
# SKAGEN Vekst

## Status Report – February 2017

The art of common sense

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# Summary – February 2017

- February was a strong month in the global equity markets with the strong New Year's rally continuing into February. Over the past 12 months SKAGEN Vekst is up 22%, as measured in euro, versus the combined index which is up 16%. In February the fund gained 2.1% vs. 2.9% for the index. During the month we saw increased focus on the positive news flow from several larger economies around the world as well as green shoots of inflation appearing in the US.

- Although 2017 got off to a strong start in both relative and real returns, it is worth highlighting that there will be several important elections during the year that might impact market sentiment and potentially regulation. This could in turn affect companies' willingness to invest in continued development and growth. History has shown that for the long-term investor this type of noise can be beneficial for long-term returns, the increased volatility could potentially be detrimental in the short-term.

- Measured in NOK, the largest contributors in February were the Norway-based dry bulk company Golden Ocean, US financial giant Citigroup and Swedish telecommunication equipment maker Ericsson. The fund's largest detractors were H&M, Gazprom and Norwegian.

- SKAGEN Vekst consists of 50 holdings with 92% of the fund invested in the 35 largest positions. During the month we entered the Japanese lift producer Fujitec and increased our stake in Novo Nordisk and Gazprom. We sold out of holdings that were approaching their price targets or where we see better risk/reward elsewhere, such as GCL Poly and Nordic Mining. At the end of February 2017, SKAGEN Vekst was valued at 12.9x the current year's earnings versus the market at 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 and a global mandate.

** 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*


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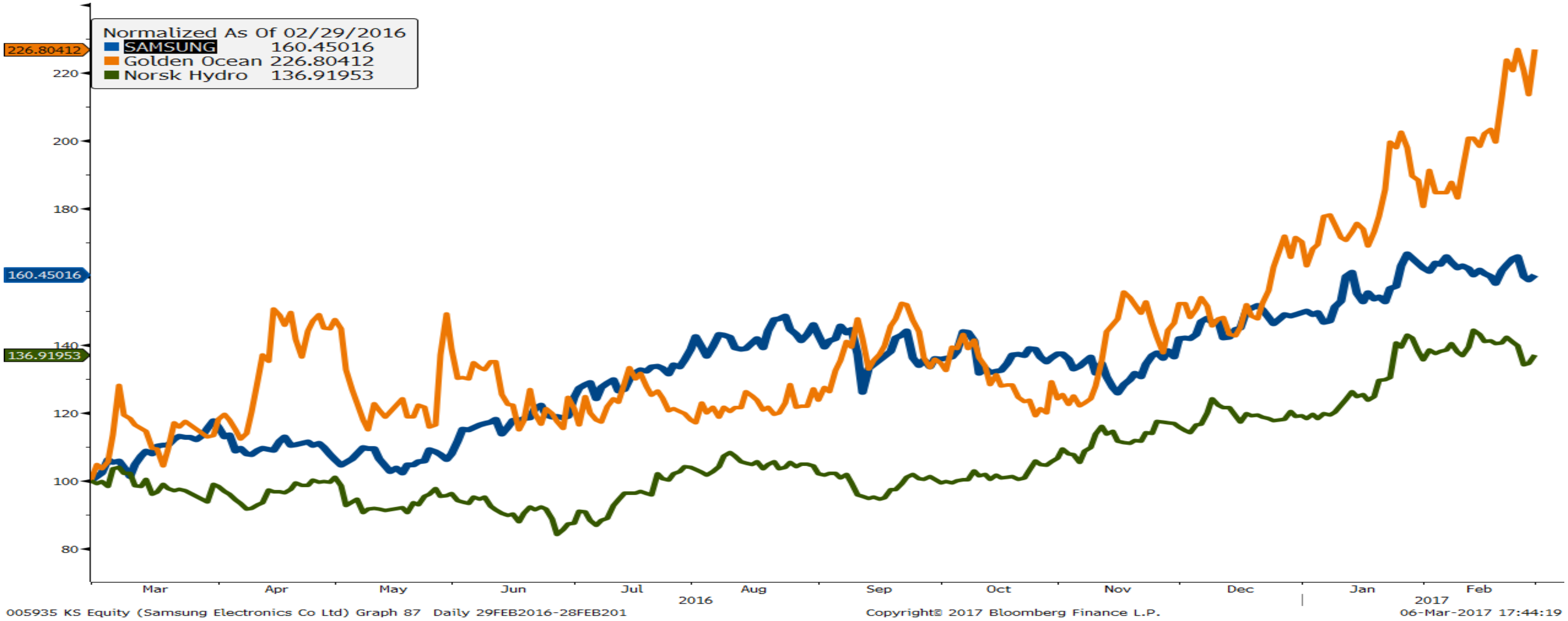
# Strong returns for Vekst unit holders over the past 12 months. The fund is up 22% driven by a range of holdings including Samsung (+60%), Golden Ocean (+126%) and Norsk Hydro (+37%)



