*The lightship at Skagen Reef, 1892. Detail. By Carl Locher,
one of the Skagen Painters. This image belongs to the Art Museums of Skagen*

SKAGEN Kon-Tiki

Status Report – October 2016

The art of common sense

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Summary – October 2016

- SKAGEN Kon-Tiki* was up 2.8% in October measured in EUR, outperforming the MSCI Emerging Markets Index which was up 2.6%. Year to date, the fund is up 11.4% versus a 15.3% gain for the EM index. Emerging markets continued to outperform global markets, which were up 1.2% for the month and 4.1% YTD.

- Our top three contributors during October were Cosan, Banrisul and Richter Gedeon. Our Brazilian conglomerate Cosan is involved in sugar and ethanol production, logistics and gas distribution as well as fuel retail and convenience retail. It is currently benefitting from a strong sugar and ethanol market as well as market share gains in fuel distribution. Our Brazilian bank Banrisul was up on a continued strong Brazilian market. Hungarian pharmaceutical company Richter Gedeon was up in anticipation of a strong quarterly earnings report due at the beginning of November. They have a history of under-promising and over-delivering, which was the case this quarter as well.

- The major detractors for the month were Hyundai Motor, Mahindra & Mahindra and EFG Hermes. Hyundai was weighed down by extensive strikes in Korea which led to weak 3Q16 results. Indian car and tractor manufacturer Mahindra & Mahindra was down on continued worries about their utility vehicle business due to increased competition. Our Egyptian bank EFG Hermes was priced down in anticipation of an Egyptian pound devaluation, which finally occurred at the beginning of November. Samsung Electronics recovered nicely after their decision to withdraw the Galaxy Note 7 following safety concerns.

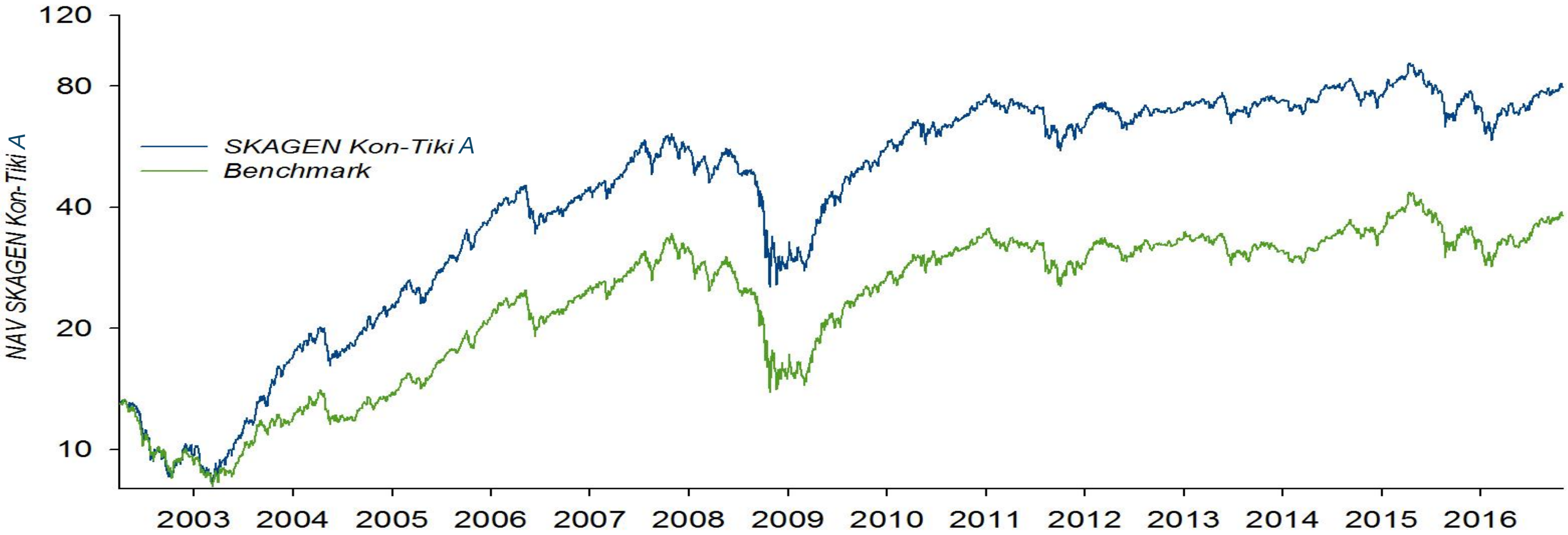
- Despite this year's solid outperformance, emerging markets still trade at a discount to developed markets, with a 2016e P/E of 13.6x and P/B of 1.5x for EM, compared with 16.8x and 2.1x for DM.

