From the moors north of Skagen, 1885. By P.S. Krøyer, one of the Skagen Painters. This image belongs to the Skagens Museum.

SKAGEN Global

Status Report July 2016

The art of common sense

SKAGEN

Summary – July 2016

- SKAGEN Global performed in line with it's benchmark index in July. The fund was up 4.1% (measured in EUR).*

- In 2016, the fund has declined 3.1% while the benchmark is up 2,5%. Hence, the fund's year-to-date relative performance is -5.7%.

- Samsung Electronics, AIG and Microsoft were the three best monthly contributors to absolute performance while Skechers, Roche and Lundin Petroleum were the three largest detractors.

- No new positions were initiated during July, but we used the weakness in Skechers to increase our position.

- We exited Xcel Energy, General Motors, Nordea Bank and Barclays during the past month.

- The fund's top 35 holdings trade at a weighted Price/Earnings (2016e) of 13.8x and a Price/Book of 1.3x vs. the index at 16.9x and 2.1x, respectively.

- The weighted average upside to our price targets for the fund's top 35 holdings is 38%.

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

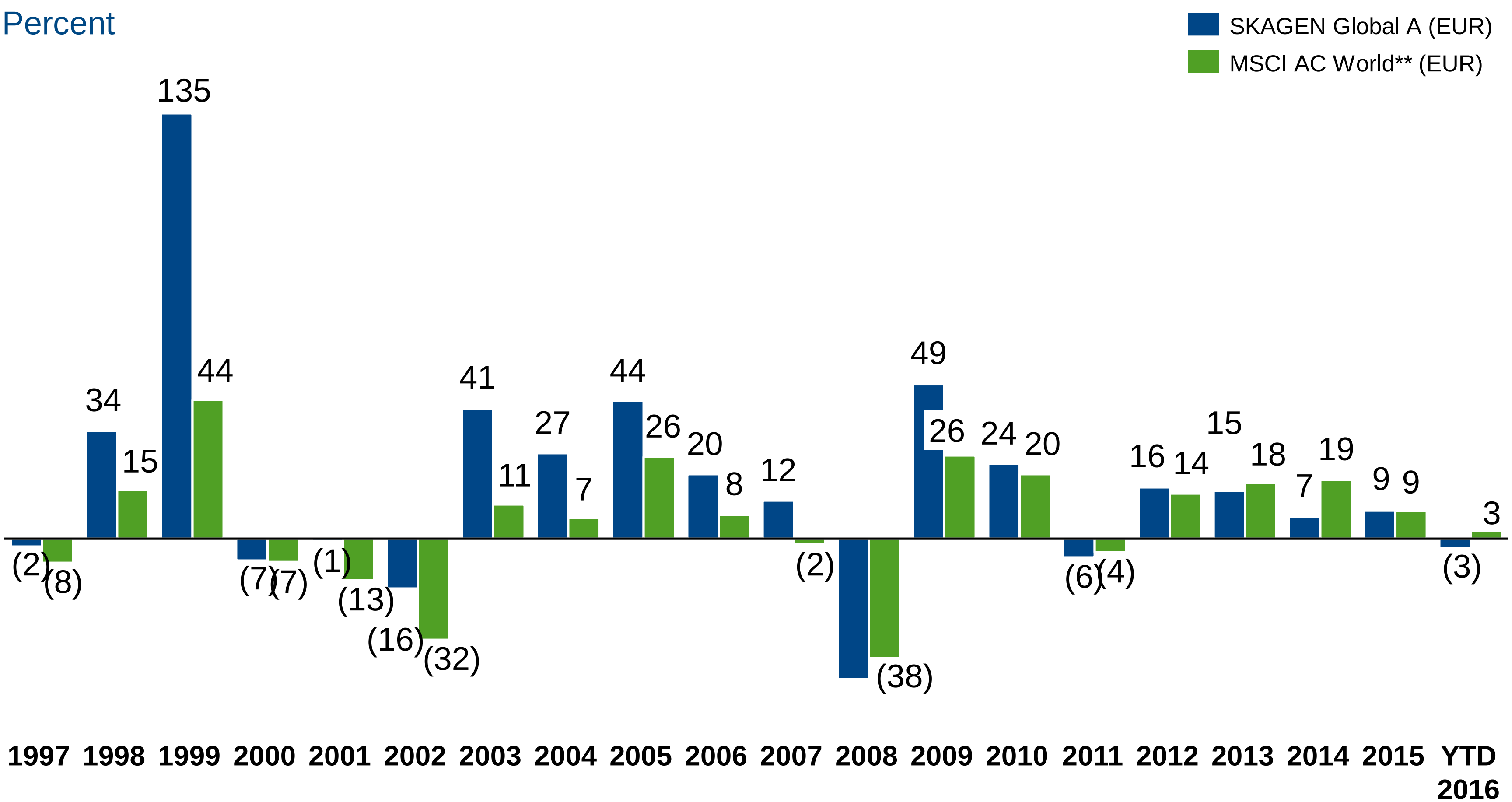
SKAGEN Global A results, July 2016

EUR, net of fees

	July	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Global A	4,1%	4,1%	-3,1%	-5,0%	6,7%	8,0%	6,5%	14,0%
World Index*	4,1%	4,1%	2,5%	-1,9%	11,9%	12,1%	5,6%	4,0%
Excess return	0,0%	0,0%	-5,7%	-3,0%	-5,2%	-4,1%	0,9%	9,9%

Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 2009 and MSCI All Country World Index from 1 January 2010 onwards*

Annual performance since inception (%)*
SKAGEN Global A has beaten its benchmark 15 out of 19 years



Note: All figures in EUR, net of fees
** Inception date: 7 August 1997*
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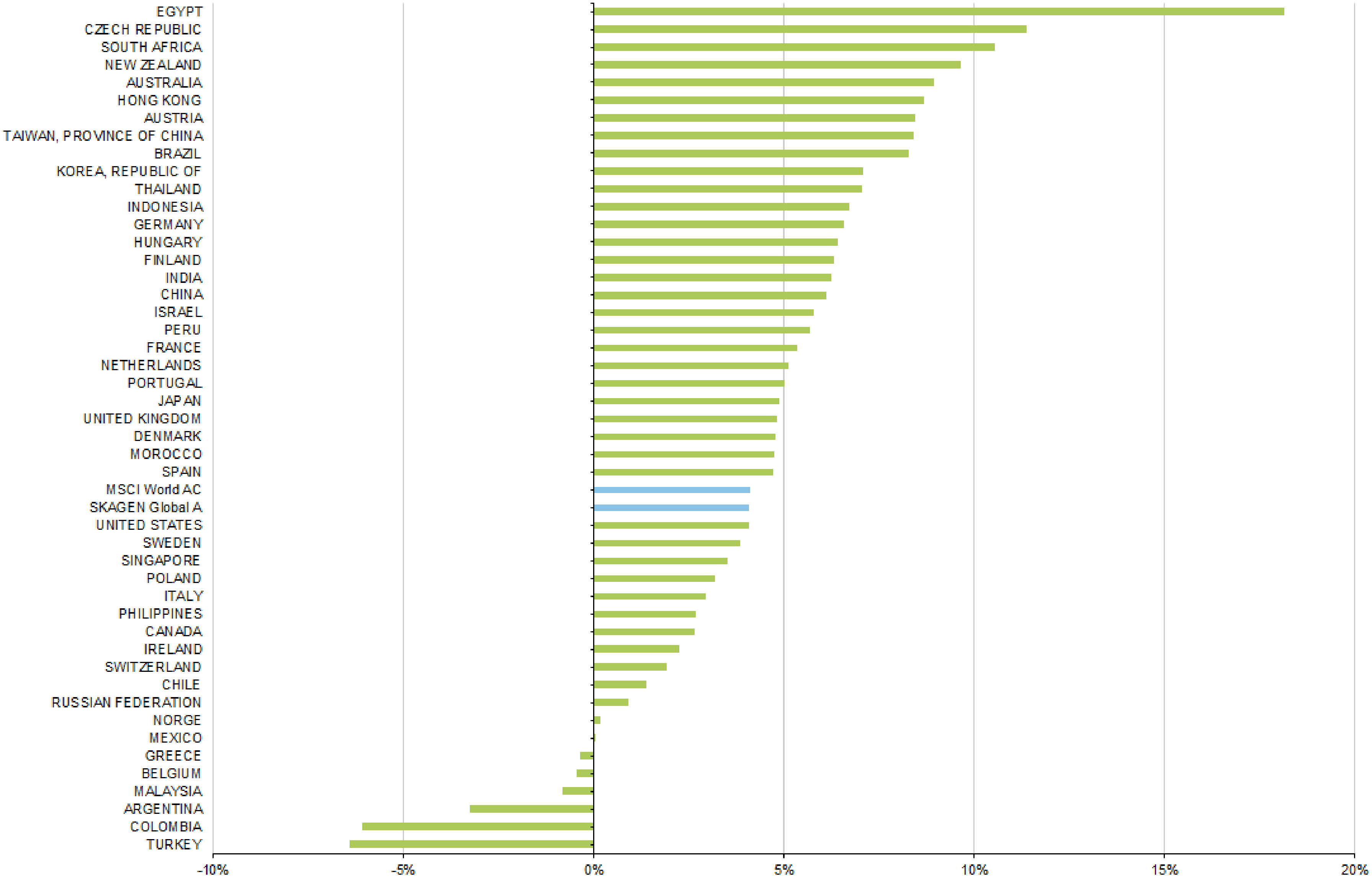
Markets in July 2016 in EUR (%)



