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 September 2016

The art of common sense

SKAGEN

Summary – September 2016

- SKAGEN Global underperformed its benchmark index by 1.3% in September. The fund lost 1.7% while the benchmark MSCI All Country World Index lost 0.4% (measured in EUR).*

- In 2016, the fund has lost 1.6% while the benchmark is up 2.9%. Hence, the fund's year-to-date relative performance is -4.5%.

- WM Morrison Supermarkets, Volvo, and Baidu were the three best monthly contributors to absolute performance while GE, Teva, and Citigroup were the three largest detractors.

- The fund initiated one new position in Amerco during September.

- We did not exit any positions during the past month, but reduced our exposure to a number of companies that have rebounded following their Brexit-dip.

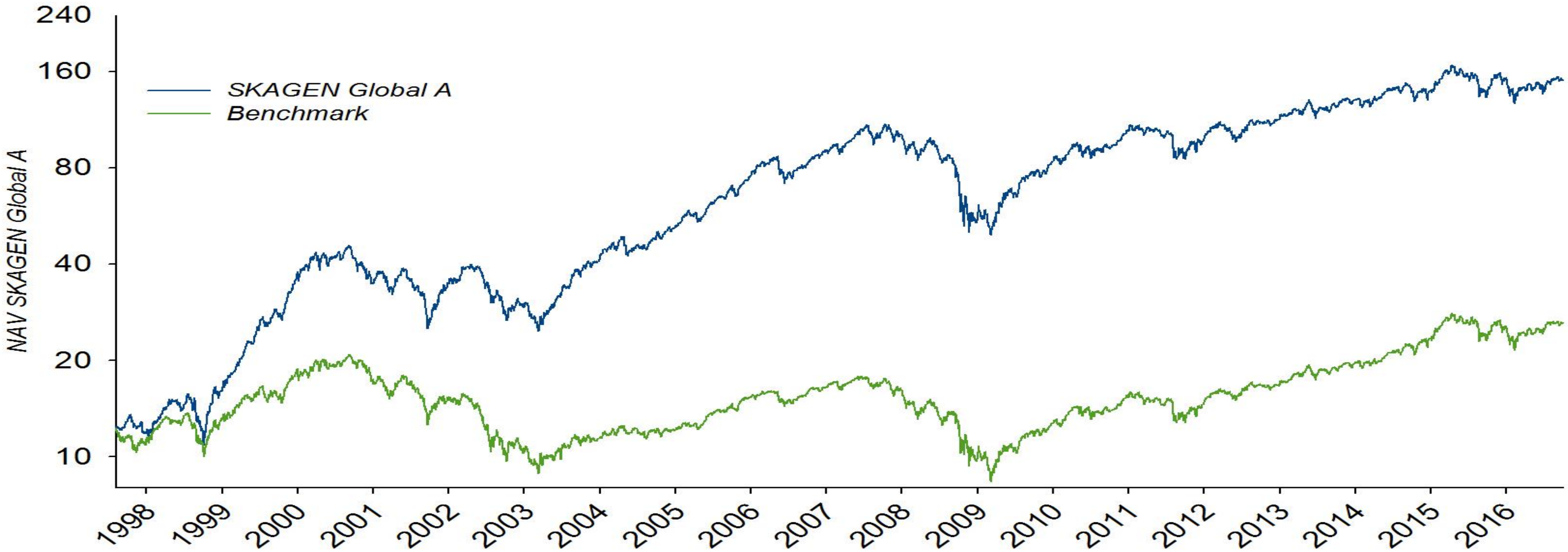
- The fund's top 35 holdings trade at a weighted Price/Earnings (2017e) of 12.8x and a Price/Book of 1.4x vs. the index at 15.0x and 2.1x, respectively.

