Quarterly Report

SKAGEN Kon-Tiki A

All data in EUR as of 31/12/2018 unless otherwise stated.

Emerging markets outperform

For emerging market equities, 2018 will enter the history books as a year negatively affected by the US dollar strength on the back of rate hikes and concerns over a US-China trade war. Q4, and especially December, was a brutal period for global stock markets. Unlike the first three quarters, however, EM outperformed DM in Q4. And contrary to recent years, value outperformed growth during the recent turmoil.

Asset markets have been undergoing a reset, consistent with slower growth and lower earnings expectations on the back of an unsettling combination of fading fiscal stimulus, tighter monetary policy, reversal in asset purchases and rising trade tensions. Unresolved risks remain, and we think volatility is likely to remain elevated.

However, there are grounds for optimism. EM valuations are attractive, the Fed appears poised to slow its tightening cycle and there are signs the Trump administration may be willing to reach a compromise on trade with China.

In Q4, we saw the oil price plummet amid concerns of slowing global economic growth exacerbated by the US-China trade war and scepticism that the OPEC deal to limit output will help tighten supply enough.

Key contributors and detractors

Borr Drilling's share price almost halved after we sold part of the position at the beginning of Q4. With a high-end, modern jack-up fleet, Borr appears well positioned given the increased preference for new assets in outstanding tenders. Tullow Oil was also down in the quarter, and we started carefully adding to the position as we believe the oil price should increase from the current low levels. Tullow is now in a strong position with a healthy balance sheet and low costs. For 2019, the company has the most active exploration plan since the oil downturn.

Samsung Electronics was a weak performer on the back of negative earnings revisions due to the weak memory market and lower memory shipment growth. Samsung should continue to benefit from industry consolidation with its strong long-term margin profile and solid execution in the semiconductor business. High cash holdings and abundant free cash flow generation give scope for higher capital returns.

Brazilian stocks rose to record highs in Q4 after new populist President Bolsonaro commented on privatisation plans and appointed University of Chicago trained Paulo Guedes as his chief economic adviser. Unsurprisingly, some of our Brazilian holdings were also major positive contributors in Q4. Banrisul, one of the largest banks in the state of Rio Grande do Sul, is rumoured to be a potential privatisation candidate. We do not consider this a likely scenario, but we like the company's ample capitalisation, good funding, high coverage ratio and strong market position. We have gradually reduced the position on strength. Cosan Ltd also recovered strongly, benefitting both from positive momentum in Brazil, but also from signs of corporate restructuring. We are pleased to see them continuing to prioritise buying back their own shares at depressed valuations.

In India, macro factors turned more positive with the decline in crude oil prices, fall in bond yields and a new central bank governor slightly more in favour of improving liquidity. The government has incentives to kick start lending to support growth ahead of general elections. State Bank of India has been through a balance sheet clean up, and should be a beneficiary. UPL, a global leader in agricultural solutions, is well positioned to take advantage of the structural trend of China's rising share of imports from Brazil.

Photo: Turquoise Hill

Photo: Samsung

Key buys and sells

We continue to focus on increasing the overall risk/reward of the portfolio and added four new positions. Lundin Mining is a base metals mining company, generating around 70% of sales from copper. We are structurally bullish on the outlook of copper due to rising demand from electrification combined with declining copper grades and an overly optimistic supply outlook. Turquoise Hill is another new investment in the portfolio which should benefit from the same trend. We picked up these assets at a significant discount to intrinsic value due to cyclically depressed copper prices. Wuliangye Yibin, another newcomer, manufactures baijiu (Chinese liquours), whose flagship product is one of only a handful of ultra-premium alcoholic brands in China. We believe the consumption trends in China increasingly favour domestic champions and Wuliangye is well placed to benefit from this secular shift. We also invested in Suzano, which through a merger with competitor Fibria is now emerging as the world's top pulp producer. Brazilian forestry competitiveness allows lower cost of wood, and we believe the recent pulp price pressure is temporary. Synergies from the merger seem to be underestimated, and we bought Suzano at depressed prices due to what we believe will be a temporary fall in Chinese pulp prices. We exited long-term holding Anadolu Grubu during the quarter as we see better opportunities outside of Turkey for the time being.

Outlook

EM equities in general should be better placed to weather negative shocks to risk appetite than they were in 2018. External financing gaps have been closed, interest rates have risen, currencies are cheaper and EM continues to be an under-owned asset class.

With developed markets trading at close to a 30% and 50% premium to DM based on 19e P/E and P/B multiples, despite similar return on equity, the risk-reward looks more attractive in EM for long-term investors. SKAGEN Kon-Tiki consists of a collection of robust EM exposed companies which are trading at a 23% discount to the MSCI EM index. This gives the portfolio a strong value proposition, which is promising in the current environment where there are finally signs of value stocks outperforming again.

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The fund selects low-priced, high-quality companies, mainly in emerging economies.

The objective is to provide the best possible risk adjusted return.

The fund is suitable for those with at least a five year investment horizon.

