



Beach cyclists. 1894. Detail. By Einar Heir, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Vekst

Status Report – October 2016

The art of common sense



Summary – October 2016

- Risk premiums rose in October as uncertainty about the outcome of the US elections and subsequent policy changes frightened investors. SKAGEN Vekst* is not immune to market moves and lost 1.5% during the month compared with a decline of 0.7% for the benchmark index (as measured in EUR). Year to date SKAGEN Vekst is up 1.6% compared with a market decline of 0.2%.
- October is often a month with market decline. In 2016 the month of October was impacted by waves of uncertainty surrounding the US election. As mentioned in our previous monthly updates, the concerns regarding the ongoing presidential campaign and general heightened political uncertainty in Turkey, Russia, Brazil, Brexit and the Philippines, to name but a few, have raised doubts regarding global trade and the pace of growth. Stock markets like to have high transparency and calm seas, so when the political landscape becomes uncertain, this is instantly reflected in risk premiums. However, experience has shown that in the longer term a well managed business will continue to prosper despite short-term headwinds. In fact, periods of uncertainty create good and attractive entry points for an active manager such as SKAGEN Vekst.
- Measured in NOK, the largest contributors in October were the US banking group Citigroup, the Norwegian aluminium producer Norsk Hydro and Danske Bank. The fund's largest detractors were Ericsson, Continental and eBay after poor Q3 figures were reported.
- SKAGEN Vekst consists of 53 positions with 90% of the fund invested in the 35 largest positions. During the month we continued to add to our investments in the Swedish clothing company H&M and the Norwegian investment company Bonheur, and initiated a position in the global diabetes treatment company, Novo Nordisk. We decreased holdings that have been approaching their price targets; largest among these were ABB and Philips. At the end of October, SKAGEN Vekst was valued at 12.5x current year's earnings representing an earnings yield of 8.0%. By way of comparison the market is valued at an earnings yield of 5.8%. Currently the fund's 35 largest positions trade at 13x P/E for the current year versus the market P/E of over 17x
- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value-based investment philosophy. We continue to buy companies we believe are undervalued and which will over time provide excess returns with focus on the Nordic region.

Unless otherwise stated, all performance data in this report is in EUR, for class A units and is net of fees.

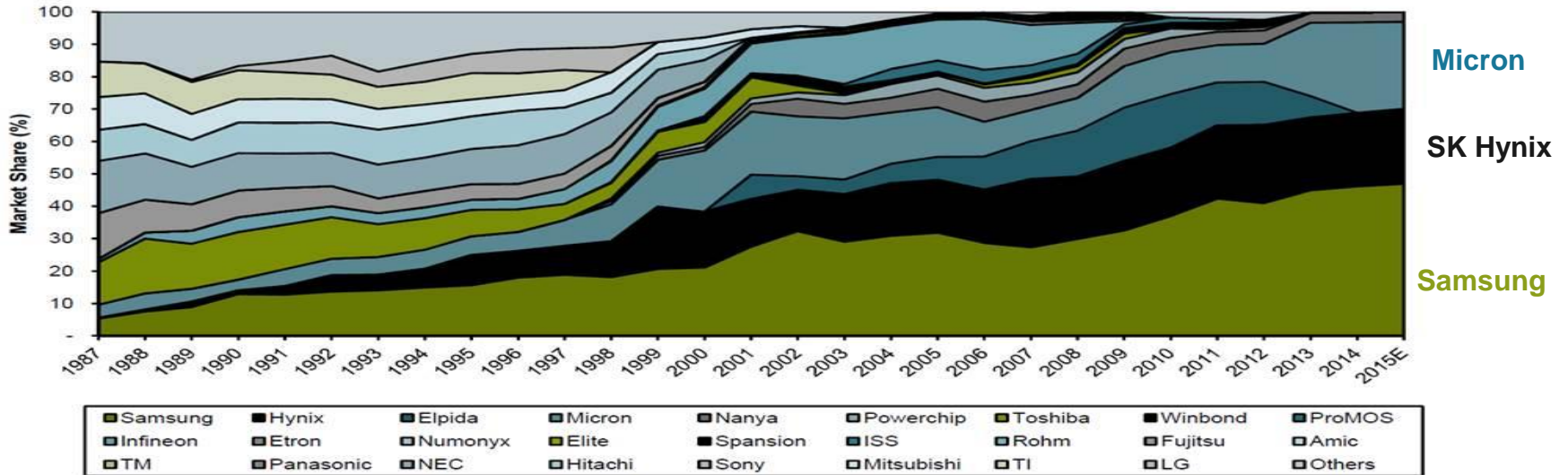
** SKAGEN Vekst's benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World Index*

