

Exceptionally strong end to the year

Following a very strong last quarter for the fund, SKAGEN Focus posted a solid absolute return for 2020. The fund's performance beat the global value indices by a wide margin and also surpassed the broad global equity benchmark at the end of the year. This is an achievement considering the cheapness of the portfolio and the performance of the potentially over-owned and overvalued mega-cap technology companies in the US, which drove most of the global index baskets higher in the year.

2020 was a strange year and rarely has the divergence between the fundamental perception of the economy and equity market performance been so significant. Most of us were surprised by the pace and strength of the recovery that has taken place in equity markets since the March lows. Pandemic-specific variables catapulted the digitalisation of the economy and mega-tech companies into fast-forward mode while the value area of the equity market simultaneously managed a strong comeback. In the latter part of the year, this value-based rally eventually broadened significantly to include financials.

Portfolio drivers

In the fourth quarter, as for the year, our strongest contributor was Canadian based copper producer Ivanhoe Mines. For the full year, the equity increased more than 70% following a strong year in 2019. We still believe there is substantial upside in the near term as the initial production date is drawing closer and the equity is priced at a meaningful discount to net asset value. We have witnessed very strong performance from our Germany-based industrials truck and trailer component producer SAF Holland and joint engineering company Norma, both of which were among the best performing positions in the quarter. Lumber producer West Fraser increased sharply as lumber prices stayed high and the company announced its acquisition of Norbord, an OSB producer in Canada, creating a wood buildings giant which will be listed in New York in the first



Photo: Unsplash

Outlook

We still observe a substantial rotation potential into value at the expense of so-called "growth companies". Over the last six months, several important factors have emerged which underpin a sustained rotation into value assets. These factors include the roll-out of the Covid-19 vaccine which will eventually propel a normalisation of many cyclical assets currently still trading at depressed multiples. The economic acceleration is perhaps being telegraphed by the US yield curve, which continues to steepen, which is a fairly favourable development for traditional financial companies.

half of 2021.

Weaker positions in the quarter were Japanese construction equipment producer Hitachi Construction Machinery which also was pressured by unconfirmed rumours of a partial sell-down by the mother company Hitachi. Junior gold miner Roxgold also gave back some of the recent gains but continues to deliver strongly from a fundamental perspective.

We closed our position in OZ Minerals as the equity reached our price target following a just over 2- year investment holding period. In addition, US infrastructure company Eagle Materials left the portfolio after the equity hit price target following a very quick re-rating from March in excess of 50%.

Deep-discount financials added to portfolio

We added positions in two financial companies in the quarter. We initiated a position in the Japanese retail bank Resona Holdings, which we think could lead the consolidation across the regional banking space in Japan. The stock is trading at a substantial discount to fair value at 40% of book value with a current return on equity of 5% with the potential to reach 8% in the medium term, assuming there is no pickup in the net interest income line. In addition, we initiated a position in Raiffeisen Bank, an Austrian based financial institution which operates as a retail, corporate and investment bank. The bank has been present in 13 markets in the CEE region for over 30 years and has shown significant loan growth across these markets, which are still underbanked in many respects. We believe Raiffeisen has substantial potential to deliver capital returns to shareholders. The stock trades at around 50% of book value as elevated loan-loss provisions are temporarily depressing profitability. We think both these companies have well over 50% upside from a medium-term investment perspective.



Photo: SAFHolland

Small and mid-cap bias

These forces will also work to compress the multiples of the elevated bond-proxies that currently dominate the globe's equity index baskets. We do not underestimate the removal of the Trump administration and the decreased uncertainty surrounding global trade. Higher taxes and a split congress may also put the pricey US equity market into a relatively weaker position than previously compared to emerging markets. At the end of the quarter, we have 37 substantially undervalued positions in the portfolio of which more than 80% are in the small and mid-cap segment. Concentration in the top-10 is 45% at the end of the quarter.

The fund is a concentrated global equity fund with a mandate to invest in all cap-sizes, geographies and sectors globally. With our concentrated portfolio of 30-35 core positions, we aim to generate absolute returns at a controlled level of absolute risk.

