
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 – December 2016

The art of common sense

SKAGEN

Summary – December 2016

- SKAGEN Kon-Tiki* was up 3.3% in December measured in EUR, outperforming the MSCI Emerging Markets Index which was up 0.8%. EM underperformed developed markets in December. In 2016, the fund gained 12.9% versus 14.6% for the EM index.

- For the first time since 2012 EM outperformed global markets for the full year, by 3.4 percentage points.

- Our top three contributors during December were Samsung Electronics, the Russian grocery retail X5 as well as Richter which is our Hungarian pharmaceutical company. Samsung Electronics continued to climb after they published their strategic update in November following the letter from activist investor Elliott. Indications of improved focus on shareholder returns and strength in the components businesses are promising for 2017. For X5 we are once again seeing earnings upgrades on the back of strong sales. There was no major news from Richter.

- The major detractors for the month were the Brazilian bank Banrisul, the polysilicon producer GCL Poly as well as the Indian telecom operator Bharti Airtel. Banrisul continued to trend down after reporting weak 3Q results with a reversal of previous good signs on credit quality. For GCL Poly there was no company specific news but China announced their final tariff cuts. Bharti has been weak as the market is still focused on new competitor Jio's threat to incumbents in India.

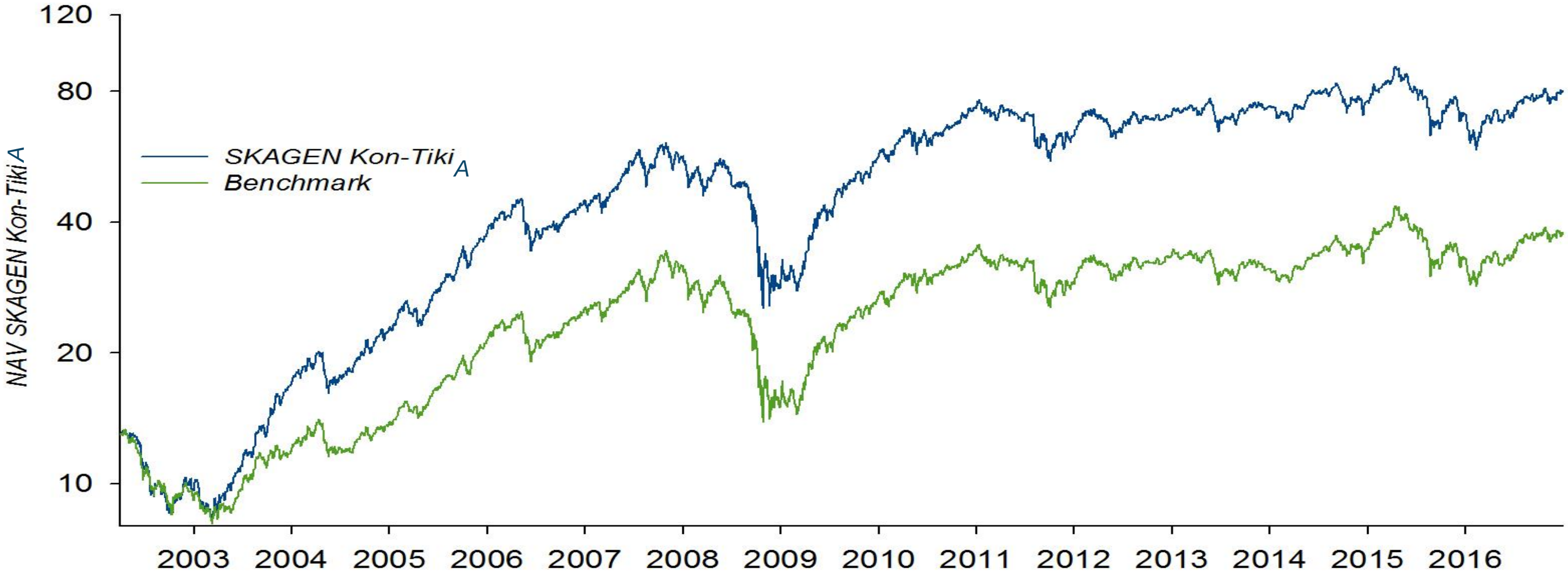
- The emerging markets discount to developed markets is high based on historical numbers, with a 2016e P/E of 13.4x and P/B of 1.4x for EM, compared with 19x and 2.2x for DM.

