SKAGEN Vekst
Status Report – June 2016

The art of common sense

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Summary – June 2016

- Brexit (or the UK's referendum on EU membership) caused at great deal of disruption in global equity and currency markets. For the fund the negative impact of the added uncertainty was clearly visible in the performance of the fund which was down 5.1% in June versus its index* which was down 2.9%. For the second quarter in a row, the last week of the quarter had a clear negative impact and resulted in a second quarter performance of -3.85% versus -0.58% for the benchmark.

- Measured in NOK, the largest contributors in June were Samsung Electronics, Oriflame and TTS Group. The largest detractors were Continental, Norwegian and Norsk Hydro.

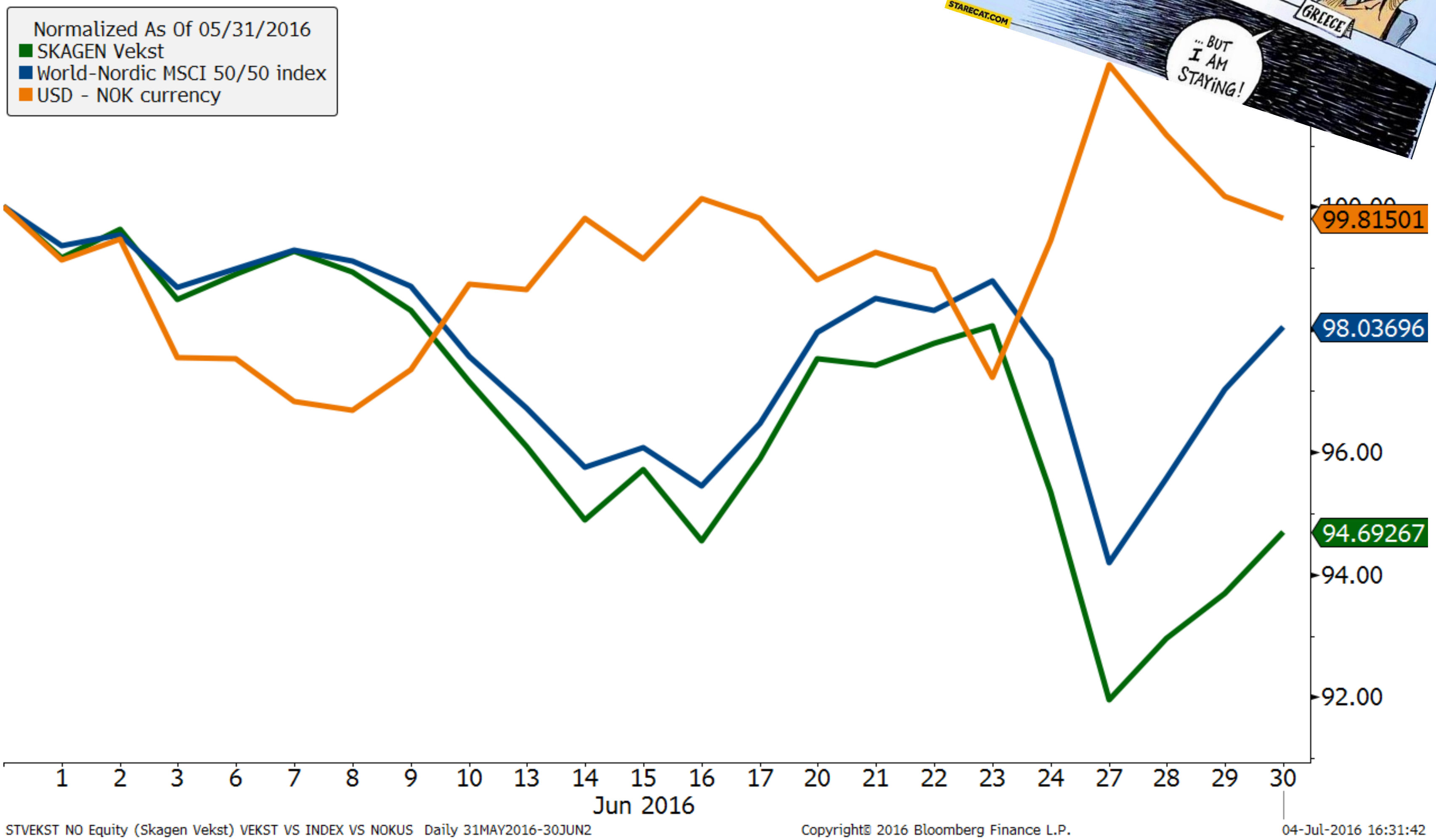
- Even though Brexit had a strong impact on performance, the equity markets are starting to shake off the worst of the worries. Although SKAGEN Vekst is only marginally impacted by a low-growth UK, the fear surrounding global banks and the EU car industry affected performance. Also Norwegian had a tough time following profit warnings from their UK competitors and given their sizable UK presence.

