci Holding AS	
Golden Ocean Group Ltd	

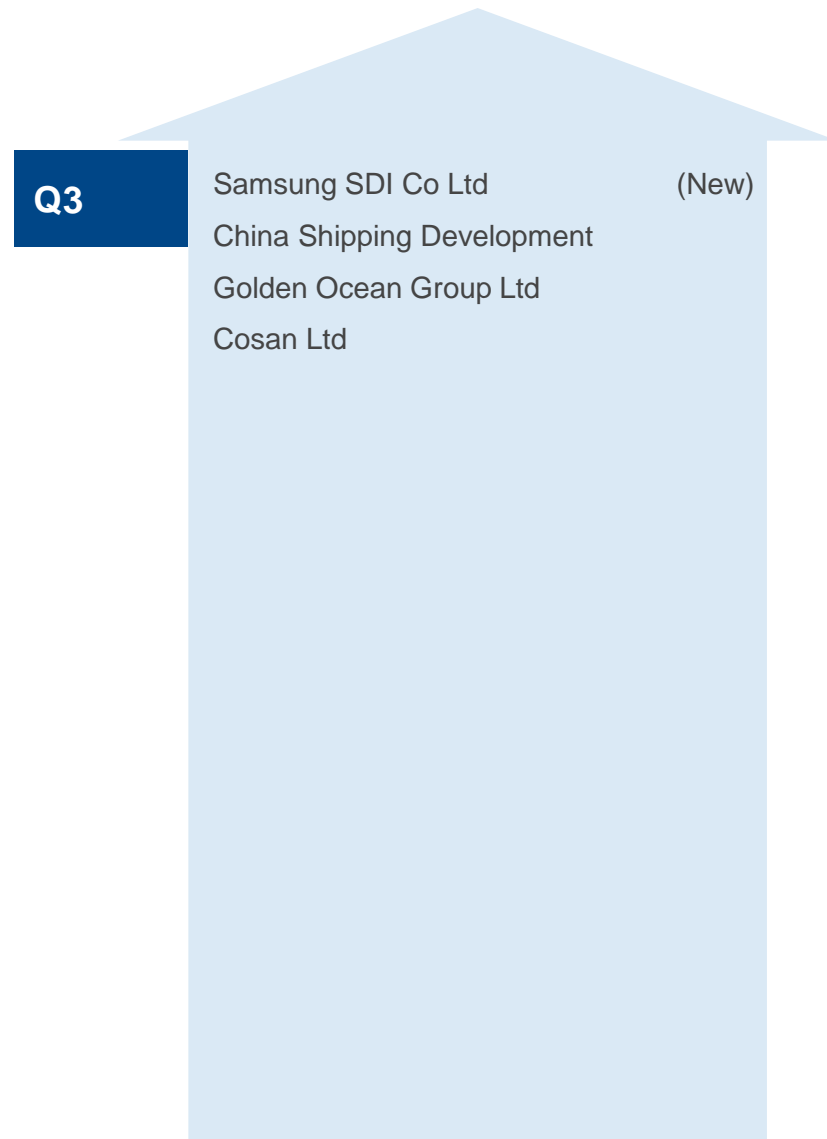
Q2

## Holdings reduced

Harbin Electric Co Ltd	(Out)
Value Partners Group Ltd	(Out)
Skyworth Digital Holdings Ltd	(Out)
MRV Engenharia	(Out)
KIWOOO Securities Co Ltd	(Out)
Yingli Green Energy Holding Co	(Out)
Exxaro Resources Ltd	(Out)
Siem Offshore Inc	(Out)
Avance Gas Holding Ltd	(Out)
AP Moeller - Maersk A/S	
Great Wall Motor Co Ltd	
Lenovo Group Ltd	
Shiseido Co Ltd	
Raiffeisen Bank International AG	
Samsung Electronics Co Ltd	
Casino Guichard Perrachon SA	
Hengdeli Holdings Ltd	
Kerry Logistics Network Ltd	

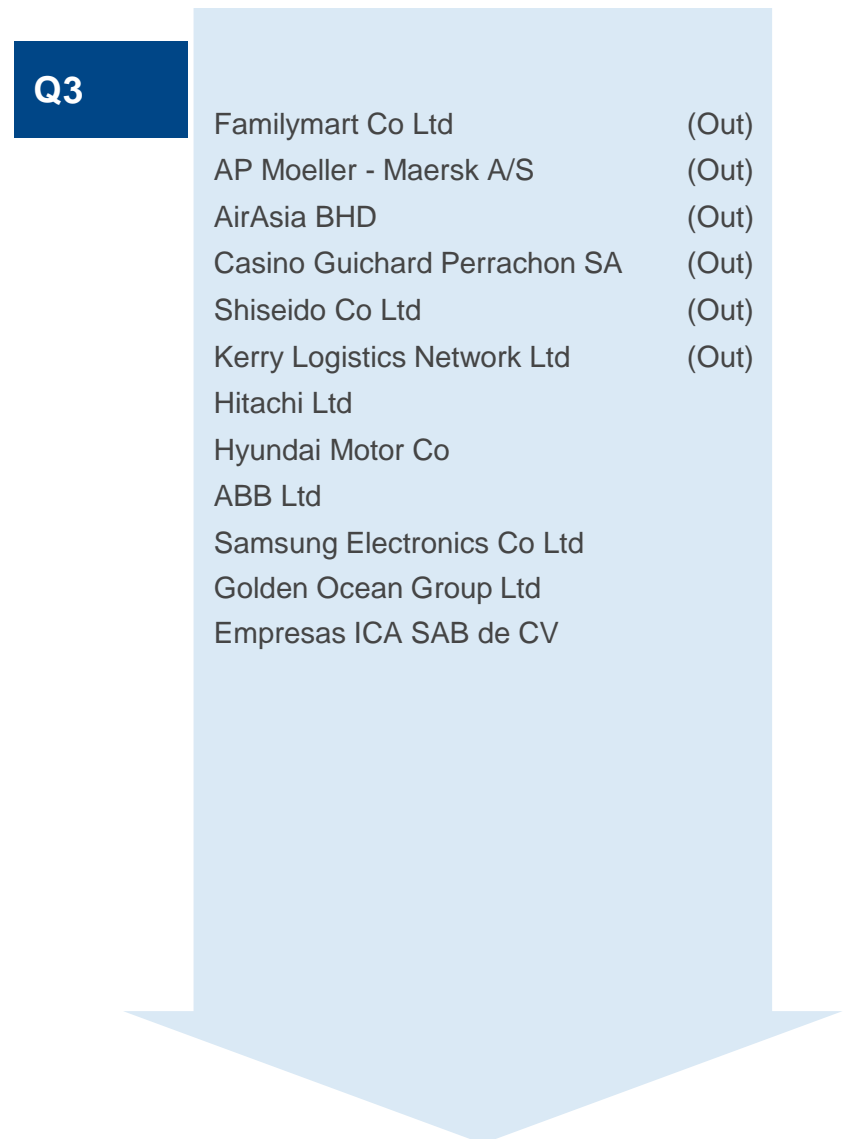
# Most important changes Q3 2015

## Holdings increased



Samsung SDI Co Ltd (New)  
China Shipping Development  
Golden Ocean Group Ltd  
Cosan Ltd

## Holdings reduced



Familymart Co Ltd (Out)  
AP Moeller - Maersk A/S (Out)  
AirAsia BHD (Out)  
Casino Guichard Perrachon SA (Out)  
Shiseido Co Ltd (Out)  
Kerry Logistics Network Ltd (Out)  
Hitachi Ltd  
Hyundai Motor Co  
ABB Ltd  
Samsung Electronics Co Ltd  
Golden Ocean Group Ltd  
Empresas ICA SAB de CV