- The top 12 positions now represent c50% of the fund (from 45% at the beginning of 2015). The portfolio** remains attractively valued at a 2016e P/E of 13.0x and P/B of 1.0x and we now see a 39% upside for our portfolio over a 2-year horizon.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*
*** Portfolio valuation refers to top 35 positions.*

SKAGEN Kon-Tiki A results, October 2016

EUR, net of fees



	October	QTD	YTD	1 year	3 years	5 years	10 years
SKAGEN Kon-Tiki A	2,8%	2,8%	11,4%	7,4%	2,0%	4,6%	6,7%
MSCI EM	2,6%	2,6%	15,3%	10,1%	5,3%	5,5%	5,1%
Excess return	0,3%	0,3%	-3,9%	-2,7%	-3,3%	-0,9%	1,7%

Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 5 April 2002*

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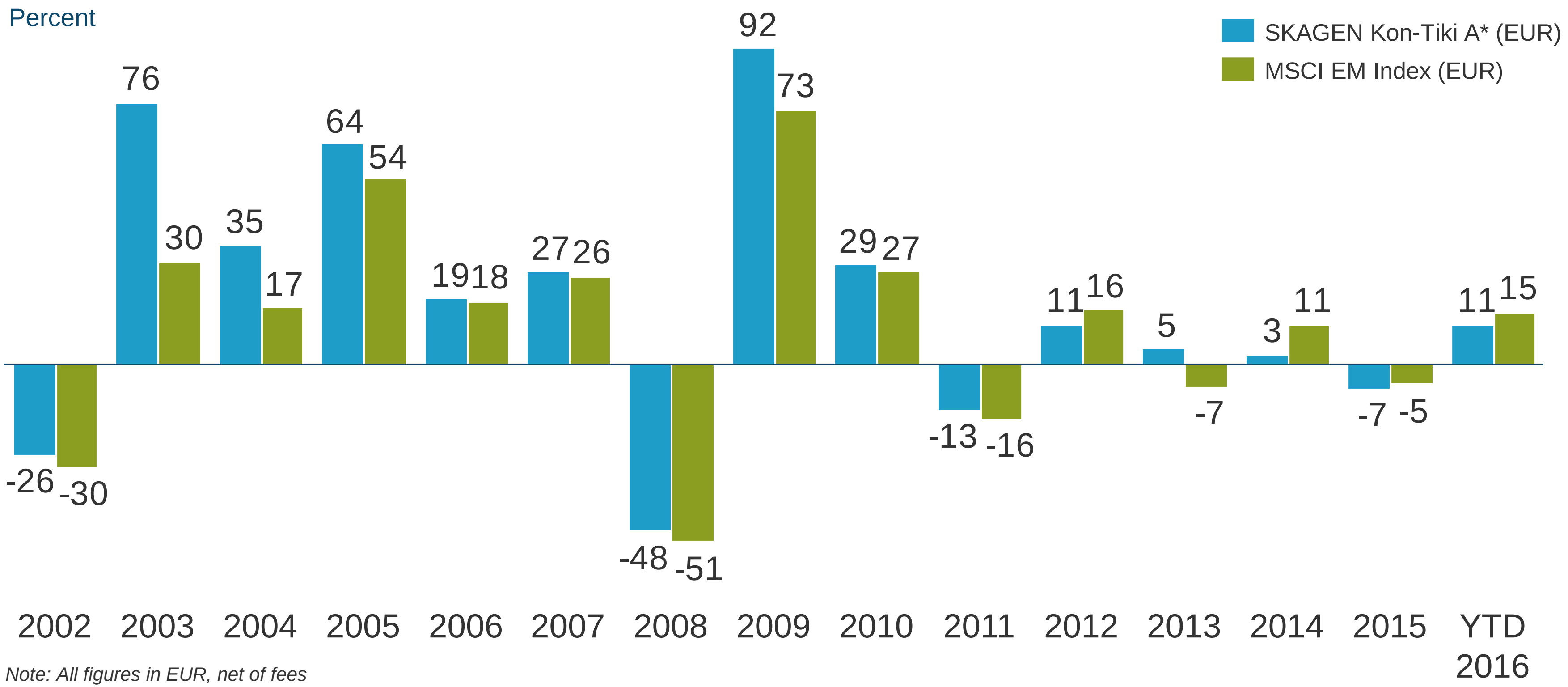
Annual performance since inception*