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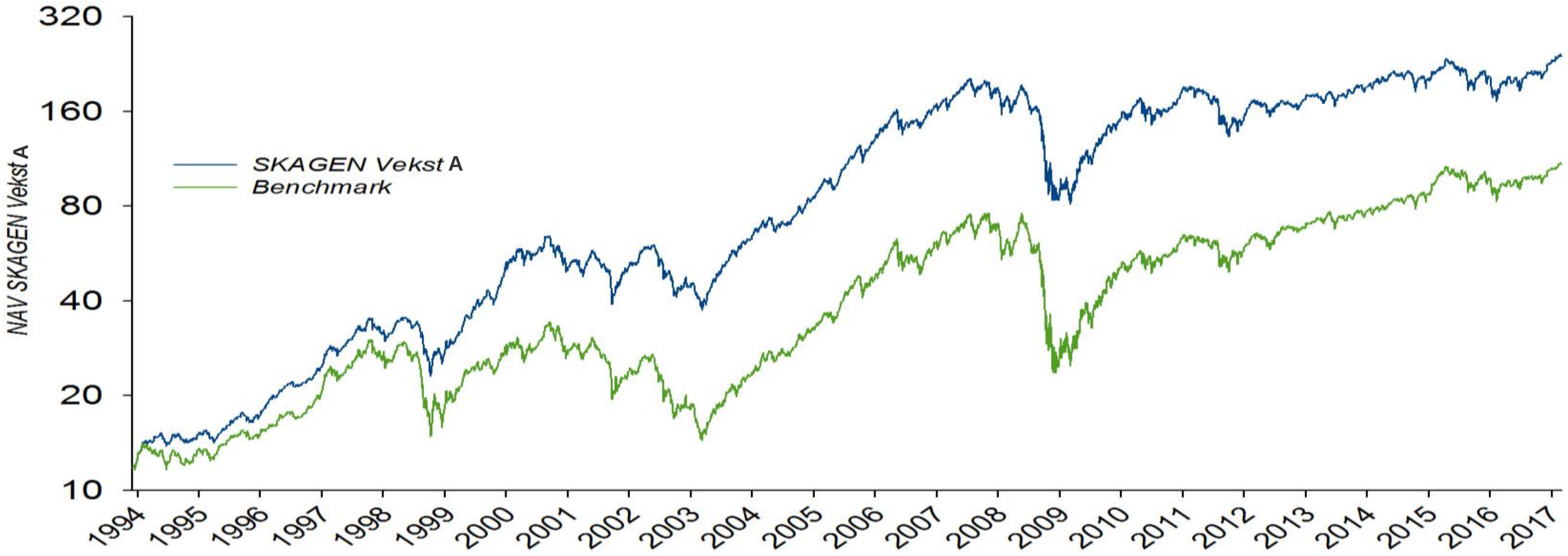
