SKAGEN Global

Status Report December 2016

The art of common sense

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Summary – December 2016

- SKAGEN Global underperformed its benchmark index by 0.8% in December. The fund had a return of 1.6% while the benchmark MSCI All Country World Index gained 2.4% (measured in EUR).*

- In 2016, the fund has gained 4.8% while the benchmark is up 11.1%. Hence, the fund's year-to-date relative performance is -6.3%.

- Citigroup, Samsung Electronics, and AIG were the three best monthly contributors to absolute performance while CK Hutchison, Merck, and Dollar General were the three largest detractors.

- The fund initiated a new position in Novo Nordisk during December.

- We sold out of Volvo, Goldman Sachs, and HeidelbergCement last month.

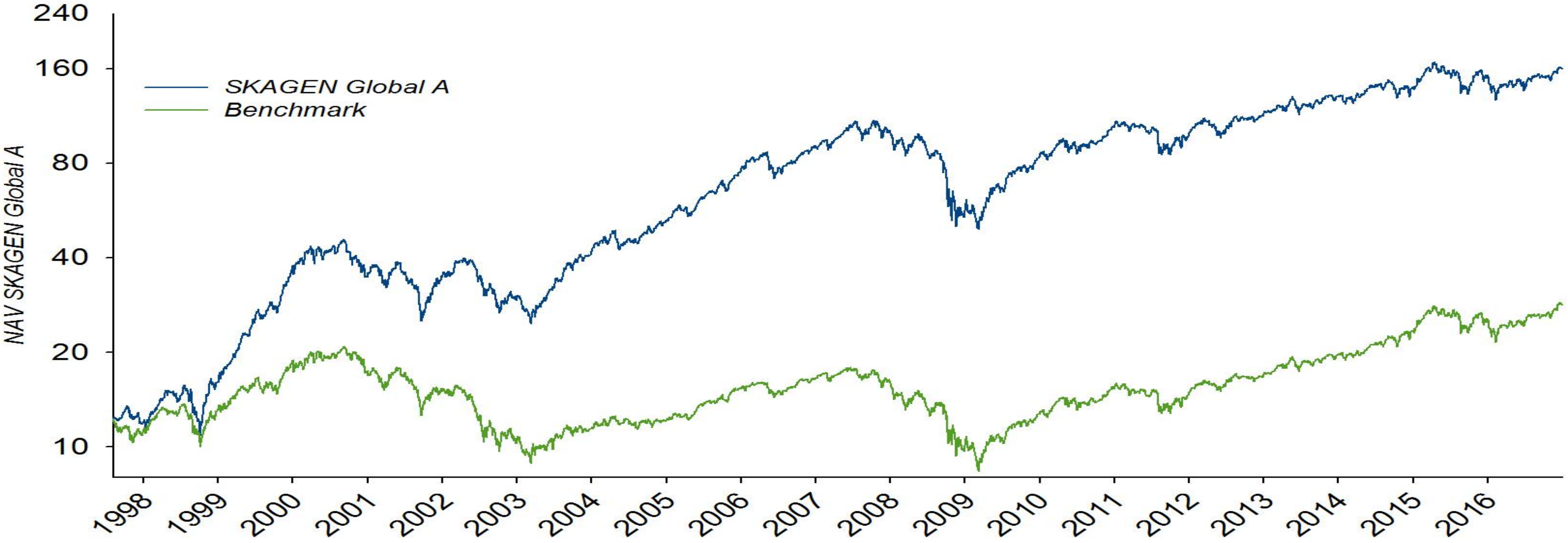
- The fund's top 35 holdings trade at a weighted Price/Earnings (2017e) of 13.5x and a Price/Book of 1.6x vs. the index at 15.5x and 2.1x, respectively.

- The weighted average upside to our price targets for the fund's top 35 holdings is 31%.