# Most important changes Q4 2015

## Holdings increased

Q4

Cia Brasileira de Distribuicao  
Samsung SDI Co Ltd

Q4

## Holdings reduced

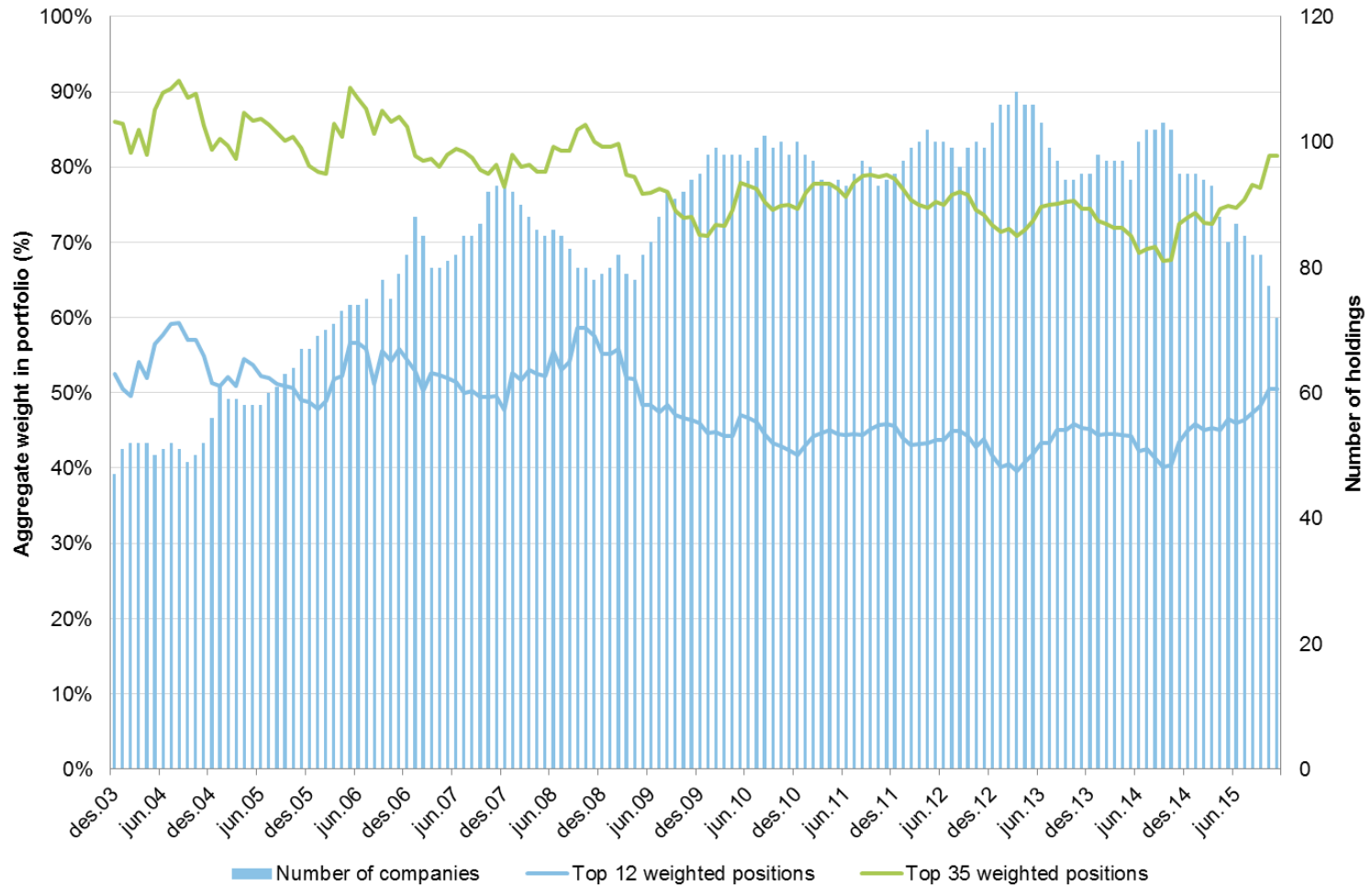
Hindalco Industries Ltd (Out)  
Kulim Malaysia BHD (Out)  
Sberbank of Russia (Out)  
Hitachi Ltd (Out)  
Raiffeisen Bank International AG (Out)  
Supermax Corp Bhd (Out)  
Eros International Media Ltd (Out)  
Hengdeli Holdings Ltd (Out)  
Kuribayashi Steamship Co Ltd (Out)  
Empresas ICA SAB de CV (Out)  
Samsung Electronics Co Ltd  
PZ Cussons PLC  
Moscow Exchange MICEX-RTS  
OAO  
Bidvest Group Ltd  
Hyundai Motor Co

# Largest holdings SKAGEN Kon-Tiki, end of October 2015

	Holding size, %	Price	P/E 2015e	P/E 2016e	P/BV last	Div. yield 15e (%)	Price target	Upside %
Hyundai Motor	8,5	111 000	4,3	4,3	0,4	3,6	200 000	80
Samsung Electronics	8,4	1 096 000	6,6	6,6	0,9	2,3	1 600 000	46
Mahindra & Mahindra	5,2	1 366	18,2	14,4	3,1	1,0	2 000	46
State Bank of India	4,8	250	7,6	7,1	1,1	1,8	450	80
Sabanci Holding	3,6	8,2	6,8	5,6	0,8	1,2	14	72
Richter Gedeon	3,6	5 569	20,3	18,6	1,7	1,2	7 500	35
Bharti Airtel	3,4	334	16,7	11,1	2,1	0,7	400	20
Naspers	3,2	2 155	43,1	28,7	11,2	0,3	2 500	16
ABB	3,0	165	16,5	13,8	2,9	3,3	250	51
X5 Retail Group	2,6	22,6	17,4	15,1	3,8	0,0	30	33
Great Wall Motor	2,2	9,5	7,5	7,5	2,1	3,9	13	40
Frontline 2012	2,1	62,5	12,5	12,5	2,6	8,0	80	28
<b>Weighted top 12</b>	<b>50,6</b>		<b>8,5</b>	<b>7,9</b>	<b>1,1</b>	<b>2,2</b>		<b>51</b>
<b>Weighted top 35</b>	<b>81,6</b>		<b>9,1</b>	<b>8,3</b>	<b>1,0</b>	<b>2,4</b>		<b>53</b>
<b>Emerging market index</b>			<b>12,3</b>	<b>11,1</b>	<b>1,4</b>	<b>2,9</b>		
<b>Top 35 @ price target</b>			<b>14,3</b>	<b>12,9</b>	<b>1,7</b>	<b>1,6</b>		

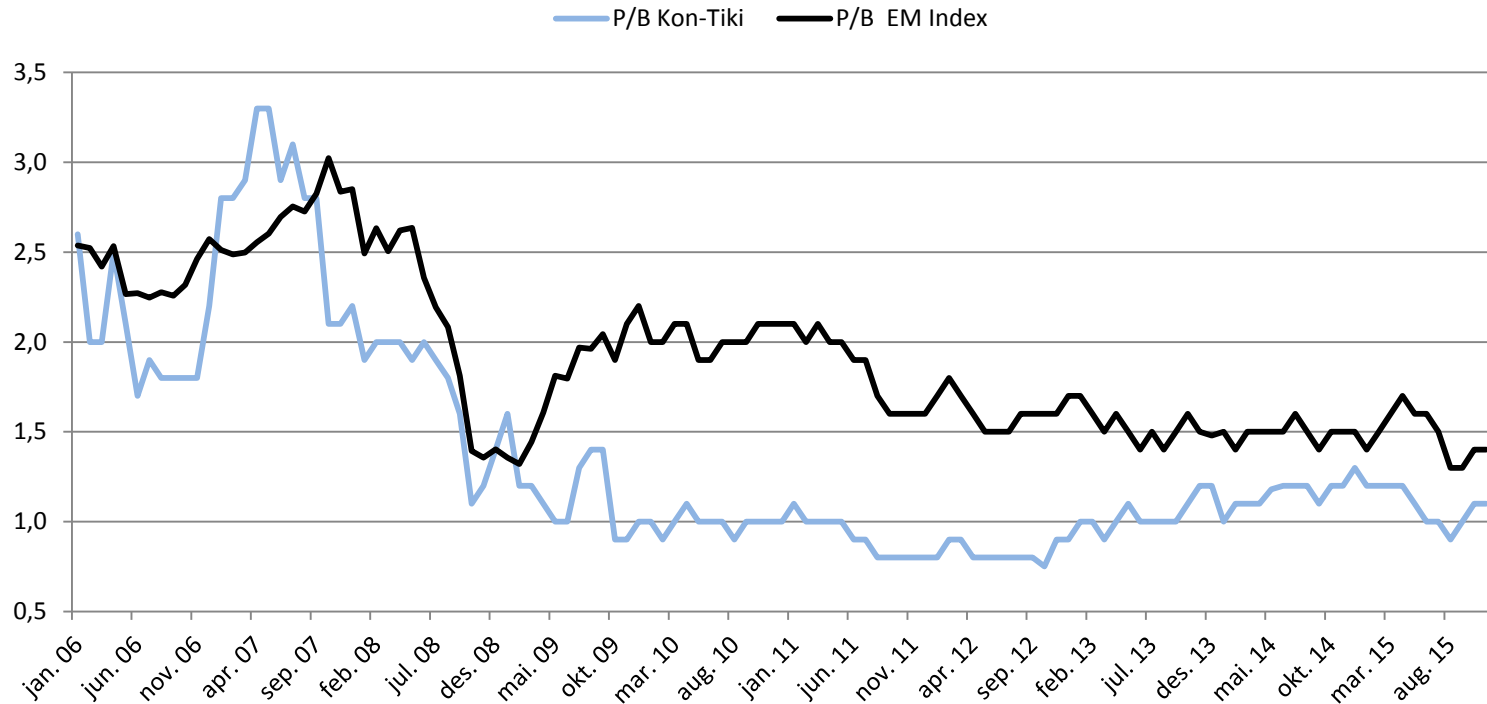
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates.

