SKAGEN Focus

Status Report December 2016

The art of common sense

SKAGEN

Summary – December 2016

- The fund is a highly concentrated equity fund with a broad all-global mandate. The overall objective is to invest in a few select investments with an exceptional risk/reward profile from an absolute return perspective.

- The target number of positions is 30-35 and the top ten positions should constitute 40-50% of the portfolio. At the end of the month, the fund holds 33 positions, and the top ten positions account for 44.6% of the portfolio. The cash position is 4.6%.

- SKAGEN Focus* was up 4.5% in the month measured in EUR, while the global equity markets (measured as MSCI AC World) were up 2.4%. In 2016, the fund was up 18.3% while the global equity markets gained 11.1%.

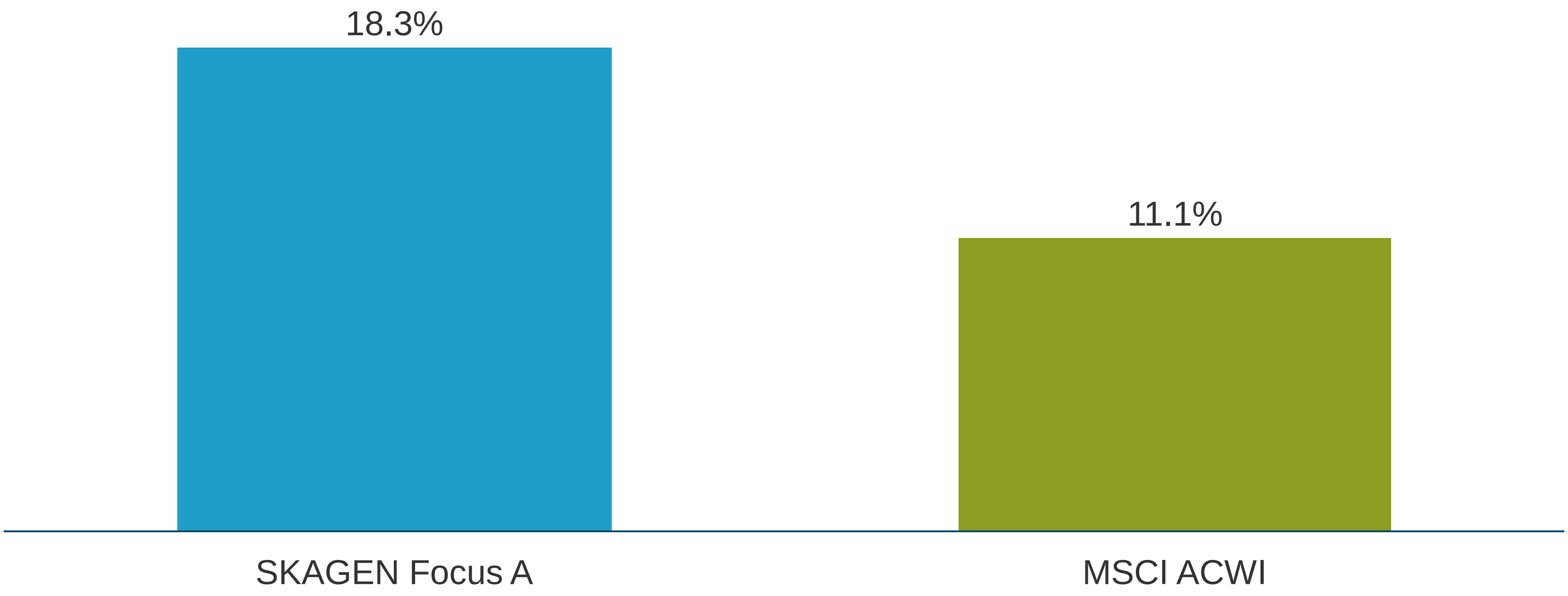
- JBS, Softbank and Telecom Italia were the strongest contributors to the fund's performance in December measured as absolute contribution in NOK. TerraVia, E-Mart and China Telecom were the main detractors during the month.

- As we have stated previously, an important part of the investment process is to remain disciplined with regard to the original investment case assumptions and also the price targets. Four out of the top five contributors to the fund in 2016 have been sold out. During December we initiated 3 new positions in the fund: Italian telecom operator Telecom Italia (new top 10 position), Spanish eucalyptus pulp producer Ence and US auto component manufacturer Adient. For more information on each position, please see fact sheets at the end of the report.

- The fund has a broad mandate to invest in all geographies and sectors. The fund is also market capitalisation-agnostic, and currently small-cap** positions constitute 17% of the fund, while mid-cap and large-cap positions account for 43% and 40%, respectively. These figures may vary meaningfully over time.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*
*** Small-cap defined as market cap below USD 2bn, large-cap more than USD 10bn.*