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

SKAGEN Global A results, December 2016

EUR, net of fees



	December	Q4	2016	3 years	5 years	10 years	Since inception*
SKAGEN Global A	1,6%	6,5%	4,8%	6,8%	10,3%	5,8%	14,1%
World Index*	2,4%	8,0%	11,1%	12,8%	14,0%	5,5%	4,4%
Excess return	-0,8%	-1,5%	-6,3%	-5,9%	-3,7%	0,3%	9,7%

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*

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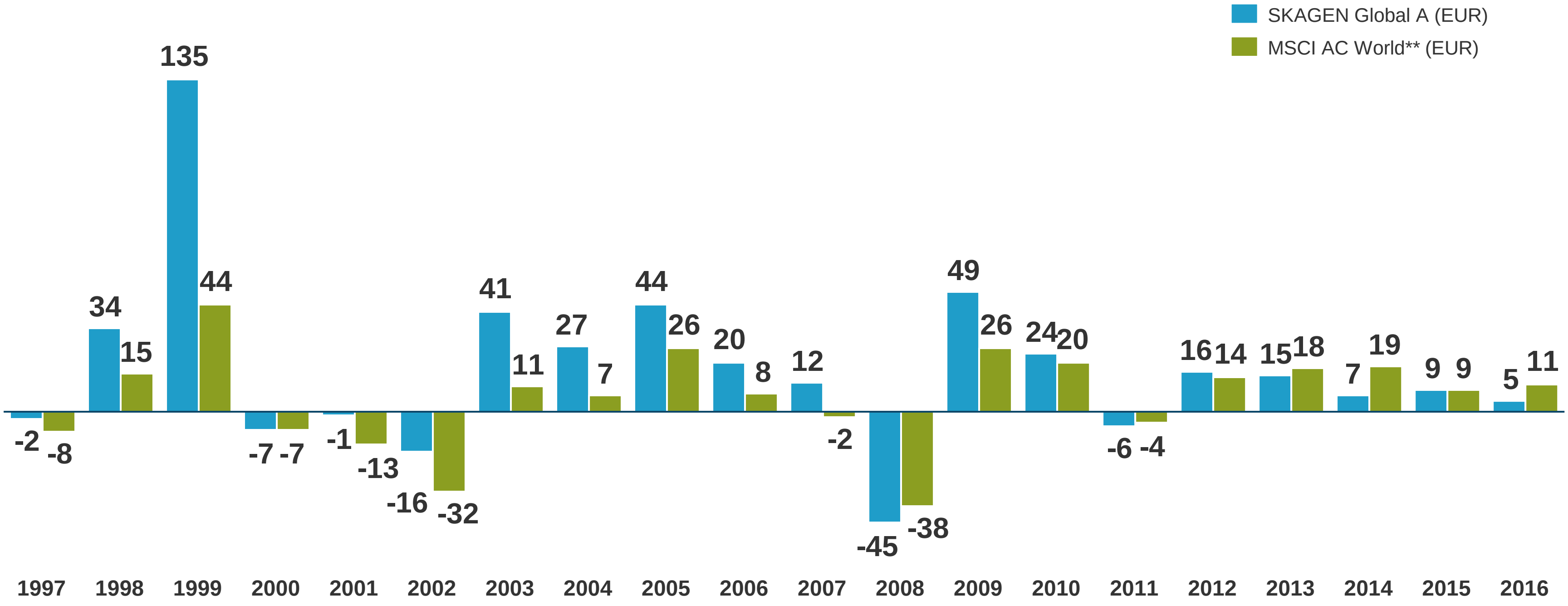
Annual performance since inception (%)*