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

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

SKAGEN Global A results, September 2016

EUR, net of fees

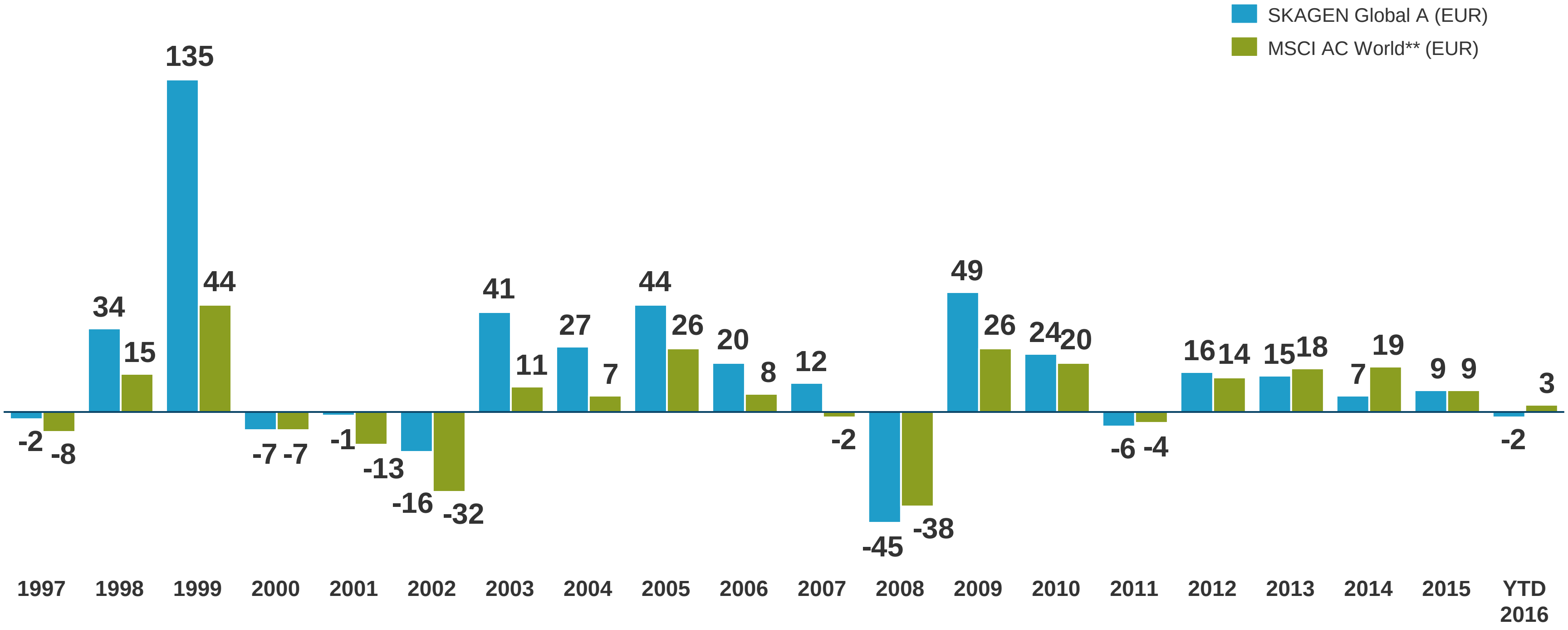


	September	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Global A	-1,7%	5,7%	-1,6%	10,4%	6,6%	11,3%	6,2%	14,0%
World Index*	-0,4%	4,5%	2,9%	11,2%	11,8%	14,5%	5,2%	4,0%
Excess return	-1,3%	1,2%	-4,5%	-0,8%	-5,2%	-3,2%	1,0%	9,9%