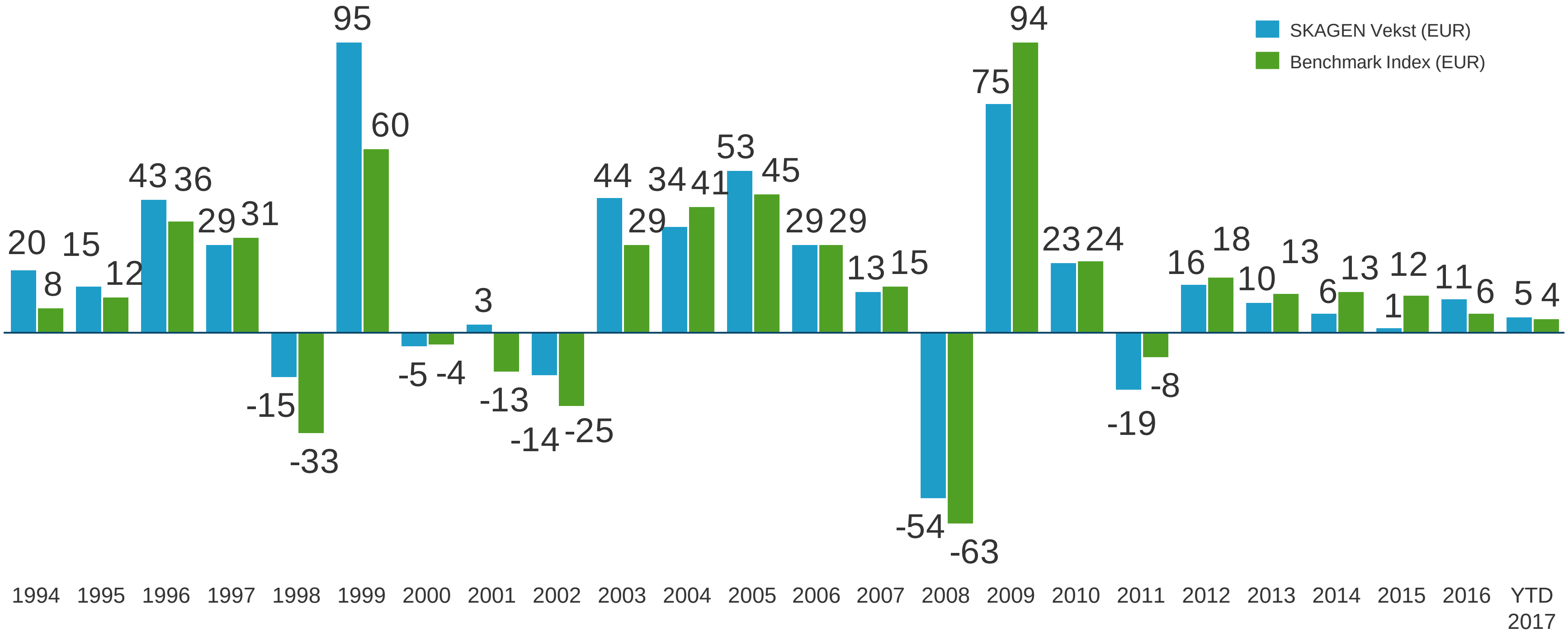
# SKAGEN Vekst results, February 2017 (EUR net of fees)