SKAGEN Global A has beaten its benchmark 15 out of 20 years



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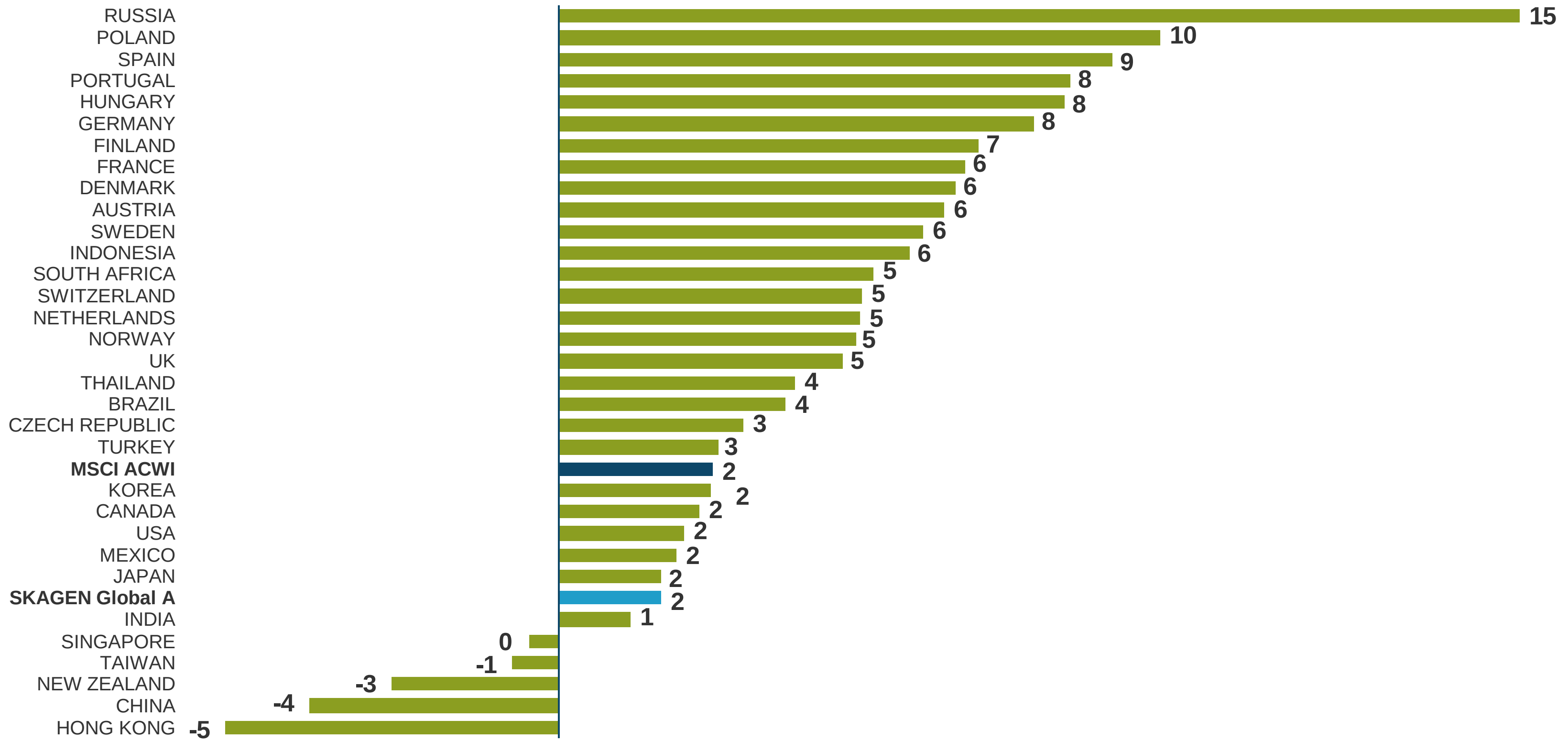
Markets in December 2016, EUR (%)