- The top 12 positions now represent more than 51% of the fund (from 45% at the beginning of 2015). The portfolio** remains attractively valued at a 2016e P/E of 11.1x and P/B of 1.0x and we now see 41% 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, December 2016

EUR, net of fees



	December	Q4	2016	1 year	3 years	5 years	10 years
SKAGEN Kon Tiki A	3,3%	4,2%	12,9%	12,9%	2,7%	4,8%	6,0%
MSCI EM Index	0,8%	2,0%	14,6%	14,6%	6,5%	5,6%	4,1%
Excess return	2,5%	2,2%	-1,7%	-1,7%	-3,9%	-0,8%	1,9%

Note: All returns beyond 12 months are annualised (geometric return)

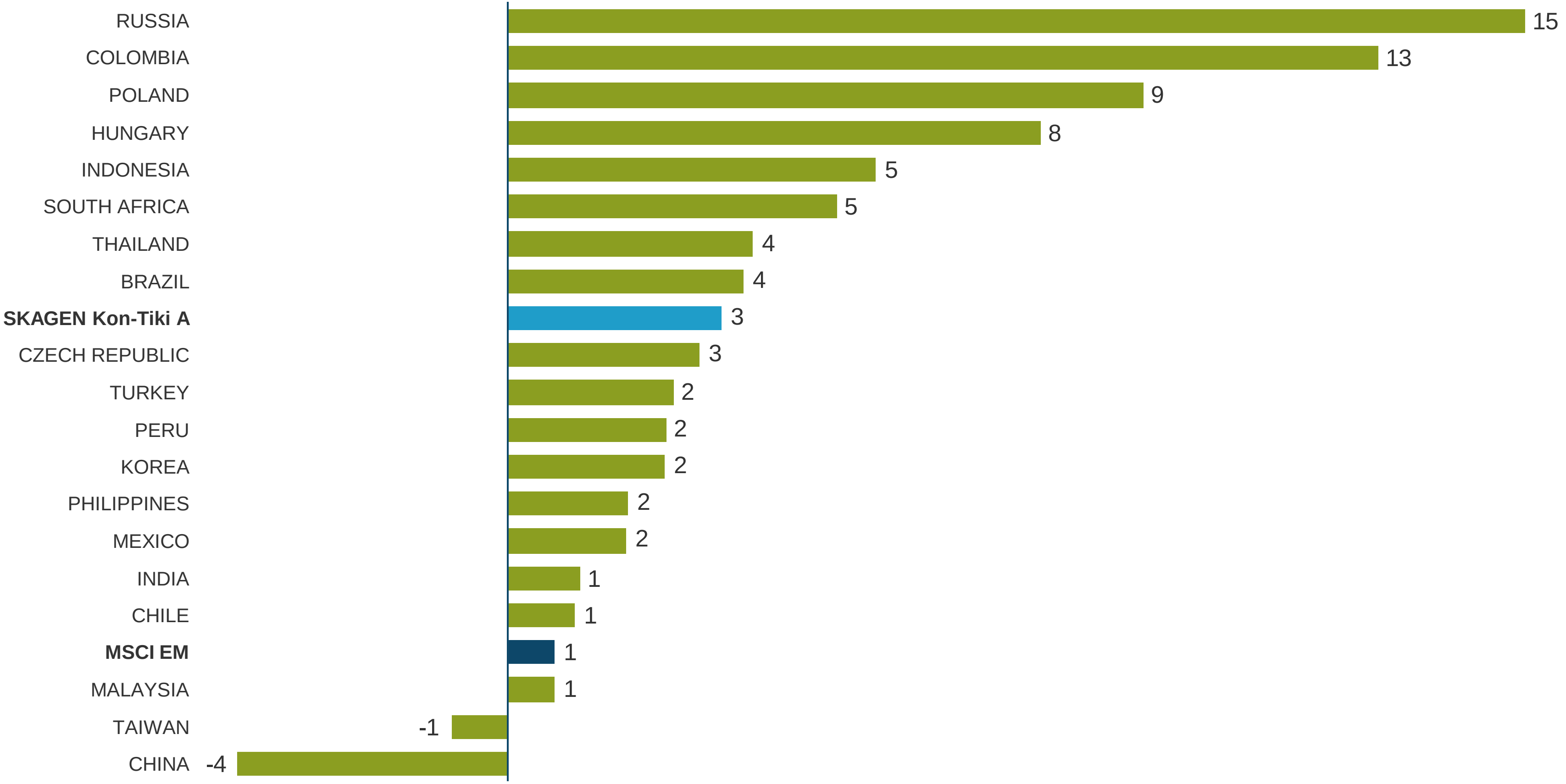
** Inception date: 5 April 2002*

Annual performance since inception*

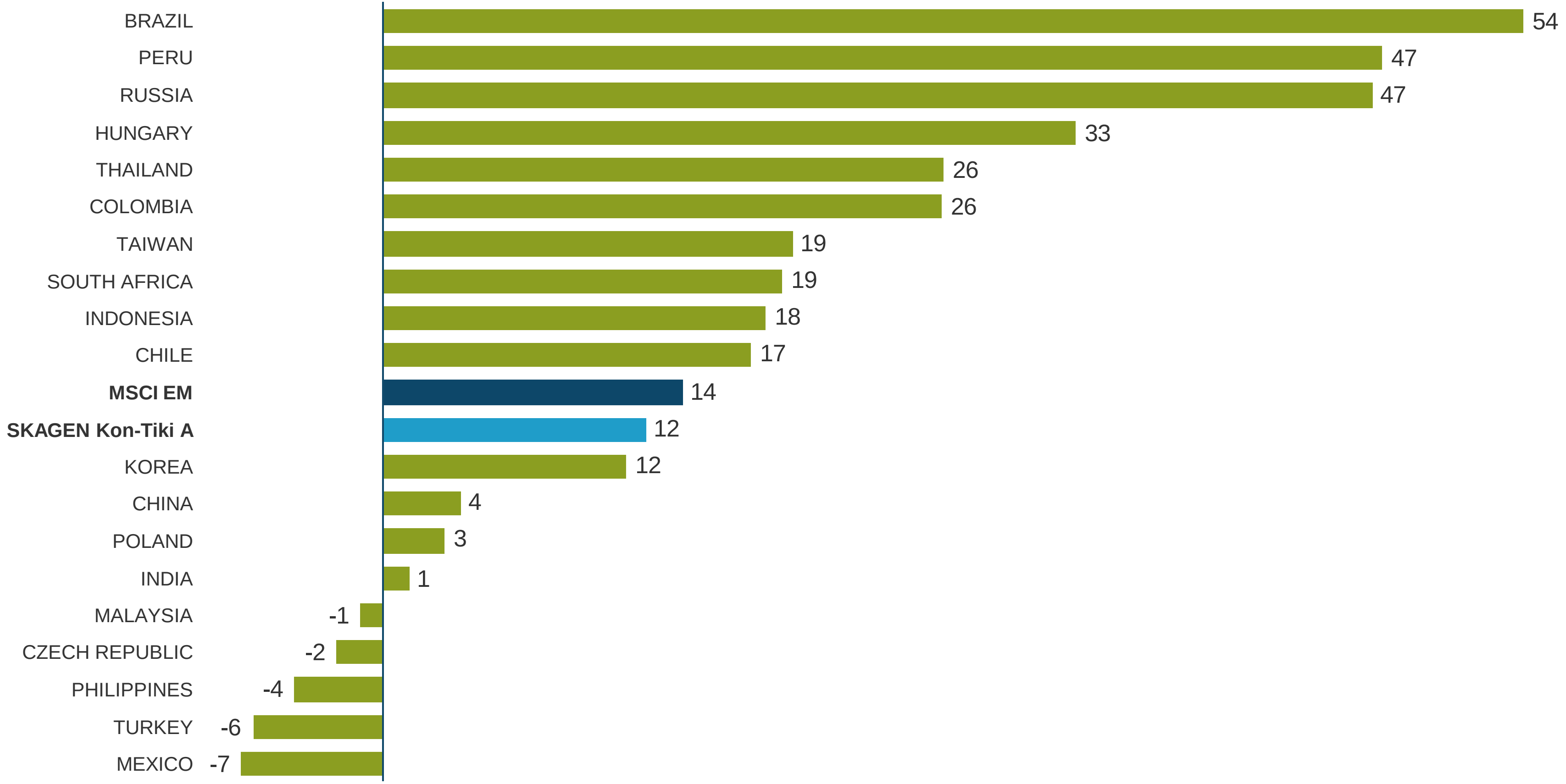
SKAGEN Kon-Tiki A has beaten the index in 11 out of 15 years

Note: All figures in EUR, net of fees
** Inception date: 5 April 2002*

Emerging markets in December 2016, EUR (%)



Emerging markets 2016, EUR (%)



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Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	138
X5 Retail Group	115
Richter Gedeon	106