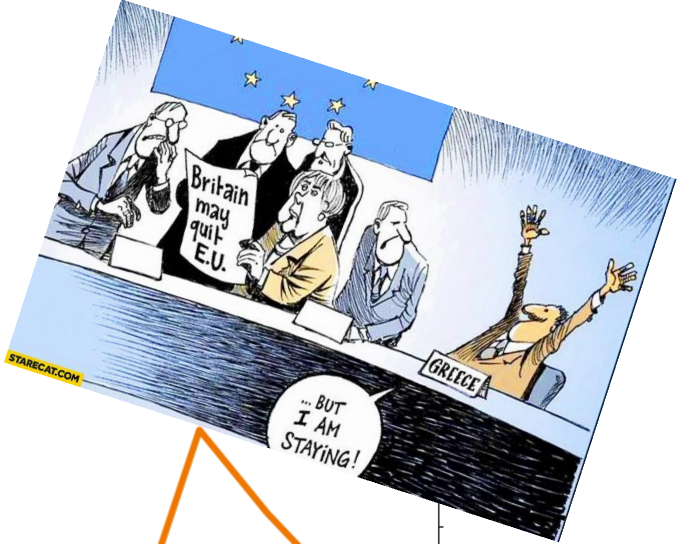
- SKAGEN Vekst consists of 53 positions with 92% of the fund invested in the 35 largest positions. During the month we initiated two new positions in the pharmaceutical company Shire PLC and the fertiliser producer, CF Industries.

- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investing philosophy. We continue to buy companies we believe are undervalued and which will over time provide excess returns. Currently the top 35 positions in the fund trade at 12x P/E for this year versus the index at over 16x.

Unless otherwise stated, all performance data in this report is in EUR, for class A units and is net of fees.
** SKAGEN Vekst's benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World Index*

SKAGEN Vekst vs Index vs USD-NOK
Uncertainty created big swings in June





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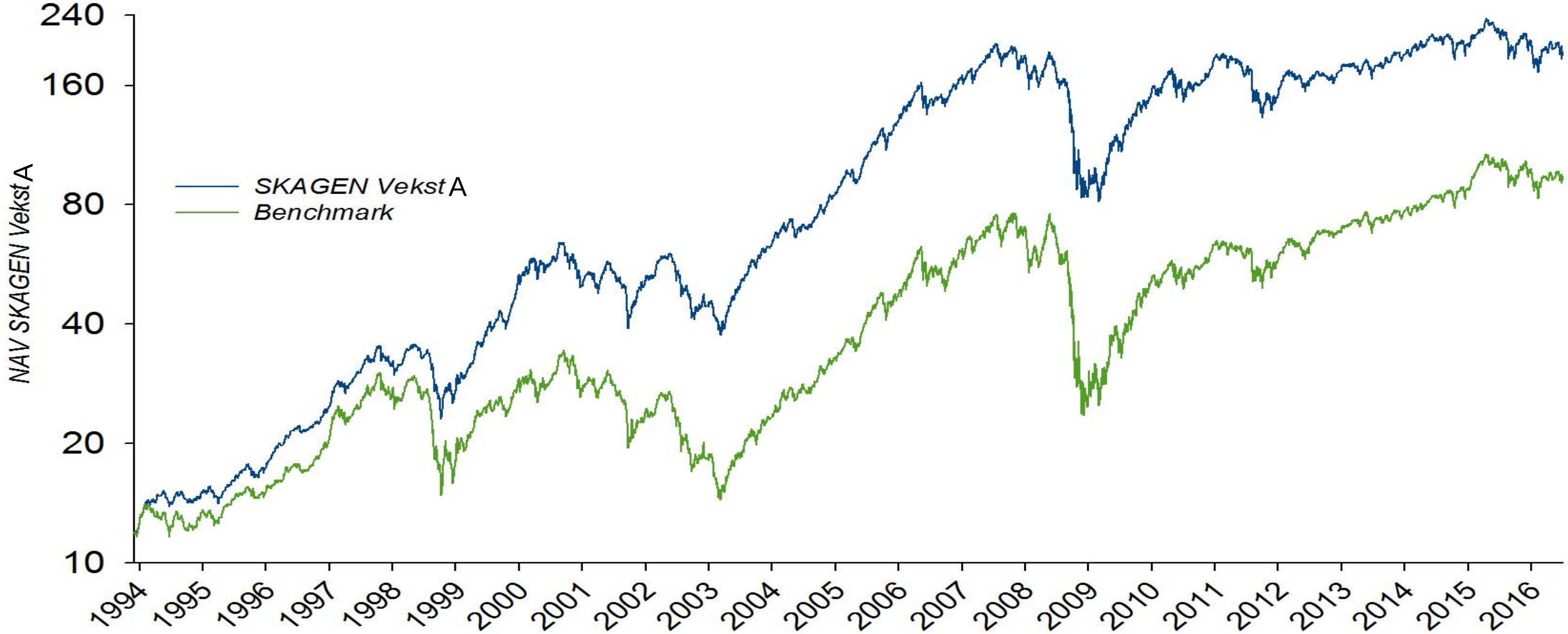
Results, June 2016