Samsung Electronics; so much more than phones!

- Semiconductor market has evolved from a fragmented industry to an oligopoly
- More rational behaviour of market participants and high cost to entry create an attractive market
- Technological leadership and continued development create high entry barriers
- Semiconductors represent 48% of Samsung Electronics' share value, compared to 38% for mobiles

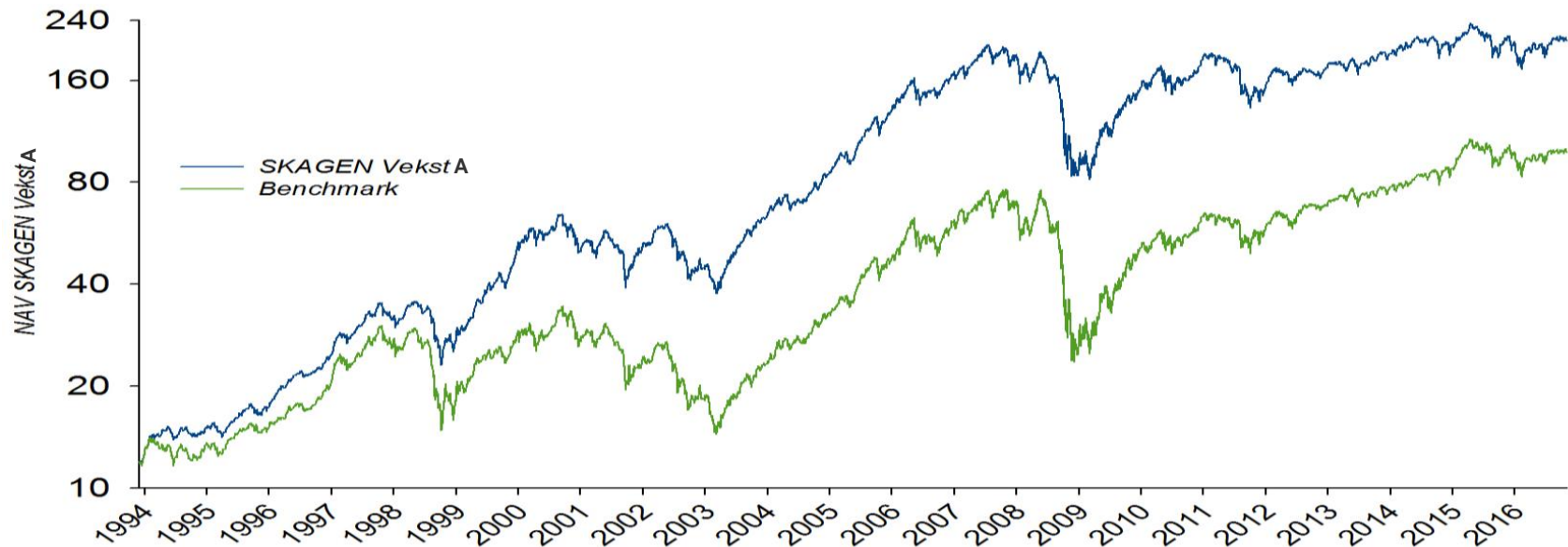
Memory semiconductor industry has consolidated over the past 30 years.

New factories are extremely expensive so consolidation was inevitable and bodes well for future profitability



Source: Gartner, DRAMeXchange and Bernstein estimates and analysis.