# SKAGEN Kon-Tiki portfolio concentration



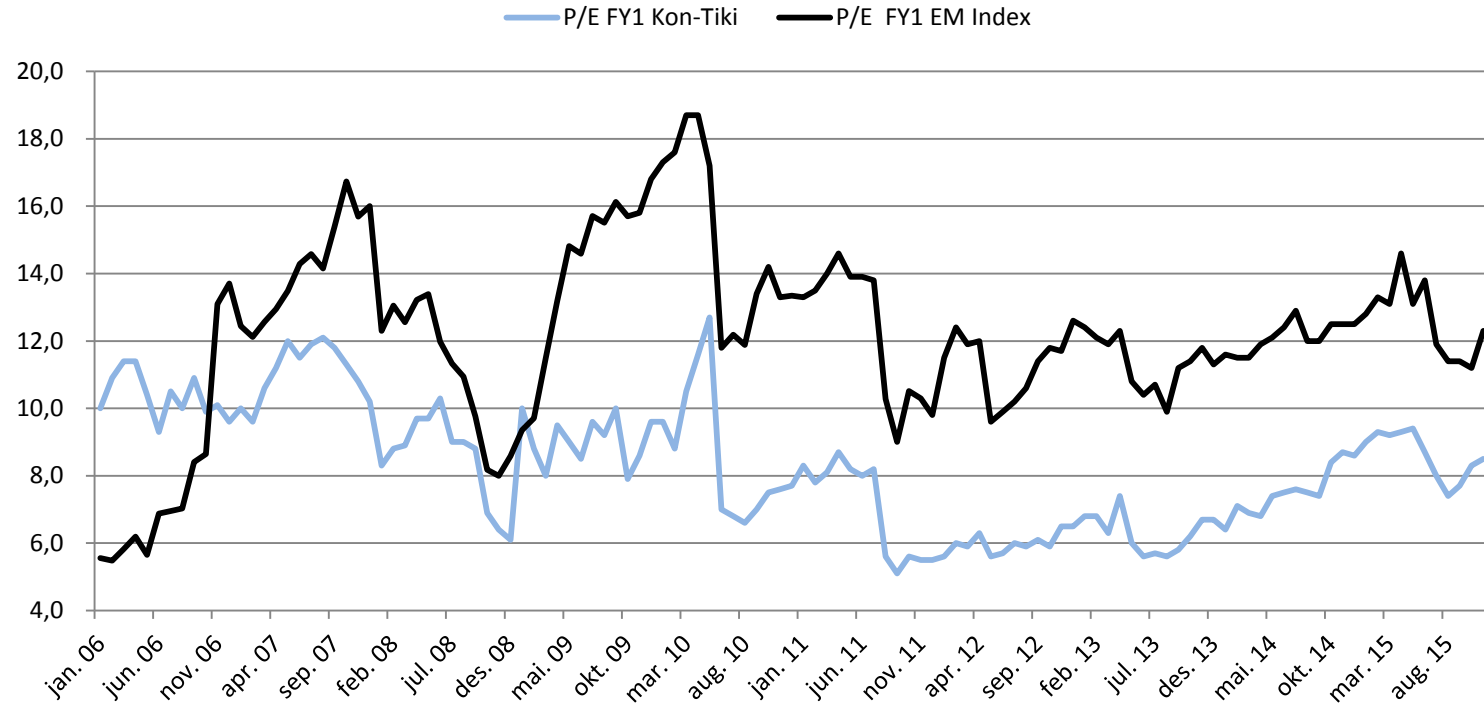


# P/BV for SKAGEN Kon-Tiki versus emerging markets



As of November 30, 2015

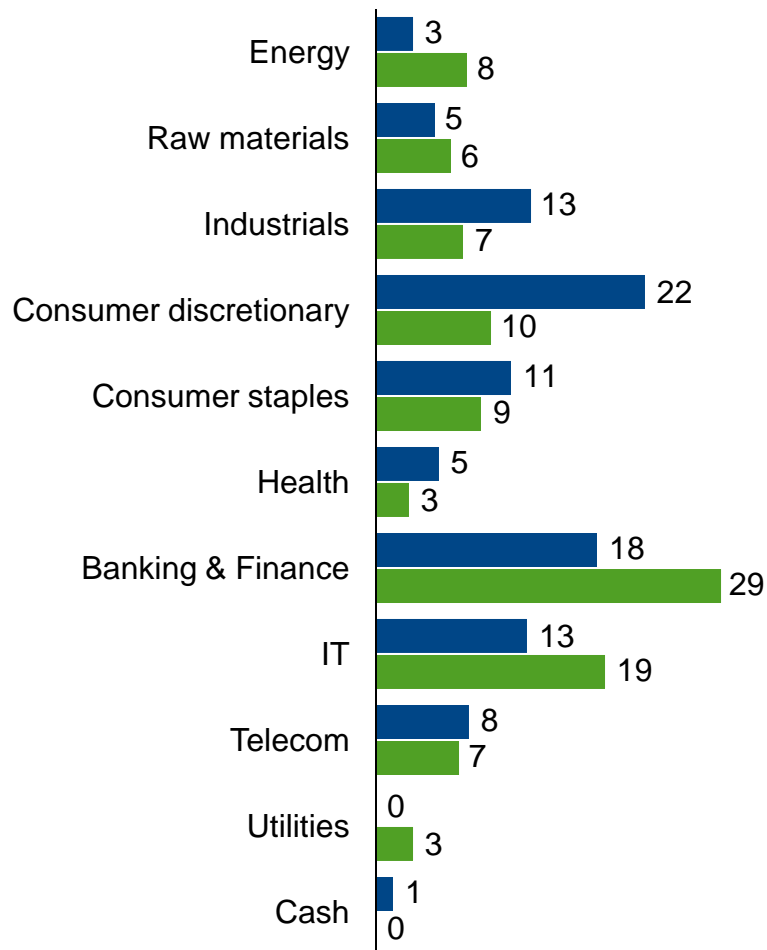
# P/E SKAGEN Kon-Tiki versus emerging markets



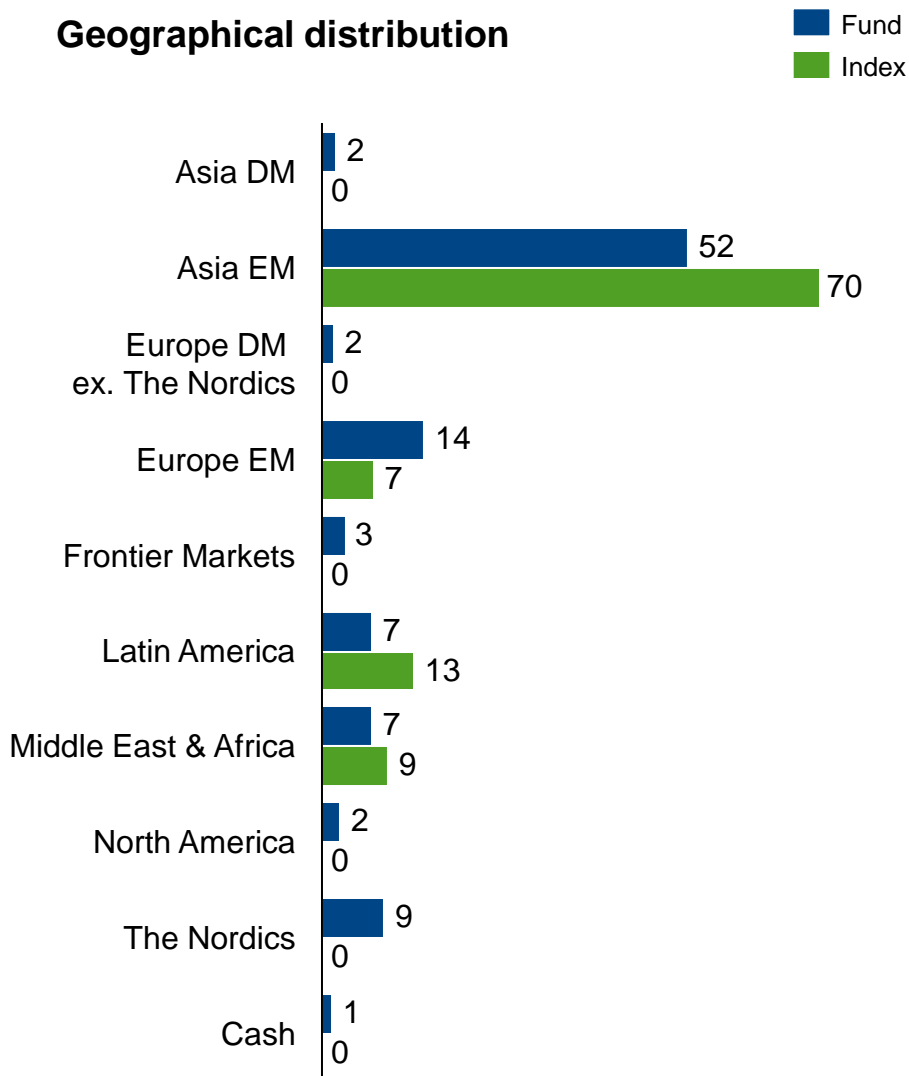
As of November 30, 2015

# SKAGEN Kon-Tiki sector and geographical distribution

## Sector distribution



## Geographical distribution



# Key earnings releases and corporate news, November 2015

Great Wall Motor  
(2.3% weight):

## Company will launch its first electric vehicle (EV) in 2016

**Implications for Investment Case:** Slightly positive but sales impact will most likely be minor in the short term. Assuming a price of RMB c125k, and subsidies of at least RMB 25k, the electric vehicle is more expensive than a gasoline-fuelled compact sedan, but it might be appealing in bigger cities with registration caps, which electric vehicles are exempt from. Battery specs look good and the fast charging time is quite impressive, making it a potentially good seller in the taxi market. There are about 1.4m taxis in China's cities with annual sales likely in the region of RMB 150k. EV sales in China grow 120-130% YoY with volume at c350k units or close to 2% of total vehicle sales.

**Event summary:** Great Wall Motors demonstrated its first electric vehicle to go on sale in 2016. It will be a compact sedan version, named C30EV. The battery package of 31kW (BMW i3 has 22kW) will be delivered by LG Chem (1.2% weight in Kon-Tiki) with a range of c200km. It claims 80% charge capacity in 30 minutes.