2016 – a good year for SKAGEN Focus



Return in EUR as of 31 December 2016

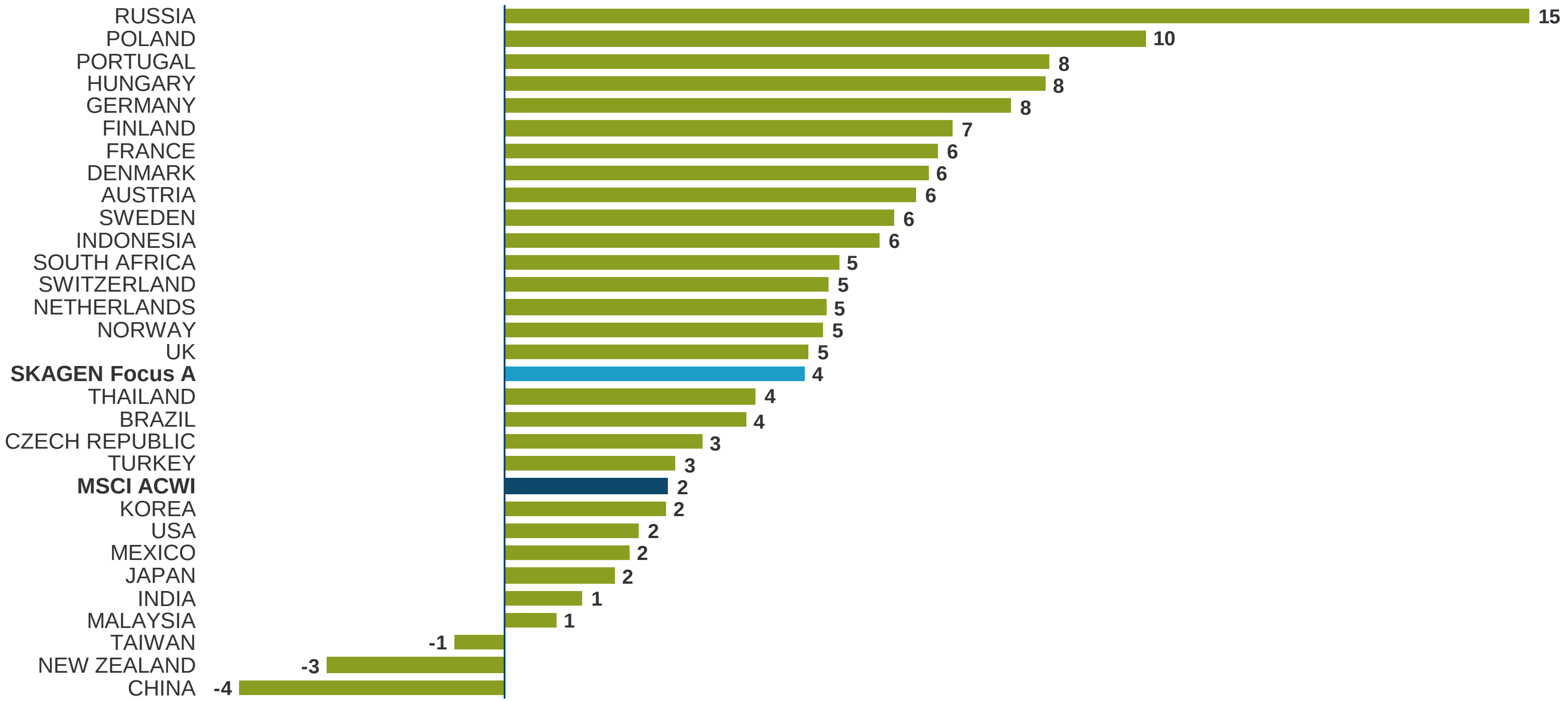
SKAGEN Focus A results, December 2016

EUR, net of fees

	December	Q4	2016	Since inception*
SKAGEN Focus A	4,5%	8,3%	18,3%	0,0%
World Index*	2,4%	8,0%	11,1%	1,9%
Excess return	2,0%	0,2%	7,1%	-1,9%