| | February | QTD | 2016 | 1 year | 3 years | 5 years | 10 years | Since inception* |
|---|---|---|---|---|---|---|---|---|
| **SKAGEN Vekst A** | 2,1% | 5,2% | 10,8% | 27,0% | 5,9% | 6,8% | 3,7% | 13,8% |
| **Benchmark index*** | 2,9% | 4,2% | 6,0% | 18,6% | 10,9% | 10,8% | 5,8% | 10,0% |
| **Excess return** | -0,8% | 0,9% | 4,8% | 8,5% | -5,0% | -4,0% | -2,1% | 3,8% |

*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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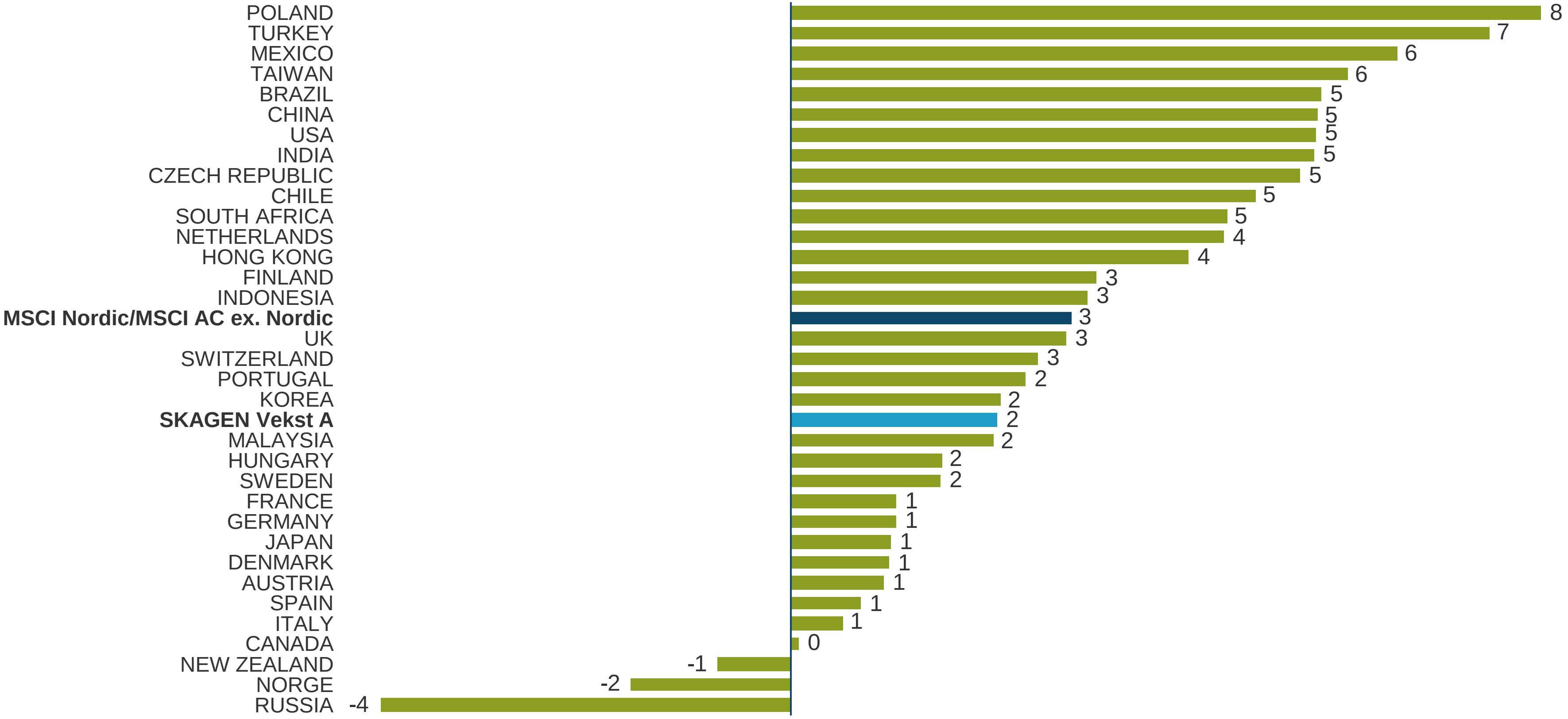
# Markets in February 2017, EUR (%)



# Largest holdings SKAGEN Vekst, end of February 2017

**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 Co** | 6,3 % | 1 496 000 | 10,3 | 8,8 | 8,3 | 1,2 | 1 680 000 |
| **Continental AG** | 5,6 % | 191 | 13,8 | 12,0 | 10,9 | 2,9 | 265 |
| **Norwegian Air Shuttle ASA** | 5,2 % | 263 | 9,1 | 7,5 | 5,8 | 2,3 | 500 |
| **Carlsberg AS-B** | 4,9 % | 617 | 19,4 | 16,9 | 16,1 | 1,9 | 847 |
| **Citigroup Inc** | 4,6 % | 60 | 11,4 | 10,1 | 8,8 | 0,8 | 75 |
| **Kinnevik AB-B** | 4,2 % | 244 | 61,0 | 40,7 | 38,1 | 0,9 | 295 |
| **Hennes & Mauritz AB** | 3,6 % | 239 | 21,2 | 15,9 | 14,0 | 6,4 | 400 |
| **Ericsson LM-B SHS** | 3,4 % | 59 | 101,3 | 24,6 | 14,9 | 1,4 | 75 |
| **Novo Nordisk** | 3,3 % | 249 | 16,5 | 15,5 | 14,0 | 13,8 | 325 |
| **Norsk Hydro ASA** | 3,1 % | 47 | 17,6 | 12,2 | 10,8 | 1,2 | 50 |
| **Weighted average 10** | **44,2 %** | | **12,9** | **10,8** | **9,5** | **1,2** | **43 %** |
| **Weighted average 35** | **91,7 %** | | **12,9** | **10,8** | **9,1** | **1,3** | **36 %** |
| **Reference index** | | | **17,3** | **16,5** | **14,9** | **2,2** | |