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

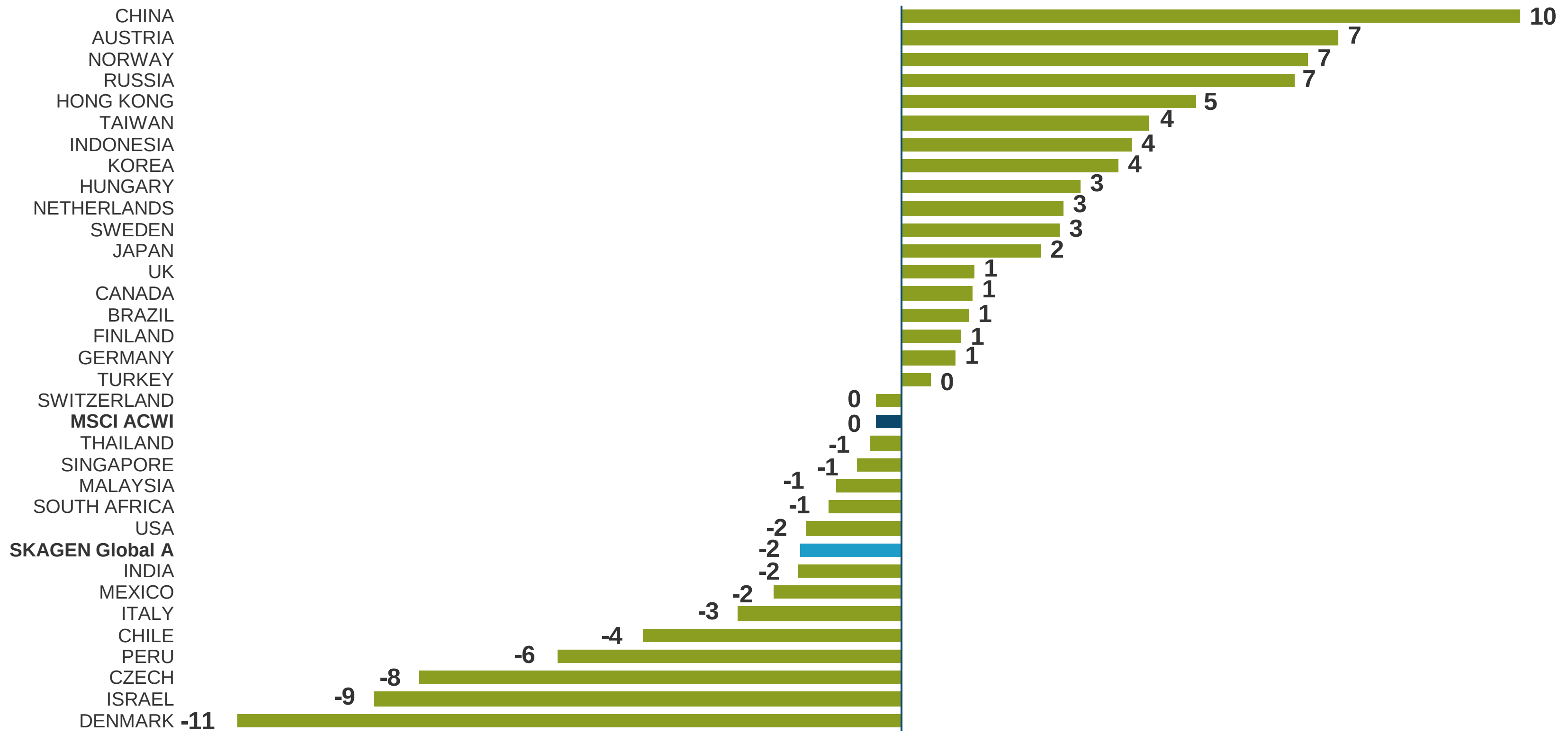


Note: All figures in EUR, net of fees

** Inception date: 7 August 1997*

*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 1997 and MSCI All Country World Index from 1 January 2010 onwards*

Markets in September 2016, EUR (%)