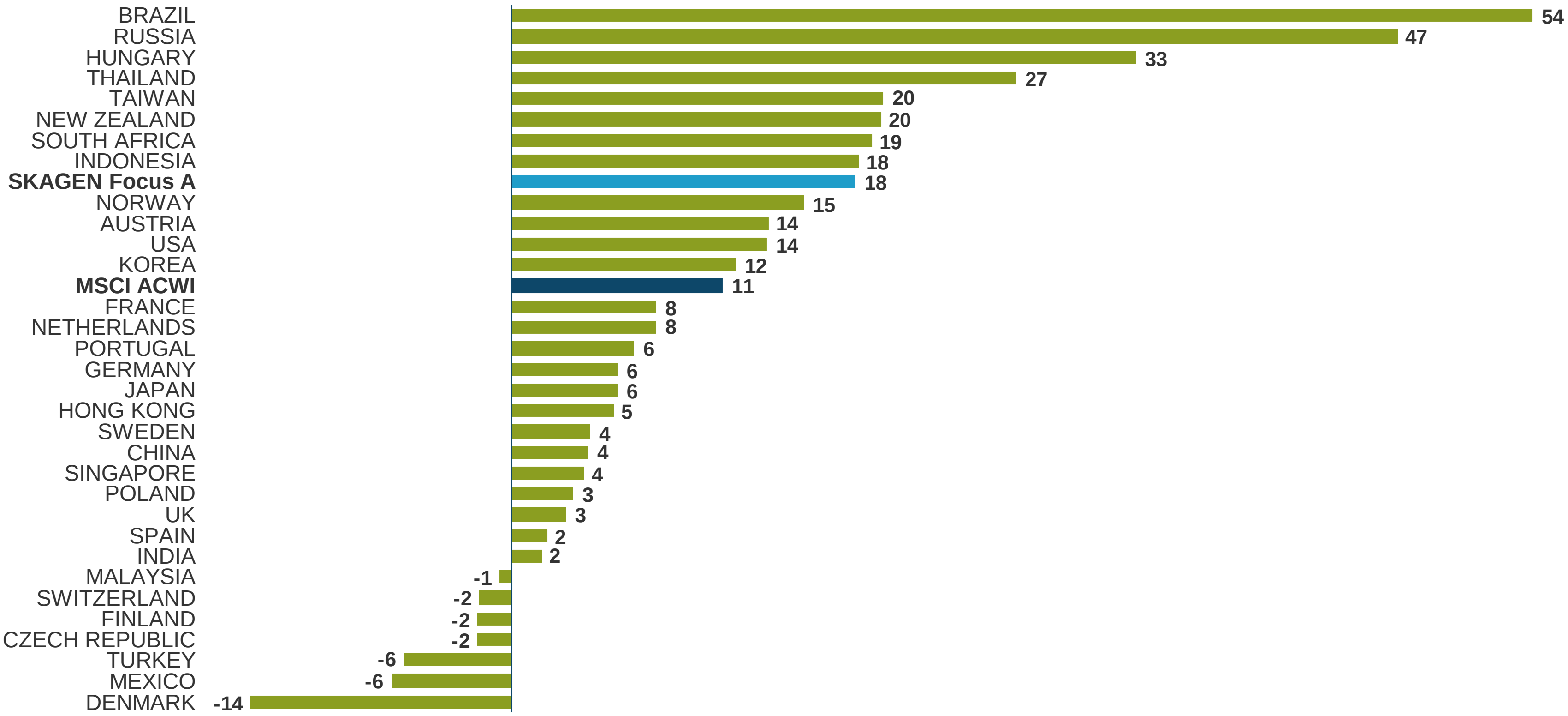
Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 26 May 2015*

Markets in December 2016 in EUR (%)



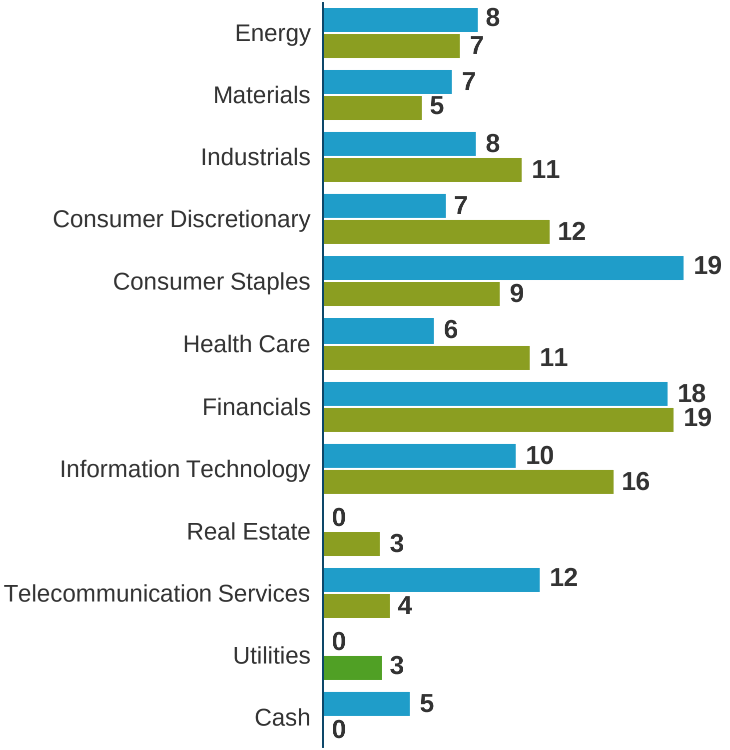
SKAGEN

Markets in 2016 in EUR (%)