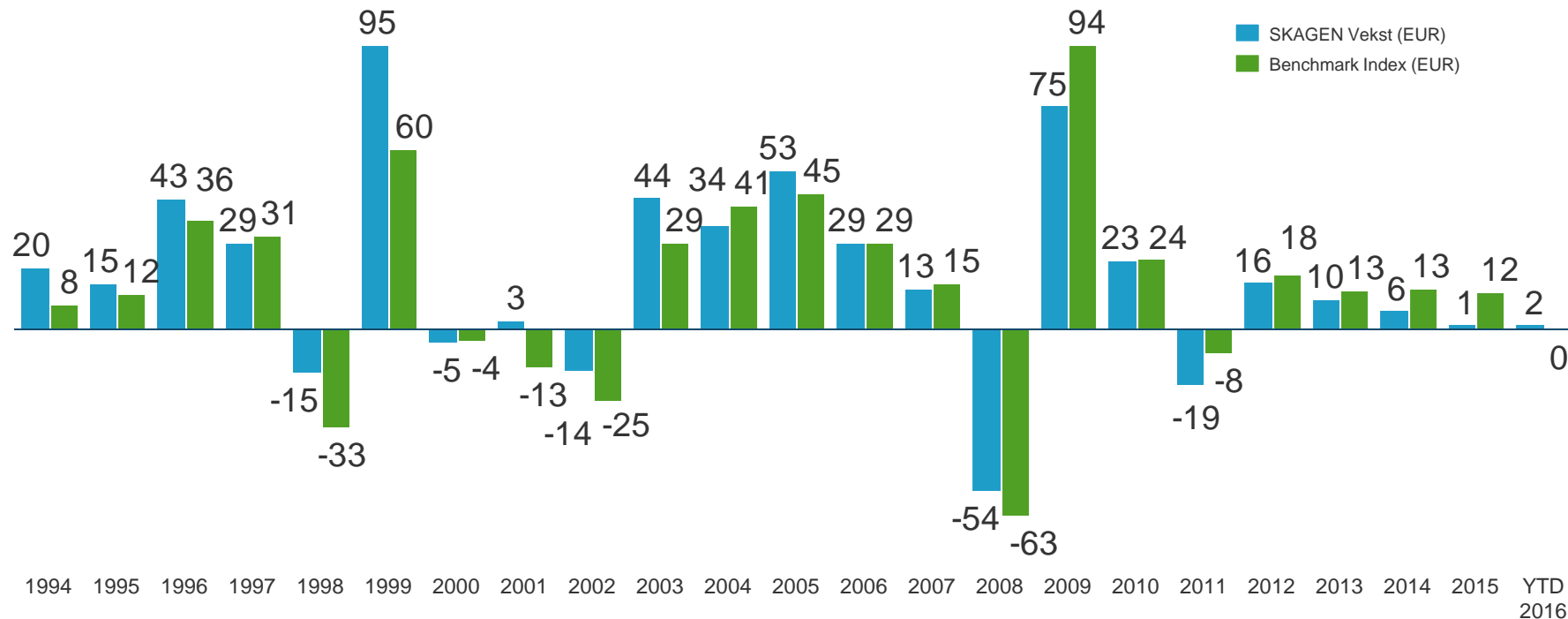
SKAGEN Vekst results, October 2016 (EUR net of fees)



	October	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	-1,5%	-1,5%	1,6%	0,2%	2,9%	6,8%	3,2%	13,3%
Benchmark index*	-0,7%	-0,7%	-0,2%	0,6%	8,4%	11,4%	5,9%	9,6%
Excess return	-0,8%	-0,8%	1,8%	-0,4%	-5,5%	-4,6%	-2,8%	3,7%