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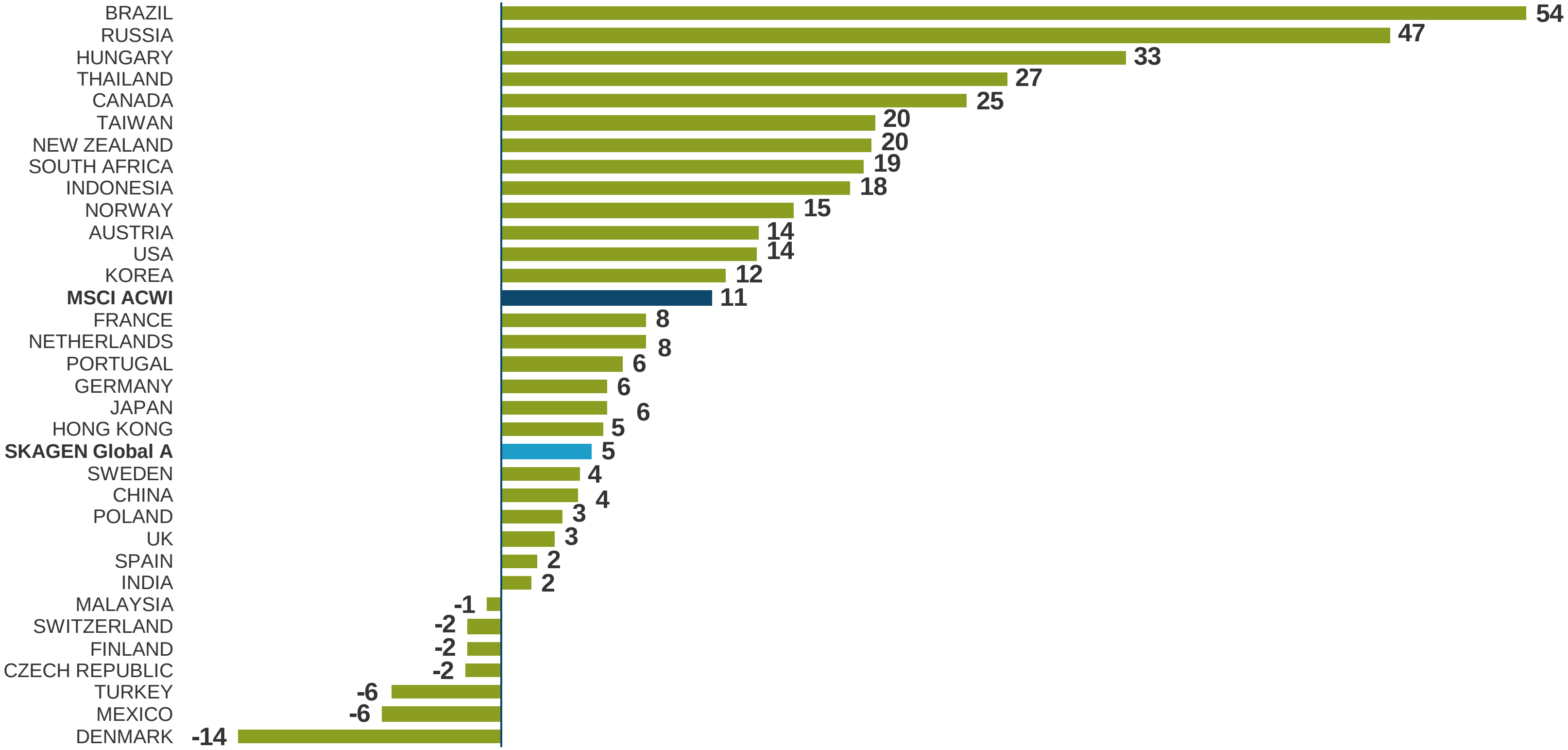
Markets in 2016, EUR (%)



Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup	88
Samsung Electronics	71
AIG	64
NN Group	58
Unilever CVA	56
Autoliv	55
Cap Gemini	52
General Electric	50
Roche Holding	49
3M	49

Largest negative contributors

Company	NOK Millions
CK Hutchison	-81
Merck & Co	-36
Dollar General	-23
China Mobile	-21
Teva Pharmaceutical Industries	-18
Johnson Controls International	-16
G4S	-9
Sony	-8
Hiscox	-6
State Bank of India	-4

Value Creation MTD (NOK MM): 652

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup	404
AIG	276
General Electric	173
Microsoft	167
NN Group	139
Comcast	137
Samsung Electronics	136
Dollar General	115
3M	108
Goldman Sachs	108