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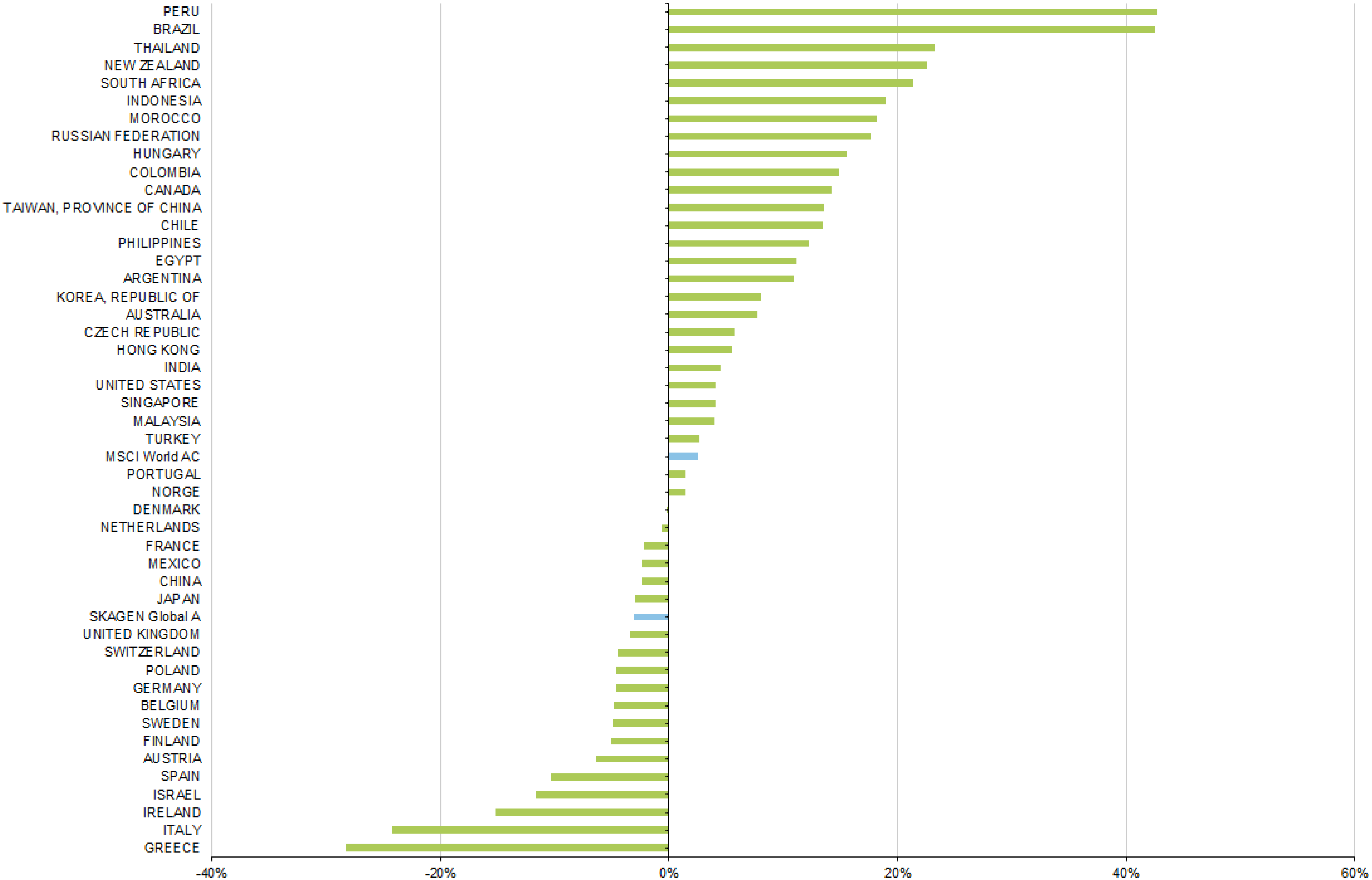
Markets YTD 2016 in EUR (%)