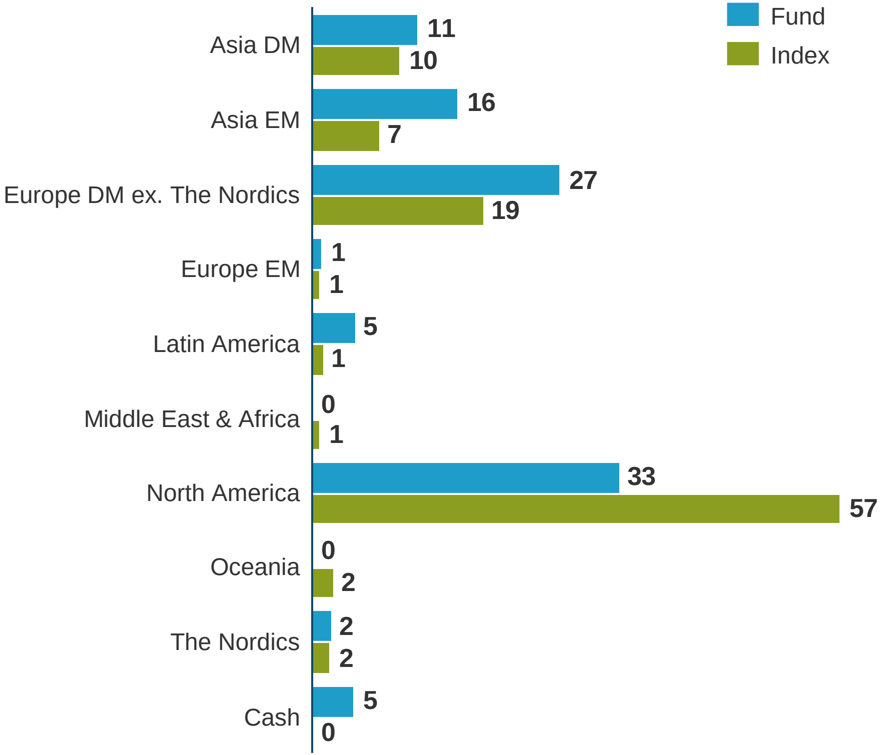


Sector and geographical distribution vs index (Dec. 2016)

Sector distribution



Geographical distribution



Holdings increased and decreased during December 2016

Key buys

- **Telecom Italia (new) –** Italian telecom operator with assets in Brazil. Please see fact sheet at the end of the report for more information.

- **Adient (new) –** Global market share leader in seating and interior components for passenger cars, commercial vehicles, and light trucks. Please see fact sheet at the end of the report for more information.

- **Ence (new) -** Ence is Europe's leading producer of eucalyptus pulp and is also the leading Spanish company in the production of renewable energy using forest biomass. Please see fact sheet at the end of the report for more information.

Key sells

- **Crown Confectionery (out)** – Our position in Crown Confectionary has been reduced in order to balance the fundamental risk exposure it shares with E-mart and Fila Korea, both of which have been increased in size substantially (E-mart is now a top 10 position).

- **Rentech (out)** – Position closed as more attractive risk reward was found elsewhere.

- **Omega Protein** – As the share price approaches the price target, the position size was lowered due to reduced risk reward.

Largest holdings in SKAGEN Focus

	Price	P/E 2016e	P/E 2017e	P/BV last	Price target	Upside to target %	Holding size, %
American International Group Inc	65,31	17,2	12,0	0,8	90,0	38 %	7,9%
Jbs SA	11,40	63,7	7,4	1,3	22,0	93 %	4,7%
Telecom Italia Spa	0,84	12,7	12,7	0,8	1,2	43 %	4,6%
E-MART Inc	183 000,00	15,2	13,2	0,7	270000,0	48 %	4,4%
Teva Pharmaceutical-Sp ADR	36,25	7,1	6,7	1,0	90,0	148 %	4,3%
SBI Holdings Inc	1 487,00	13,3	13,4	0,8	3000,0	102 %	4,0%
Softbank Group Corp	7 765,00	9,4	12,8	3,7	9600,0	24 %	3,9%
Tesoro Corp	87,45	17,7	14,0	1,9	120,0	37 %	3,9%
Taiheiyo Cement Corp	370,00	8,7	11,6	1,4	495,0	34 %	3,6%
Whiting Petroleum Corp	12,02	n/a	n/a	0,7	35,0	191 %	3,4%
Top 10 positions		**17,8**	**12,5**	**1,0**		**71,5%**	**44,6%**
Total Equity (33 positions)							**95,4 %**
Cash							**4,6 %**
Total Portfolio							**100,0%**

As of 31/12/2016

**JBS is the main owner of Pilgrim's Pride, which is a 1.1% position in the fund. These two positions should be viewed as one, with a total weight of 5.8%.*

Main contributors MTD 2016

Largest positive contributors

Company	NOK (000)
Jbs	14 842
Softbank Group	8 990
Telecom Italia Spa	7 136
Schaeffler	6 995
Whiting Petroleum	5 770

Largest negative contributors

Company	NOK (000)
TerraVia Holdings	-3 503
E-MART	-2 246
China Telecom	-1 802
GCL-Poly Energy Holdings	-1 785
Teva Pharmaceutical Industries	-1 774

Value Creation MTD (NOK MM): 88

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK (000)
AIG	20 158
Whiting Petroleum	15 684
Citizens Financial Group	15 041
Taiheiyo Cement	10 657
First Quantum Minerals	10 442

Largest negative contributors

Company	NOK (000)
TerraVia Holdings	-18 611
Fila Korea	-10 680
Teva Pharmaceutical Industries	-8 164
Rentech	-3 722
Pilgrim's Pride	-1 419

Value Creation QTD (NOK MM): 141

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK (000)
South32	28 057
Pan American Silver Corp	23 180
First Quantum Minerals	22 266
AirAsia BHD	20 030
Jbs	18 677

Largest negative contributors

Company	NOK (000)
Teva Pharmaceutical Industries	-16 325
TerraVia Holdings	-15 188
Fila Korea	-11 344
Rentech	-7 391
Crown Confectionery	-7 329

Value Creation YTD (NOK MM): 187

NB: Contribution to absolute return

Most important changes Q4 2016

Q4 Holdings increased

Tesoro	(New)
Telecom Italia Spa	(New)
Adient	(New)
Ence Energia y Celulosa	(New)
E-MART	
Whiting Petroleum	
Teva Pharmaceutical Industries	
Fila Korea	
AIG	
CIT Group	
Jbs	
Samsung SDI	
Synchrony Financial	
Alphabet	
China Telecom	
Philips Lighting	