SKAGEN Kon-Tiki A has beaten the index in 11 out of 14 years



Note: All figures in EUR, net of fees

** Inception date: 5 April 2002*

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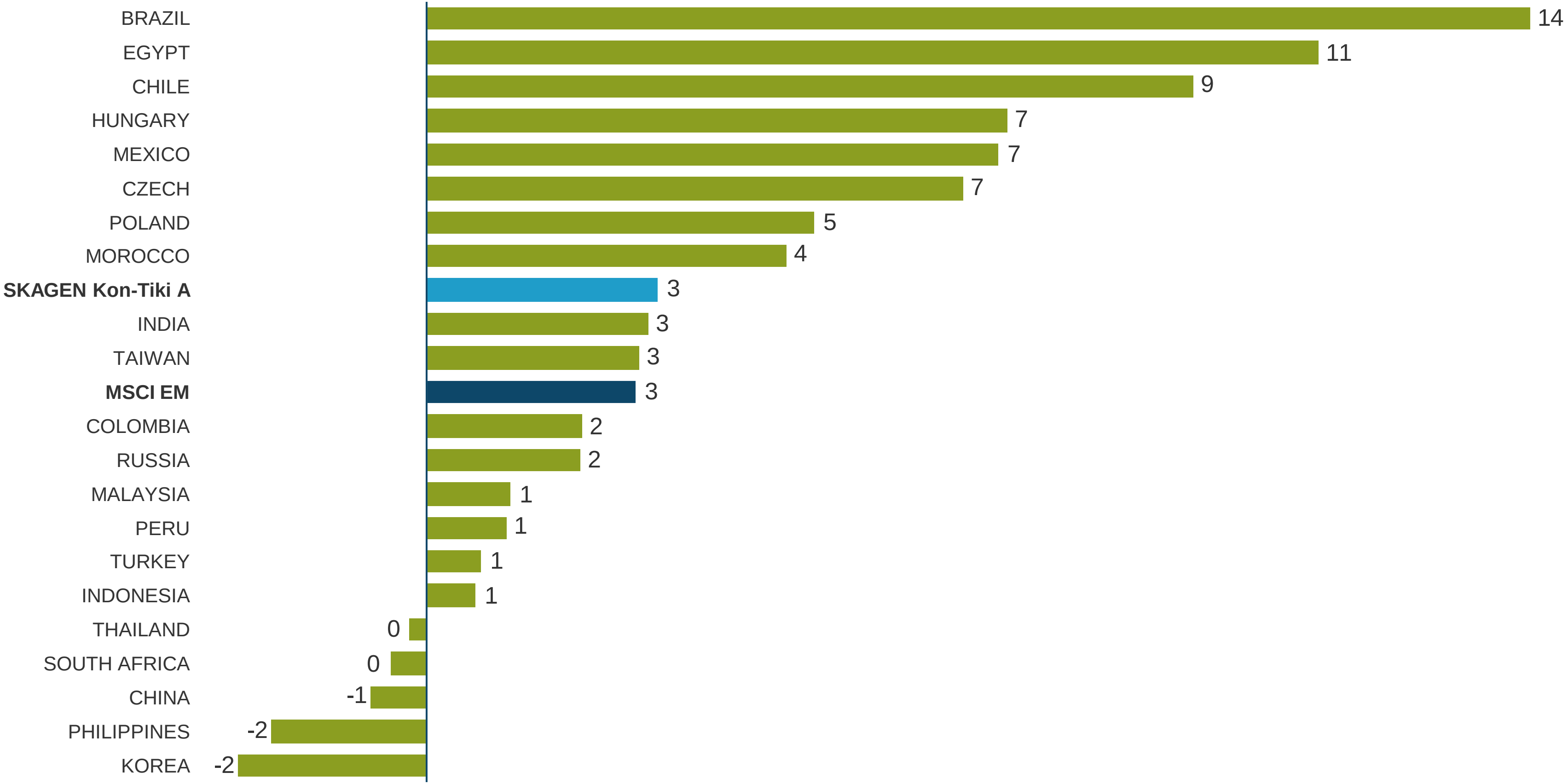
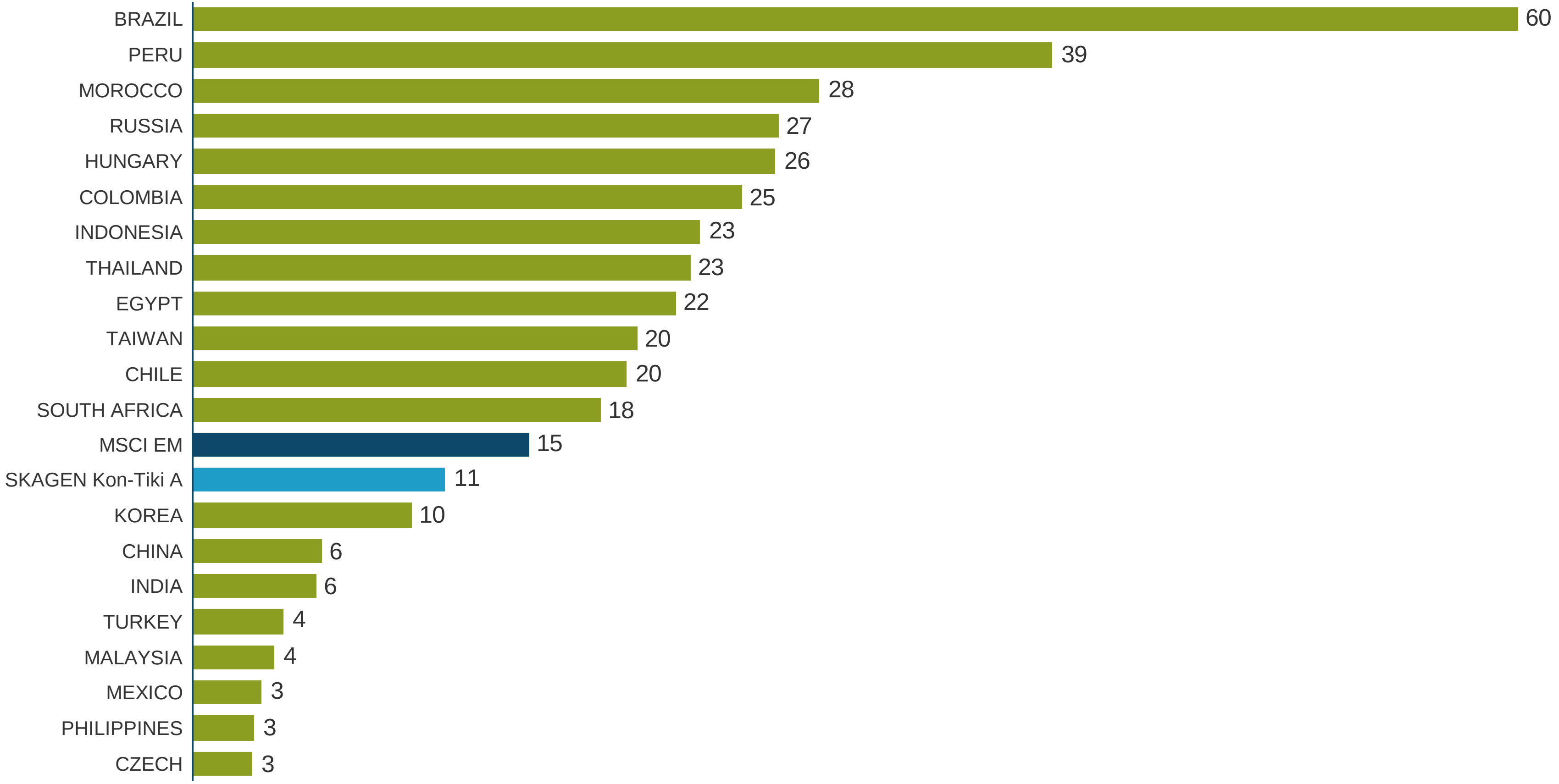
Emerging markets in October 2016, EUR (%)