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

# Main contributors MTD

## Largest positive contributors

| Company | NOK Millions |
|---|---|
| Golden Ocean Group | 30 |
| Citigroup | 28 |
| Ericsson | 27 |
| Continental | 20 |
| Kinnevik | 20 |
| eBay | 16 |
| Sodastream International | 13 |
| Kia Motors | 13 |
| Shire | 11 |
| Philips Lighting | 11 |

## Largest negative contributors

| Company | NOK Millions |
|---|---|
| Hennes & Mauritz AB | -17 |
| Gazprom OAO | -12 |
| Norwegian Air Shuttle | -8 |
| Wilh Wilhelmsen Holding | -7 |
| Samsung Electronics | -7 |
| Swatch Group | -7 |
| Carlsberg | -6 |
| ABB | -6 |
| Cal-Maine Foods | -6 |
| SKF | -6 |

**Value Creation MTD (NOK MM): 173**

*NB: Contribution to absolute return*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# Main contributors YTD 2017

## Largest positive contributors

| Company | NOK Millions |
|---|---|
| Norsk Hydro | 53 |
| Samsung Electronics | 37 |
| Golden Ocean Group | 36 |
| Bonheur | 30 |
| Kinnevik | 27 |
| eBay | 21 |
| Ericsson | 19 |
| Sodastream International | 18 |
| Volvo | 17 |
| Danske Bank | 12 |

## Largest negative contributors

| Company | NOK Millions |
|---|---|
| Norwegian Air Shuttle | -32 |
| Hennes & Mauritz AB | -23 |
| Gazprom OAO | -18 |
| Cal-Maine Foods | -13 |
| Citigroup | -7 |
| Lundin Petroleum | -7 |
| Sberbank of Russia | -7 |
| Telia | -6 |
| Kemira | -6 |
| Carlsberg | -5 |

**Value Creation MTD (NOK MM): 248**

*NB: Contribution to absolute return*

# Most important changes Q1 2017

## Holdings increased

**Q1**

| | |
|---|---|
| Teva Pharmaceutical Industries | (New) |
| Fujitec | (New) |
| Novo Nordisk | |
| Gazprom OAO | |
| Kia Motors | |
| Norwegian Air Shuttle | |
| Cal-Maine Foods | |
| Carlsberg | |
| Shire | |

## Holdings reduced

**Q1**

| | |
|---|---|
| Medistim | (Out) |
| GCL-Poly Energy Holdings | (Out) |
| Nordic Mining | (Out) |
| SAP | |
| Norsk Hydro | |
| Danske Bank | |
| Samsung Electronics | |
| Volvo | |
| Sodastream International | |
| H Lundbeck | |
| Citigroup | |
| Catena | |

# Key buys and sells in February 2017

## Key Buy

### Fujitec Industries

- Japan's fourth largest producer of lifts and escalators with an impressive international footprint. Relatively unknown in the financial sector and outside of their business sphere.
- Attractively valued at 1.3x book value and 11x expected earnings in 2018. By way of comparison, its well-known Nordic peer Kone trades at 20x earnings in 2018 and 7x book value.
- Increased focus on business segments with potential M&A among competitors might trigger interest among analysts. The increased revenue from service in particular should cushion any potential shortfall in growth going forward.

## Key Sell

### GCL – Poly Energy Holding

- The Chinese polysilicon (solar) producer was sold out after several rounds of corporate and asset reshuffling.
- The ongoing trade war between China and the US has only created losers on both sides and even though GCL was best positioned to take advantage of the favourable pricing environment in China, this failed to materialise into earnings to minority shareholders.
- The minor position was sold after a fairly strong rebound, though without giving the required return to the portfolio.

# Key earnings releases and corporate news, February 2017

**Novo Nordisk (2.5%)**

## No clear path out of the woods, but good valuation support. Signs of better visibility would push up the share price.

**Investment thesis update**

NovoNordisk is a world leader in diabetes treatment, a disease growing 5% per year and in line with the growth of obese people in the world. Novo holds a 46% global market share. The organisation is very streamlined and is disciplined in using the cash generated. The growth and management discipline made NovoNordisk a market darling and valuation made it inaccessible to value investors. The full year 2016 report and guidance for 2017 did not confirm that the business is moving fast in the right direction. Visibility will only improve in early summer 2017, when the 2018 list prices for the US market start to emerge. Investors have extremely diverging opinions of the stock as it is down 40% from the peak last year when it was a favourite. Currently, the key driver for the stock is US news flow, so in some respects it resembles the mood around Danske Bank, when we built a position during the dark period of 2011-13.