EUR, net of fees

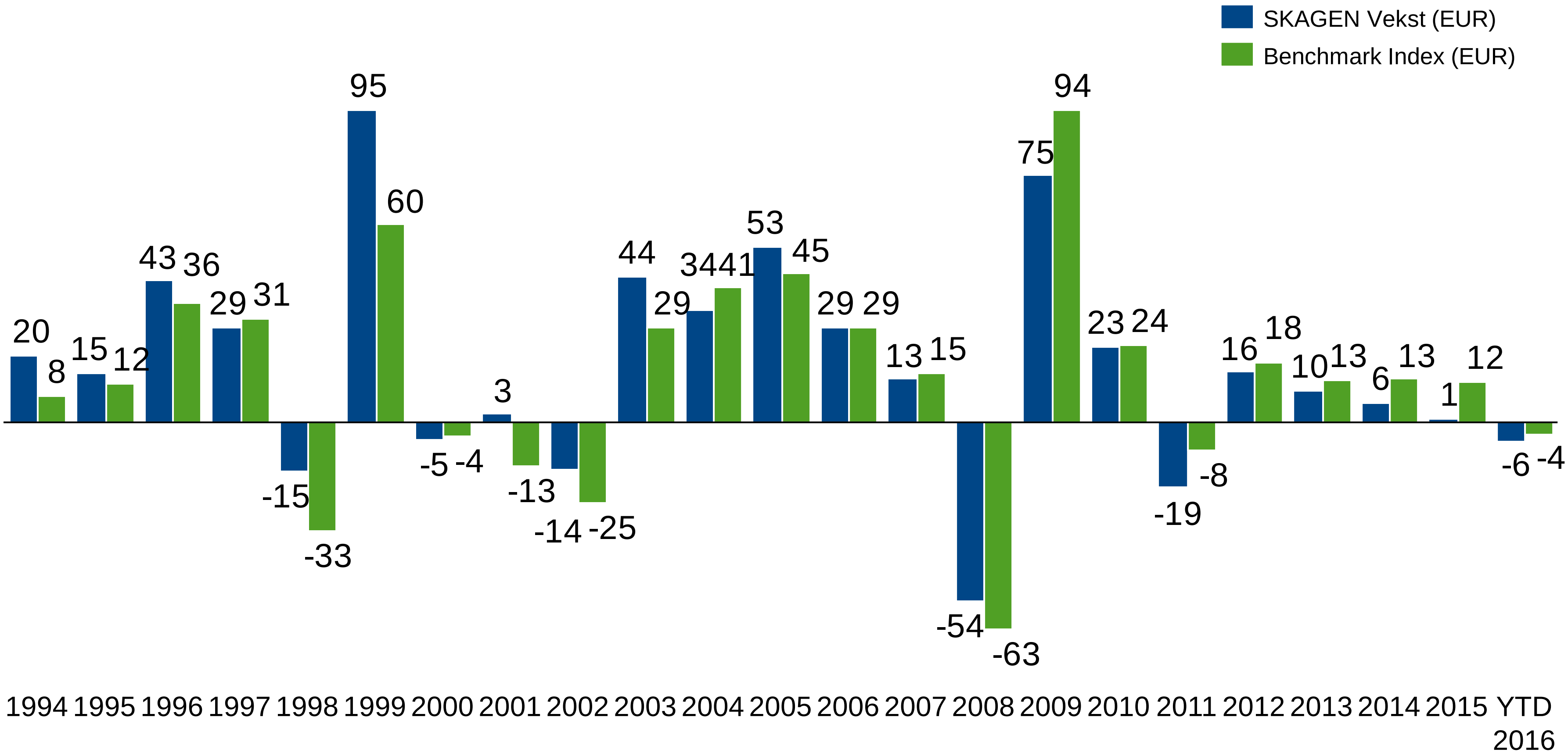


	June	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	-5,1%	-2,4%	-5,9%	-10,4%	3,8%	2,2%	2,9%	13,1%
Benchmark index*	-2,9%	0,9%	-3,8%	-4,7%	10,4%	9,2%	5,7%	9,6%
Excess return	-2,3%	-3,3%	-2,0%	-5,7%	-6,6%	-7,0%	-2,8%	3,6%

Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

Annual performance since inception

Percent



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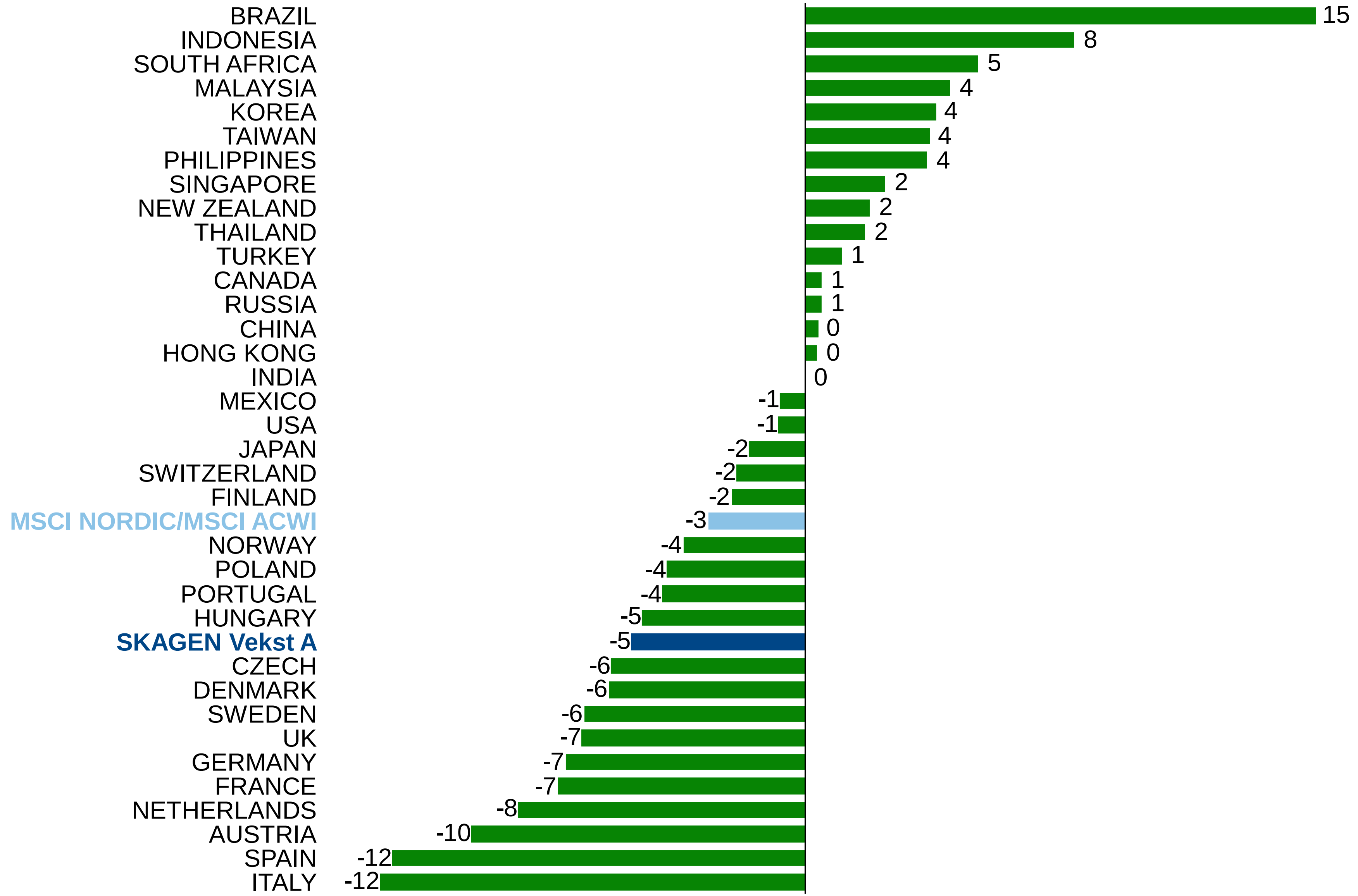
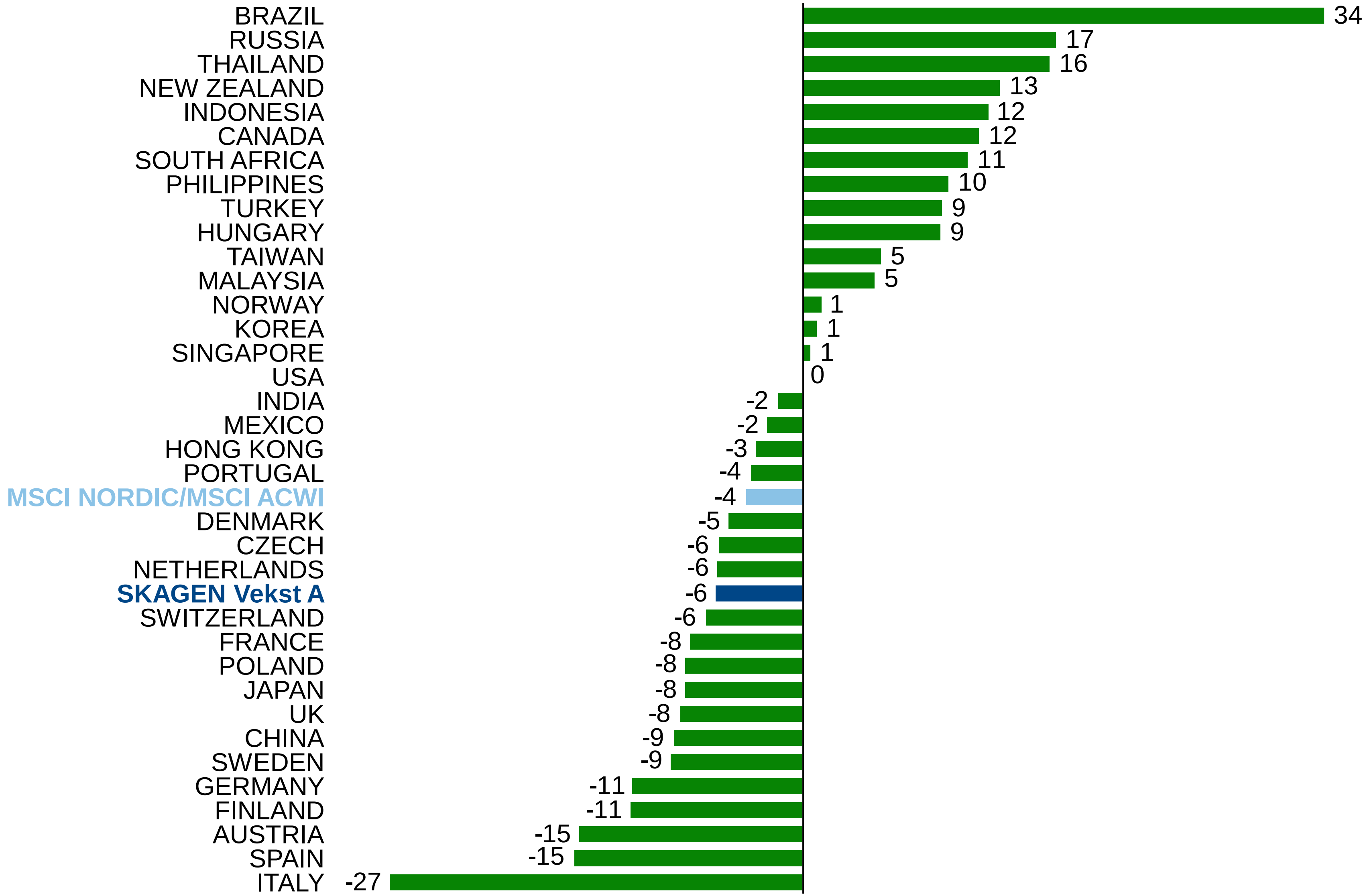
Markets in June 2016 in EUR (%)