Emerging markets YTD 2016, EUR (%)



Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Cosan	255
Banrisul	239
Richter Gedeon	119
GPA	105
X5 Retail	77
Indosat	62
Rumo Logistica	61
CNH Industrial	60
Marfrig	54
State Bank of India	50

Largest negative contributors

Company	NOK Millions
Hyundai Motor	-134
Mahindra & Mahindra	-69
EFG-Hermes	-50
ABB	-39
LG Electronics	-27
Apollo Tyres	-17
Ghana Commercial Bank	-12
LG Corp	-12
Samsung SDI	-11
OCI	-10

Value Creation MTD (NOK MM): 1206

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Cosan	670
Banrisul	612
X5 Retail	396
Samsung Electronics	273
GPA	262
UPL	216
Kiatnakin Bank	205
Moscow Exchange	192
Naspers	170
Rumo	146

Largest negative contributors

Company	NOK Millions
Frontline	-386
Hyundai Motor	-254
Great Wall Motor	-158
Lenovo Group	-149
LG Chem	-146
LG Electronics	-137
Bharti Airtel	-122
Tech Mahindra	-121
Kinnevik	-105
Samsung SDI	-105

Value Creation YTD (NOK MM): 1664

NB: Contribution to absolute return

Most important changes Q4 2016

Q4 **Holdings increased**

Bolloré
CCU
Kinnevik

Q4 **Holdings reduced**

DIA (Out)

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Holdings increased and decreased during October 2016

Key buys

- **CCU**: The recent underperformance following weak 2Q results allowed us to add to our position. CCU is a diversified beverage company operating mainly in Chile and Argentina. EV/Sales (trailing) of 1.7x puts CCU among the cheapest listed brewers in the world.

- **Bolloré:** The French-listed conglomerate is the clear #1 logistics provider on the African continent, making it an important beneficiary of long-term economic development in the region. A complex group structure makes it unpopular with investors. It trades at a more than 30% discount to our conservatively calculated sum-of-the-parts valuation.

Key sells

- **DIA (Out):** We sold out ahead of their quarterly earnings report due to lower conviction about their Iberia operations.