Samsung SDI	78
Borr Drilling	76
LG Electronics	71
Mahindra & Mahindra	47
Cosan	47
Sistema	45
Enka Insaat	40

Largest negative contributors

Company	NOK Millions
Banrisul	-36
GCL-Poly Energy	-24
Bharti Airtel	-22
State Bank of India	-11
Golar LNG	-6
China Shipping Development	-6
Kinnevik	-4
Apollo Tyres	-3
Lenovo Group	-3
Asia Cement China	-2

Value Creation MTD (NOK MM): 1357

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics	250
X5 Retail Group	237
CNH Industrial	163
Richter Gedeon	163
Marfrig Global Foods	121
SBI Holdings	119
Cosan	116
Tech Mahindra	102
Sistema	86
Borr Drilling	76

Largest negative contributors

Company	NOK Millions
Mahindra & Mahindra	-166
Haci Omer Sabanci	-134
Naspers	-121
Hyundai Motor	-96
OCI	-45
Apollo Tyres	-35
Yazicilar Holding	-27
Aberdeen Asset Management	-22
EIS Eczacibasi Ilac	-18
Ghana Commercial Bank	-13

Value Creation QTD (NOK MM): 1848

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
X5 Retail Group	556
Cosan	531
Samsung Electronics	490
Banrisul	401
GPA	215
Kiatnakin Bank	215
UPL	200
Moscow Exchange	192
JSE	169
ABB	154