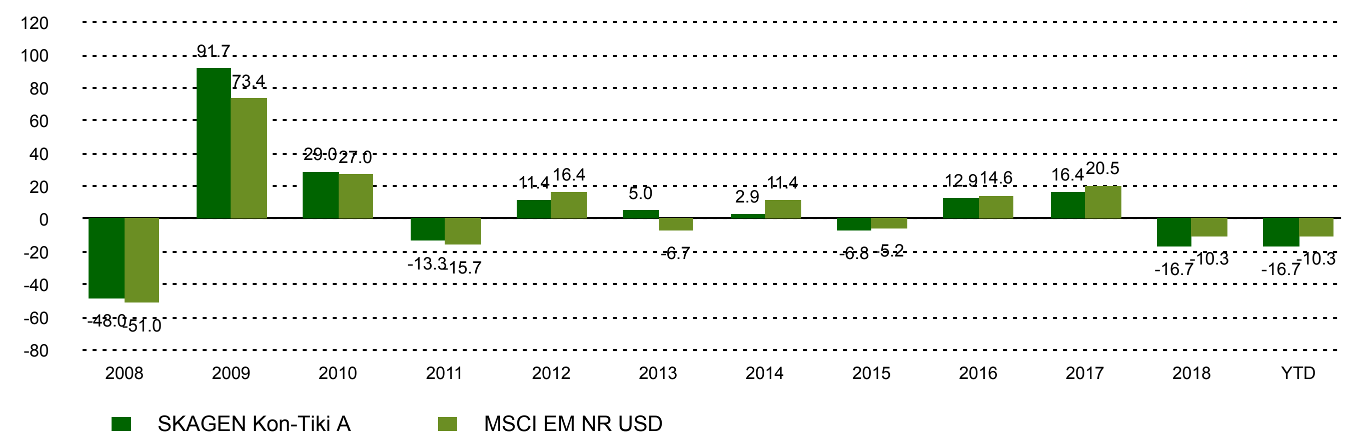
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	-4.2%	-3.6%
Quarter to date	-4.8%	-6.1%
Year to date	-16.7%	-10.3%
Last year	-16.7%	-10.3%
Last 3 years	3.0%	7.4%
Last 5 years	1.0%	5.5%
Last 10 years	10.2%	10.2%
Since start	11.3%	7.1%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	77.93 EUR
Fixed management fee	2.00%
Total expense ratio (2017)	1.59%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1812.42 EUR
Number of holdings	51
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Please see benchmark disclaimer at bottom of next page

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Banrisul	2.64	1.57
Cosan Ltd	2.58	0.80
UPL Ltd	2.58	0.70
State Bank of India	3.09	0.66
X5 Retail Group NV	3.30	0.52

Largest detractors

Holding	Weight (%)	Contribution (%)
Borr Drilling Ltd	2.44	-1.27
Samsung Electronics Co Ltd	7.61	-0.73
Tullow Oil PLC	1.52	-0.53
Indosat Tbk PT	0.87	-0.45
Golar LNG Ltd	2.31	-0.39

Absolute contribution based on NOK returns at fund level

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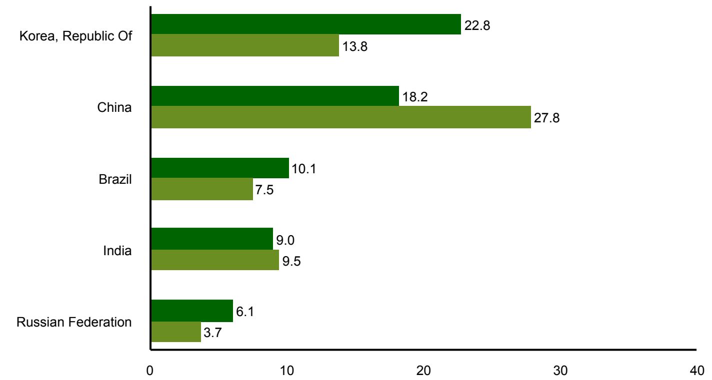
Top ten investments

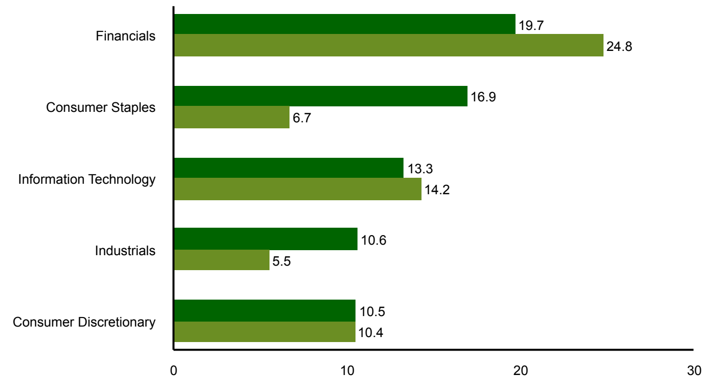
Holding	Sector	Country	%
Samsung Electronics	Information Technology	Korea, Republic Of	7.4
Naspers	Communication Services	South Africa	5.3
Hyundai Motor	Consumer Discretionary	Korea, Republic Of	4.4
X5 Retail Group	Consumer Staples	Russian Federation	3.6
Bank of China	Financials	China	3.5
State Bank of India	Financials	India	3.5
LG Electronics	Consumer Discretionary	Korea, Republic Of	3.2
China Unicom Hong Kong Ltd	Communication Services	China	2.9
CASH	CASH		2.8
UPL	Materials	India	2.8
Combined weight of top 10 holdings			39.5

Country exposure (top five)



SKAGEN Kon-Tiki A MSCI EM NR USD

Sector exposure (top five)



SKAGEN Kon-Tiki A MSCI EM NR USD

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Important information

The benchmark index is the MSCI EM Index (net total return), this index did not exist at the inception of the fund and consequently the benchmark index prior to 1/1/2004 was the MSCI World AC Index. This is not reflected in the table/graph above which shows the MSCI EM Index since the funds inception.