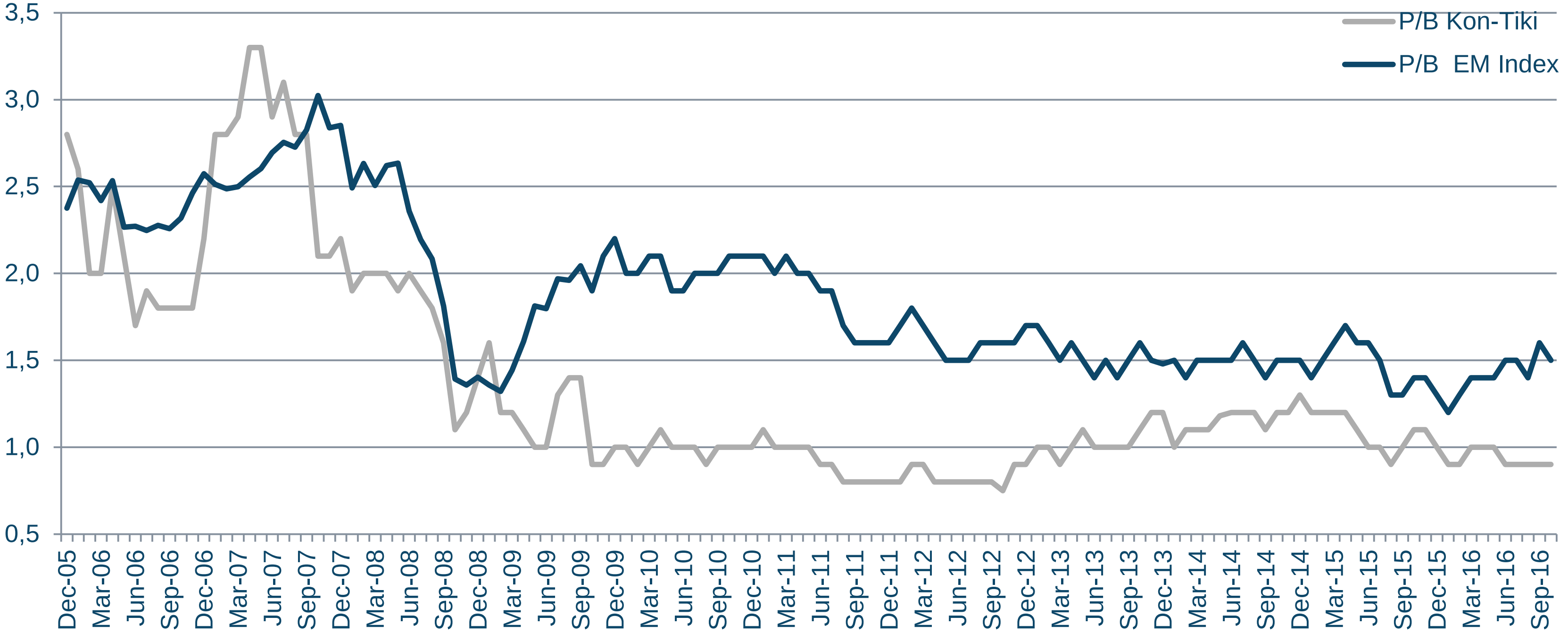
- **ABB:** We have taken advantage of the recent share price strength to reduce the position somewhat.

Largest holdings in SKAGEN Kon-Tiki

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Hyundai Motor	7,3	95 600	4,0	3,8	0,4	4,2	170 000	78
Samsung Electronics	6,9	1 317 000	8,5	7,7	1,0	1,6	1 700 000	29
Mahindra & Mahindra	4,6	1 317	17,6	13,2	2,7	0,9	2 000	52
Richter Gedeon	4,5	6 045	20,2	16,6	1,8	1,2	7 500	24
Naspers	4,4	163	36,2	25,1	7,0	0,3	216	33
Sabanci Holding	4,4	9,35	6,4	5,8	0,9	1,6	14	50
X5 Retail Group	3,8	1 971	19,0	15,2	4,3	0,0	2 242	14
Cosan Ltd.	3,7	28,8	9,6	8,7	0,6	1,2	32	13
Banrisul	2,8	13,6	8,3	8,0	0,9	6,0	14	3
State Bank of India	2,8	258	16,1	11,7	0,9	1,0	300	16
ABB	2,6	186	17,8	16,2	3,5	3,4	200	7
SBI Holdings	2,4	1 250	8,9	8,3	0,7	3,6	2 500	100
Weighted top 12	**50,0**		**9,2**	**8,3**	**0,9**	**1,4**		**38**
Weighted top 35	**80,8**		**13,0**	**10,5**	**1,0**	**1,8**		**39**
Emerging market index			**13,6**	**12,0**	**1,5**	**2,9**		
Top 35 @ price target			**18,0**	**14,3**	**1,6**	**1,4**		

As at 31 October 2016
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reported currency for Naspers, X5 and Cosan. ***As we are currently in the middle of earnings season, some of the price targets are currently under review.***