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Main contributors and detractors July 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	136
AIG	117
Microsoft	110
Citigroup	106
Toyota Industries	90
Cheung Kong Holdings	82
Cap Gemini	70
HeidelbergCement	63
Teva Pharmaceutical	62
DSM	58

Largest negative detractors

Company	NOK Millions
Skechers	-47
Roche	-20
Lundin Petroleum	-18
NN Group	-17
ServiceMaster	-11
Baidu	-7
Ageas	-6
Autoliv	-2
WM Morrison Supermarkets	-1

Value Creation MTD (NOK MM): 1467

NB: Contribution to absolute return

Main contributors and detractors YTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	185
Dollar General	184
Tyco International	165
Koninklijke DSM	138
Sony Corp	123
Lundin Mining	105
Xcel Energy	77
Merck	76
Volvo	64
IRSA	59

Largest negative detractors

Company	NOK Millions
AIG	-413
Citigroup	-394
G4S	-274
NN Group	-252
Credit Suisse	-187
Teva Pharmaceutical	-163
Cheung Kong Holdings	-150
State Bank of India	-132
Roche	-130
Lenovo	-122

Value Creation YTD (NOK MM): -1836

NB: Contribution to absolute return

Most important changes Q1 2016

Holdings increased	Q1	
	Cap Gemini	(New)
	Sony	(New)
	Baidu	(New)
	Autoliv	
	Citigroup	
	Teva	
	G4S	
	General Electric	

Holdings reduced	Q1	
	Tyson Foods	(Out)
	Tata Motors	(Out)
	Global Mediacom	(Out)
	Dollar General	
	Lundin Mining	
	Alphabet	
	Xcel Energy	
	State Bank of India	
	UPM-Kymmene	
	Nordea Bank	
	Barclays	

Most important changes Q2 2016

Holdings increased

Q2

Hiscox	(New)
Skechers	(New)
Cap Gemini	
Cheung Kong Holdings	
NN Group	
Microsoft	
Unilever	
Philips	
Toyota Industries	
Roche Holding	

Holdings reduced

Q2

BP	(Out)
UPM-Kymmene	(Out)
Haci Omer Sabanci Holding	(Out)
Samsung Electronics	
Lundin Mining	
General Motors	
Tyco International	
Nordea Bank	
DSM	
Lundin Petroleum	
Dollar General	
State Bank of India	

Most important changes Q3 2016

Holdings increased

Q3

Skechers

Holdings reduced

Q3

Xcel Energy	(Out)
General Motors	(Out)
Nordea Bank	(Out)
Barclays	(Out)

Holdings increased and decreased during July 2016

Key buys in July

- We increased **Skechers** in July as we see the negative reaction to the Q2 report as a significant overreaction.

Key sells in July

- We decided to sell the last bit of our positions in both **Nordea** and **Barclays** because the investment theses are not playing out according to our expectations (capital return potential is less than we initially anticipated). We see more attractive risk-reward in a number of other financial companies and the bar to remain and/or enter the portfolio is set very high for this type of stocks.