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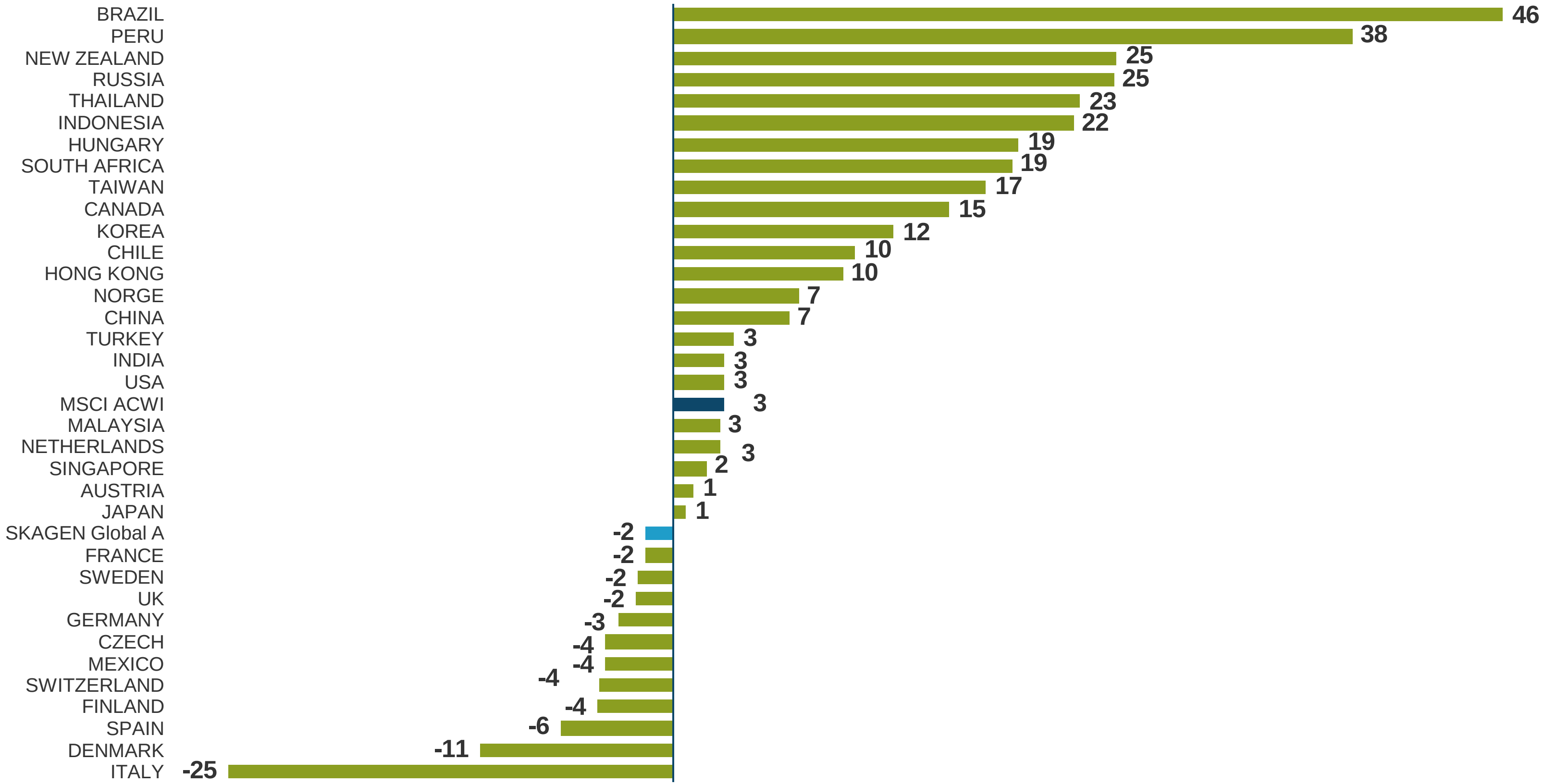
Markets YTD 2016, EUR (%)



Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
WM Morrison Supermarkets	7
Volvo	6
Baidu	6
Ageas	4
Lundin Mining	1

Largest negative contributors

Company	NOK Millions
General Electric	-105
Teva Pharmaceutical Industries	-98
Citigroup	-94
AIG	-89
Samsung Electronics	-65
G4S	-57
Cheung Kong Holdings	-55
Merck & Co	-52
Dollar General	-51
Toyota Industries	-46

Value Creation MTD (NOK MM): -1410

NB: Contribution to absolute return

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Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
AIG	192
G4S	141
Citigroup	138
Cheung Kong Holdings	124
Samsung Electronics	113
Philips	85
Microsoft	78
HeidelbergCement	78
NN Group	77
Toyota Industries	69

Largest negative contributors

Company	NOK Millions
Dollar General	-186
Roche Holding	-135
Sanofi	-99
General Electric	-95
Teva Pharmaceutical Industries	-92
Skechers USA Inc	-71
ServiceMaster Global Holding Inc	-58
Unilever CVA	-33
Autoliv	-30
3M	-27

Value Creation QTD (NOK MM): 638

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	162
DSM	148
Johnson Controls International	142
Sony	105
Merck & Co	103
Lundin Mining	100
Xcel Energy Inc	77
Lundin Petroleum	68
Volvo	65
IRSA	63