P/BV for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 October, 2016

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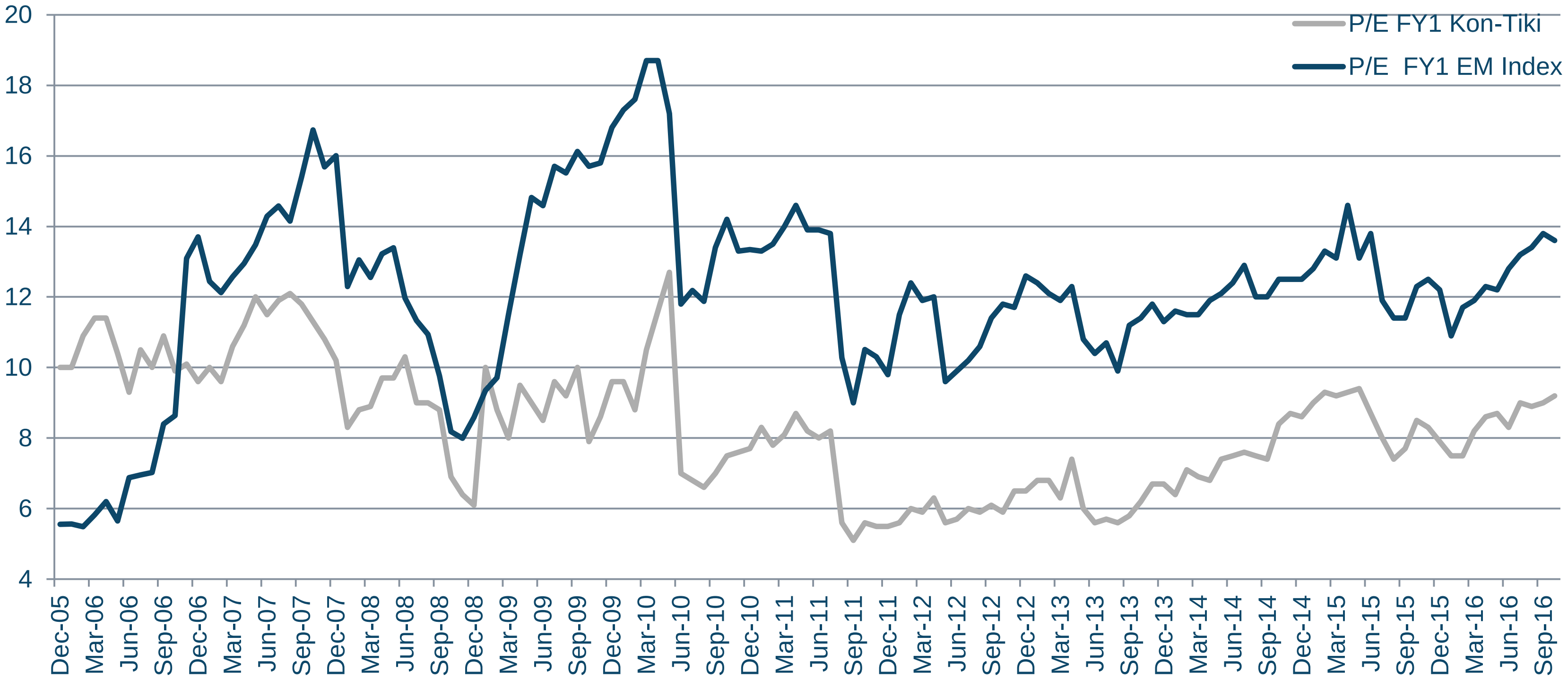
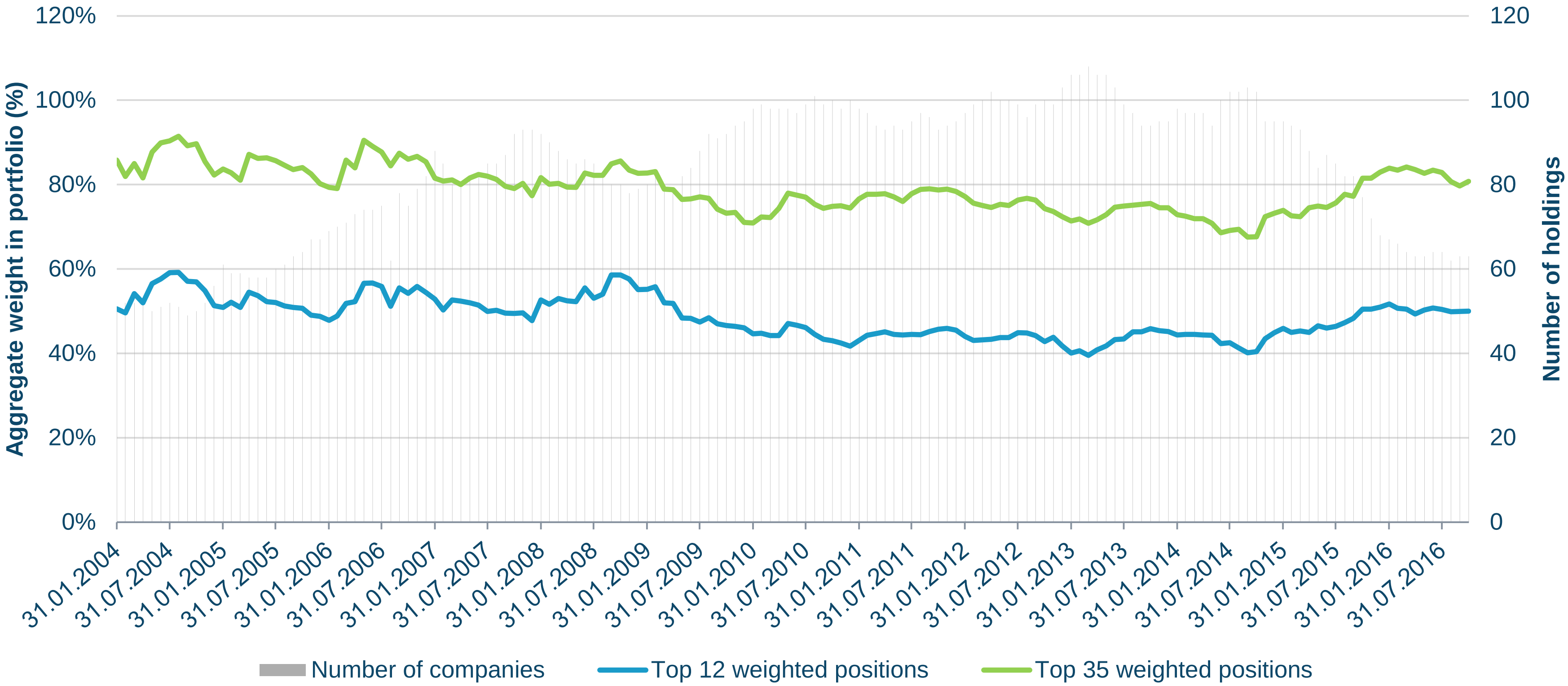
P/E for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 October, 2016