**Unpopular:** Not fully fleshed with 27% Hold/Sell which is down from 42% at the end of September.

**Under-researched:** No, not with 38 analysts covering the company.

**Undervalued:** The Great Wall H share (the ones we own) trades at a 37% discount to its A share which is in line with the average premium for A shares. The H share trades at a P/E of 8x on our 2016 estimate versus a 5y average P/E of 11x. On this, we estimate no EPS growth for 2016 due to the margin headwind from price cuts in May/June, which might be conservative. This is also below the median P/E of 8.7x for the Chinese auto sector and 8.5x for EM auto sector. A 3.7% dividend yield is also supportive. Our target price of HKD 13.3 is based on a P/E of 10.5x for 2016 which is in line with a 5y average and allows for an upside of 32% plus dividend.



# Key earnings releases and corporate news, November 2015 (cont.)

LG Chem  
(1.1% weight):

## Large energy storage system order indicates energy storage starting to take off

**Implications for Investment Case:** Positive as it indicates that energy storage is starting to be commercialised within the utility sector to optimise utilisation and reduce grid CAPEX. While EV batteries for cars have caught public attention, the potential of the energy storage market is estimated by some industry experts to be as big as or bigger than the electric vehicle (EV) market.

**Event summary:** Korea Times reports that LG Chem has won an exclusive deal to supply energy storage batteries to Steag, the fifth largest power generation company in Germany. They will supply batteries capable of producing 140MWh for ESS facilities designed for frequency regulation. Analysts estimate the order to be worth KRW c70bn (USD 60m) with incremental EBIT impact of KRW 3bn (3% of FY14).

**Unpopular:** No, as usual in Korea most analysts are positive and here there are 33 Buy and 1 Hold.

**Under-researched:** Hardly with this research coverage, but lack of in-depth research is also normal in Korea with key focus on the bulk chemical business which accounted for 76% of profits in 3Q15 (down from 104% in 2Q15). Large EV battery business is currently loss making and, by looking at aggregated earnings numbers, sell-side analysts are implicitly putting a negative value on the large EV battery business. Few research reports have any updated sum-of-parts valuation.

**Undervalued:** Yes, the ordinary share trades at EV/EBITDA of 6.7x on 2015e or well below 8.4x median for global chemical sector. Pref. share trades at 25% discount to ordinary shares. We arrive at a sum-of-parts valuation of KRW 310k per share. Target price of KRW 250k for pref. share based on 20% discount to ordinary share implies further upside of 12% after 58% gain year-to-date but is conservative.



# The largest companies in SKAGEN Kon-Tiki

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Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 4.9m cars in 2014 and has a ca. 5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

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Samsung Electronics is one of the world's largest producers of consumer electronics, with over 155,000 employees. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces appliances, cameras, printers, PCs and air-conditioning units.

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Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of UVs and tractors in India).

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Largest bank in India with 17% market share (ca. 25% including 5 associate banks). Also presence in life insurance, asset management and investment banking. 15,000 branches, 32,000 ATMs, 130 million customers and over 220,000 employees. Largest Indian overseas bank with 190 offices in 34 countries.

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Turkey's leading and financial conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family.

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## The largest companies in SKAGEN Kon-Tiki (continued)



Hungarian pharmaceutical company established in 1901 with focus on CEE. Transitioning from generic-focused to more specialised through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Cariprazine). Significant upside potential from US marketing approval of Cariprazine and extended usage of Esmya is not reflected in the current valuation at 30-40% discount to peers.



Bharti Airtel is India's largest private integrated telecom company, and it is a leading global player (#4) with operations in 20 countries across Asia and Africa. They had around 287m customers across their operations at the end of June 2014. They separated out towers in part owned unit (passive infrastructure). Bharti family and SingTel own 30% each.



South-African listed media and internet holding company incorporated in 1915. They have a strong Pay-TV business in South-Africa and Sub-Saharan African countries and a fast growing internet division focused on commerce, communities, content, communication and games. They hold a 34% stake in Chinese Tencent and 29% of Russian Mail.ru.

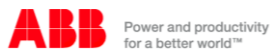


ABB is a leader in power and automation technologies that enable utility and industrial customers to improve performance while lowering environmental impact. The group operates in around 100 countries and employs 146,000 people. Approximately 50% of sales stem from emerging markets and this share is rapidly increasing.

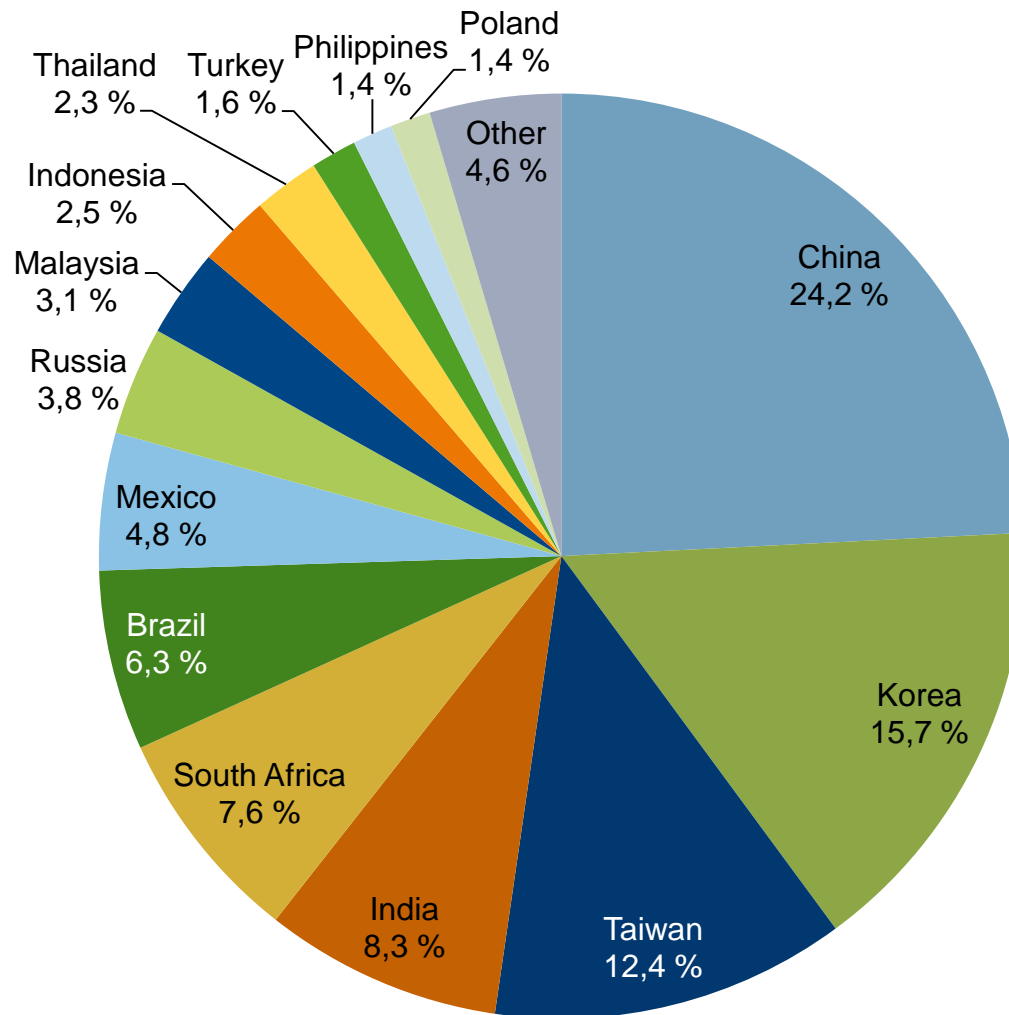


X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarket chain under the Perekrestok brand, hypermarket chain under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment.