Q4 Holdings reduced

Citizens Financial Group	(Out)
South32	(Out)
First Quantum Minerals	(Out)
Crown Confectionery	(Out)
Aercap Holdings	(Out)
Rentech	(Out)
Pilgrim's Pride	
Omega Protein	
SK Hynix	
Softbank Group	
Infineon Technologies	
Synchrony Financial	

Key earnings releases and corporate news, December 2016

Aryzta
(3.1% weight)

Investment case update

Swiss bakery company Aryzta delivered a revenue update for Q117 where total revenues declined 3% over last year, impacted by contract renewals. Excluding these renewals there was a slight increase in revenues over last year. While the European operation was solid at a 2% increase in revenues, there was continued weakness in the North American operation (-6%). The company redeemed expensive debt in the quarter and replaced it with medium-term financing at a substantially lower debt cost than previously indicated. Guidance for the FY17 was confirmed with regard to free cash flow (EUR 225-275m) with stabilisation in EBITDA and lower debt funding cost will provide support going forward. Our investment case is not built upon a rapid return to growth, and we see value in the stock at the current level of normalised earnings. We see potential for de-levering of the balance sheet in the mid-term as the business is gradually moving into a more cash generative phase. The equity is trading at an 8% free cash flow yield and forward 8x EV/EBITDA which is at a 30-40% discount to the overall consumer staples sector.

Fact

In Q117 overall revenues declined 3% to EUR 962m over last year, where Europe (+2%) was solid but negatively compensated by North America (-5%).

JBS
(4.7% weight)

Investment case update

Brazil-based JBS transformed itself from a mid-sized local beef producer to one of the largest food companies in the world since its IPO in 2007. Today it has a leading global market share position in beef, poultry (through 76% owned Pilgrim's Pride in the US) and pork. The shares had been weak following the veto from state agency BNDES regarding a new corporate structure that essentially was built upon partly swapping shares in Brazilian JBS into a newly listed company (JBS Foods International, JBSFI). The company has now, earlier than anyone could have anticipated, come back with a fresh restructuring plan, which BNDES no longer has the possibility to reject. In the new structure shareholders would continue to hold JBS shares in Brazil, and the Brazilian company would then still control the new unit JBSFI. JBSFI will list on the New York exchange in 1H17 and contain all of the non-Brazilian assets and Seara. The stock rallied more than 19% on the news. Even though there has been a deterioration of valuation in specific US traded peers over the last few months, for instance in Tyson Foods, it still trades at a substantial valuation discount to global food company peers. Fundamentally, the investment case remains based upon an operational turn-around including a continued recovery in beef margins and better capital discipline which is coinciding with a multi-year low valuation of 5x EV/EBITDA forward multiples. Solid cash flow generation has the potential to pave the way for a net debt reduction towards 2.5x in the mid-term.

Fact

The company has filed with the SEC to list JBSFI on the NYSE in 1H17.

Key earnings releases and corporate news, December 2016 (cont.)

Teva (4.3% weight)

Investment case update

Negative. The resignation is unexpected and unfortunate since Siggi is a highly regarded veteran in the generics industry and was destined to champion the integration of Actavis Generics (purchased for USD 40bn in 2015) into the Teva Group. He had previously been CEO of Actavis and was therefore intimately familiar with the business. His departure clearly dents the quality of the management team. Guidance for 2017 will now be published in January (vs. February) and could provide a trigger given the depressed sentiment.

Fact

The Icelander Siggi Olafsson, Head of Global Generics at Teva, has resigned and will leave the company by 2017 Q1. He will be replaced by Dipankar Bhattacharjee who has been the Head of Generics Europe since 2013.

Whiting Petroleum (3.4% weight)

Investment case update

Whiting Petroleum is an independent E&P company primarily focused on on-shore oil properties in the US. The company raised capital in early 2015 after the poorly timed acquisition of Kodiak Oil and Gas in late 2014, funded mostly with debt. The company announced a highly anticipated conversion of USD 720m of convertible notes into shares of common stock. This implies issuance of 77m shares to retire all of the outstanding convertible notes. Following this transaction and the earlier announced sale of the North Dakota midstream assets (USD 375m) the company will have reduced debt by USD 2.3bn during 2016, which essentially is all the debt associated with the former Kodiak purchase. The company's net debt will fall to about 4x EBITDA. The reduction of debt is crucial for the investment case and we expect further actions to de-lever in the mid-term. Through cost-cutting and lower capital expenditures, the company is now able to reach operational cash flow neutrality at levels below the current oil price. On a forward EV/EBITDA perspective, without assuming any dramatic increases in the forward oil price and further de-levering of the balance sheet, the stock appears to have solid upside.

Fact

The company announced conversion of USD 720m of convertible notes.

The 10 largest companies in SKAGEN Focus

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings: Sun America and Chartis that it intends to keep.

Brazil-based JBS has transformed itself from a mid-sized local beef producer to the world's largest animal protein processor in just a few years since its IPO in 2007. It is now the world's #1 beef, #2 poultry and #3 pork producer by sales. The company operates in six main segments: JBS USA Beef (40% of sales, US beef processing), Moy Park (14%, UK-based chicken and foodservice provider), Pilgrim's Pride (14%, 2nd largest chicken producer globally; separately listed in the US; PPC US, JBS ownership 75%), JBS Mercosul (13%, Brazil-based beef processing), JBS USA Pork (10%), JBS Foods (9%, prepared foods and poultry processing).