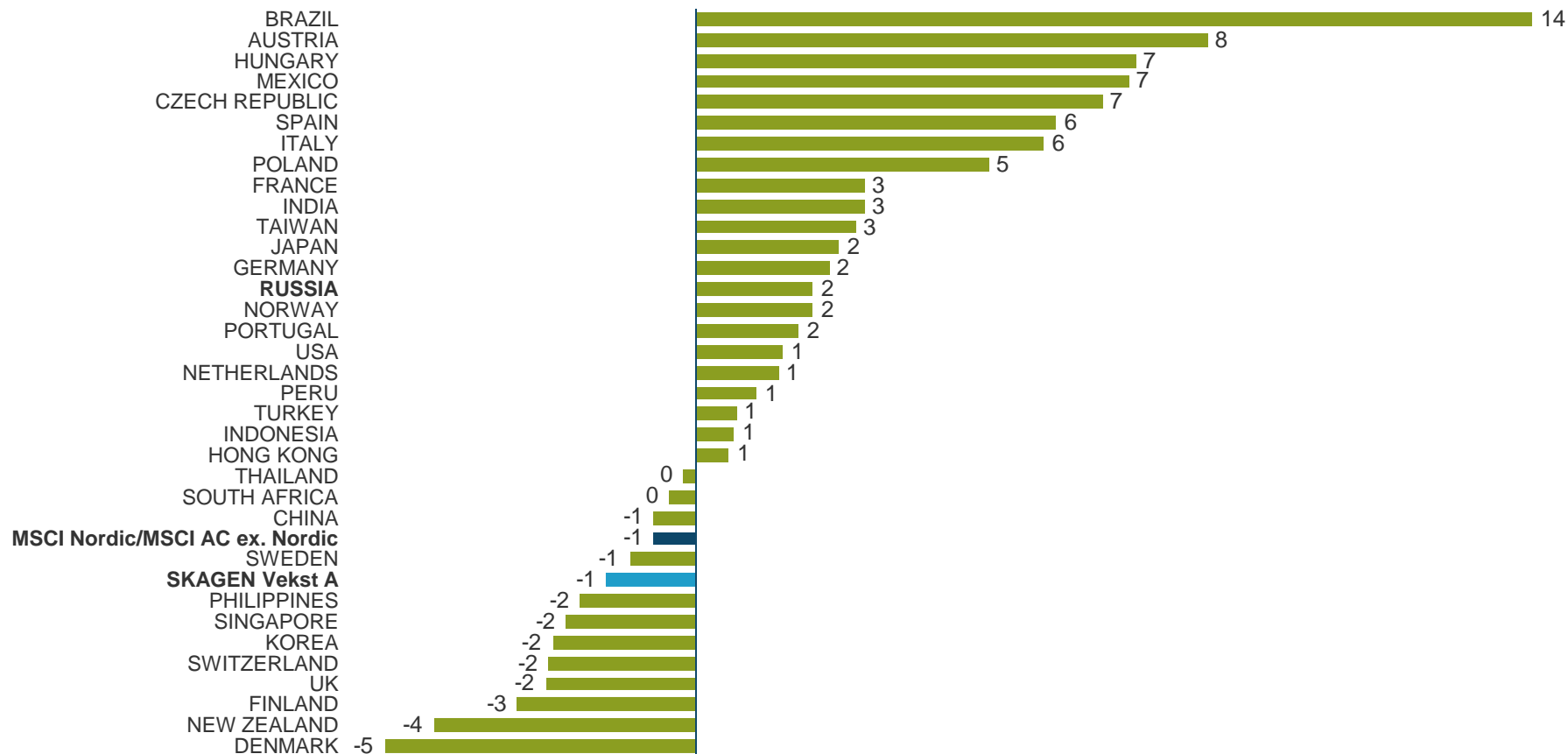
Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns 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 (%)*