# Additional information



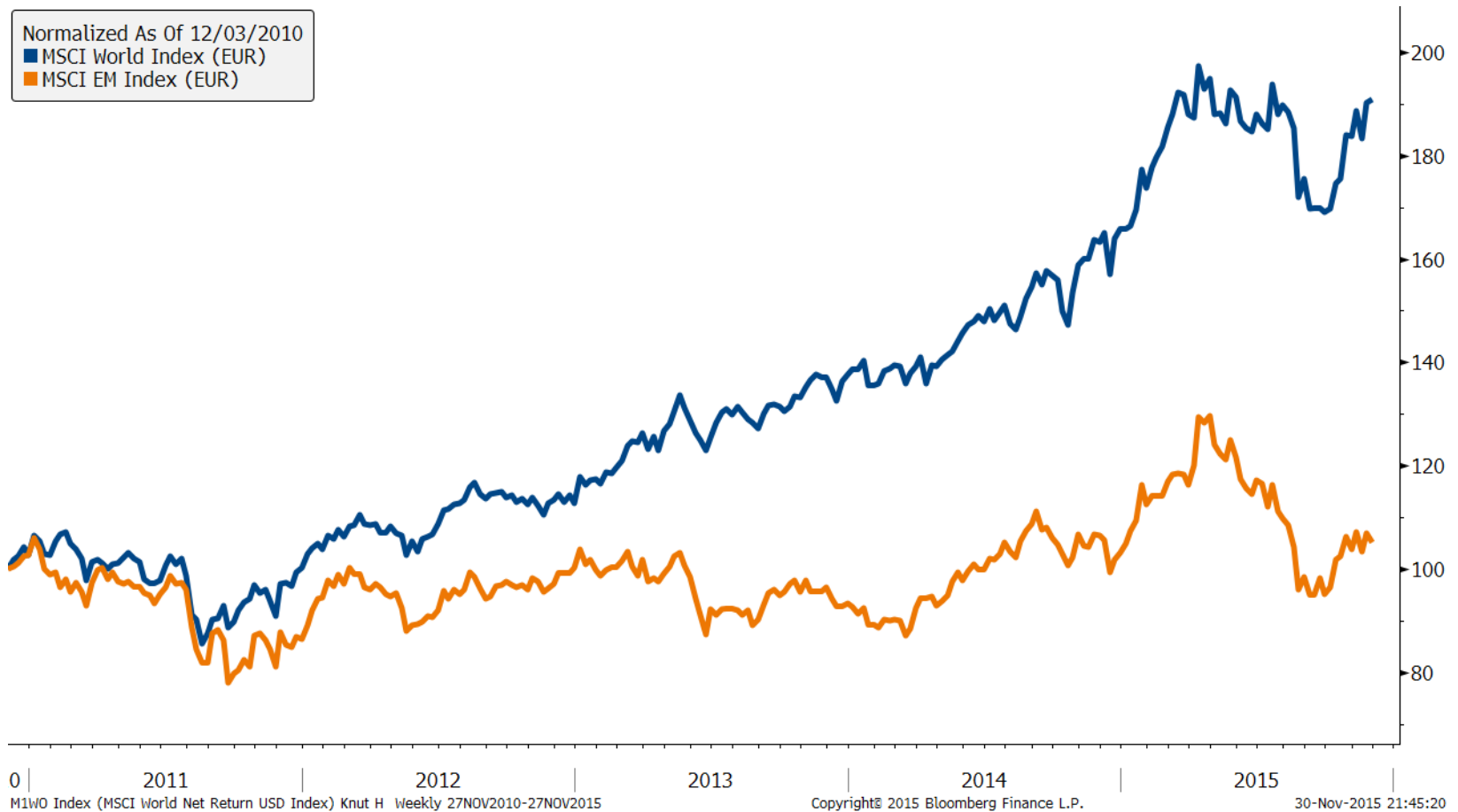
# Country weights for MSCI EM index



Source: MSCI as of 16 November 2015

# Emerging Markets have significantly lagged Development Markets over the past 5 years

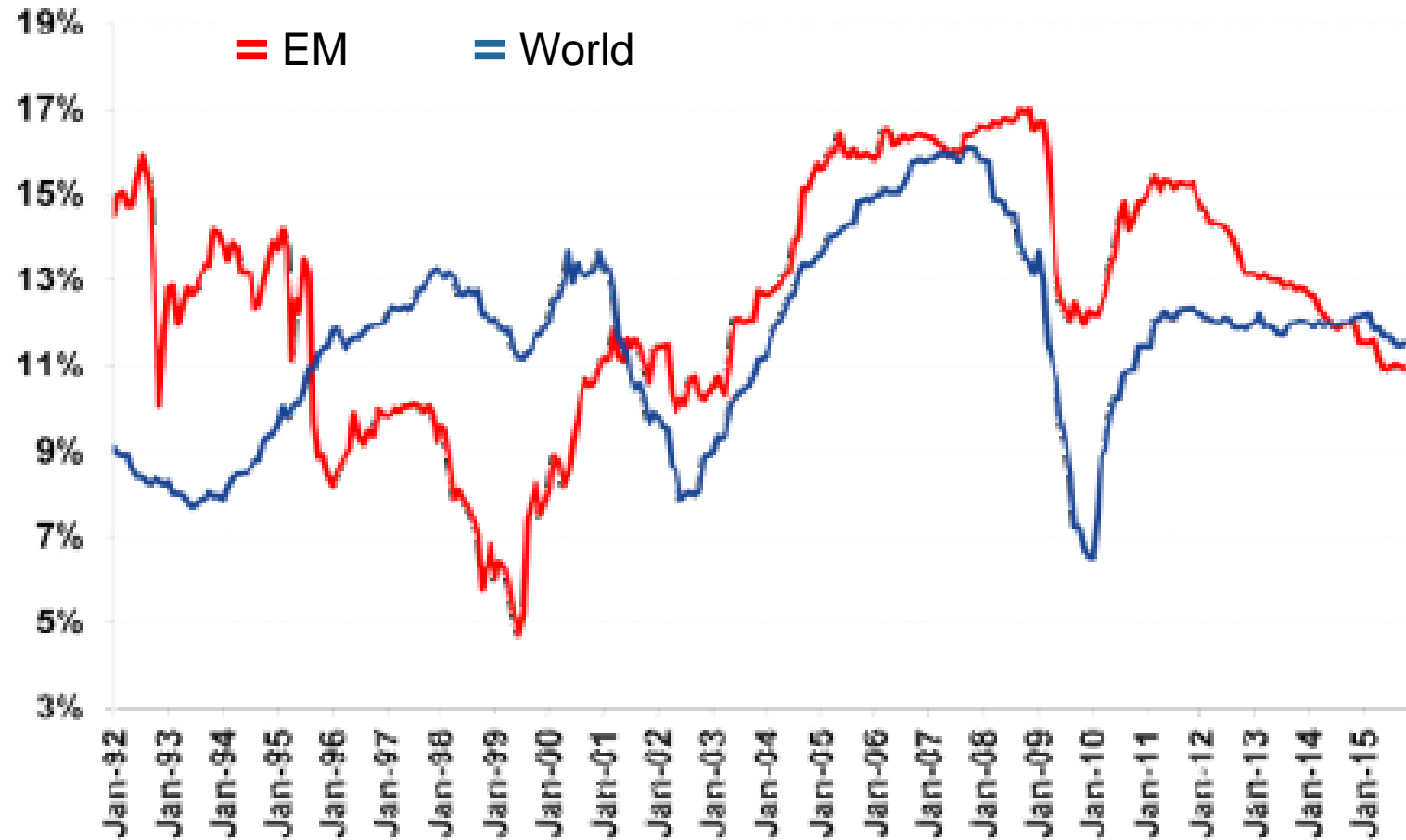
## 5 year return for MSCI EM and MSCI Developed market in EUR