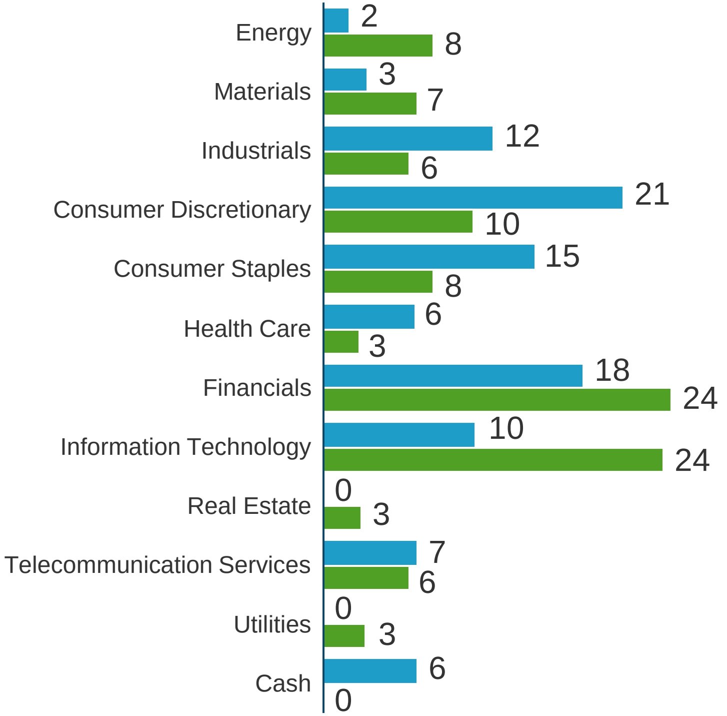
SKAGEN Kon-Tiki portfolio concentration



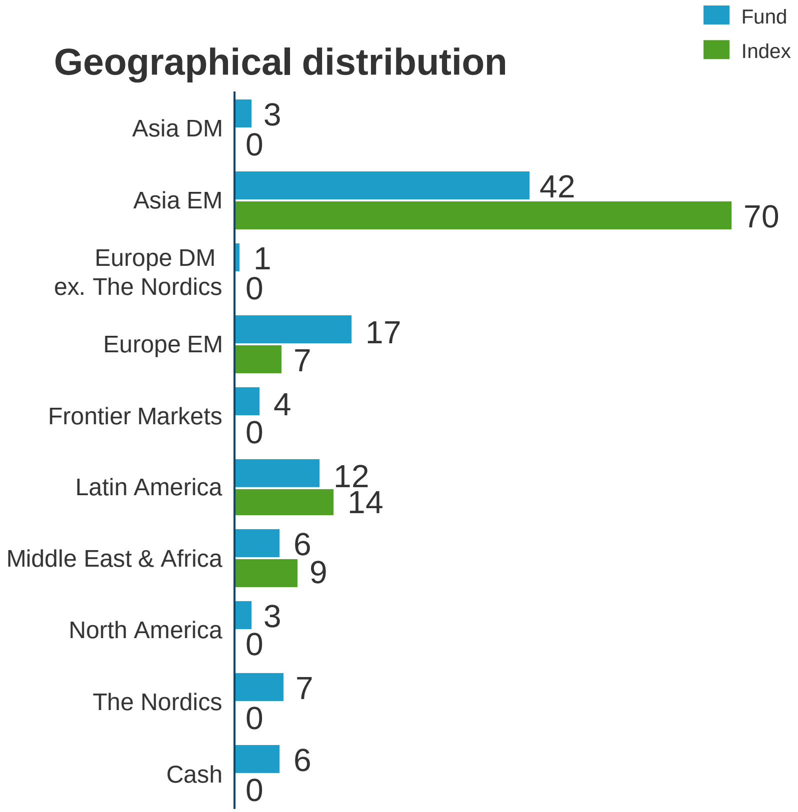
Source: SKAGEN AS as of 31 October 2016

SKAGEN Kon-Tiki sector and geographical distribution

Sector distribution



Geographical distribution



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Key earnings releases and corporate news, October 2016

Samsung Electronics (6.9% weight)

3Q16 in line with guidance; more capital distribution ahead

Implications for the investment case**:** Neutral. The board's answer to the Elliott letter in November should include the announcement of new buybacks and/or dividend. Despite buybacks of KRW 11.4tr in the past year and dividend of KRW 3.1tr, cash is piling up with a net cash accumulation of KRW 13.3tr in the past year. This is also supported by what seems to be a new plan to consolidate operations with the pending sale of the printer operations (USD 1.1bn) and several stake sales in the past few months.