Largest negative contributors

Company	NOK Millions
Frontline	-369
Hyundai Motor	-216
Great Wall Motor	-160
Lenovo Group	-150
Mahindra & Mahindra	-149
LG Chem	-141
Haci Omer Sabanci	-134
Bharti Airtel	-130
Kinnevik	-113
Korean Reinsurance	-111

Value Creation YTD (NOK MM): 2306

NB: Contribution to absolute return

Most important changes Q4 2016

Q4 Holdings increased

Aberdeen Asset Management	(New)
Borr Drilling	(New)
Bollore	
Golar LNG	

Q4 Holdings reduced

DIA	(Out)
Podravka	(Out)
Rec Silicon	(Out)
Toray Industries	(Out)
Suzano	(Out)
Frontline	
ABB	
China Shipping Development	
Marfrig Global Foods	
Samsung Electronics	

Holdings increased and decreased during December 2016

Key buys

- **Borr Drilling (NEW)**: We initiated a new position in Borr Drilling after participating in the initial funding of the rig company set up by Tor Olav Trøim who was instrumental in building up Seadrill while working for Fredriksen Group. It was valued at only 40% of peers with no debt which leaves a very low breakeven point and the opportunity to add leverage in order to acquire distressed assets. Please see factsheet on page 21.

Key sells

- **Frontline:** We continued to trim our position due to concerns regarding the supply side in the industry.
- **Marfrig:** We trimmed our position on the back of recent strength.
- **Samsung Electronics:** We trimmed the position in order to keep the weighting down.
- **ABB:** We continued to trim our position as it is approaching our target price.
- **Toray (OUT):** We sold the position after recent share price strength as we are concerned about the short-term outlook and see better risk-reward elsewhere.