Markets YTD in 2016 in EUR (%)



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Largest holdings SKAGEN Vekst, end of June

SKAGEN Vekst has 54% of its portfolio invested in the Nordic countries.

.	Weight in portfolio	Price Column2	P/E 2016e	P/E 2017e	P/E 2018e	P/B trailing	Target price
Samsung Electronics	8,0 %	1 183 000	8,6	8,2	7,9	1,0	1 300 000
Continental AG	5,7 %	170	11,5	9,7	9,0	2,6	275
Carlsberg	5,5 %	635	18,6	16,0	14,2	2,2	817
Norsk Hydro	5,2 %	30	12,1	9,3	8,7	0,8	45
SAP	5,2 %	67	17,5	15,9	14,4	3,6	95
Citigroup	4,8 %	42	8,3	7,6	6,7	0,6	65
Norwegian Air Shuttle	4,3 %	288	9,0	5,8	5,2	5,2	500
Ericsson	3,9 %	64	16,1	12,6	11,8	1,4	88
Philips	3,5 %	22	16,0	13,0	11,5	1,7	30
ABB	3,4 %	166	20,6	15,8	13,9	3,0	220
Weighted top 10	**49,6 %**		**12,0**	**10,0**	**9,1**	**1,41**	**40 %**
Weighted top 35	**92,3 %**		**11,2**	**8,8**	**7,7**	**1,19**	**49 %**
Reference index			**16,6**	**14,7**	**13,2**	**2,04**	

Earnings estimates are based on net cash earnings when meaningful.
Multiples are calculated using the same method as the index.

Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Samsung Electronics Co Ltd	78
Oriflame Cosmetics AG	14
TTS Group ASA	6
Solstad Offshore ASA	5
Medistim ASA	4
Bonheur ASA	2
Sodastream International Ltd	1
Shire Plc-ADR	1

Largest negative contributors

Company	NOK Millions
Continental AG	-60
Norwegian Air Shuttle AS	-56
Norsk Hydro ASA	-37
Citigroup Inc	-35
SAP SE	-35
Credit Suisse Group AG	-30
Volvo AB	-28
Koninklijke Philips NV	-25
ABB Ltd	-16
Danske Bank A/S	-15

Value Creation MTD (NOK MM): -390

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Cosmetics AG	48
Samsung Electronics Co Ltd	34
Sodastream International Ltd	20
Sberbank of Russia	20
Roche Holding AG	14
Medistim ASA	12
Lundin Petroleum AB	9
Rec Silicon ASA	8
H Lundbeck A/S	8
Kemira OYJ	6

Largest negative contributors

Company	NOK Millions
Continental AG	-76
Ericsson LM-B SHS	-59
Norsk Hydro ASA	-33
Koninklijke Philips NV	-29
Credit Suisse Group AG	-26
SAP SE	-24
Norwegian Air Shuttle AS	-20
Telia Co AB	-19
Kia Motors Corporation	-17
Investment AB Kinnevik	-16

Value Creation QTD (NOK MM): -264

NB: Contribution to absolute return

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Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Cosmetics AG	69
Lundin Petroleum AB	29
Sberbank of Russia	25
Casino Guichard Perrachon SA	19
Samsung Electronics Co Ltd	18
Wilh Wilhelmsen Holding ASA	14
Volvo AB	11
Catena AB	10
Sodastream International Ltd	10
TTS Group ASA	7