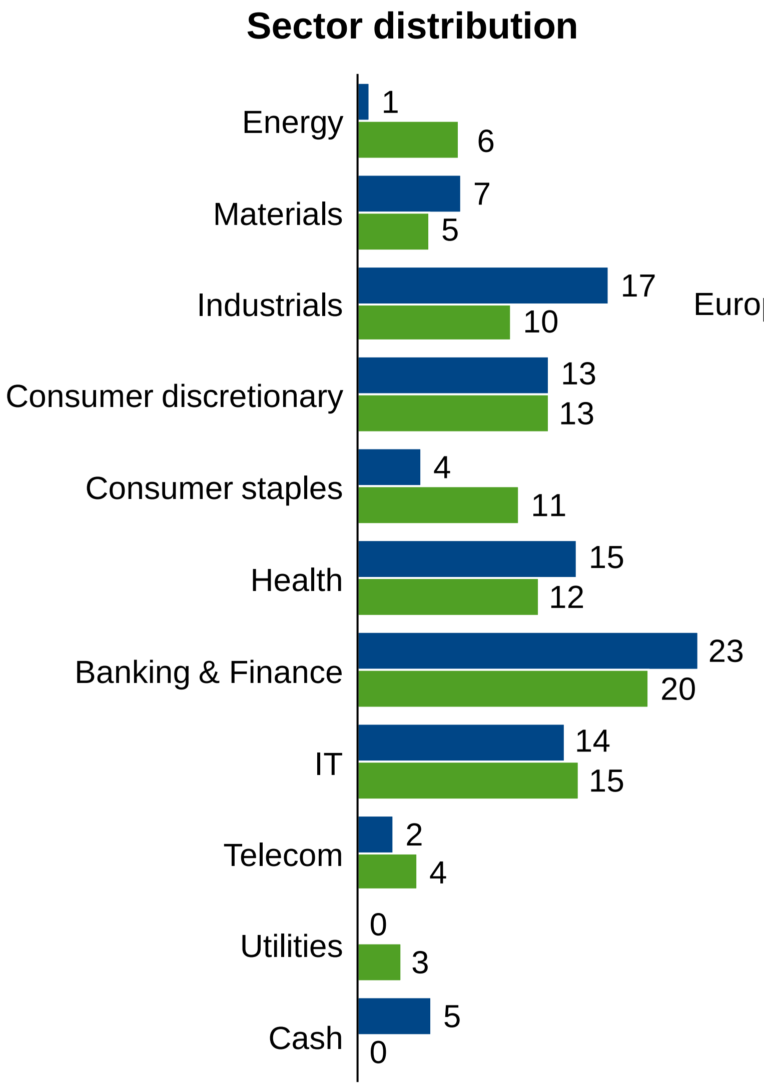
- Following yet another large earnings beat from **General Motors**, we no longer have a differentiated view on the fundamental outlook and decided to exit the position.