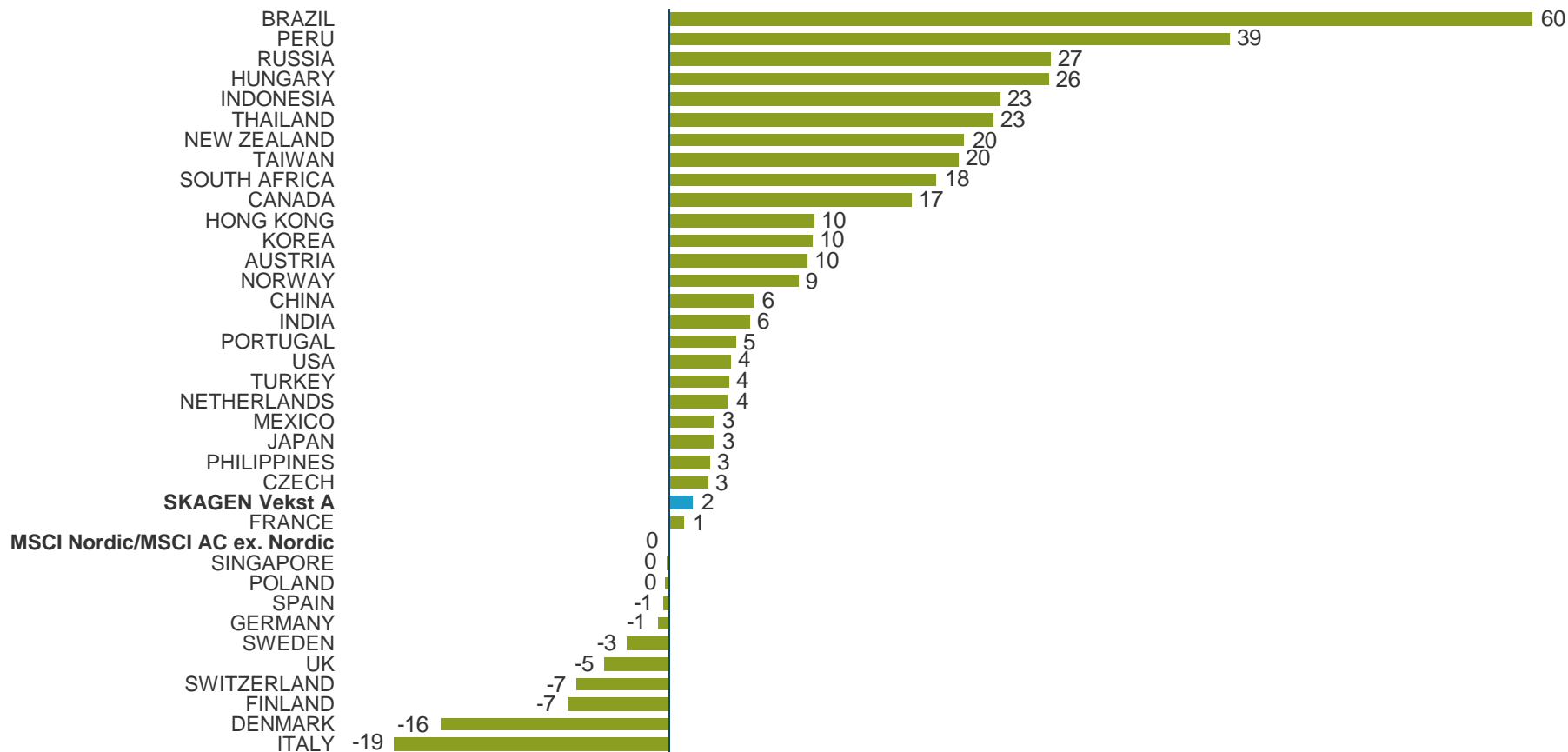


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Markets in October 2016, EUR (%)



Markets YTD in 2016, EUR (%)



Largest holdings SKAGEN Vekst, end of October 2016



SKAGEN Vekst has 53% of its portfolio invested in the Nordic countries.