Largest negative contributors

Company	NOK Millions
Citigroup	-361
AIG	-338
Teva Pharmaceutical Industries	-317
Roche Holding	-245
Credit Suisse Group	-202
General Electric	-164
NN Group	-159
G4S	-149
Sanofi	-131
Lenovo Group	-128

Value Creation YTD (NOK MM): -2662

NB: Contribution to absolute return

Most important changes Q3 2016

Q3 Holdings increased

3M	(New)
Amerco	(New)
Comcast	
Unilever CVA	
Dollar General	

Q3 Holdings reduced

Xcel Energy Inc	(Out)
Credit Suisse Group	(Out)
General Motors Co	(Out)
Nordea Bank AB	(Out)
Barclays PLC	(Out)
Citigroup	
AIG	
HeidelbergCement	
Kingfisher	
Philips	
General Electric	
Volvo	
DSM	
Cap Gemini	

Holdings increased and decreased during September 2016

Key buys

- The fund initiated a position in **Amerco**, which is the parent company of U-Haul. It operates the largest fleet of rental trucks for the do-it-yourself (DIY) moving segment in the US and has a strong position in the auxiliary market of self-storage. We believe Amerco is undervalued and on the brink of being discovered by the wider investment community.

Key sells

- We reduced **HeidelbergCement** after strong share price performance reduced the upside to our target price.
- **Kingfisher** was one of the positions we added to in the post-Brexit panicked selloff. The share price is now back to its pre-Brexit level and we have thus scaled our position back down.

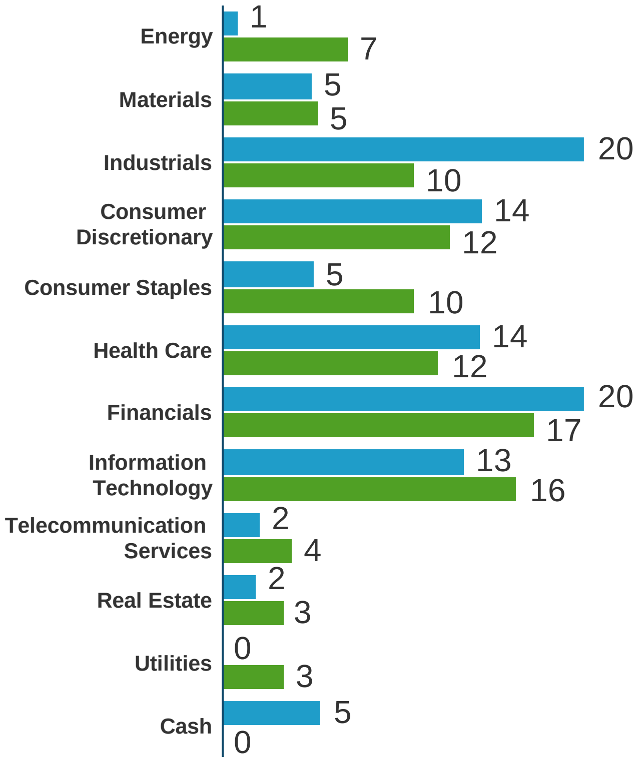
Largest holdings in SKAGEN Global

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Price target
AIG	6,8	59,3	14,7	10,7	0,7	90
CITIGROUP	5,7	47,2	10,2	9,2	0,6	70
ROCHE	4,6	241,0	16,4	15,2	11,1	360
SAMSUNG ELECTRONICS	4,3	1 290 000	8,1	7,2	1,0	1 500 000
MERCK	4,3	62,4	16,6	16,2	4,0	76
GENERAL ELECTRIC	4,2	29,6	19,7	17,2	3,1	36
CK HUTCHISON HOLDINGS	4,2	98,6	12,2	11,0	1,0	140
NN GROUP	3,6	27,4	9,4	8,7	0,4	35
MICROSOFT	3,6	57,6	19,8	17,9	6,2	68
G4S	3,5	227,8	14,9	13,4	4,8	380
Weighted top 10	**44,8**		**13,0**	**11,4**	**1,1**	**38 %**
Weighted top 35	**88,1**		**14,4**	**12,8**	**1,4**	**35 %**
MSCI AC World			**17,0**	**15,0**	**2,1**	