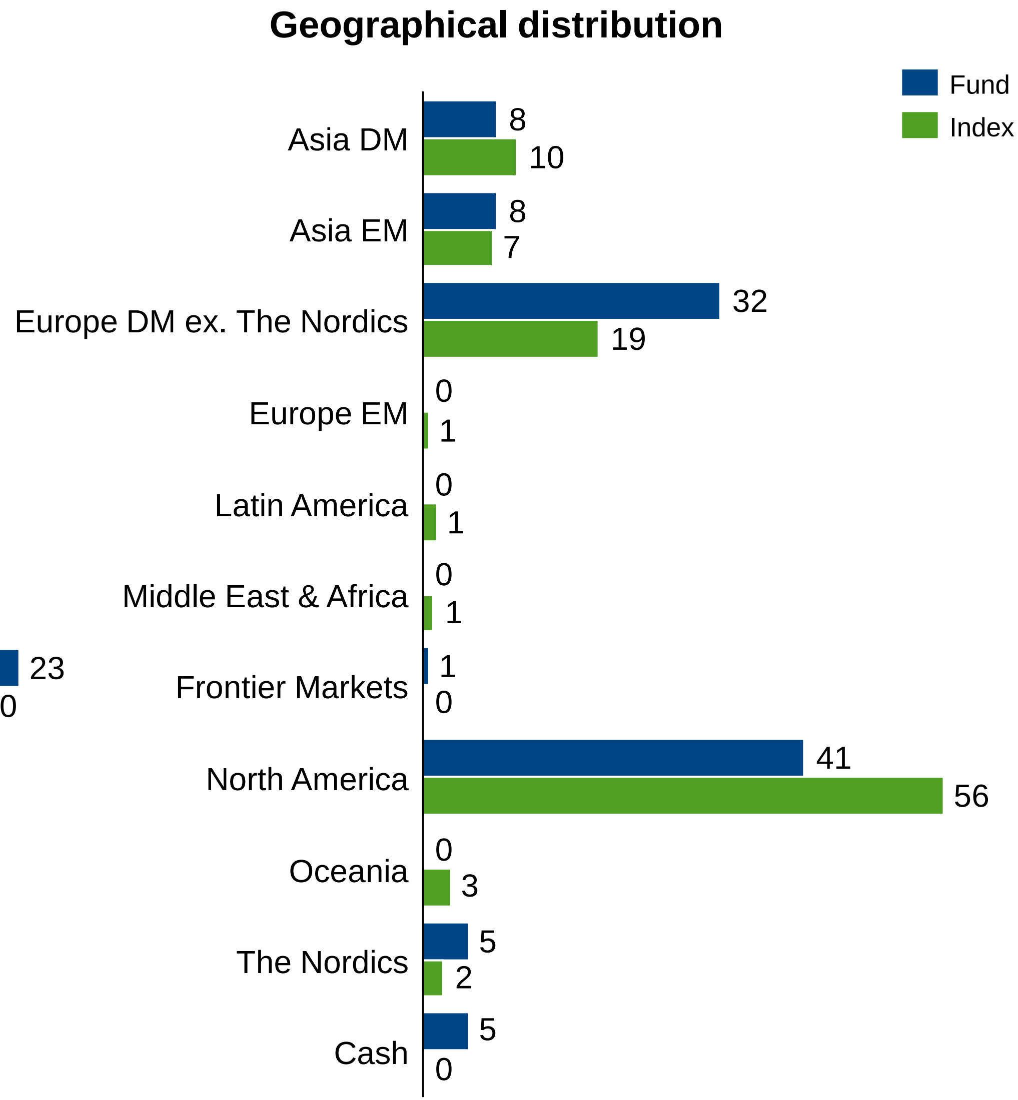
- We have also sold out of **Xcel Energy** as the stock is no longer significantly undervalued after strong share price performance.

Largest holdings in SKAGEN Global as of 31 July 2016

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Price target
AIG	7.1	54.4	13.9	9.9	0.7	90
CITIGROUP	6.4	43.8	9.4	8.4	0.6	70
GENERAL ELECTRIC	4.9	31.1	20.7	17.9	3.4	36
ROCHE	4.8	247.5	16.8	15.6	11.4	360
SAMSUNG ELECTRONICS	4.4	1 265 000	8.0	7.5	1.0	1 500 000
MERCK	4.0	58.7	15.7	15.5	3.7	76
CK HUTCHISON HOLDINGS	3.8	90.8	11.3	10.1	0.9	140
MICROSOFT	3.6	56.7	19.6	17.7	6.1	68
NN GROUP	3.1	24.1	8.6	7.9	0.3	35
TEVA	2.9	53.5	10.1	8.9	1.6	75
Weighted top 10	**45.1**		**12.2**	**10.7**	**1.0**	**42%**
Weighted top 35	**88.6**		**13.8**	**12.2**	**1.3**	**38%**
MSCI AC World			**16.9**	**15.0**	**2.1**	

Sector and geographical distribution vs index (July 2016)





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Key earnings releases and corporate news, July 2016

Citigroup

(6.4%)

Capital build-up continues

Summary: 2Q 2016 revenues decreased 6% YoY ex. FX due to a shrinking asset size in the bad bank (Citi Holding total assets down 44% YoY) combined with lower gains on asset sales from Citi Holdings. Core operating costs were down 6% YoY driven by continued cost cutting. Cost of credit was down 15% YoY mainly driven by loan loss reserve release in Citi Holdings. Credit quality remains solid with overall NPLs down 6% YoY despite higher NPLs within energy related loans.