	Weight in portfolio	Price	P/E 2016e	P/E 2017e	P/E 2018e	P/B trailing	Target price
Samsung Electronics	6,4 %	1 317 000	9,1	7,7	7,3	1,1	1 500 000
Continental AG	5,7 %	175	13,0	10,8	9,9	2,7	265
SAP SE	5,4 %	80	20,9	18,9	17,2	4,3	102
Citigroup Inc	5,0 %	49	9,2	8,7	7,8	0,7	65
Norwegian Air Shuttle	4,9 %	279	9,6	6,2	5,1	2,8	500
Carlsberg AS-B	4,6 %	611	17,8	15,7	13,9	2,1	830
Kinnevik AB-B	4,3 %	228	38,1	38,1	35,7	0,9	295
Norsk Hydro ASA	4,3 %	37	13,7	11,2	10,6	1,0	45
Hennes & Mauritz AB	4,2 %	254	20,3	16,9	14,9	7,8	400
Danske Bank A/S	3,0 %	209	11,6	11,1	10,3	1,4	235
Weighted average 10	47,7 %		13,3	11,1	9,9	1,5	36 %
Weighted average 35	89,5 %		12,4	10,3	9,0	1,4	44 %
Reference index			17,1	15,3	13,8	2,0	

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

Main contributors October 2016

Largest positive contributors

Company	NOK Millions
Citigroup	34
Norsk Hydro	20
Danske Bank	19
Bonheur	14
Swatch Group	10
HitecVision	10
Kinnevik	9
Sberbank of Russia	9
Hennes & Mauritz AB	8
Philips	8

Largest negative contributors

Company	NOK Millions
Ericsson	-78
Continental	-22
eBay	-17
Norwegian Air Shuttle	-17
Shire	-11
Kemira	-10
Philips Lighting	-10
Catena	-9
Roche Holding	-8
Carlsberg	-7

Value Creation QTD (NOK MM): - 29

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Oriflame Holding	139
Samsung Electronics	73
Norsk Hydro	54
Sberbank of Russia	50
Volvo	31
Wilh Wilhelmsen Holding	29
Lundin Petroleum	28
Philips	26
eBay	25
Danske Bank	23

Largest negative contributors

Company	NOK Millions
Ericsson	-172
Continental	-144
Credit Suisse Group	-100
Telia	-54
Roche Holding	-47
Norwegian Air Shuttle	-46
Kia Motors	-46
Citigroup	-39
Frontline	-31
Hennes & Mauritz AB	-30

Value Creation YTD (NOK MM): -315

NB: Contribution to absolute return

Most important changes in 2016

Increased positions

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 Lightning NV (New) Shire PLC (New) Nirvana Asia Ltd (New) CF Industries (New) Ericsson LM-B SHS eBay Inc Kemira OYJ
Q3	Investment AB Kinnevik Hennes & Mauritz AB Shire Plc-ADR Danske Bank A/S CF Industries Holdings Inc Norwegian Air Shuttle
Q4	Novo Nordisk (New) Hennes & Mauritz AB Bonheur

Reduced positions

Q1	FLSmith & 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)
Q3	Norsk Hydro ASA Samsung Electronics Co Ltd Oriflame Cosmetics AG Koninklijke Philips NV Frontline (Out)
Q4	Philips ABB

Key buys and sells in October 2016

Key buys

Novo Nordisk

- Increased pricing pressure in the US due to expired competitor patents resulted in reduced growth for Novo Nordisk and the stock price has declined 40% from the peak.
- Novo Nordisk was part of the Vekst portfolio in 2014-15. After a price decline, the forward business performance and valuation have become unusually attractive.
- The global upward trend for diabetes is unlikely to change anytime soon, and untreated diabetes is fatal. The need for treatment will therefore grow accordingly.
- Even with lower growth of 5% (from 10%) going forward we can see a significantly higher value of the company 2-3 years down the road.

Key Sells

ABB

- The fund significantly reduced its position in the Swiss/Swedish conglomerate prior to the reporting of their Q3 figures.
- After the clarifying capital market day in October, we see less potential to crystallise the values in the company for shareholders within our investment horizon. We scaled back the position after the share price increased nearly 40% YTD.
- We continue to see stronger development in the company's core operations. This, combined with signs of better margins and clearer communication to shareholders regarding future expectations, means that we have chosen to maintain a smaller position following the weak Q3 report.

Key earnings releases and corporate news, October 2016

Samsung
Electronics
(6.4%)

Investment case update

Neutral. Board answer to activist investor Elliott's letter in November should include announcements 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 pending sale of printer operations (USD 1.1bn) and several stake sales in the past few months.