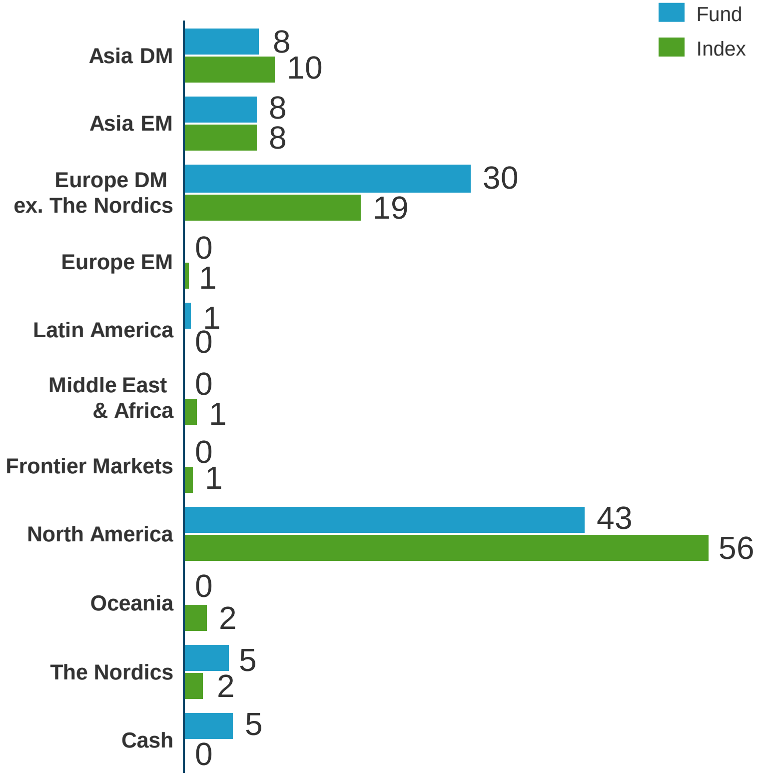
As of 30 September 2016

SKAGEN Global sector and geographical distribution

Sector distribution



Geographical distribution



Key earnings releases and corporate news, September 2016

Samsung

(4.3%)

Recall of Note 7 smartphone

Summary: Samsung confirmed that they have had issues with battery explosions in its Note 7 smartphone. Any phone sold will be replaced with no questions asked. While not all devices are faulty, Samsung opted for a prudent and precautionary total recall.

Investment case implications: Short-term negative, but we see limited long-term fundamental impact for Samsung. In terms of the direct financial impact, we estimate the total cost to be <4% of total 2016 operating profit and only a fraction of the current market cap. The bigger question remains the potential impact – if any – on the brand value of Samsung. As long as this recall is an isolated event, and as long as Samsung handles the recall well, we do not anticipate any meaningful brand value erosion.

Microsoft

(3.6%)

Renews USD 40 billion share buyback program

Summary: The board decided to renew the USD 40 billion share buyback program and to hike the dividend by 8% (dividend yield = 2.7%, payout ratio c.50%).

Investment case implications: Minor positive. Solid dividend growth and some downside protection from the not entirely unexpected buyback program (the current one runs out in December). Overall, we think the key point is that the Microsoft management/board remains committed to finding a good balance with its capital allocation priorities (recall the USD 26bn LinkedIn acquisition in June).

Ageas

(1.1%)

Chairman buys shares – doubles number of shares owned

Summary: The Chairman of Ageas, Jozef de Mey, recently purchased 10,573 shares at EUR 30.74/share for a total sum of EUR 0.3m. He thus increased his share ownership stake by 112%.

Investment case implications: Minor positive. The purchase sum is modest in euro-terms, but one must take into account that remuneration levels in Belgium are very different from those in the US. We obviously like insider buying and the signal it sends to the market. Interestingly, the last time the Chairman bought shares was in the second quarter of 2012 and the share price has more than doubled since then.

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

Lundin Petroleum (0.9%)

Sverdrup guidance hiked once more

Summary: Statoil, as the operator of Sverdrup, provided new guidance for the field. Phase 1 capex was reduced by 9% to NOK 99bn and Phase 2 capex was reduced by 21% (midpoint) to NOK 140-170bn. In addition, they confirmed the production potential for Phase 1 (440,000 boed) and increased Phase 2 production capacity by 4% to 660,000 boed.