Through subsidiaries, Telecom Italia S.p.A. offers fixed line and mobile telephone and data transmission services in Italy and abroad. Telecom Italia is a former state telecommunications monopoly. The company has two main operations: Domestic telecom (75% of revenues) and a majority stake in TIM Participacoes (25% of revenues, 67% owned), which is Brazil's second largest mobile operator.

E-Mart Inc. operates E-Mart discount stores. The company sells food, clothing, household goods, electronics, and other items through several branch stores. Revenue breakdown: E-mart offline 70%, Traders 6% (wholesale), E-Mart mall/online 5%, Hotel 16%, With Me (convenience format/CVS) 3%. Market share 48% in core discount format in South Korea.

Teva's history can be traced back to Jerusalem in the 1930s. Today Teva is the world's largest producer of drugs that have gone off-patent. HQ in Israel; presence in 60 countries; 45k employees. Teva's strategy is to focus on 1) Central nervous system (CNS) 2) Respiratory system and 3) Improved versions of existing drugs (not just Teva drugs) and 4) Production of biosimilar drugs. In July 2016, The US Federal Trade Commission granted Teva approval for the acquisition of Allergan's generics business (Actavis).

The 10 largest companies in SKAGEN Focus (cont.)

Japanese company established in 1999 as an online financial services company, incubation arm of Softbank. Acquired E*Trade Securities in 2003, Softbank sold out in 2006. Three main businesses: i) Financial services; ii) Asset management, iii) Biotech Financial services. Building an ecosystem to offer full range of financial services: SBI Securities: Dominant provider of online securities services in Japan, #3 in new tax-saving NISA behind Nomura and Daiwa. SBI Sumishin Net Bank: pure-play internet bank. Also active within insurance (Life & Non-life), Mortgages (through securitisation), trading system and FX trading.

Japan-based Softbank is a telecom and internet conglomerate. The company's main assets are 1) the Chinese online giant Alibaba Group (32% holding). Alibaba is the leading online commerce platform in China, active both in retail and wholesale; 2) US-based telecom operator Sprint (80% ownership) which provides wireless services in the US and is the third largest wireless network operator after Verizon and AT&T; and 3) domestic telecoms (mainly Softbank Mobile, third largest telco in Japan after KDDI and NTT Docomo).

Tesoro Corporation refines and markets petroleum products and provides transporting services. The company operates refineries, as well as a network of retail and refuelling stations in the western United States. Tesoro also markets gasoline and diesel fuel to independent marketers and commercial end users.

Largest cement company in Japan and 13th largest globally with approximately 40m tons total capacity (about 60% in Japan). Japanese cement market is an oligopoly with three players following consolidation. Geographic revenue mix: Japan 80%, US 15%, Other 5% (Singapore, Vietnam, HK, Philippines, Australia). Segment revenue mix: Cement 65%, Mineral resources 10%, Environmental business 8%, Construction materials 10%, Other 7%); private/public 50/50. Integrated with minerals business providing large part of internal raw material needs.

The company is an independent oil and gas company active in exploration, development and production in the Rocky Mountains (includes Colorado, Montana, North Dakota, Utah and Wyoming) and the Permian Basin in the US. Oil assets/production represent about 80% of total. Company has recently deleveraged, through a capital raise, from about 4x net debt/ EBITDA to 3x (net debt of about USD 4.3bn) and improved its refinancing situation.

Telecom Italia (TIT IM) EUR 0.70

TELECOM ITALIA

History, what they do and how case was found

- Telecom Italia is a former state telecommunications monopoly. The company has two main operations: Domestic telecom (75% of revenues) and a majority stake in TIM Participacoes (25% of revenues, 67% owned), which is Brazil's second largest mobile operator.
- Major competitors in the domestic market are Wind/Hutchison, Vodafone and 3 Italia. The market is anticipating new competition in the form of French mobile disrupter Iliad and partially state-owned utility Enel in the mid-term.
- In domestic telecom, the 4G roll-out is more or less complete, while the company is investing into roll-out of fibre/broadband which currently has fairly low penetration in Italy (25%).
- Brazilian unit is separately listed in local market with a market cap of around BRL 19bn (EUR 5.2bn). Company also holds other listed stakes such as the tower company Inwit (market cap EUR 2.3bn with 60% ownership).
- The company is listed through ordinary shares and savings shares (TITR), which carry zero voting rights but provide a decent dividend yield. Savings shares trade at a 16% discount to ordinary shares.
- **ESG** – The Brazilian unit has historically been involved (2013) in issues surrounding product service and quality.

Rationale for investment

- Despite continued investment in broadband/fibre, the capex cycle is peaking in the middle of 2017, potentially paving the way for substantial free cash flow generation in the mid-term. We estimate around 10-12% FCF yield potential in the mid-term.
- New CEO Flavio Cattaneo, formerly a board member of the company, is aligned with new owner Vivendi and will implement a cost-cutting/efficiency program.
- The competitive threat from Iliad and Enel may be overestimated and already anticipated by market consensus. French low-price operator Iliad has had great success in its home market but is largely unknown in Italy. Also, prices are already quite pressured in the core mobile segment in Italy. Enel is a partly state-owned utility that aims to roll out fibre network, but lost its main supporter (Renzi) following the recent election results.
- Brazilian unit is trading at depressed multiples and there is potential for re-rating from current 4x EV/EBITDA.