Largest negative contributors

Company	NOK Millions
Continental AG	-148
Credit Suisse Group AG	-118
Citigroup Inc	-95
Ericsson LM-B SHS	-70
SAP SE	-44
Investment AB Kinnevik	-38
Kia Motors Corporation	-37
Norwegian Air Shuttle AS	-33
Frontline Ltd	-29
Nippon Seiki Co Ltd	-26

Value Creation YTD (NOK MM): -675

NB: Contribution to absolute return

Most important changes 2016

Holdings increased

Q1

Hennes & Mauritz AB	(New)
eBay Inc	(New)
Catena AB	(New)
Golden Ocean Group Ltd	
Investment AB Kinnevik	
Roche Holding AG	
Ericsson LM-B SHS	

Q2

Swatch Group AG	(New)
Philips Lighting NV	(New)
Shire PLC	(New)
Nirvana Asia Ltd	(New)
CF Industries	(New)
Ericsson LM-B SHS	
eBay Inc	
Kemira OYJ	
Hennes & Mauritz AB	

Holdings reduced

Q1

FLSmidth & Co A/S	(Out)
Localiza Rent a Car SA	(Out)
Bang & Olufsen A/S	(Out)
YIT Oyj	(Out)
Tribona AB	(Out)
Casino Guichard Perrachon SA	
ABB Ltd	

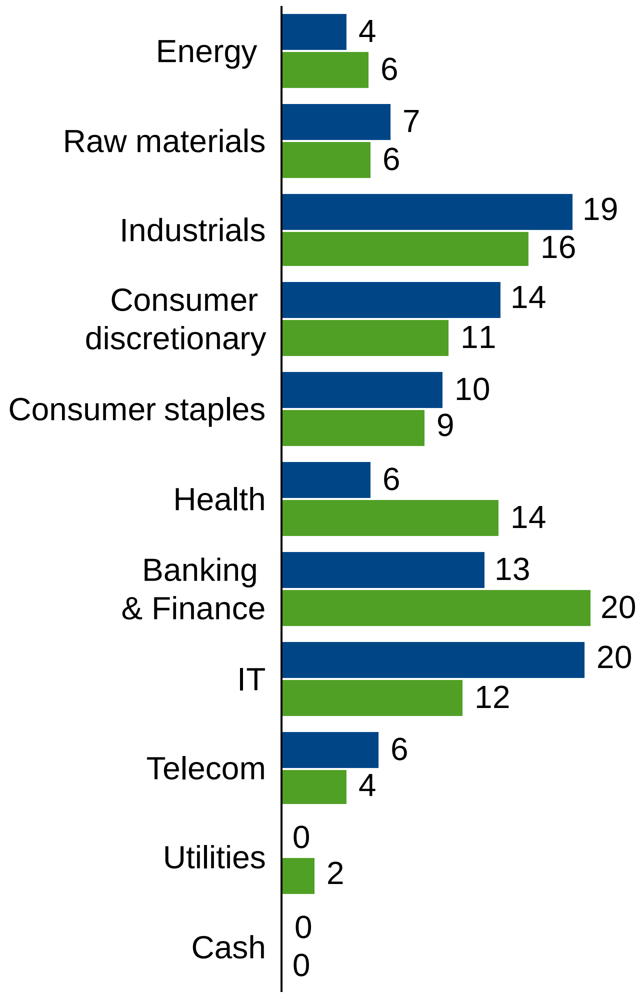
Q2

Casino Guichard Perrachon SA	(Out)
DOF ASA	(Out)
Eidesvik Offshore ASA	(Out)
Sevan Drilling AS	(Out)
Lundin Petroleum AB	
Telia AB	

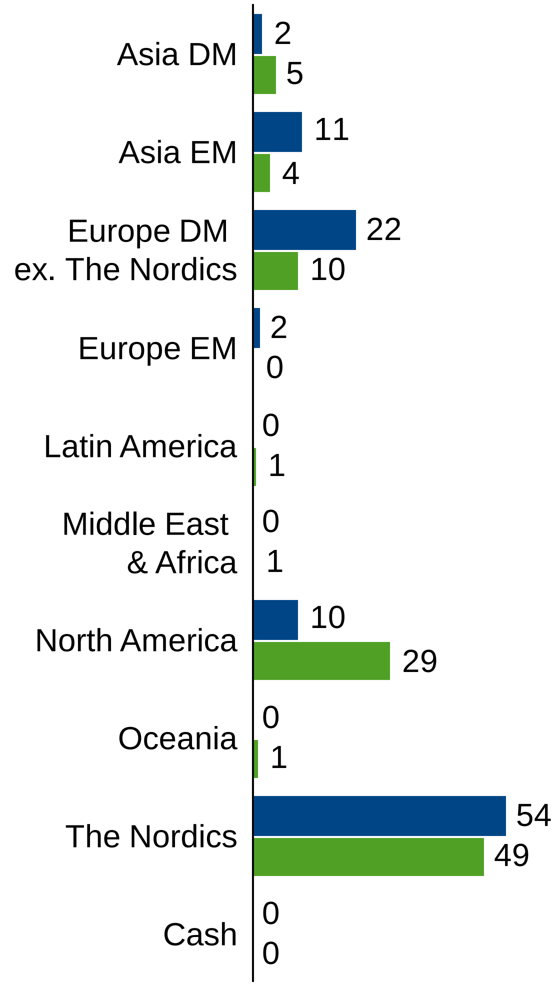
Sector and geographical distribution vs. index (percent)