Details from Novo's 2016 report:

- The regional performances showed flattish sales in the US, Europe and Japan/Pacific, while China and RoW grew 12-15% in local currency. The details in the report show better than expected performance in the newer diabetes and weight loss drugs, while older diabetes drugs and biopharmaceuticals are flattening out or in decline. To illustrate this, Tresiba (the best diabetes treatment) had 2016 revenues of DKK 4.0bn vs. expected DKK 3.5bn, while Victoza (the second best diabetes treatment sold at a reduced price to wholesalers) had DKK 20.0bn revenues, DKK 0.5bn below expectations.
- Profitability was high as expected with a 43% OP-margin and net income a little better than expected. The new CEO (who has been with the company for years) started at the beginning of 2017. The first detailed guidance for 2017 was below expectations, as expected from a new CEO. The market reacted to this and the stock was down 7% on the 1-2% lower guidance for 2017 compared with the early bird guidance given with the 3Q 2016 report. The new guidance shows revenue growth of 3.5% and 2.5% growth in operating profit. Novo will increase production facilities in 2017 so capex goes to DKK 10bn, up 40%, so operating cash flow in 2017 should be around DKK 40bn and then resume growth to DKK 46bn in 2018. Since the peak in 2016 the stock is down 40% and for long-term contrarian investors it looks like a very good entry opportunity, but one needs to be patient as the clouds will not clear until later in 2017.

**3U Update**

**Unpopular:** market favourite that has fallen off its pedestal. It will take a while to rebuild investor confidence after the 40% stock price decline, so it is fairly unpopular for the time being. Sell-side analysts are 35% 'buy'.

**Under-researched:** Largest company by value in the Nordic region and 37 sell siders monitoring performance so should be fully understood. Key issues going forward are generic competition in Victoza (Teva has filed), a new compound from Boeringer Ingelheim (marketed by Eli Lilly) that could eat into the Novo market share as well as pricing in the US. All these factors are being analysed but no clear conclusion yet.

**Undervalued:** Expectations have now been re-set to a realistic level and once Novo regains market confidence it should be able to trade at 16x EV/EBIT in 2019, which implies a target closer to DKK 335 plus dividends of DKK 30, so an absolute upside of 56% over 2-3 years.

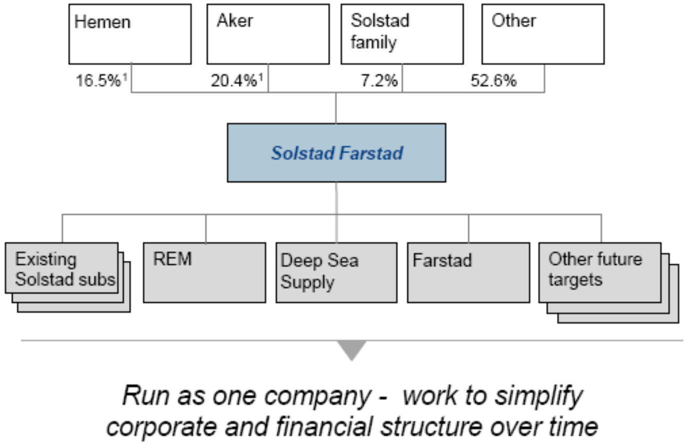
# Key earnings releases and corporate news, February 2017 (cont.)

**Solstad Offshore (0.4%)**

## Proposed merger between Solstad, Deep Sea Supply and Farstad

**Investment case update**
Positive. For more than a year SOFF has been working hard to consolidate the offshore supply vessel (OSV) industry. One step was taken by merging REM Offshore into Solstad in 2016. Once this deal is successfully completed, SOFF will take further steps in building the world's leading OSV company. Solstad Offshore will be the parent company, and Lars Peder Solstad will act as CEO of the merged company. The new company will operate a fleet of 154 vessels (33 CSV, 66 PSV and 55 AHTS). The new company will enable the realisation of substantial cost and revenue synergies in the range of NOK 400 – 650 million. Aker Group will likely hold 20.4% of the new company, Hemen (Fredriksen) 16.5% , the Solstad Family 7.2% and Others 52.6%.