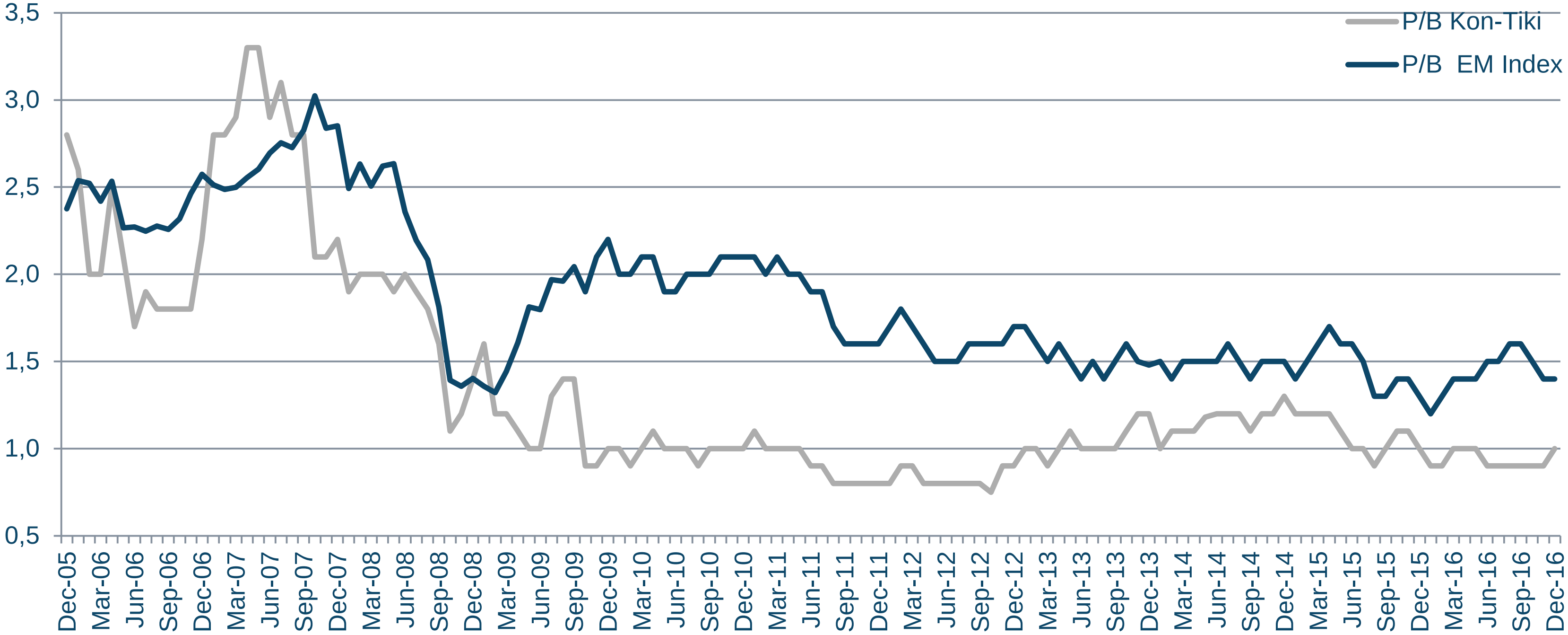
Largest holdings in SKAGEN Kon-Tiki

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Hyundai Motor	7,6	95 700	4,0	3,8	0,4	4,2	170 000	78
Samsung Electronics	7,5	1 433 000	9,2	8,4	1,1	1,5	1 700 000	19
Richter Gedeon	4,9	6 210	20,7	17,0	1,8	1,2	7 500	21
Mahindra & Mahindra	4,5	1 185	15,8	11,8	2,5	1,0	2 000	69
Naspers	4,5	146	32,6	22,5	5,7	0,3	218	49
X5 Retail Group	4,4	1 989	19,1	15,3	4,3	0,0	2 391	20
Sabanci Holding	4,2	9,15	6,3	5,7	0,8	1,6	14	53
Cosan Ltd.	3,4	24,6	8,2	7,0	1,0	1,4	33	32
State Bank of India	2,9	250	15,6	11,4	0,9	1,0	300	20
SBI Holdings	2,8	1 487	10,6	9,9	0,8	3,0	2 500	68
Kinnevik	2,4	218	43,7	36,4	0,8	3,6	312	43
ABB	2,4	192	18,3	16,7	3,6	3,3	200	4
Weighted top 12	**51,4**		**9,7**	**8,6**	**1,0**	**1,2**		**42**
Weighted top 35	**85,1**		**11,1**	**9,4**	**1,0**	**1,8**		**41**
Emerging market index			**13,4**	**12,0**	**1,4**	**2,9**		
Top 35 @ price target			**15,9**	**13,3**	**1,5**	**1,3**		

As of 31 December 2016

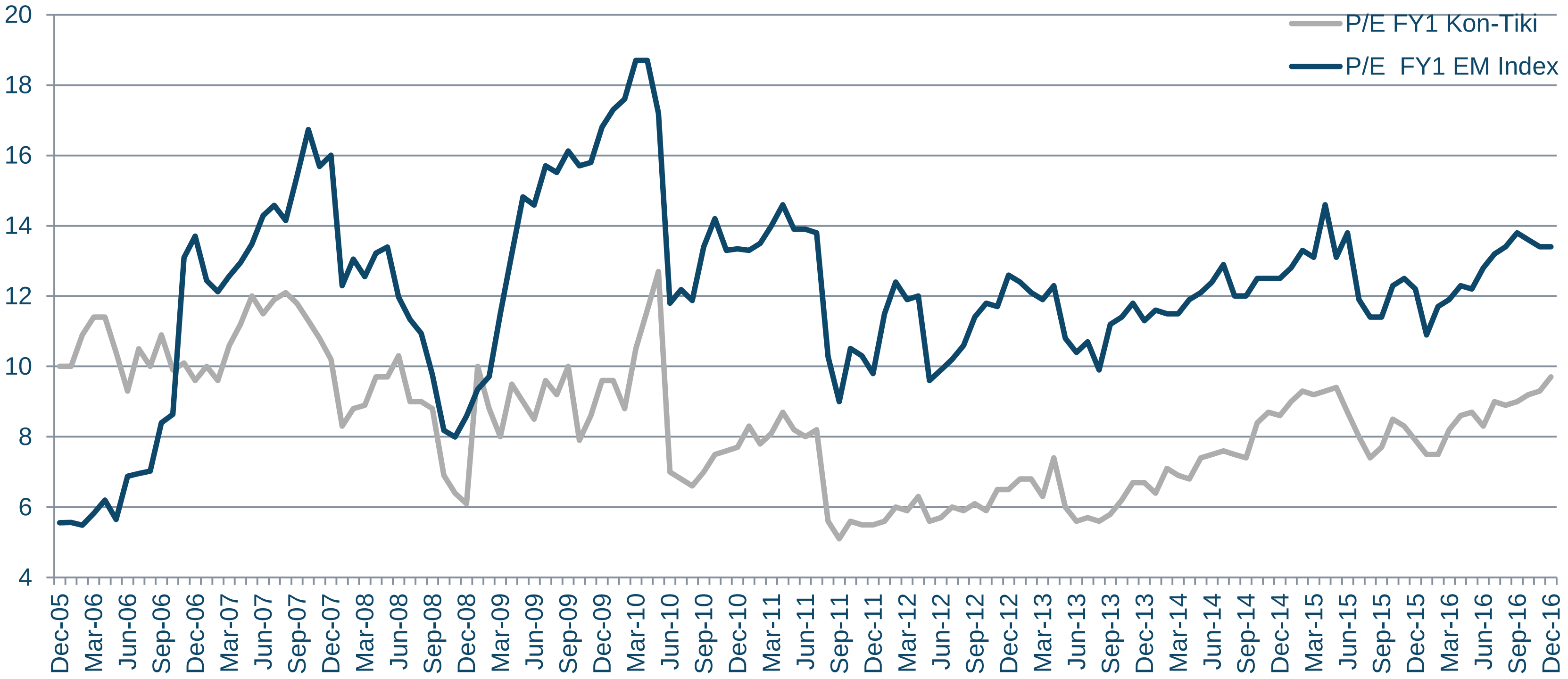
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reporting currency for Naspers, X5 and Cosan.

