

Recovery in motion

Global equity markets generally maintained their Q2 uptrend with a number of sectors surpassing previous highs as confidence in the economic recovery gathered steam. While the scars to the 'real economy' may linger for some time, the financial markets appear to have swiftly moved on and sequential improvements appear to be well established. The combination of monetary conditions remaining looser for longer and fiscal stimulus starting to come through in the data has, to date, trumped any growing concerns over the negative effects of a COVID-19 second wave or uncertainty over the US presidential election.

Emerging markets outperformed developed markets, as is often the case in periods of a weakening US dollar. SKAGEN Kon-Tiki continued to build on the positive momentum that has been building since the end of Q1. As we look ahead to the final quarter of 2020, we can't help but think that we may be in for one or two surprises yet and therefore maintain a balanced portfolio with appropriate downside protection.

Contributors

SKAGEN Kon-Tiki's performance in the quarter was driven by its large exposure to South Korea, which offers a rare combination of great companies and highly attractive valuations. While the EV-exposed battery manufacturers lifted the fund in Q2, it was our long-standing positions in Hyundai Motor, LG Electronics and Samsung Electronics that contributed most in Q3. LG Electronics and Samsung Electronics have benefited from their exposure to shifting consumer trends in home appliances and working from home and Hyundai Motor is increasingly being recognised for its leading position in new energy vehicles and delivery of operational targets.

We are also pleased to report that Tech Mahindra, which was added to the portfolio in May, made a significant contribution to performance in Q3. Again, the combination of under-appreciated exposure to an attractive segment (5G) and low valuation proved powerful as the company continued to deliver operationally. In general, our increased exposure to Indian non-financials during the year has greatly benefited performance.

Our commodity-exposed names also continued to contribute positively. Ivanhoe Mines released updated studies on its Kamoa-Kakula project in the DRC and held a virtual investor day, showcasing the considerable

progress that has taken place since our visit last year. With production now less than 12 months away, we expect the market to increasingly recognise the value of Ivanhoe's unique portfolio of high-grade assets. The biggest detractor during the quarter was land-based salmon producer Atlantic Sapphire, which suffered from a COVID-related slowdown in construction activities with a knock-on impact on capex and harvesting. However, we remain supportive of the company and excited about its long-term prospects. We therefore participated in the latest successful equity financing round, which will accelerate further expansion. Our patience was rewarded when the company reported its first harvest of US-raised Bluehouse Salmon, at scale, at the end of September. We therefore expect the shares to regain recent losses as harvesting ramps up.

Financials continued to be a drag on the fund's performance as lower rates and potentially higher loan losses have weakened most banks' earnings power for the foreseeable future.

We also suffered headwinds from Naspers, which was held back by the relatively weak share price development of Tencent and a widening discount to NAV. As was the case in March, we consider this to be a short-term issue and have added to the position.

Portfolio activity

We made a number of additions to the portfolio during the quarter, most notably the leading insurer China Life and Korean packaging company Samyang Packaging. We see China Life as a long-term beneficiary of insurance market developments and the continued institutionalisation of the domestic equity market. Although the shares have come under pressure from a decline in long-term rates and weak industry sales figures due to COVID, we believe that China Life's relative position has strengthened. Samyang Packaging is a leading Korean beverage packaging producer, which we believe will benefit from recent capacity additions that will drive margin expansion and greater cash flow generation. Due to its relatively small market cap and niche positioning, the company is not widely followed by the analyst community. We therefore see material upside to the shares as the company's financial performance accelerates following the completion of recent capacity additions.



Photo: Unsplash

Key sell

We exited our holding in Golar LNG as the share price ran up in anticipation of the listing of Brazilian JV subsidiary Hygo. The crystallisation of this asset had been a key tenet of our investment thesis. However, at the time of writing, the IPO is on hold as the Hygo CEO was named in a corruption investigation dating back to his time at another company.



Photo: Shutterstock

Outlook

As a result of recent activity, the portfolio now consists of 47 attractively valued companies, up from 42 at the end of Q2. In aggregate, the portfolio trades on 11x current year earnings and 0.9x P/B while offering a 3% dividend yield. These represent discounts of 35-45% relative to the MSCI EM index. Given the uncertain backdrop and immense polarisation between the valuation of growth companies and value companies, we remain focused on the need to balance upside potential with downside protection across the portfolio.

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.