**3U Update**
**Unpopular:** yes; 0 buy, 5 sell
**Under-researched:** no, 5 analysts on a small market cap company
**Undervalued:** yes, 20 high quality CSVs below 0.2 x book value.





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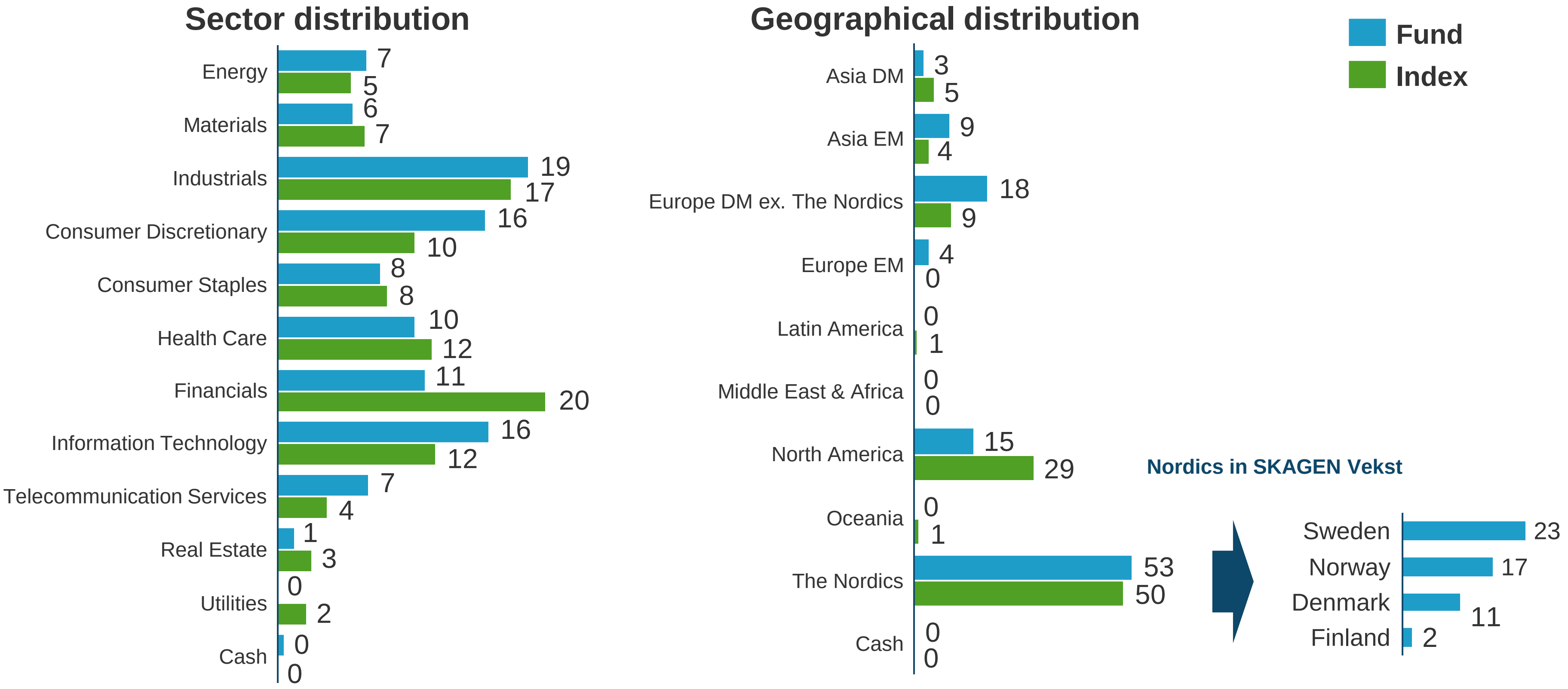
# SKAGEN Vekst sector and geographical distribution



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# 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.

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.

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.

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.

# The largest companies in SKAGEN Vekst (continued)

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.

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.

Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and today has a revenue of SEK 227bn. Ericsson had a 33% market share in the 2G/3G/4G mobile network infrastructure market in 2015.

Novo Nordisk is a global healthcare company with more than 90 years of innovation and leadership in diabetes care. The multinational pharmaceutical company is headquartered in Bagsværd, Denmark, and has production facilities in eight countries, and affiliates or offices in 75 countries.

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.

# 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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