Event summary

3Q16 operating profit of KRW 5.2tr was in line with revised guidance and includes total KRW c3.8tr cost related to Note 7. This is compared to an operating profit of KRW 8.1tr in 2Q16 and KRW 7.4tr in 3Q15. Hence, operating profit for IM (mobile) fell to only KRW 100bn (0.4% margin). The good news is strong sales of S7, expected to surpass S4 (launched 2013) during the product cycle. The margin for Semiconductors 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. Management did not announce a new buyback program, but said it will address the Elliott letter before the end of November. 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 operating company on NASDAQ and 4) improved 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 dividend.

3U Update

Unpopular: No, but uncertainty around the Note7 created a stampede for the exit, still clearly viewed as an 'EM loose canon'

Under-researched: No, strong following from all local and international analysts.

Undervalued: Yes, but after a strong run this year (pref share still up 22%) SKAGEN Vekst has reduced the position by roughly 40%. It remains our top holding with clearly identified triggers. A conservative sum-of-the-parts calculation still finds ample upside and pricing is well within historical range.



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

Ericsson
(2.6%)

Sleepy and wrongly focused organisation waking up to reality. Biggest low hanging fruit in the world?

Investment case update

Ericsson reported full 3Q16 results after their profit warning last week. The main numbers didn't change, but the company gave more flavour to current action plans to reduce costs and explained the situation in the market for mobile infrastructure. To be very clear, the situation is not good for the time being and the stock price decline of 40% in 2016 reflects that. 3Q16 sales declined 14% to SEK 51bn and operating income ex one-offs declined 73% to SEK 1.6bn. (Further details can be found on the IR webpage). Ericsson is a SEK 150bn market cap company, so net earnings of around SEK 10bn are needed to support it. The revenue stream is more than SEK 220bn, so management has more than SEK 200bn for various costs and taxes. To squeeze out SEK 10bn+ is achievable and should have been done a long time ago.

How to pick the low-hanging fruit

- Assume revenue streams will remain flat until 5G equipment and service orders kick in by 2019
- Set out clear financial return targets on all cost items
- Continue to harvest the patent pool
- Optimise and standardise procurement
- Reduce manning and simplify operations and lines of command

3U Update

Unpopular: Well known business, however, an underperformer over the last 10-12 years. Investor and analyst frustration is high after two profit warnings and insufficient action by board and management to fix things. 60% stock price decline from 2015 peak makes it disliked.

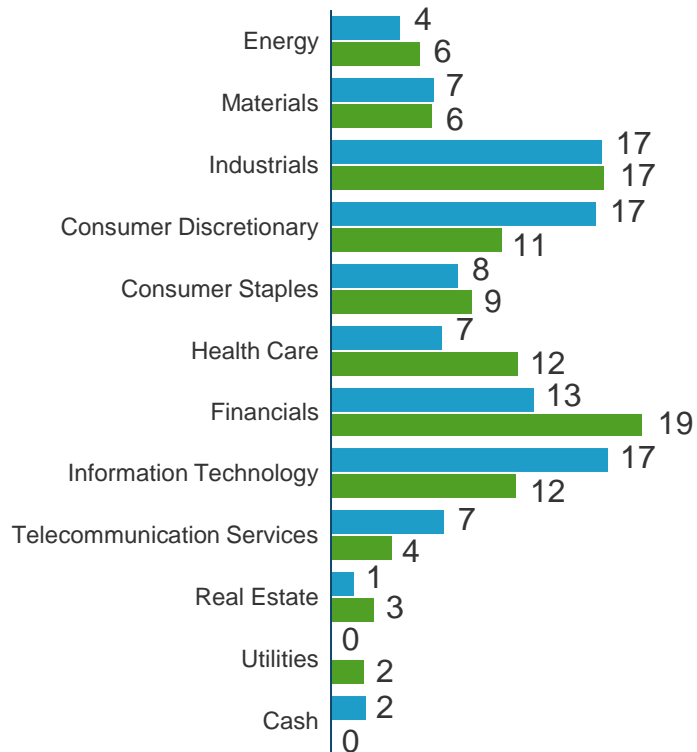
Under-researched: No, a global leader in a USD 200bn industry so plenty of data points. Investor trust in management delivering on better profitability is not seen in the stock price implying it is somewhat under-researched.