Source: Bloomberg as of 27 November 2015

# ROE compression in EM due to margin squeeze

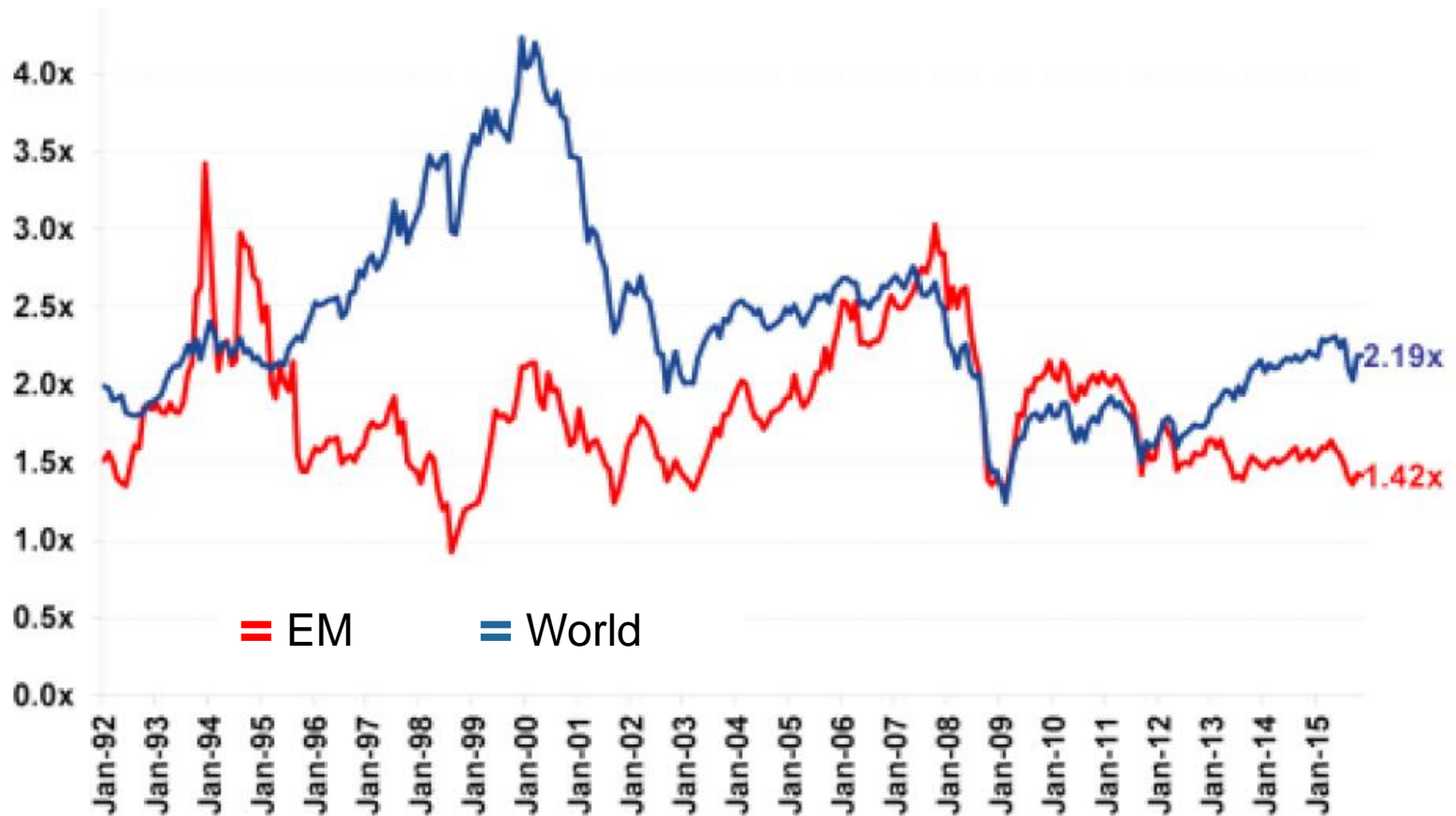
## 12 month trailing RoE



Source: Morgan Stanley as of 2 November 2015

# High interest rates provide further headwind for valuation; when will the gap close ?

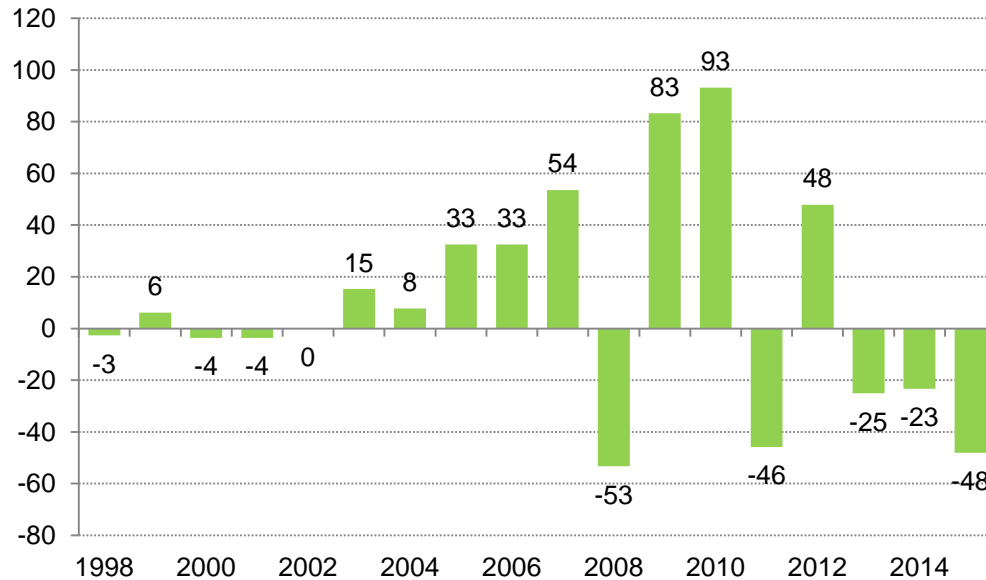
## Trailing P/BV



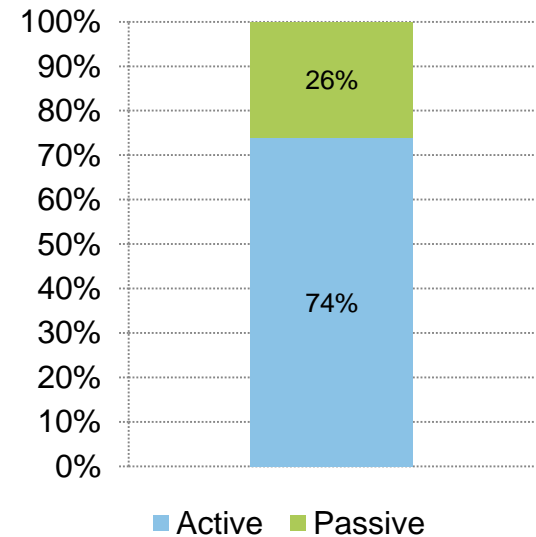
Source: Morgan Stanley as of 10 November 2015

# Close to USD 100bn outflow from EM equity funds since 2012 or about 10% of AuM; passive funds gaining market shares here also