Largest negative contributors

Company	NOK Millions
Teva Pharmaceutical Industries	-100
Medtronic Plc	-57
Cheung Kong Holdings	-54
China Mobile	-50
Ntt Docomo	-49
Kingfisher	-38
Sony	-28
Cap Gemini	-17
DSM	-14
Carlsberg	-10

Value Creation QTD (NOK MM): 2040

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	298
Johnson Controls International	152
Microsoft	145
Comcast	143
DSM	134
Merck & Co	131
Lundin Petroleum	117
Dollar General	103
Philips	96
Lundin Mining	83

Largest negative contributors

Company	NOK Millions
Teva Pharmaceutical Industries	-417
Roche Holding	-251
Credit Suisse Group	-202
Cheung Kong Holdings	-162
Lenovo Group	-129
Barclays PLC	-117
Nordea Bank AB	-111
State Bank of India	-110
G4S	-101
Kingfisher	-100

Value Creation YTD (NOK MM): -622

NB: Contribution to absolute return

Most important changes Q4 2016

Holdings increased

Q4

Medtronic Plc	(New)
CMS Energy Corp	(New)
Novo Nordisk	(New)

Holdings reduced

Q4

Volvo	(Out)
Goldman Sachs	(Out)
HeidelbergCement	(Out)
WM Morrison Supermarkets	(Out)
Lundin Mining	(Out)
Adient	(Out)

Holdings increased and decreased during December 2016

Key buys

- We initiated a new position in the Danish pharmaceutical company specialising in diabetes, **Novo Nordisk,** in December. Steep falls in the share price this year enabled us to buy a structurally growing company at a very attractive free cash flow yield.

Key sells

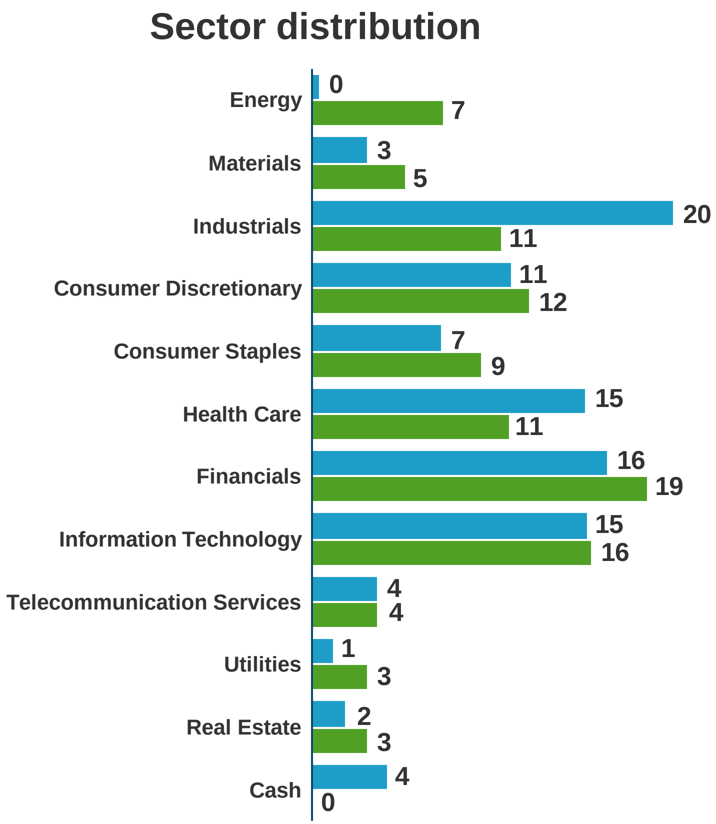
- The fund exited **HeidelbergCement, Volvo** and **Goldman Sachs** after strong performance caused the shares to rise towards our price targets. The companies can therefore no longer be considered undervalued.