Summary: 3Q16 operating profit of KRW 5.2tr was in line with revised guidance after the Note 7 recall, and includes a total of KRW c3.8tr costs related to it. This compares to an operating profit of KRW 8.1tr in 2Q16 and KRW 7.4tr in 3Q15. Operating profit for IM (mobile) fell to only KRW 100bn (0.4% margin). The good news is strong sales of S7 which is expected to surpass S4 (launched 2013) during the product cycle. The margin for the Semiconductor division improved further to 25.6% and the division accounted for 65% of group operating profit. Display division improved profit to KRW 1.0tr for a 14.4% margin. Cash flow was strong and net cash increased by KRW 5.2tr during 3Q16 to KRW 70.1tr (KRW 500k per share), helped by sale of non-core assets.

The fund managed by Elliott this month sent a letter to the board suggesting a four-step plan to close the valuation gap; 1) separation into an operating and holding company using the treasury shares; 2) paying a special dividend of KRW 245,000 per share; 3) listing the operating company on NASDAQ and; 4) improving corporate governance. Elliot also suggested paying out 75% of FCF as dividend going forward. We believe the board will announce a new buyback program next month and, based on statements from management, they still seem to have a preference for buybacks versus dividends.

Valuation: Our target price of KRW 1.7m implies an upside of 30%. Our target price is based on a sum-of-parts valuation discount of 25% and a 10% additional discount for our preference shares. Thus, we agree with the Elliot view that the share is worth close to KRW 2.5-2.6m based on a comparable valuation. A more aggressive capital distribution plan than the 30-50% of FCF on average for 2015-2017 could allow for further closing of discount to sum-of-parts.

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

GPA

(2.0% weight)

Weak 3Q16 as expected but margin contraction levels off

***Implications for the investment case*:** No change. 2016 is a very challenging year, but margins should start improving from 1Q/2Q 2017 due to efficiency program gains and improved supplier commitment behind the promotion program. We do not assume any tailwind from better consumer sentiment in the near term, but decelerating inflation and lower rates should stimulate consumer spending. The governance risk through Casino is well priced into the valuation.

Summary: Adjusted EBITDA for food business of BRL 478m declined 11% YoY to sales growth of 14% YoY. Hence the margin declined 140bp YoY to 4.7% versus a 280bp YoY contraction in 2Q16. GPA had already reported sales numbers with LFL growth of 9% YoY (up from 6% in 1Q16 and 7% in 2Q16) and space growth of 5% YoY driven by expansion for the cash-and-carry format. The margin compression all stems from the gross margin which is down 180bp YoY with everything related to the Extra banner and mix shift towards the Assai cash-and-carry format which has structurally lower margins (but higher return on capital). As pointed out previously, the 1-2-3 discount program initiated by the Extra banner in April (accounts for c20% of banner food sales) has a negative margin impact in the near term due to the ramp-up period for supplier “compliance” with the program.

Valuation: GPA is currently facing margin headwinds from 1) weak economy with consumer trading down, 2) re-positioning of prices within the Extra banner (38% of food segment sales) and 3) mix change due to structurally lower margin from cash-and-carry operations (now 37% of net sales) growing 46% YoY versus 1% for other food banners combined. Headwind from mix is now diminishing with Assai margin close to rest of food business (4.4% versus 4.9% in 3Q16). However, our investment thesis is that we buy a market leader in a fragmented cash generative industry (top 3 only control 40% of formalised market which again only accounts for c55% of total market), which provides long term tailwind from sector consolidation at a very attractive price. This has been applied very successfully in Russia through X5 Retail Group. Implied valuation of food retailing business is 0.22x sales and 4.6x EBITDA on depressed 2016 results (EBITDA margin down 340bp to 4.7% since 2014). In contrast, EM food retail sector is valued at median EV/Sales of 0.66x and EV/EBITDA 10.7x. Our 2 year forward target price of BRL 100 is based on a sum-of-parts with food multiple at 8x for 2017e which implies EV/Sales of 0.4x.

The 10 largest companies in SKAGEN Kon-Tiki

Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 5m cars in 2015 and has a c5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.

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

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

Hungarian pharmaceutical company established in 1901 with focus on Central and Eastern Europe. Transitioning from generic-focused manufacturer to a more specialised one through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Vraylar). Significant upside potential from US marketing approval of Vraylar and extended usage of Esmya is not reflected in the current valuation.

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

The 10 largest companies in SKAGEN Kon-Tiki (continued)

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

X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarkets under the Perekrestok brand, hypermarkets under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment. They are also in the middle of an aggressive expansion and refurbishment period.

Cosan is one of the largest Brazilian energy conglomerates with almost 80 years of history. Present within gas distribution, fuel distribution (5800 gas stations), convenience stores (950 stores at gas stations), sugar and ethanol production (24 mills with 68m ton crushing capacity), lubricants, land development and railways/logistics (25% market share of grain transportation for export).

Banco do Estado do Rio Grande do Sul, or Banrisul, was founded in 1928. It is a multiple service bank controlled by the state of Rio Grande do Sul, and it is among the 7 largest financial institutions in Brazil by branches and total deposits but a clear leader in the regional market.

Largest bank in India with 17% market share (c25% including 5 associate banks). Also presence in the life insurance, asset management and investment banking sectors. 15,000 branches, 32,000 ATMs, 400 mil+ accounts and over 220,000 employees. Upside potential from banking and economic reforms in India.

For more information please visit:

Our latest Market report
Information on SKAGEN Kon-Tiki 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.