Investment case implications: 2nd quarter 2016 earnings beat expectations on a strong rebound in fixed-income trading. More importantly, the result showed the underlying characteristics we are looking for: i) stable revenues in Citicorp on ii) a lower costs- and iii) reduced asset base in the bad bank, combined with iv) consumption of DTA. All of these support our case for significant generation of free cash flow over the coming years. With Citi now allowed to return cash to shareholders, we think the market should start to realize that you buy an underlying growing free cash flow stream at a very attractive starting yield. During the past 12 months Citi's tier 1 capital ratio has increased from 11.4% to 12.5% and its supplementary leverage ratio has increased from 6.7% to 7.5% despite returning 6.8bn USD (5% of current market cap) to shareholders.

GE

(4.9%)

Show me the cash flow

Summary: GE reported Q2 organic revenue growth -1% with industrial operating margin flat at 14.2%. Equipment orders -11% but Service +9% YoY. Big YoY drop in cash flow – from $2.6 bn to $33 mn (GE cites timing issues). 2016 guidance maintained. Finally, the state of the industrial world according to GE: Healthcare – Good (awesome in China); Aviation – Strong; Renewables – Good cycle across the globe; Power – OK, Transportation – Weak; and Oil/Gas – Very, very tough. The CEO and Chairman of GE, Jeff Immelt purchased 50,000 shares at $31.45 on July 26. He also acquired 68,000 shares in May and has now spent $3.5 mn on share purchases in the past two months. In total, Immelt owns 2.2 mn shares of GE (worth c. $70 mn).

Investment case implications: Sluggish macro affecting GE roughly as expected. Weak order intake and very poor cash flow conversion in H1 should reverse in H2 but the onus is now on GE to show that it can deliver orders and cash flow. Market expectations are low so there is scope for positive surprise. While the CEO's purchase of shares are not huge amounts in the grand scheme of things, it is a nice contrast to other CEOs who mostly seem to be selling shares these days.

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

Roche

(4.8%)

1H 2016 results in-line

Summary: Roche reported 2016 H1 results with CHF 25 bn sales (+5% YoY), 37.7% core operating margin (+50 bps YoY) and core CHF 7.47 core EPS (+5% YoY). Diagnostic H1 sales rose by 6% YoY to CHF 5.6 bn but the division's operating margin contracted 133 bps to 17.9% due to continued high R&D spend. Biosimilar competition for 2 of the 3 oncology franchises (Herceptin, Rituxan) likely to enter the market in 2017. No change to guidance for 2016 targets with sales to grow at LtMSD (constant FX) and higher DPS. Separately, Roche recently reported that its GOYA Phase III trial (lymphoma) was unsuccessful.

Investment case implications: No change to the investment case. The failure of the GOYA Phase III study removes some of the upside optionality, making the AFHINITY study (breast cancer) read-out slated for late 2016 the next key catalyst as it could generate peak sales of around CHF 4 bn (8% of group sales). Target price modestly reduced to CHF 360/sh.

Samsung Elec.

(4.4%)

Strong FCF means more capital distribution to come

Summary: Samsung's 2Q 2016 results provided no major surprises as the company had already reported preliminary numbers that were at the time a 9% beat vs. consensus. Handset profitability was the key reason for the beat as the IM division generated a 16.3% OP margin – the highest margin since 1Q14. Strong sales of Galaxy S7, contained marketing costs, and mid-level portfolio consolidation all contributed positively. Semi division operating profit (OP) margin was only slightly down QoQ despite significant DRAM market pricing pressure until mid-June, which shows the strength of Samsung's memory business vs. peers (expanding cost leadership). The display division turned profitable on the back of strong OLED and reduced losses in LCD. Consumer Electronics results were also strong due to continued expansion of the sales of premium TVs. Shareholder returns continued as planned and the fourth phase of buyback program was confirmed. The company also confirmed that it will uphold its commitment to return 30-50% of FCF in addition to this special buyback program.

Investment case implications: Positive. With a 9% beat to 2Q16 consensus expectation (versus street estimates prior to preliminary results) and constructive comments on 2H16 business outlook, we would expect sell-side consensus estimates to continue its upward trend. Strong FCF generation means cash continue to pile up despite buy-back of 6% of outstanding shares over a 12 months period and step up in dividend. Over the past 12 months, net cash has increased by KRW 14tr or KRW 100k per share. While long term sustainability of handset margins remain a question mark, we now see better supply/demand balance for DRAM, which accounts for at least c30% of group profit.