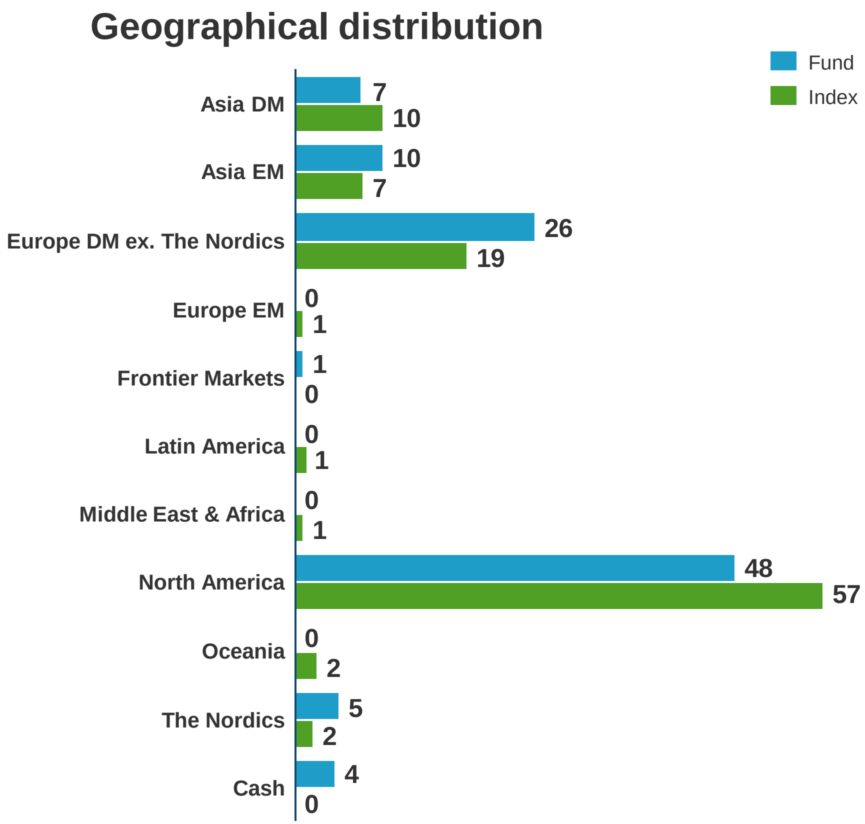
Largest holdings in SKAGEN Global

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Price target
AIG	5,5	65,3	17,2	12,0	0,8	90
UNILEVER	5,1	39,1	21,1	19,5	7,7	44
CITIGROUP	4,9	59,4	12,6	11,4	0,8	70
CK HUTCHISON	4,7	87,9	10,8	9,8	0,9	140
GENERAL ELECTRIC	4,6	31,6	21,2	19,0	3,4	36
SAMSUNG ELECTRONIC	4,5	1 433 000	9,4	7,6	1,1	1 650 000
ROCHE	4,4	232,6	15,8	14,8	10,7	360
MICROSOFT	4,1	62,1	20,9	19,0	6,9	68
3M	3,7	178,6	21,9	20,7	8,9	230
MERCK	3,7	58,9	15,6	15,3	3,7	76
Weighted top 10	**45,2**		**15,3**	**13,3**	**1,7**	**28 %**
Weighted top 35	**91,0**		**15,0**	**13,5**	**1,6**	**31 %**
MSCI AC World			**17,5**	**15,5**	**2,1**	

As of 31 December 2016

SKAGEN Global sector and geographical distribution





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Key earnings releases and corporate news, December 2016

Teva

(3.2%)

Key executive departs

Summary: 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.

Investment case implications: Negative. The resignation is unexpected and unfortunate since Siggi Olafsson 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.

G4S

(2.7%)

Out of Palestine

Summary: G4S has agreed to the sale of G4S Israel to FIMI Opportunity Funds (FIMI) for an estimated net consideration of NIS 425m (GBP 88m). The company will retain a presence in Israel through ownership in the flagship national police training centre Policity in partnership with FIMI. This is essentially a conference facility and not something that worries us from an ESG-perspective.

Investment case implications: We are pleased to see that G4S has reached an agreement to sell the lion’s share of its Israeli business, including all controversial contracts on the West bank and related to the barrier.