**EM equity funds flow (USDbn)**



**EM equity funds AuM share**

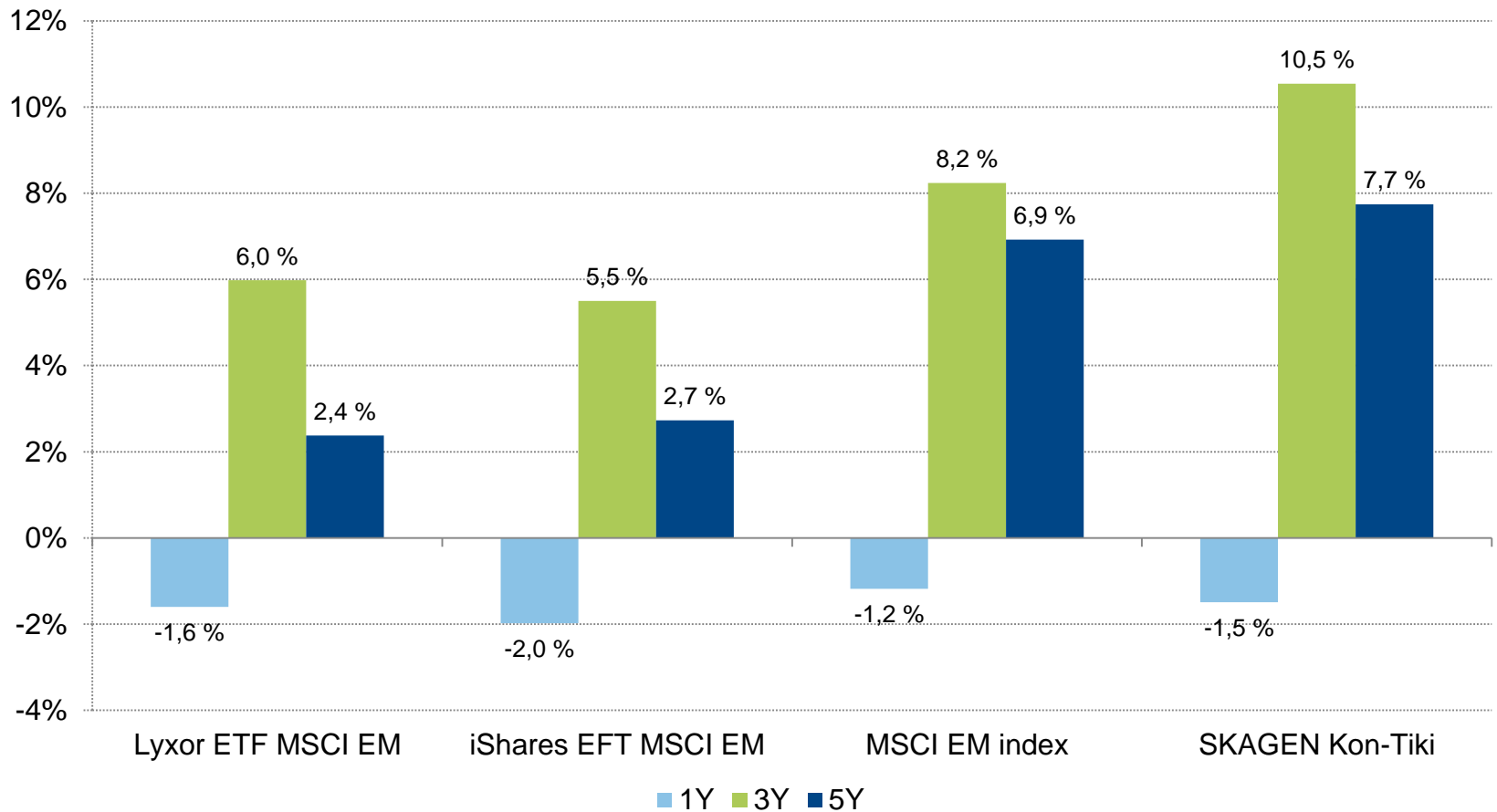


- ✓ 93% of outflow year-to-date from active funds and 100% for 2014

Source: EPFR Global as of 25 November 2015

# Do ETFs provide index return? Hardly. . .

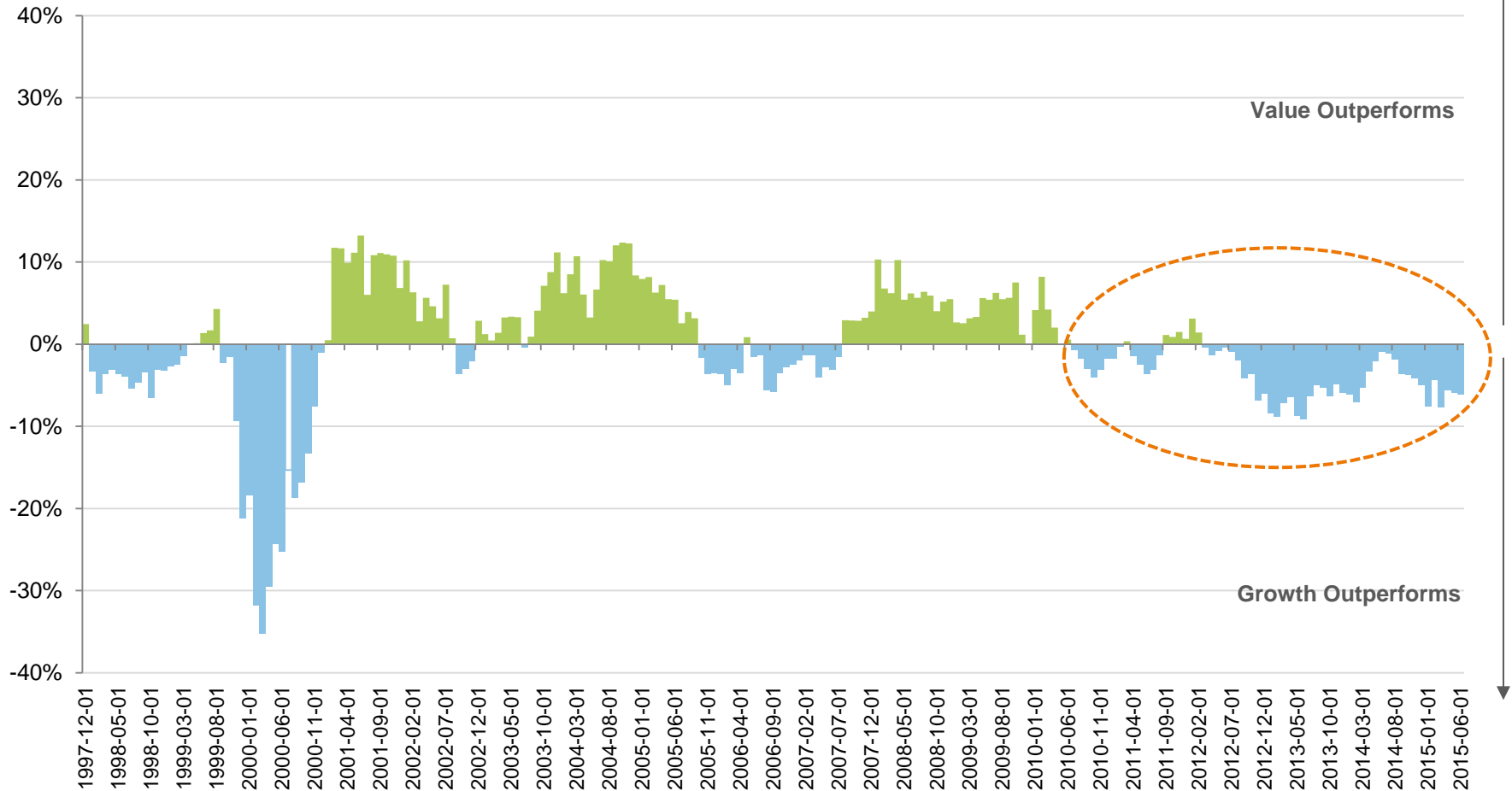
Total return in EUR as of 27 November 2015



Source: Bloomberg

# Value has been out of favour in Emerging Markets . . . .

## 12M Rolling differential return MSCI EM Value - MSCI EM Growth



Rolling 12 month return difference between MSCI EM Value and Growth Price Indices  
Source: MSCI/Bloomberg

# Why are Korean pref. shares trading at a major discount? *From 2014*

## The market view

Lack of voting rights

Lower liquidity

Lack of transparency (with the chaebols)

Relatively narrow dividend yield difference

## SKAGEN's view

If it is majority owned anyway, does it matter?

Yes, but we are long term and the discount more than justifies this

No worse than for the common shares. Changes on the way.

At least we are on the right side

Our preference shares in South Korea are trading at a substantial discount to the ordinary shares. They tend to be less volatile and over time they have shown superior returns.

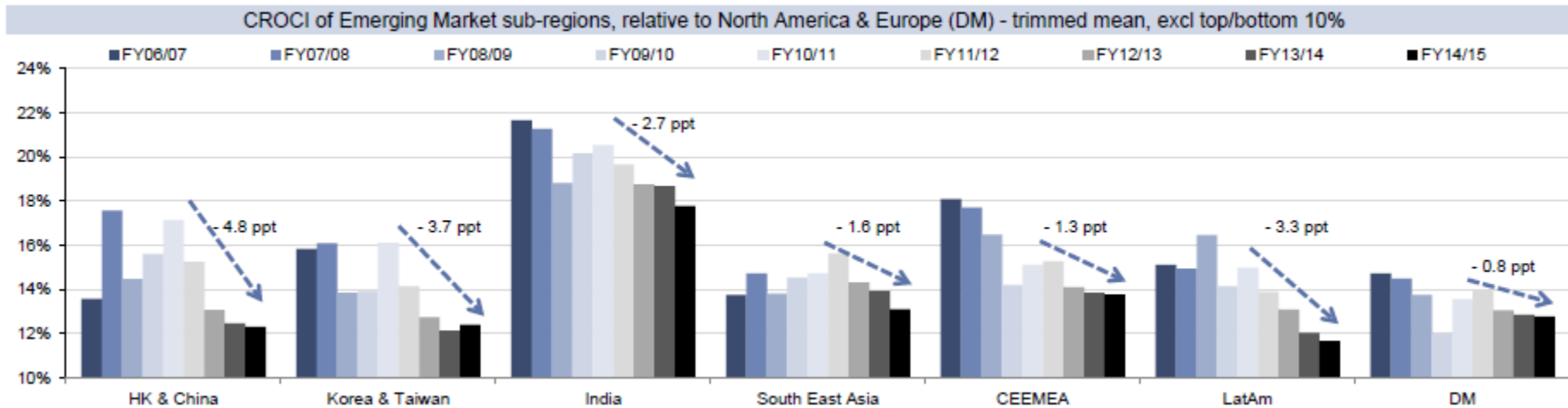


# Korean preference shares have significantly outperformed over the past 5 years



# Spot the trend:

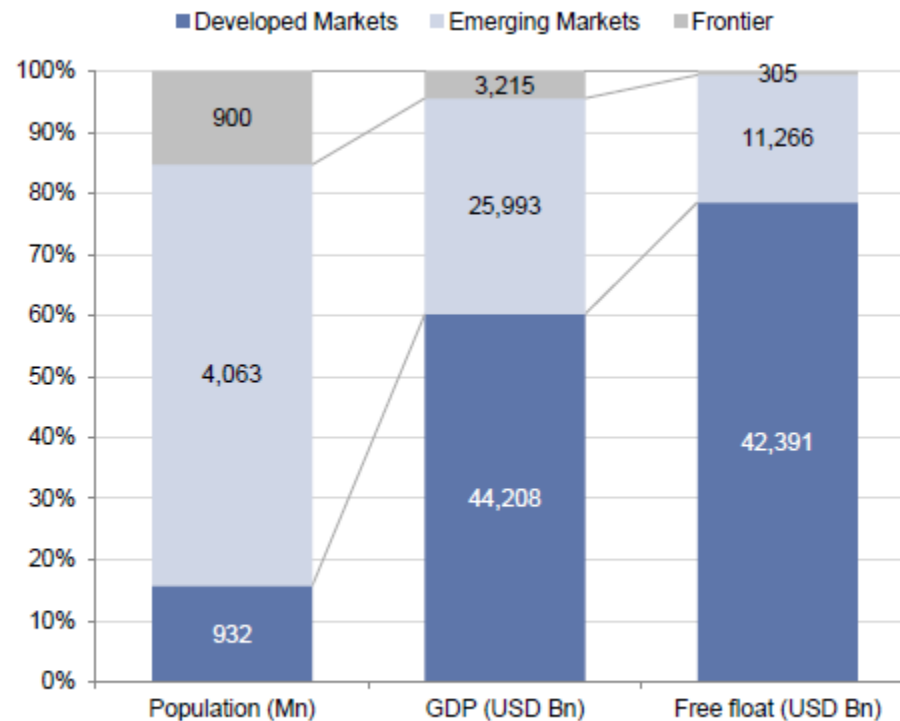
## Falling cash returns on cash invested (CROCI) globally