Fund
Index

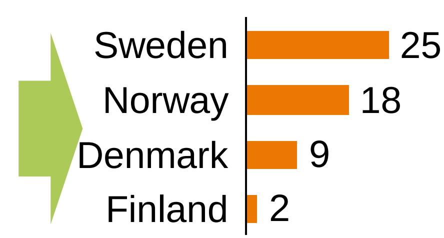
Sector distribution



Geographical distribution



Nordics in SKAGEN Vekst



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Key buy and sell, June 2016

Key buy

Shire PLC

- SKAGEN Vekst bought into the world's leading biotech company which is incorporated in Ireland, reports in USD and has its main listing in the UK. Has over 22 000 employees across the globe.
- Together with the newly combined businesses of Baxalta, Shire is now a leading global biotechnology company focused on treating people affected by rare diseases and highly specialised conditions.
- Following the merger with Baxalta, the company has increased its debt proportion and has roughly 1x sales/debt. With a more prudent CAPEX cycle going forward, it is possible we will see historic levels of CAGR at 16%. A 35% share price drop was an attractive entry point.

Key sell

DOF ASA

- The Norwegian offshore vessel company was sold after a fairly long exit period and with a refinancing deal being proposed that would see exiting shareholders severely diluted.
- Offshore oil development looks rather challenging going forward and any hopes of a quick return to profitability seem to be diminishing for the smaller operators.

Key earnings releases and corporate news, June 2016

Citigroup (4.1%)

8.4% yield is just the beginning

Investment case implications

The results of the 2016 Comprehensive Capital Analysis and Review (CCAR) confirmed our thesis – Citi has the financial strength to significantly increase its capital return. Citi´s capital return plan was approved as the company passed both the quantitative and qualitative part of the CCAR test. Specifically, Citi will increase capital return by 43% YoY (dividends by 205% YoY and buy-backs by 29%). Compared to Citi's current market cap, this provide an annualised yield of 8.4% (dividend 1.5% and buy-backs 7.0%). As always, sustainability and future direction of the capital return is much more important than the current level. On this point it is worth highlighting that the current 8.4% capital return yield represents a 76% pay-out ratio on current year's consensus accounting earnings (on cash earnings the pay-out ratio drops to 64%). It is also worth pointing out, that the current year's accounting earnings are earned in an environment with: i) very low interest, ii) a year in which trading activity is depressed even compared to the sluggish period following the financial crisis, iii) a year in which Citi is adding to reserves (and lastly it is important to remember that last Thursday's stress test showed the current balance sheet to be significantly over-capitalised). Thus, we still see the opportunity for markedly higher capital return going forward.

On a separate note, the CCAR showed that banks further ahead on the capital return path were allowed to pay out close to 100% of earnings – adding confidence to our thinking that the (US) regulator is not as unreasonable as the market seems to price in.

Summary

The Fed released results of the 2016 CCAR

3U update:

Unpopular: All global banks are disliked due to past behaviour and increased cost of regulation.

Under-researched: A lot of analysts, but they spend all their resources trying to forecast accounting earnings for the next two quarters. Our focus is on the significant FCF generation (far in excess of accounting earnings) and how it is used to buy back own shares well below fair value. Lastly, the market is concerned about how increased capital requirements will depress ROE but forget that the same earnings are obviously worth more today as the underlying operational and financial risk are significantly lower.

Undervalued: Yes, we buy an underlying and growing free cash stream at a very attractive starting yield (15%+). Furthermore, a lot of that cash flow will be used to buy back own shares well below fair value.

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

TTS Group (0.1%)

Austrian Palfinger bids NOK 5.6/share (60% premium) .

Investment case update

The offer is slightly light as it implies a low probability of a turnaround for the company. However, SKAGEN Vekst has accepted the offer for the following reasons:

- The company has repeatedly over the last two years openly informed the market that it is "reviewing strategic alternatives" but interest has apparently been lacklustre and there was only one player finally willing to make an offer.
- The major shareholders, the Skeie family (Chairman of the board) and Rasmussen Gruppen, have accepted the offer which implies that they struggle to see opportunities for further value creation in the short to medium term.
- TTS is a small position and the low liquidity makes it very difficult to sell in the open market.

Case update details

Austria-based Palfinger bids NOK 5.6/share for all outstanding shares

Unpopular: Yes, expectations are low among investors after years of mismanagement and lack of focus.
Under-researched: Yes, no coverage
Undervalued: Yes, Palfinger willing to pay NOK 5.6/share .

Shire Pharmaceutical (SHP LN) 4300p

History and description of business

Ireland-based specialty pharmaceutical business established in 1986. Specialises in rare disease treatment and drugs that require long-term use. Entrepreneurial culture.

Sales geography: North America 73%, Rest of world 27%

Sales treatment areas: Hyperactivity 34%, generic malfunction like haemophilia 40%, gastrointestinal 15%, other 11%

Case identified in search process after stock price fall for pharmaceutical sector.

22,000 employees in 100 countries.