P/BV for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 December, 2016

P/E for SKAGEN Kon-Tiki versus emerging markets



Top 12 positions, as of 31 December, 2016

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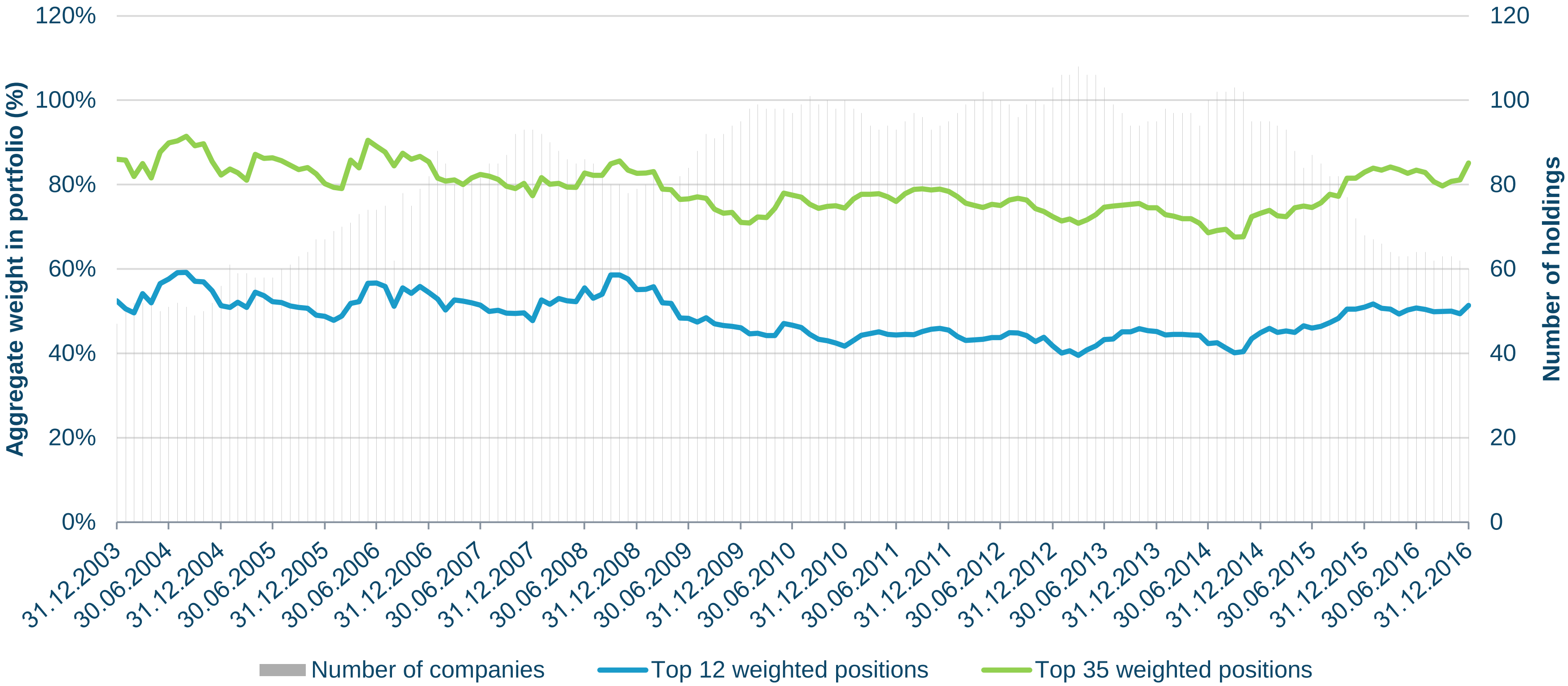
SKAGEN Kon-Tiki portfolio concentration