Source: Factset, Goldman Sachs Global Investment Research

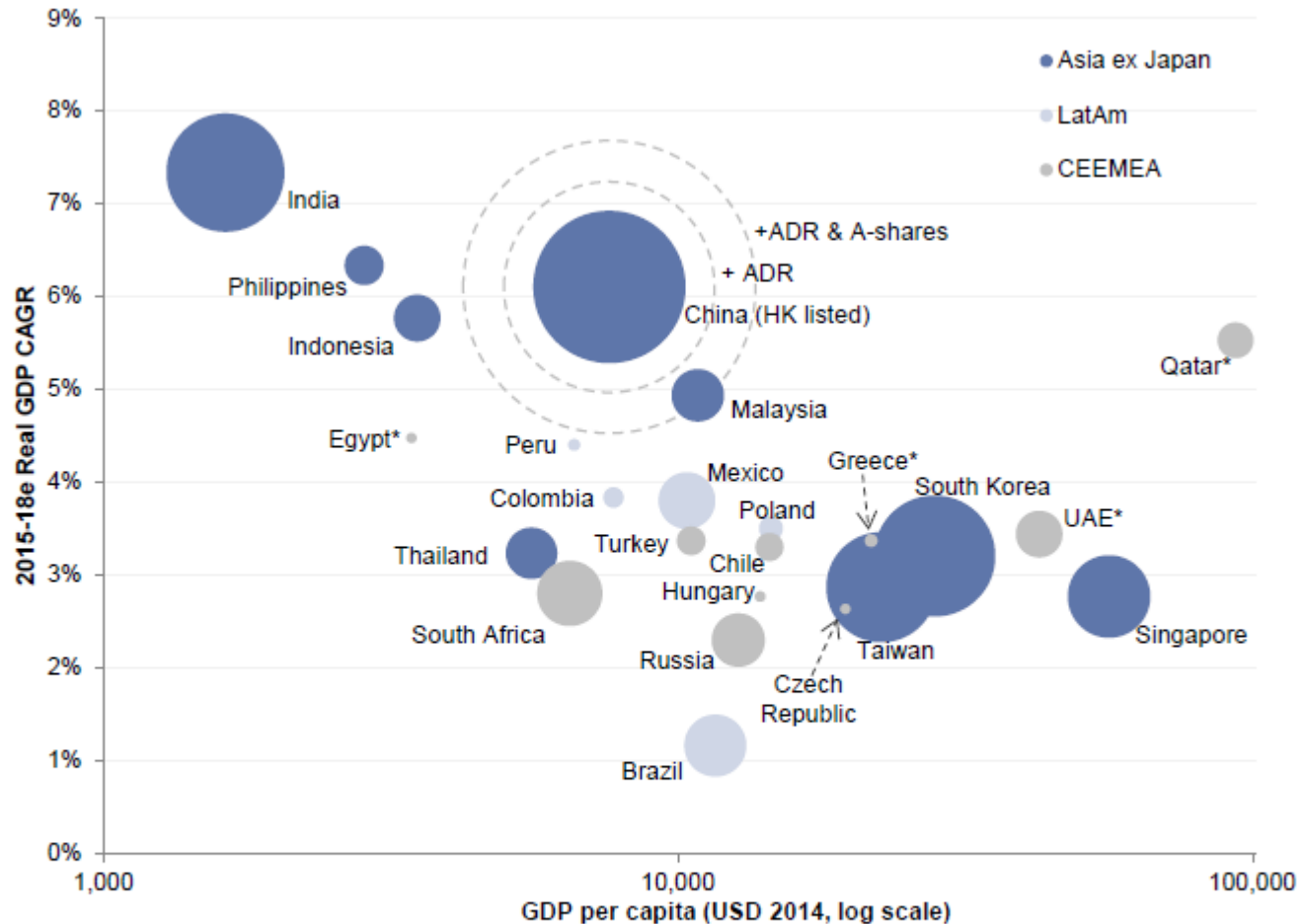
# EM has highest population, DM dominates free float & GDP

Population, GDP & Free float mix



Source: MSCI, Datastream

# Much of the market scale and economic growth lies in Asia



\*Using IMF forecast in absence of GS

Source: IMF, Datastream, Goldman Sachs Global Investment Research

# Fast facts for China

100 million people in China live on less than USD 1 per day.

China used more cement during 2011 to 2013 than the U.S. did in the 20th century.

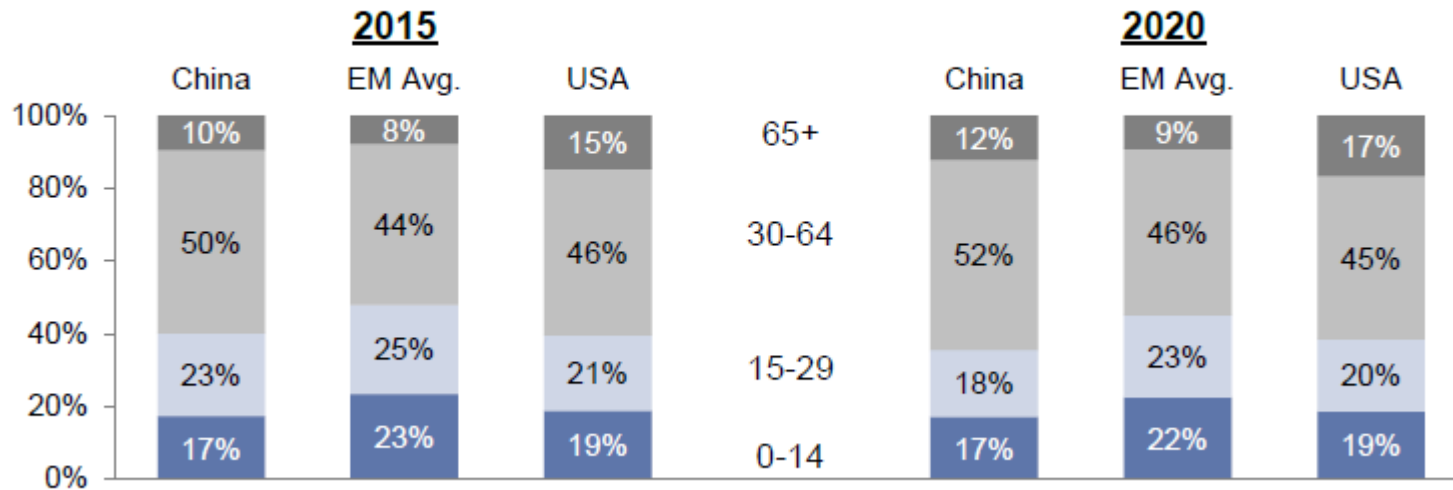
c60% of groundwater is unfit for human consumption according to government data.

A new skyscraper is built in China every five days.

If Walmart were a country, it would be China's 6th largest export market.

Datang, aka "Sock City", is a small town that produces 30% of the world's socks.

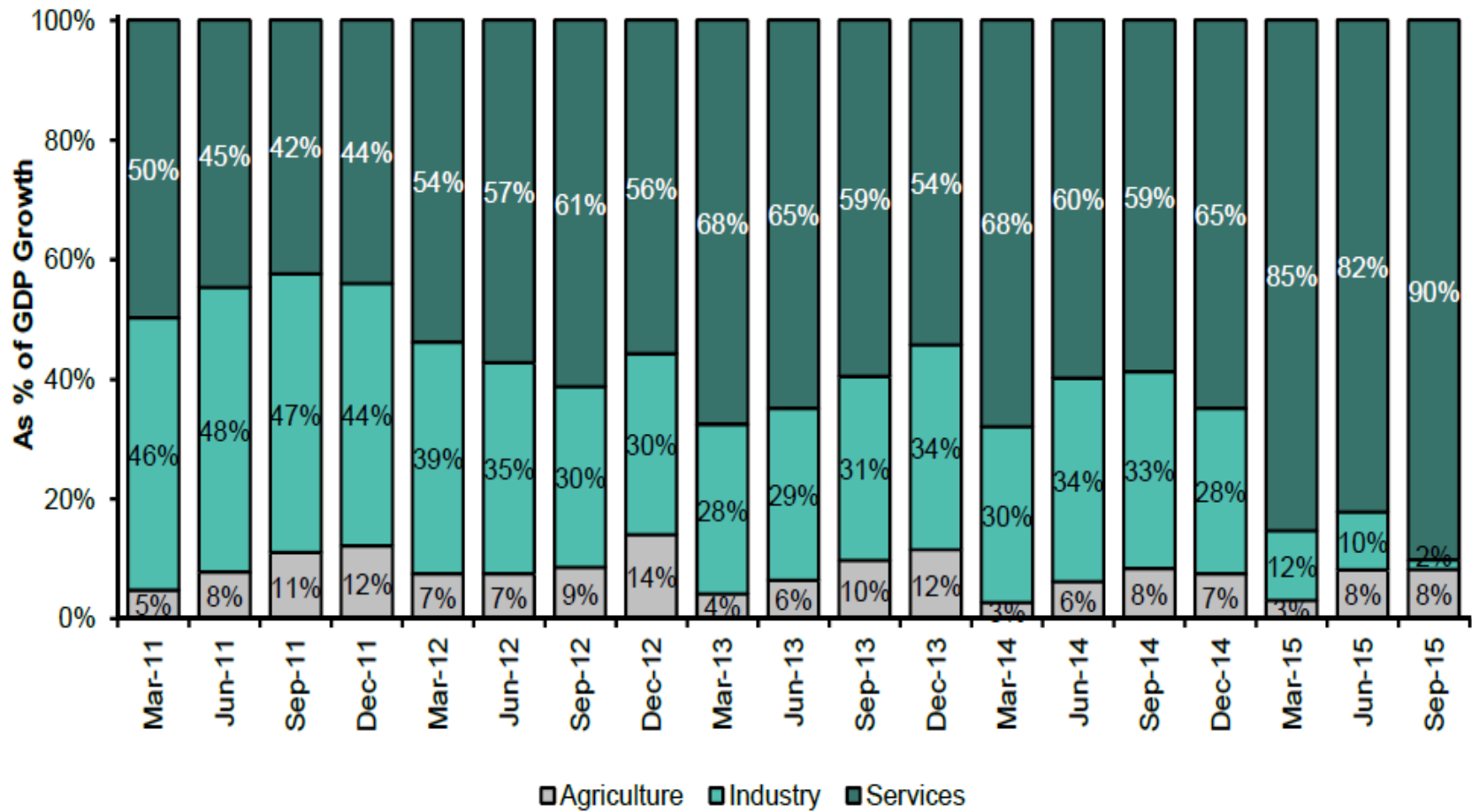
## Population by Age Group



Source: GS Sustain.

# The Chinese economy is re-balancing

China Quarterly GDP growth share by sector 2011-2015



Source: Haver, NBS, Bernstein

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Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skill, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments.

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