Potential triggers

- Gradual market realisation that competitive threat from new entrants Iliad and Enel is not as bad as perceived.
- Vivendi, headed by French magnate Bolloré, has built up a stake of 25% in Telecom Italia, effectively controlling the company. Implementation of efficiency program and cross-border deals would probably be the ultimate agenda for the main owner.
- Corporate actions involving the company structure, such as sale of the tower unit or the Brazilian unit (minority is trading in Brazil).

Risks

- Government regulation – the company operates in a regulated market
- Price competition – Iliad and Enel will put pressure on prices in mobile and fibre
- Leverage – the company is at 3.5x net debt / EBITDA but we expect lower leverage as cash-flow increases in the mid-term – 2.5x is company target for 2018

Target price

We see an attractive upside in the shares at current earnings power. We set a target price of EUR 1,2 / share which would equal mid-term 7x EV/EBITDA.

KEY FIGURES:		
Market cap	EUR	14b
EV/EBITDA		5,5x
P/E		10x
Net debt / EBITDA		3,5x
Price/book		0,7x
Owners:		
Vivendi		25,0%
Blackrock		2,3%
Norges Bank		1,9%

Team Focus, December 2016

www.telecomitalia.com

3U addition to fact sheet

Unpopular

- A number of factors have discounted the shares towards current entry level. These factors include uncertainty ahead of the Italian referendum, the de-rating of perceived “stable earners” such as telecoms, and the entrance of new competition in the Italian market, namely Iliad in mobile and Enel in fibre.

Under-researched

- 33 analysts cover the stock. Investors have, however, largely ignored this investment opportunity following major uncertainty in the political landscape and competitive threat dynamics.

Under-valued

- We see solid upside in the equity price based on the current earnings power of the company. Our target price of EUR 1.2 per share equals 7x mid-term EV/EBITDA.

Adient (ADNT US) USD 50

History, what they do and how case was found

- Adient is the global market leader in seating and interior components for passenger cars, commercial vehicles, and light trucks.The company was spun-off from US based Johnson Control in October 2016. Market cap of USD 5bn.
- Clients are the major OEMs on a global basis (Fiat, Ford, Volkswagen, General Motors, Nissan to name a few). 50% of revenues from the US, 35% from Europe and Rest of World 15%, with a substantial part from China through JVs.
- Closest competitors are Lear (US), Magna (US), Grammer (Germany) and Faurecia (France).
- The company owns a myriad of Chinese JVs not consolidated in the company accounts which produce a substantial equity income (USD 300m) annually. Primary JV in China is Yanfeng China.
- Irish domiciled company carrying a low tax rate of 10-12%.

Rationale for investment

- Margin improvement opportunity in core seating operation. Current margins lowest among peer group and (4% EBIT) with a potential to double the margin in the mid-term towards peer group level.
- Recently recruited management team including CFO Jeff Stafeil from peer Visteon has earlier executed a successful monetisation of assets with similar Chinese JV structure.
- Valuation is highly attractive with Adient’s core business trading at 2x EV/EBITDA if we were to value the equity income from Chinese JVs at a market multiple.
- We see potential for strong free cash flow generation in the mid-term at levels of 10-15% annually.

Potential triggers

- The JVs are substantially net cash and we believe a special dividend from these JVs are on the cards in the mid-term, possibly used to de-lever balance sheet.
- Possible structural changes to crystallise value in the Chinese JV through buying controlling stakes or listing of equity stakes.
- Delivery on margin improvements in the core seating business.
- Consolidation among auto-suppliers where Adient could play a part.

Risks

- Global auto sales with a tilt towards Chinese auto-sales.
- Chinese auto-incentives may be reduced, China recently increased tax on small car sales from 5% to 7.5%.
- Leverage – net debt/EBITDA of about 3.0x – de-levering is likely in the mid-term.
- Tax structure.

Target price

We set a target price of USD 90 which is 6x mid-term EV/EBITDA earnings power, which is also in line with peer group levels.

KEY FIGURES:

Market cap	USD	5.0bn
EV/EBITDA		5.0x
P/E		6x
Net debt / EBITDA		3.0x
EV/sales		0.6x

Owners:

Vanguard	3.9%
FMR	1.1%
Blackrock	1.0%

Team Focus, December 2016

www.adient.com

3U addition to fact sheet

Unpopular

- The stock is fairly unknown to most investors following the recent spin-off. There has also been technical selling pressure from former Johnson Control holders. 50% of analysts are at sell/hold.

Under-researched

- The stock is covered by 14 analysts. We believe the market does not properly assess the value of the company's myriad of Chinese JVs.

Under-valued

- We set a target price of USD 90 (initiation price is USD 50) which is 6x mid-term EV/EBITDA earnings power, which is also in line with peer group levels.