Undervalued: Yes, we have redone the work from 4Q 2015 and the target price has been reduced from SEK 88 to SEK 75 by end 2018. The potential for internal improvements could be greater than currently estimated, which would bode well for profitability and stock price.

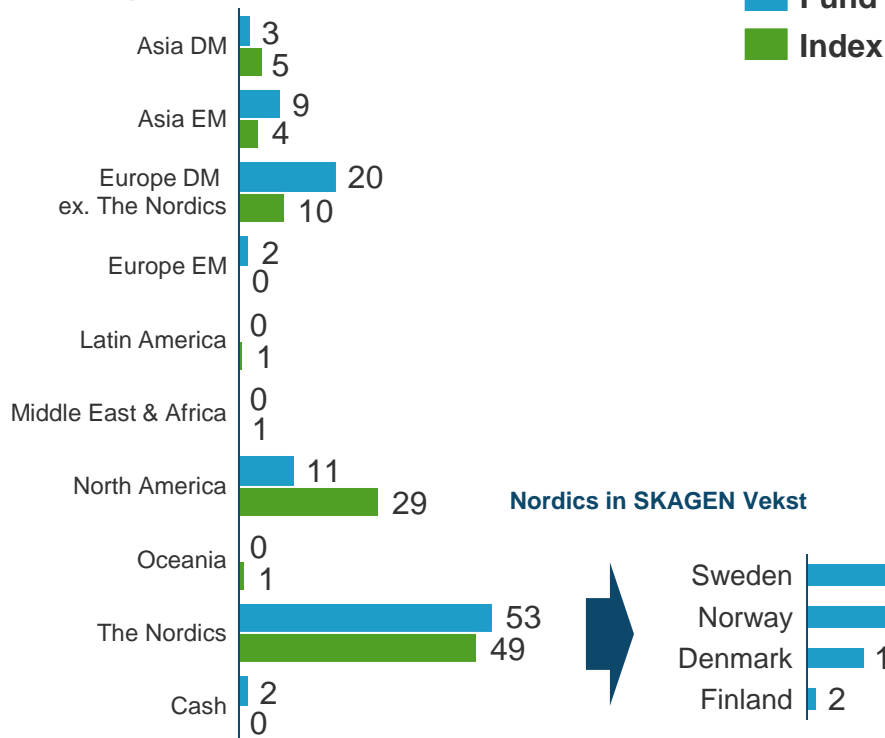


SKAGEN Vekst sector and geographical distribution

Sector distribution



Geographical distribution



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. Longer term Continental's pole position in global auto technology provides a good backdrop for substantial growth.



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.



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.

The largest companies in SKAGEN Vekst (continued)



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.



Kinnevik AB is a Swedish investment company that was founded in 1936 by the Stenbeck, Klingspor and von Horn families. Kinnevik is an active and long-term owner and its investments are made primarily in technology-based services aimed at consumers.



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.



H&M (Hennes & Mauritz) is a Swedish multinational clothing-retail company, known for its fast-fashion clothing for men, women, teenagers and children. H&M operates in 62 countries (ranked 2nd in the world) with over 4,000 stores and as of 2015 employed around 132,000 people. The first store was opened on the high street of Västerås, Sweden in 1947.



Danske Bank is a Danish bank. It was founded 5 October 1871 as *Den Danske Landmandsbank, Hypothek- og Vexelbank i Kjøbenhavn* (The Danish Farmers' Bank, Mortgage and Exchange Bank of Copenhagen). Headquartered in Copenhagen, it is the largest bank in Denmark and a major retail bank in the North European region with over 5 million retail customers, operations in 15 countries and over 21 000 employees.

For more information please visit:

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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.

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