Investment case implications: Minor positive. The main reason for holding LUPE is the quality of the assets (22.6% of Johan Sverdrup and 65% of Edvard Grieg). The new guidance from Statoil confirms our view on lower capex and higher production for the Sverdrup field.

WM Morrison (0.5%)

Three quarter winning streak

Summary: Q2 LFL sales +2.0% YoY was clearly ahead of +1.0% consensus expectations (Q1: +0.7%; Q4: +0.1%). Importantly, volume performance remained strong at >4% YoY (vs. 3% in Q1), indicating that Morrison continues to win back a lot of customers. H1 PBT came in at GBP 157m, 5% ahead of GBP 149m consensus. Strong delivery on both sales and opex level supported margin improvement of c.30 bps YoY. Net debt has fallen by >GBP 800m L12M, prompting another guidance upgrade to the 16/17 target from GBP 1.4-1.5bn to c.GBP 1.2bn (<GBP 1bn by FY17/18 y/e). Superior cash flow conversion (and a pension surplus of GBP 249m) continues to set Morrison apart from its quoted peers. The capital structure advantage will be key to navigate through a potentially tougher macroeconomic environment in the wake of Brexit.

Investment case implications: Morrison posted another clear beat versus consensus expectations. Revenue, margins and cash flow were all better. Contrary to popular belief, Morrison is actually likely to benefit from Brexit because the company is vertically integrated (one of the reasons why we made the investment) and therefore sources/produces most of its input from within the UK. In an environment of a weaker sterling, competitors will struggle to pass through the imported price inflation (sterling-terms) or they will risk losing share to Morrison. This bodes well for the next couple of quarters.

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.

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.

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.

The 10 largest companies in SKAGEN Global (continued)

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.

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%).

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 on-going 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.

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).

G4S is the world's largest security company operating in more than 110 countries with over 620,000 employees. The group was formed in 2004 by the merger of UK-based Securicor plc and Denmark-based Group 4 Falck. By activity (FY2014): Security Services (84% of sales; 74% of EBITA) and Cash Solutions (16%; 26%). Main source of business opportunity is in emerging markets where the company has an unrivaled presence with >30% of sales. New management team installed in 2013.

AMERCO (UHAL US) USD 326

Mean reversion	Special situation	LT value creator:
25%	25%	50%

History, business model and source of investment case

- AMERCO is the parent company of U-Haul, North America's largest "do-it-yourself" moving and storage operator with a network of some 20,000 locations, 135,000 trucks, 107,000 trailers and 38,000 towing devices. U-Haul offers more than 491,000 rooms and 44mn sqft. of storage space at owned and managed facilities throughout North America. U-Haul also has one of North America's largest propane refilling networks (one of the largest automobile alternative refuelling networks in the nation).
- The self-storage real estate portfolio is held in a separate property company called AMERCO Real Estate (would likely be the 3rd largest REIT in this highly sought-after market segment if it was listed).
- The holding company AMERCO also controls two P&C insurers (Repwest and ARCOA – serves moving consumers) and one life insurance company (Oxford). Together these operations account for around 5% of group-wide profits (@ 8% combined ROE).
- Until 1 July 2016, AMERCO was a so-called "controlled company" pursuant to its listing rules through a shareholders' agreement between members of the founding Shoen family. However, 3 shareholders (representing 13% of votes) have recently decided to withdraw their shares, leaving some 42.6% of votes governed by the agreement. The Chairman/CEO is a key person still representing the family.
- Our ESG research shows that AMERCO complies with SKAGEN's ethical guidelines.