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

Merck

(4.0%)

2Q 2016 result shows good progress for Keytruda (immunotherapy)

Summary: Q1 revenues of $9.4 bn were up 1% YoY. Gross margin of 75.7% grew 30 bps and EPS +8% YoY. The diabetes drug Januvia grew 2% YoY globally while sales of the arthritis drug Remicade was down 25% YoY due to biosimilar competition. The cancer drug Keytruda came in 9% ahead of expectations and should annualize around $1 bn in revenue. Merck modestly raised full-year guidance.

Investment case implications: In-line with investment thesis. The most noteworthy part of the results was the strong Keytruda result. Immunotherapy can be game-changer for cancer patients and Merck is the dark horse (after Bristol-Myers) in this race.

Microsoft

(3.6%)

The cloud transformation is on-track

Summary: Microsoft reported 2016 Q4 (!) revenues of $22.6 bn, +8% YoY and $0.69 EPS (+11% YoY), both ahead of consensus estimates. 64.8% gross margin and 27.5% operating margin, down 130-150 bps YoY due to mix. Cloud (Azure) revenue growth still high, 108% YoY, with overall cloud revenues on-track to meet the 2018 goal of $20 bn. FCF generation +15% YoY.

Investment case implications: Positive and in-line with investment thesis. After a short-term blip in the previous quarter, Microsoft bounced back with solid growth across the board as the transformation toward cloud business with sticky recurring revenues progresses well. Microsoft is one of few companies which – at a reasonable valuation – offers decent top-line growth, a wide-moat business model and an opportunity to meaningfully invest capex dollars into R&D for tomorrow's products and services, all while generating strong cash flow that is returned to shareholders.

Skechers

(0.9%)

Top and bottom line miss

Summary: Skechers reported Q2 numbers with miss on both revenue and earnings. EPS came in at $0,48 vs consensus of $0,52 but includes $0,05 for FX and $0,02 of one-time charges. Revenue miss was due to Easter sales shifting into Q1 this year and also some pressure from the liquidations of Sports Authority and Sports Chalet that created a lot of discounted products in the market. International retail did fine and beat both for International Wholesale and Global retail. China continues its strong growth and management raised guidance to high end of the $300-400 mn. India is a new market that's looking promising with triple digit growth and Skechers noted it was profitable. International expected to grow 25-30% in H2. Skechers has also maintained clean inventories and pricing integrity in the US Wholesale.

Investment case implications: Skechers' international opportunity still looks very compelling. The company targets international sales to be >50% of total sales within 2-3 years (vs. 42% today). China sales have grown from $80mn in 2014 to $220mn in 2015 and could reach $400mn in 2016. So with continued expansion internationally we think they could grow top-line by 15% annually. Gross margins have also improved as costs have been flat but ASP increasing.

The 10 largest companies in SKAGEN Global

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 that it intends to keep: Sun America and Chartis.

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same proportion of group earnings. GE is the world’s 10th largest publicly-traded company and boasts the 6th most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company’s Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

Samsung Electronics is one of the world's largest producers of consumer electronics. 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 domestic appliances, cameras, printers, PCs and air conditioners.

The 10 largest companies in SKAGEN Global (cont.)

MERCK

Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, USD 42bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit percent annually.

CKH

Founded in 1950 as a plastics manufacturer by its current main shareholder Li Ka Shing, CK Hutchison Holdings is now a multinational conglomerate. The company holds the non-property businesses of the former Cheung Kong and Hutchison group. The group owns assets in (% of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).

Microsoft

Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite. In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud-based computing. Despite a strong push for diversification 80% of the company's revenues and nearly all its profits come from three main areas: Windows OS, Windows Server and the business division (Office Suite).

NN

NN Group is the former European and Japanese insurance arm of the financial conglomerate ING that was spun off in July 2014 as required by the Dutch government in return for providing state aid to ING during the financial crisis . NN's ongoing business operating result before tax is split as follows (2014): 51% Netherlands Life, 14% Insurance Europe, 13% Investment Management, 11% Japan Life and 11% Netherlands Non-Life. NN has 12,000 employees and its history dates back to 1845.

TEVA

Teva history can be tracked 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 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).

For more information please visit:

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