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

Dollar General (2.3%)

Sales growth challenges remain

Summary: Sales headwinds accelerated in Q3, but initiatives may be starting to materialise. Q3 comps of -0.1% fell short of consensus of 0.6% and that is what decides the direction of the stock price in the short run. SNAP reductions once again hit Dollar General (DG) hard, as did deflation. The Halloween shift added to the shortfall. The total headwind from SNAP, deflation and Halloween was 200bps and would have been difficult for any retailer to navigate. Consumers are responding well to DG's price investments with October being the strongest month, but it will likely take some time to return to normal comps. Margins also came in below expectations as price investments were implemented. To see only 20bps of deleverage on negative same-store-sales suggests cost control is a priority. Next year DG will open 1,000 new stores (7.5% sq ft growth).

Investment case implications: The DG case is more or less intact, but we have to factor in elevated competition and deflation. The plan of new store openings to the tune of 7-7.5% with high return on invested capital (less than 2 years payback) is intact. Same store sales in the range of 2-4% have taken a hit and will now be 1-2%. Buybacks of around 5% of market cap annually. If margins hold up, this combination translates into 12-14% EPS growth annually. Margins continue to be protected by internal measures like private label and better sourcing. Lower shrink is an area that should improve, but over the past 2 quarters, shrink has trended in the wrong direction. We are currently in a deflationary environment, but once that changes there will be tailwind to drive earnings higher as costs have been taken out. EPS to be around USD 4.4 for 2016 so trading at 17.3x PE. Looking out to 2018 we think DG should be making close to USD 5.5 and should be trading at 16x giving us a target price of USD 91, including dividend.

CMS Energy (1.3%)

Guidance slightly upgraded from option on cheaper power contract

Summary: CMS Energy reported early termination of an expensive power purchase agreement from its peer Entergy Corporation's nuclear plant that will be shut down. CMS will replace the USD 58/MWh contract with a combination of self-build gas/renewables options and demand side management projected to cost USD 44/MWh, saving roughly USD 170m that will be shared between customers and investors. Effectively, the 10-yr capex plan increases by USD 1bn to USD 18bn (+6%) without any block equity required. 2016 EPS guidance slightly upgraded to upper end of range.

Investment case implications: Minor positive and in-line with our thesis of the mid-size Michigan utility CMS Energy having several free options available to support 6-8% EPS and DPS growth over the coming years. Higher capex (without equity issuance) is positive as it helps grow the rate base from which earnings are derived.

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.

Unilever is a manufacturer of branded and packaged consumer goods. Main segments are food (24% of sales), refreshment (19%), personal care (38%), and home care (19%). The company operates in more than 180 countries and emerging markets now account for more than 50% of sales. We think the market underestimates the long-term organic growth in emerging markets and Unilever's ability to increase margins. Due to very high ROIC, growth will be produced with a minimal "growth" CAPEX, enabling the company to grow and maintain a high pay-out ratio.

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 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 (as % of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).

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.

The 10 largest companies in SKAGEN Global (continued)

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.

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.

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).

3M is a US-based conglomerate selling products ranging from medical devices and office Post-it© notes to purification filters and safety harnesses. Since inception in 1902, 3M has paid a dividend without interruption for 99 years and raised it for 58 consecutive years. 3M is headquartered in St. Paul's, MN and employs 90,000 people. Sales/Operating margin by division (2015): Healthcare USD 5 bn/32%; Safety & Graphics USD 6bn/24%; Industrials USD 10bn/22%; Electronics & Energy USD 5bn/21%; and Consumer USD 4bn/24%.

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.

Novo Nordisk (NOVOB DC) DKK 229.00

Mean reversion 20%	Special situation 20%	LT value creator: 60%

History, business model and source of investment case

- Established in 1923, Novo Nordisk is a Danish pharmaceutical company specialising in diabetes (79% of 2015 sales), with a focus on insulin and other proteins, such as GLP-1 analogues. Other key disease areas are obesity, haemophilia and growth disorders. Novo's sales are weighted towards the US (51% of 2015 sales), Europe (19%) and China (9%).