Source: SKAGEN AS as of 31 December 2016

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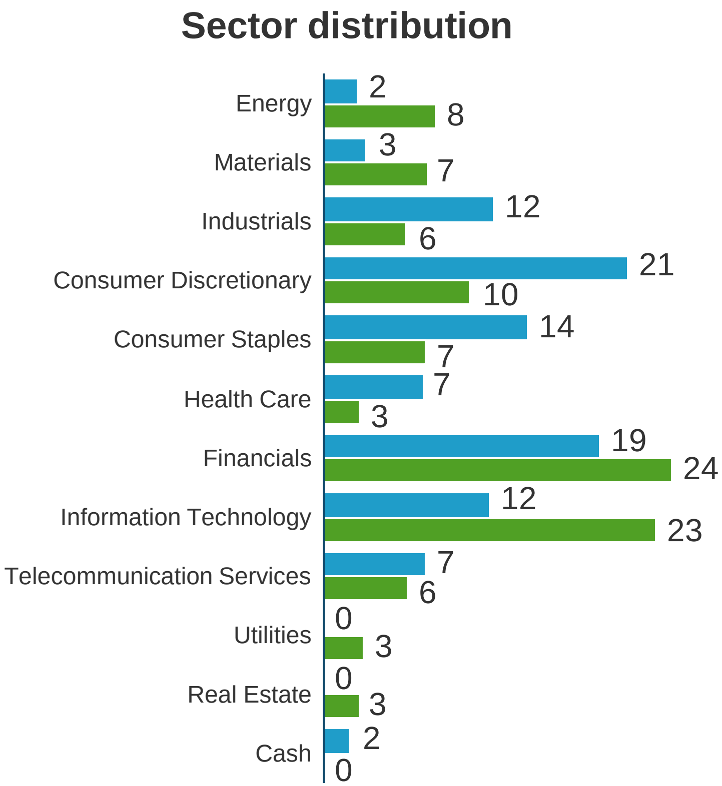
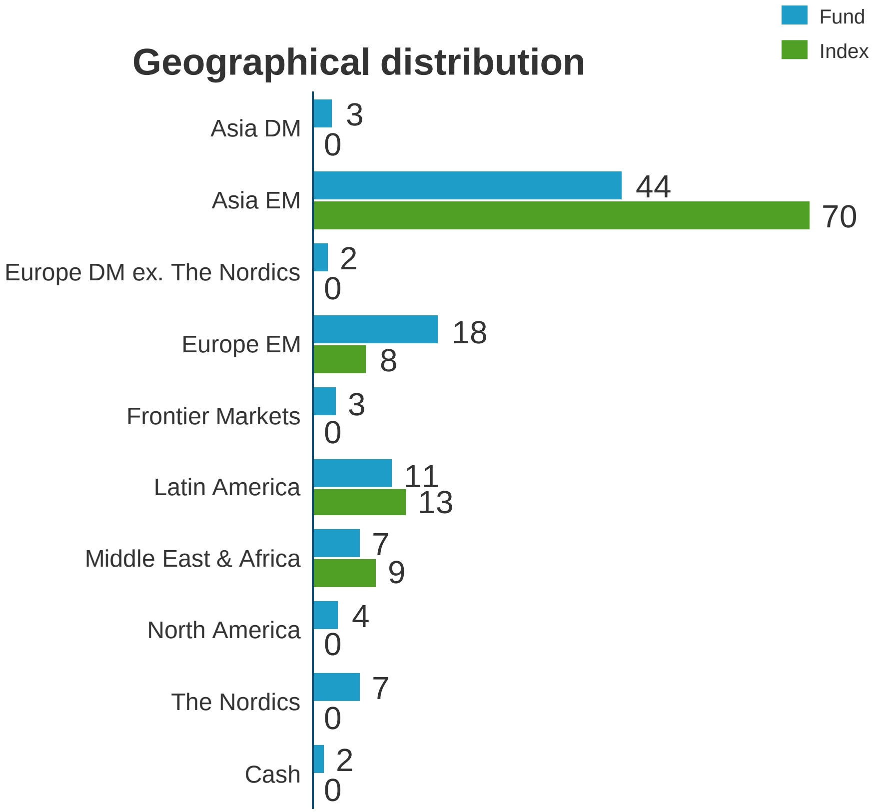
SKAGEN Kon-Tiki sector and geographical distribution





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Key earnings releases and corporate news, December 2016

Naspers

(4.5% weight)

1HFY17 results

Implications for the investment case: The results highlighted softer than expected profitability in the unlisted assets (representing 48% of revenues) due to the macroeconomic impact on Pay-TV in Africa and incremental development spend in e-commerce. We thought 2017 would be the year when the Naspers's stub would be re-valued on the back of more of the assets turning profitable. After meeting the company, however, it is clear they will continue to invest heavily in 2017/18, and hence the overall stub profitability is postponed. Given our long-term perspective (which has served us very well so far in this case) we agree with this decision as we see good opportunities for Letgo (which has already disrupted the US classifieds market) and in other new areas in which they are investing. This year Naspers has shown its willingness to crystallise value through the Allegro sale and consolidation (ibibo and MakeMyTrip, CitrusPay acquisition and Letgo/Wallapop) and we expect to see more of these transactions. We see signs of enhanced disclosure now that more assets are maturing which is something which in itself should be helpful for a rump re-evaluation down the road.

Summary: Naspers reported 1H17 results without major surprises. Total revenues were down 1% YoY to USD 3.0bn (+11% ex currency) as a negative currency effect and disposals reduced revenues. Based on an economic interest basis (equity accounted investments are proportionally consolidated) revenues were up 16/27% YoY incl./excl. currency. Consolidated development spend of USD 387m was up 38% but with spend on "operating assets" down do USD 188m as particularly Classifieds reduced investments which led to better profitability. Spend on "newer" ventures Letgo, India Travel and ShowMax increased materially to USD 200m. Core headline earnings increased by 31% YoY to USD 914m, driven mainly by accelerating growth from Tencent (reported with 1Q lag).