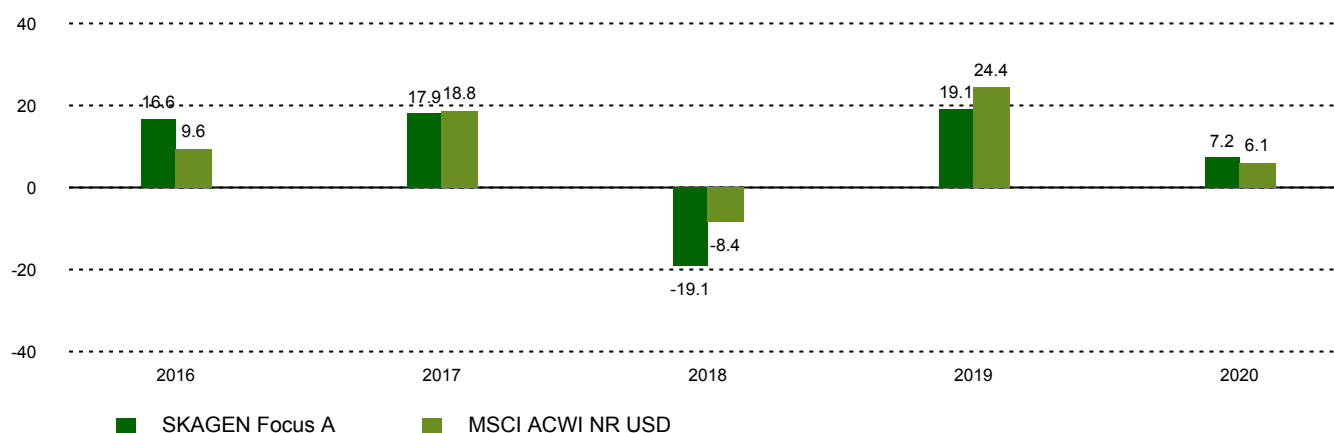
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	4.8%	2.0%
Quarter to date	20.7%	9.7%
Year to date	7.2%	6.1%
Last year	7.2%	6.1%
Last 3 years	1.1%	6.6%
Last 5 years	7.3%	9.5%
Last 10 years	n/a	n/a
Since start	4.2%	8.0%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	15.49 CHF
Fixed management fee	1.60%
Total expense ratio (2019)	1.23%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	137.46 CHF
Number of holdings	38
Portfolio manager	Jonas Edholm

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Ivanhoe Mines Ltd	7.00	2.21
MagForce AG	1.96	1.47
SAF-Holland SE	2.76	1.33
Norma Group SE	2.83	1.20
West Fraser Timber Co Ltd	4.93	1.19



Largest detractors

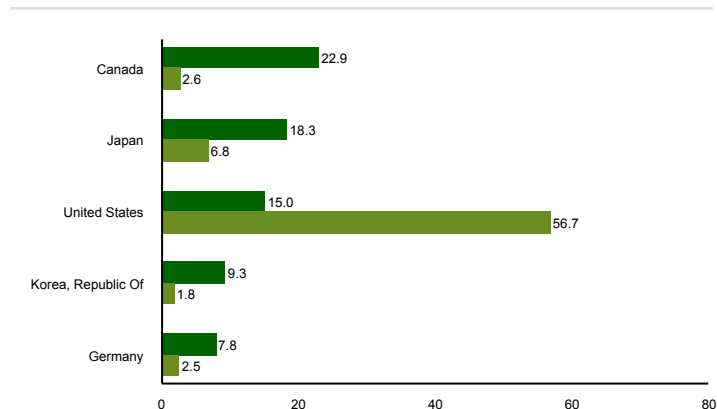
Holding	Weight (%)	Contribution (%)
Hitachi Construction Machinery	2.66	-0.98
Roxgold Inc	7.31	-0.63
Teikoku Sen-I Co Ltd	2.11	-0.26
Fujitec Co Ltd	2.55	-0.18
Resona Holdings Inc	0.73	-0.15

Absolute contribution based on NOK returns at fund level

Top ten investments

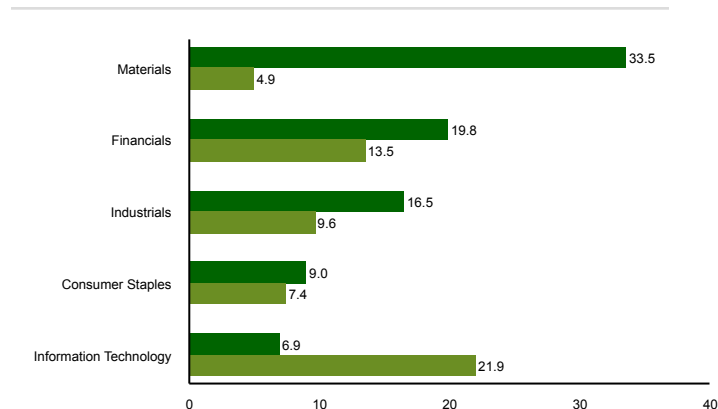
Holding	Sector	Country	%
Ivanhoe Mines Ltd	Materials	Canada	7.5
Roxgold Inc	Materials	Canada	5.9
West Fraser Timber Co Ltd	Materials	Canada	4.9
Hitachi Ltd	Information Technology	Japan	4.8
KB Financial Group Inc	Financials	Korea, Republic Of	4.0
Korean Reinsurance Co	Financials	Korea, Republic Of	3.6
Toyota Industries Corp	Consumer Discretionary	Japan	3.6
UPM-Kymmene Oyj	Materials	Finland	3.5
Stock Spirits Group PLC	Consumer Staples	United Kingdom	3.1
Lincoln National Corp	Financials	United States	3.0
Combined weight of top 10 holdings			44.0

Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Contact



+47 51 80 37 09



contact@skagenfunds.com



SKAGEN AS, Post Box 160, 4001,
Stavanger, Norway

Important information

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