Investment rationale

- **Asset-rich and essentially debt-free.** Moving & Storage operations are currently run on net debt-free basis (excluding some non-recourse senior mortgage loans and minor fleet debt securitisation), which provides ample room for strategic moves, either through aggressively pursuing growth options at hand or shareholder distributions. Comparable peers in the rental space (with weaker operational outlook/competitive dynamics) typically lever up to >2.5x ND/EBITDA – would support 50+% "jumbo-dividend" and still leave operations well capitalised, with financing of real estate assets in the 40-50% LTV range.
- **Company is ripe for discovery by the greater investor community.** When combining a rental company with a PropCo, with two P&C insurers, with a life insurer, you end up with a complex group to analyse (that does not belong in any distinct coverage bucket). Clearly, the investor interest for this USD 6bn market cap company and its compelling equity story is not what it could be. It does not help that there is only 1 analyst covering the company at present (CL King & Associates: "strong buy") but with things moving on the ownership side and with AMERCO now in a higher market cap bracket than just a few years ago, this situation could be set to change.
- **Potential for massive multiple-arbitrage.** AMERCO has the potential to spin off the self-storage business into a REIT, which would be the third largest self-storage REIT in the market and trade at much higher multiples than implied by the current valuation. E.g. all listed US comparable peers trade at P/E >30x versus AMERCO Moving & Storage operations at 12x (with approx. 20% of earnings derived directly from its real estate activities). The Shoen family decided against such a proposal made by minority shareholders in August 2015, but this could be revisited as the REIT market has continued to be strong and the family recently lost their majority control of the company.
- **Strong competitive position in structurally growing market.** By some accounts U-Haul control c.50% of the targeted DIY-moving market (2 largest players control 70+% of the "one-way" market). Hard to imagine an "Uber" of U-Haul, given the specialised nature of the product. The sharing economy is not well suited to moving large objects. Similarly, Zip car/Zip truck is not available and does not make sense outside of dense urban areas and does not provide a turn-key moving solution. The number of moves in the US has been declining for several decades but we are now likely approaching an inflection point: Generation Z – as a group they are going to be slower to own, more likely to rent and continue to move around (the 1-year move rate among renters is around 25% versus 5% for people living in owner-occupied housing).

Triggers

- Increased street coverage; roadshows, presentations, or any visibility to the investor community (short-term).
- Separation of PropCo/REIT conversion for self-storage real estate portfolio (long-term).

Risks

- US recession – AMERCO's business is relatively well-insulated against this but not immune.
- Higher interest rates (= lower REIT valuations).

Price target

Our base case target assumes Moving & Storage valued at 12x EV/EBITA (vs. 8x today) and insurance operations at 1x BV, which yields 70% upside over 2-3 years (= 26% p.a.). Blue-sky scenario of REIT separation and group re-capitalisation would give us 90+% upside. In a downside scenario we stand to lose c. 25%.

AMERCO

Key Figures (excl. insurance)

Market cap	USD	5.9 bn
Net debt (adj.)	USD	-0.4 bn
Enterprise value	USD	5.5 bn
Equity	USD	2.3 bn
No. of shares o/s		19.6 mn
EV/Sales		1.68x
EV/EBITDA		4.8x
EV/EBITA		7.9x
P/E		12.2x
FCF yield (ex-growth)		10%
EPS CAGR (LTM-19E)		7%
Daily turnover	USD	22 mn
No of analysts		1 (!)
with Sell/Hold		0%

Owners

Shoen Family (agreement)	42.6%
Shoen James	9.3%
Dimensional Fund	4.5%

http://www.amerco.com/

3U acid test

Unpopular

- AMERCO is the opposite of popular, but not necessarily unpopular – people simply do not know about it, which is pretty unusual for a USD 6bn market cap company.
- 0% Sell/Hold. The one analyst covering the company has a “strong buy” recommendation.
- Shares have declined >10% on the back of recent quarterly results as solid operational performance was masked by non-operational items such as lower capital gains YoY (but no analyst was around to point that out to the market).

Under-researched

- The combination of a rental fleet business, property company, P&C and life insurance, makes for an extraordinarily complex business to analyse and value (accounting standards are quite varied across these different type of business); for example, investors do not give AMERCO credit for its huge portfolio of real estate assets.
- The situation is not helped by the fact that there is no sell-side research on the company and management has been remarkably inactive in communicating with investors for a firm of AMERCO’s size (e.g. not really doing roadshows, etc.).

Under-valued

- Currently trading at 8x EV/EBITA (ex-insurance subsidiaries) which fails to discount the value of AMERCO’s real tangible assets and earnings potential.
- Core rental business trades at an implicit <5x EV/EBITA when valuing AMERCO Real Estate as a listed REIT (would be the third largest in the market with all peers trading >30x P/E).
- Significantly overcapitalised, with potential to dividend-out 50+% of current market cap without taking on too much financial risk.

For more information please visit:

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