ESG: no issues identified and CSR rating is good

Business model and rationale for investment

Pharmaceutical business in the rare disease and generic treatment area. Bought Baxalta (haemophilia drugs) in June 2016 resulting in revenues going from USD 6bn to USD 11bn and net debt increasing from USD 1.4bn to USD 16bn. EBITDA of USD 4.5bn so reduction of leverage is high on management's agenda.

Investment thesis is revenue and earnings growth driven by innovative treatments, deeper penetration and synergies with Baxalta. 2020 revenues expected to reach USD 17-18bn from estimated USD 11bn in 2016.

Gross margin has been 86% and with mid-30's EBITDA margin. Shareholder equity is USD 10bn and ROE around 20%.

Triggers:

1. Approval of several phase III drugs expected later in 2016
2. Harvesting the benefits of the Baxalta acquisition
3. Longer term growth in Shire's drug specialities is high – hence the revenue

Risks

1. New drugs not meeting approval criteria – reduction of future revenue forecasts and earnings.
2. Net debt position is high vs. EBITDA after Baxalta acquisition. If Shire is unable to reduce debt load, it will hold the stock back

Target price

Based on a 2019 revenue stream of USD 17bn, EBITDA margin of 45%, small capex, net debt reduced to USD 9bn and a return requirement of 6% (in line with market) then its EPS of USD 5.50-6.00 times 16.5x = USD 95 vs. current price of USD 59 - 60% upside potential

Key figures:

Market cap	USD	53bn
	NOK	425bn
Net debt (cash)	USD	16bn
No. of shares		899m
No. of pref		0
P/E 2016		13.9x
P/E 2017		11.6x
P/BV trailing		2.0x
ROE 2014-17		20%
Yield		0.5%
EV/EBITDA 2016		9.6x
Daily turnover	USD	150m
No of analysts		26
with sell/hold		4%

Owners

Blackrosk 7%, Deutsche Bank 3%, Fidelity 2%, Legal & General 2%

www.shire.com

3U addition to fact sheet

Unpopular

- Shire makes treatment that make lives easier for children with certain genetic diseases, so it is popular in its user group.
- It is popular with sell side analysts, but institutional ownership is patchy

Under-researched

- Specialty and rare disease drugs are difficult to get a full understanding of. It is time consuming and generalist fund managers have to rely on external sources such as IMS and company updates to understand business performance.
- 26 sell-side analysts, many with an education in medicine, so no obvious hidden values.
- Irish company, reporting in USD and listed in London is not an easy cocktail.

Under-valued

- Given the balance between growth, profitability, valuation and business volatility, Shire stands out as attractively valued.
- Sell side has a 12-month target price of 5600p or 28% upside.

* In USD

The largest companies in SKAGEN Vekst

Samsung Electronics, the Korean electronics group, has enjoyed very solid growth in consumer electronics, especially smartphones. Pole position in global semiconductor market. Cash generation is very strong and the company has historically wisely invested in new business areas – solar power and healthcare are on the roadmap for the future.

Continental AG produces tyres for cars and trucks and makes auto technology such as power trains, safety systems and automated drive systems. The replacement cycle for tyres is becoming stretched in some markets, so near-term earnings look promising. In the longer term Continental's pole position in global auto technology provides a good backdrop for substantial growth.

Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.

Norsk Hydro ASA is a Norwegian aluminium and renewable energy company headquartered in Oslo. Norsk Hydro is one of the largest aluminium companies worldwide. It has operations in some 50 countries around the world and is active on all continents. The Norwegian state holds a 34.3% ownership interest in the company, which employs approximately 13,000 people.

SAP SE is a German multinational software corporation that makes enterprise software to manage business operations and customer relations. SAP is headquartered in Walldorf, Baden-Württemberg, with regional offices in 130 countries.

The largest companies in SKAGEN Vekst (continued)

Citigroup Inc. or Citi is an American multinational banking and financial services corporation headquartered in Manhattan, New York City. Citigroup was formed from one of the world's largest mergers in history by combining the banking giant Citicorp and financial conglomerate Travelers Group in October 1998.

Norwegian Air Shuttle is the leading Nordic-based low cost airline, which in 2015 flew over 26m passengers. The fleet of airliners and the route network are growing rapidly proving the concept of Norwegian local low cost airline, to Nordic, to European and to Global reach.

Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and has today a revenue of 227bn SEK. Ericsson had 33% market share in the 2G/3G/4G mobile network infrastructure market in 2014.

Koninklijke Philips N.V. is a Dutch diversified technology company headquartered in Amsterdam with primary divisions focused in the areas of electronics, healthcare and lighting. In May 2016 it listed their lighting division as a separate company.

ABB (ASEA Brown Boveri) is a Swedish-Swiss multinational corporation headquartered in Zurich, Switzerland, operating mainly in robotics and the power and automation technology areas. ABB is one of the largest engineering companies as well as one of the largest conglomerates in the world. ABB has operations in around 100 countries, with approximately 135,000 employees in December 2015 and reported global revenue of USD 35.5 billion for 2015.

For more information please visit:

Latest Market report
Information about SKAGEN Vekst on our website

Unless otherwise stated, all performance data in this report 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.