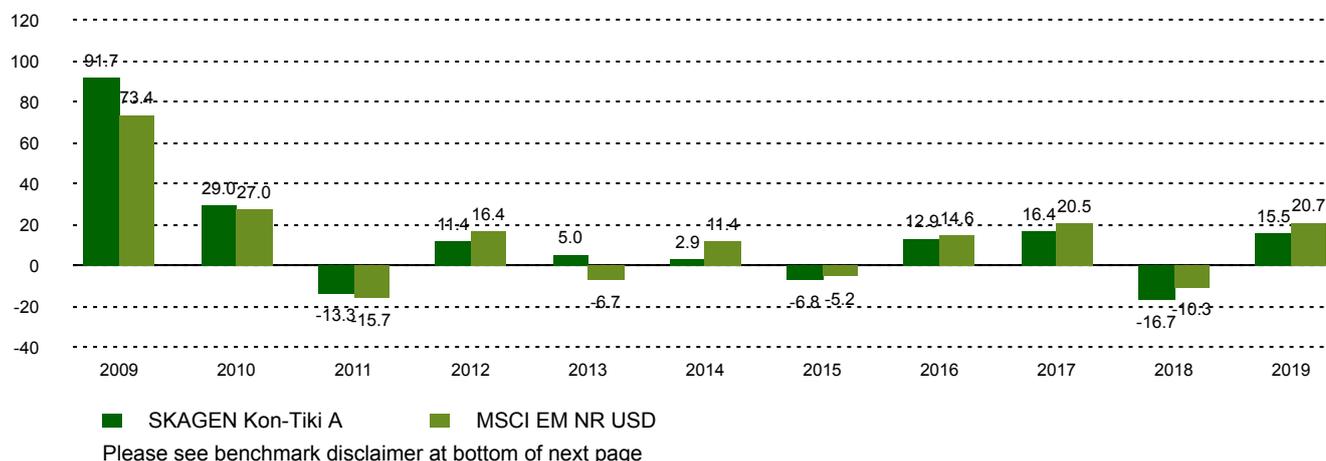
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	1.0%	0.1%
Quarter to date	5.8%	4.7%
Year to date	-8.9%	-5.2%
Last year	-3.5%	2.9%
Last 3 years	-2.3%	2.7%
Last 5 years	3.8%	7.9%
Last 10 years	2.1%	4.1%
Since start	10.4%	7.2%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	82.00 EUR
Fixed management fee	2.00%
Total expense ratio (2019)	1.51%
Benchmark index	MSCI EM NR USD
AUM (mill.)	1303.63 EUR
Number of holdings	47
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Hyundai Motor Co	4.61	1.96
LG Electronics Inc	4.23	1.29
Tech Mahindra Ltd	3.05	1.15
Ivanhoe Mines Ltd	4.23	1.07
UPL Ltd	4.65	0.83



Largest detractors

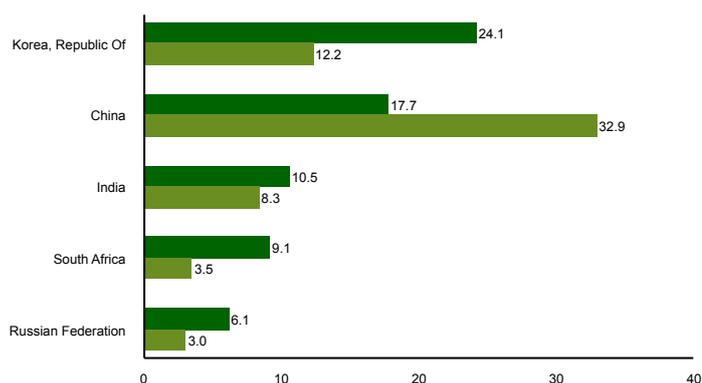
Holding	Weight (%)	Contribution (%)
Atlantic Sapphire ASA	3.23	-0.44
Bank of China Ltd	3.07	-0.44
Naspers Ltd	7.19	-0.39
Micron Technology Inc	2.95	-0.33
Hollysys Automation Technologies	1.11	-0.26

Absolute contribution based on NOK returns at fund level

Top ten investments

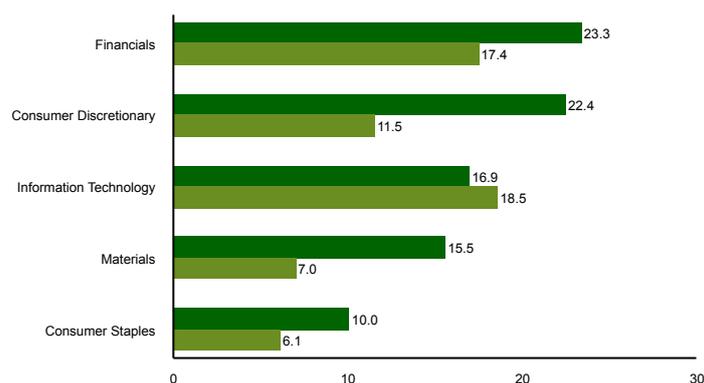
Holding	Sector	Country	%
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	8.1
Naspers Ltd	Consumer Discretionary	South Africa	7.5
Ping An Insurance Group Co of China Ltd	Financials	China	7.5
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	4.9
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	4.3
UPL Ltd	Materials	India	3.9
Tech Mahindra Ltd	Information Technology	India	3.5
Ivanhoe Mines Ltd	Materials	Canada	3.4
Micron Technology Inc	Information Technology	United States	3.2
Atlantic Sapphire AS	Consumer Staples	Denmark	3.2
Combined weight of top 10 holdings			49.6

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

Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.

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.