Ence (ENC SM) EUR 1.9

ENERGÍA & CELULOSA

History, what they do and how case was found

- **Ence** is Europe's leading producer of eucalyptus pulp (0.93m tons) and 2nd largest in terms of sales after Fibria with a 12% market share. Also the leading Spanish company in production of renewable energy using forest biomass (223MW capacity). Ence was state-owned until 2001 when it was fully listed on the Madrid Stock Exchange.
- **Pulp (87%):** Majority of sales relates to production of hardwood pulp and is exposed to the volatility of the USD global pulp price. The Chemical Market Pulp Industry, in which Ence operates, accounts for only 14% of total paper grade pulp consumption. 57% of Ence's pulp sales are exposed to the tissue market which has growing end markets, none of sales are exposed to print. Ence has two eucalyptus pulp mills in Spain: Navia and Pontevedra and both use eucalyptus timber acquired locally in abundant markets. Company also owns forest land. Most hardwood pulp comes from eucalyptus wood - eucalyptus pulp is cheaper to produce than softwood due to a shorter harvesting cycle. Eucalyptus grows in tropical areas but also in northern Spain and continental Portugal where old farmland has been replaced with plantations.
- **Energy (13%)** As an integral part of its pulp production process, Ence uses the lignin and forest waste derived from its manufacturing to generate the energy needed for the process and sells its surplus production to the national grid. Main idea here is to is to create synergies, reduce cyclicality of the business while covering fixed costs. Energy segment generates EUR 30m in EBITDA per year and has been recovering since 2013-14, when profitability suffered due to regulatory changes introduced by the Spanish government.
- **Delayed investment plan** - In Nov 2015 Ence announced a capex plan to reduce cash costs by 2020. Company guided for a pulp cash cost reduction of EUR 33/ton (capex 337m) and new energy projects that could represent capex of EUR 325m – which would add EUR 45m in EBITDA. During Q216 results, Ence announced that it will delay its investments to least 2018 due to low pulp prices and uncertainty. Consequently, Ence will not be able to reduce its cash costs as quickly as expected which has been a disappointment for the market and an opportunity for us.
- **ESG** – No major issues identified.

Rationale for investment

- In a nutshell Ence is a price taker with a solid balance sheet, has non-core assets it could dispose of, a long-term oriented ownership structure and generates healthy amounts of cash even in this depressed pulp price environment.
- Company had operational disruptions in one of their two mills during Q116. The disruption brought up cash costs which affected share price sentiment.
- Hardwood prices have been falling due to fear of overcapacity (down from USD788 to 660 YTD). Consensus downgrading midterm price outlook to 720-740, which is still above current level. We can see our required upside based on current <USD660 level, current FX and current cash cost level (EUR 355). We still see operational downside protection as there is room to go in terms of breakeven level for the company.
- Spread between hard and soft wood is at historical high (USD 140 spread compared to normal level of 90). Substitution effect exists. 80% of final products allow for proportions of both pulp types.
- The low pulp price environment has caused a delay in the company's efficiency plan, which has affected share price sentiment. We don't need a normalisation of the pulp price nor reduced cash costs to see our required upside, the company is undervalued based on its current earnings power.

Potential triggers

- Normalisation of the hardwood pulp price (BHKP); Margin improvement by further reduction of cash cost; Industry consolidation – Ence is still a very small player in a fragmented industry; Asset disposals; Share buyback program

Risks

- Further decline of pulp prices and widening of spread between hardwood and softwood prices; Depreciation of the USD vs EUR. They sell in USD and have majority of costs in EUR. 50% of this exposure is hedged by the company; Capital allocation – Excess cash from asset disposals and delaying investments. Increased reinvestment risk; Regulation

Target price

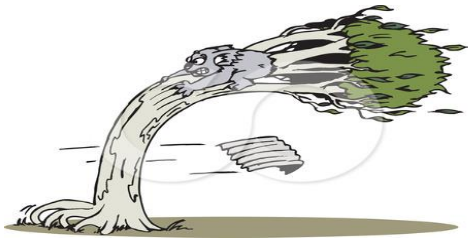
- Our target price for Ence is 3,2, equivalent to 7x mid-term EV/EBITDA, based on current the current fx/pulp price environment.

Key figures:

Market cap	EUR	500m
Net debt/EBITDA		1.4x
EV/EBITDA		4.2x
EV/Sales		1.2x
P/BV trailing		0.9x
Free float		45%

Owners

Arregui Ciarsolo Juan Luis 26,7%, De Urrutia Val Victor Juan 6,2%, Imvernelin Patrimonio SL 5,9%, Mendibea 5,6%



Team Focus, October 2016

www.ence.es

3U addition to fact sheet

Unpopular

- Ence is a price taker exposed to the volatility of global pulp prices. Fear of overcapacity has brought down hardwood prices, making the whole industry unpopular.

Under-researched

- Not really although research coverage is dominated by local players. The fact that it is a small cap name means that it is somewhat under the radar for pulp names in general.

Under-valued

- Yes. Even in this depressed pulp price environment the company generates healthy amounts of cash with economic returns above its cost of capital. Our target price for Ence is EUR 3.2, equivalent to 7x midterm EV/EBITDA, based on the current FX/pulp price environment with normalisation as a further upside option.

For more information please visit:

Our latest Market report
Information on SKAGEN Focus A on our web pages

Unless otherwise stated, performance data 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. KIIDs and Prospectuses for all funds can be found on our website.

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