Valuation: Target of ZAR 300k implies 49% upside. Based on our fair assessment of Naspers' other businesses, we get the Tencent stake at a 30% discount to the market price (after deducting a 20% holding discount).

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

GPA

(1.7% weight)

Green shoots appearing at investor day

Implications for the investment case: Positive. Management are making the right steps to reposition the food operation, improve sales and margins as well as enhance cash flow. The food retailing margin has suffered from an economic downturn with consumers trading down and a mix shift with lower margin (but higher capital return) cash-and-carry business outgrowing traditional food formats as well as impact from 1-2-3 price cuts to improve competitiveness. Since 2014, the adjusted EBITDA margin has fallen by 340bp to c4.7% which is well below the EM average of 6.6%. We see FY16 as the trough and expect improvements in FY17 due to 1) cost reductions 2) improving same-store-sales 3) increased supplier commitments to the 1-2-3 program and 4) bottoming out of Brazilian consumer spending helped by falling inflation and lower interest rates.

Summary from annual investor day: Management has adjusted corporate overheads and expects annual savings of BRL 120m from 2017 (25bp on food format margins). They aim to improve the margin for traditional food format by at least 50bp for FY17. CAPEX for food operation is expected to be BRL 1.2bn p.a. for FY17-19 versus a guidance of BRL 1bn for FY16. Around 50% will be used for store maintenance and conversions. It plans to convert 15-20 Extra hypermarket stores into Assai cash-and-carry format versus a current store count for the format of 100.

GPA has put its 43% stake in home goods retailer Via Varejo up for sale. Proceeds will be reinvested into the core food retailing business (worth around 13% of its market cap and would almost wipe out the net debt of food retail operations).

Valuation: Food operation is currently valued at EV/Sales of 0.24x. This is exceptionally low for a market leader in a fragmented market under consolidation and should be compared to the EM average of 0.77x. Implied EV/EBITDA for food retailing is 5.2x on an exceptionally weak FY16 versus an EM average of 11x. TP of BRL100 based on EV/EBITDA of 8x for food operation in 2017.

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.

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.

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).

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)

X5 RETAIL GROUP

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.

SABANCI HOLDİNG

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.

cosan

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).

भारतीय स्टेट बैंक
State Bank of India

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.

SBI Holdings

SBI Holdings is a Japanese financial services group established in 1999 (as Softbank Investment). They manage a venture capital fund which mainly invest in Internet related venture companies. They also provide brokerage, investment banking and financial services.

Borr Drilling (MAGNI NS) USD 2.0

History and business description

Borr Drilling was established in 2016 following the acquisition of two jack-up rigs from Hercules Offshore in Chapter 11. The acquisition was funded through issuing 77.5m shares at USD 2.0.

The company was initiated by Tor Olav Troim (Magni Group) who was instrumental in building up Seadrill while working for Fredriksen Group and will be staffed by 2-3 persons with significant industry experience.

The rigs were built at Keppel in 2013 and have a fairly high spec with drilling depth of 35,000 feet. The rigs are air cooled and are therefore suitable for deployment in the Middle East.

Business model, investment rationale and target price

Borr acquired the two rigs for a price of USD 65m each which compares to a historic newbuild price of USD 240m, current new build price of USD 160-180m and implied EV of USD 156m for listed peers.

Operating costs are USD 51k per day which will give unleveraged cash yield of 9% at current market rates of USD 70k per day and utilisation of 98%. Reactivation and mobilisation fees estimated at USD 8m per unit.

Current rates are at 2000-2003 low. Average of peers is USD c70k in OPEX and USD 102k including interest costs and debt amortisation.

Magni Group has provided a revolving credit facility of USD 20m to end of 2020.

Shares will be registered on Norwegian OTC with intention to list on a reputable stock exchange during 2017.

ESG: No issues identified.

Target price of USD 4.0 based on 10% discount to peer group valuation (USD 140m per rig) due to lack of operation, liquidity and size, but plus for no leverage and track record of founding shareholder.

Catalysts

- Jack-up market improvement with increase in pre-tenders and a very old fleet.
- Further asset acquisition at distressed prices as Borr will clearly be in deal flow.
- Deployment of rigs. Longer term contract awards when market improves would allow for adding leverage to each rig and thus creating ammunition for further distressed acquisitions.
- Valued at only 40% of peers with no debt leaves a very low breakeven point and plenty of upside in asset valuation. If valued at average of peers, this implies a share price of USD 4.8.

Risks

- Lack of contract awards would leave CF negative.
- Lack of operational organisation. If Magni wants to grow its business, it will need to hire an operational team. However, current market situation eases the challenge.

Key figures:

Market cap:	USD	155m
No. of shares:		77.5m
P/E (16e):		n.a.
P/E (17e):		n.a.
P/BV (a):		1.0x
P/TBV (a):		1.0x
P/NAV:		0.4x
RoE (17e):		n.a.
Div. Yield (16e):		0.0%

Magni Group owns 20%, SKAGEN Kon-Tiki 8.1%

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.

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