ESG

- ESG: Novo Nordisk operates within our ethical guidelines.

Investment rationale

- The market has gone from putting a high valuation on an aspirational growth target to assuming essentially no earnings growth (divi + buyback give a yield equal to developed market telecommunications companies). We see a company active in one of the most attractive long-term growth markets in the world and view Novo as having the right ingredients to capitalise on that growth:
  - Growth: While the market is currently focusing on pricing pressure, we think they are missing the fact that Novo is still operating in structurally growing markets and we see the company taking share due to a strong product line-up with Tresiba taking market share, and Victoza (and Semalgutide) benefiting from the strong growth of the GLP-1 class (only c 12% penetration today)
  - Profitability: While price pressure in diabetes will also hurt Novo, we consider the company much less exposed due to a strong portfolio of new and innovating products making a real difference to patients
  - Free options: strong pipeline given little value at current levels, and there is no focus on optionality around costs and balance sheet optimisation
  - Downside protection: Novo has ample room to use the playbook used by peers if the above does not play out as expected – significant cost reductions (particularly in the US if the market structure changes) and balance sheet optimisation

Triggers

- Management meeting targets and proving that the doomsday scenario of significant price pressure across the portfolio has not materialised should help the valuation
- Approval of the once-weekly GLP1 Semaglutide
- Roche potentially facing problems with ACE910 haemophilia data (consensus is already expecting a decrease in Novo’s NovoSeven business of approx. 50% over the coming 3-4 years)
- The company putting more focus on costs and starting to optimise the balance sheet

Risks

- Regulatory / market structure changes in the US forcing prices towards European levels
- Failure of next generation diabetes treatment. Unforeseen side effects from existing products

Price target

- Base case: For a stable company producing 5% long-term earnings growth at ROIC of 100% we see 17x PE 2019 EPS, as the market removes focus on a doomsday scenario, leaving a target price of DKK 310 per share – 35% upside
- Bull case: With strong performance of Tresiba, Victoza/Semalgutide and/or stabilisation of price pressure in the US, we see higher expected growth leading to a 22x PE, giving us a target price of DKK 420 per share (80% upside)
- Bear case: With significant price pressure across the board, we see lower 2019 EPS and use a multiple of 10x – target DKK 160

Key Figures

Market cap	EUR	92bn
Net debt (cash)	EUR	(2bn)
Daily turnover	EUR	100m
No. of shares o/s		2.5bn
P/E 2016e		16x
P/E 2017e		15x
P/BV trailing		15x
ROE 2016e		76%
Dividend yield 2016e		3.0%
Buyback last 12m as % of current market cap		2.5%
No of analysts		35
with Sell/Hold		57%

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3U acid test

Unpopular

- Novo Nordisk used to be a darling. However, a number of sector and company specific issues have raised doubts around the company's long-term growth outlook and led to significant market scepticism
- The stock is down 40% YTD
- Sell-siders have become much more reserved during 2016. 60% sell/hold

Under-researched

- 37 sell-siders follow the company
- They are industry specialists with impressive knowledge of the industry and products. They used to write lengthy reports around the long-term growth rate and the significant FCF generation given the company's impressive ROIC. Focus has now shifted towards guessing price development 12 months out and worrying about all the other things that may go wrong
- There is very little focus on the company's pipeline and still growing market

Under-valued

- For a stable company producing 5% long-term earnings growth at ROIC of 100% we see 17x PE 2019 EPS, as the market removes its focus on the doomsday scenario, leaving a target price of DKK 310 per share – 35% upside
- Using consensus estimates, Novo is expected to generate 20% of current market cap in FCFE over the next 3 years. Assuming they would lever 1x 2019 EBITDA, the company could return an additional 10% of market cap. Consensus estimates do not assume any significant cost cutting efforts.

For more information please visit:

Our latest Market report
Information on SKAGEN Global 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.

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