SKAGEN Focus A

All data in SEK as of 31/03/2019 unless otherwise stated.

Strongest quarterly return since start

In Q119, SKAGEN Focus delivered the strongest quarterly absolute returns since inception. Despite several global indicators flashing economic weakness, equity markets moved higher in the first quarter. During the period, the Fed confirmed they will not hike rates further for the time being, which is probably the most significant factor supporting the strong equity markets in 2019, especially in the US. Notably, the 10-year government bond yield in the US has fallen sharply since November last year, and possibly indicates slower economic growth ahead. With equity valuations looking increasingly expensive in the US, and still concentrated among so-called "higher quality" larger cap industrial and technology names, we continue to find very interesting investment situations in ignored and forgotten parts of the world. As such, during the quarter, we established new positions in Hitachi, an ignored Japanese conglomerate value opportunity, and West Fraser Timber, a Canadian lumber and wood product producer trading at a highly attractive valuation.

Copper and chicken in the top spot

Ivanhoe Mining propelled itself into the top-performer spot. The company released a pre-feasibility study of the Kamoa-Kakula copper exploration area and an overall economic assessment of the asset going forward. The presented results and implications are extremely impressive and confirm our positive view of the shares.

Chicken producer Pilgrim's Pride was one of the stronger performers in the period as the market started to anticipate a positive turn in the chicken pricing cycle. Moreover, there seems to be an increased likelihood that China will be willing to consider US chicken imports. We still believe that the company might see positive structural change when its parent goes ahead with its plan to list US operations separately.

Following the somewhat turbulent IPO of its mobile business in a depressed global equity market climate late last year, Softbank announced a surprising share buy-back, highlighting the potential undervaluation of the stock. Softbank claims the net asset is worth roughly double the current market cap. Softbank rose sharply on the announcement and we subsequently reduced our position.

Our Japanese staffing company Pasona disclosed strong earnings for the first half year. Revenue grew at a healthy pace last year and operating profit was up sharply. The company's stake in net-cash Benefit One is worth in excess of double the market cap of Pasona, implying an absurd valuation of the remaining part of the business. In fact, the value spread between this stake and the company's total value has never been higher. We believe there is opportunity for the company to increase its currently depressed margins in the business outside Benefit One to peer group levels which would also support a major re-rating of the stock.

US based communications provider Avaya was approached by private equity interest, which created a sharp re-rating in the share price. Reports surfaced that the company's board is currently evaluating an offer from private equity at a valuation in excess of USD 20/share, which was about 50% higher than the actual stock price at the time.

Japanese conglomerate re-rating potential

We have established a new position in Japanese industrial conglomerate Hitachi. In our view, Hitachi represents an ignored conglomerate value opportunity, which includes a vast set of different business units. Importantly, the company is now on a clear path to dismantle the conglomerate and crystallise value for shareholders. The main ambition is to divest non-core units which produce below-average operating margins and concentrate the business around two or possibly three business segments. Near-term catalysts include the imminent update of the mid-term plan including revised guidance for the operating margin and direction of the listed sub asset base. We see substantial upside in the shares even at the current earnings power. Hitachi has sailed into the fund's top-10 positions.

We continued to add to our position in Australian copper and gold miner OZ Minerals. The company will move from being a single-mine production asset to having multi-mine asset status as Carrapateena will come into production in late 2019. We believe the current valuation of the stock only takes the initial asset value into account and leaves a very attractive risk/reward on the table.

Photo: Bloomberg

Photo: Bloomberg

We increased our position in China Unicom, the second largest mobile operator in the country. We believe several catalysts remain in place for the shares in our 2-3 year perspective, such as increased industrial internet revenue, de-levering of the balance sheet with solid cash flow generation and at least some potential for a merger with China Telecom as the Chinese government wants to speed up and facilitate 5G deployment and possibly merge fixed networks.

We have concentrated our regional bank position in Japan into Bank of Kyoto, which has recently announced a sell-down of its non-core asset base, this time through Nintendo. The bank raised earnings guidance materially following this as the stock portfolio value vastly exceeds the current book value.

Outlook

We are continuously working towards replacing older exposures with new investment cases and at the end of the quarter, more than 60% of the exposure in the fund is less than one year old. Currently, around 60% of the portfolio is invested in smaller and mid-cap names. The concentration of top ten holdings is 44% and we have a total of 34 positions in the portfolio.

Quarterly Report

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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.

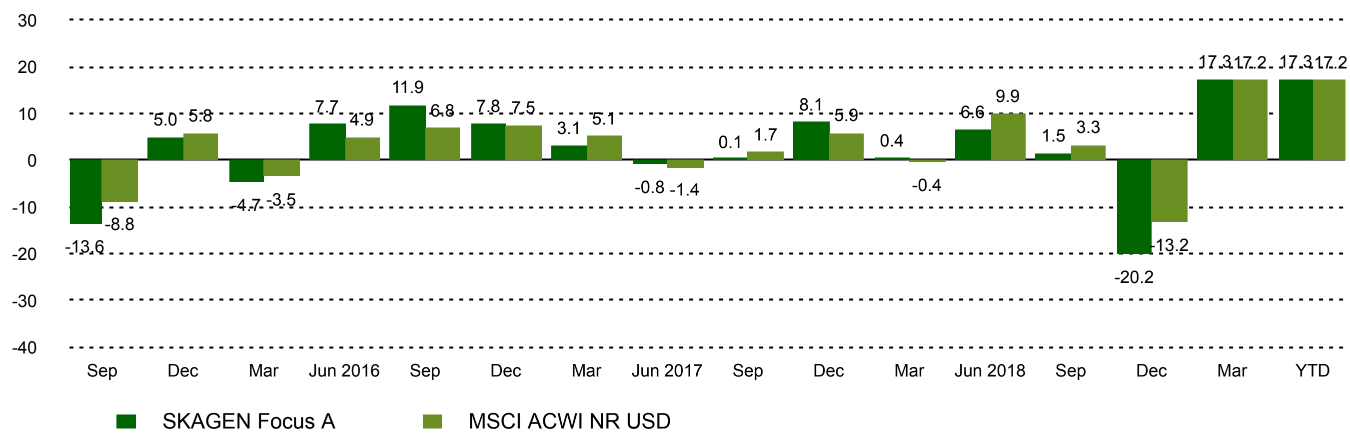
Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	128.09 SEK
Fixed management fee	1.60%
Total expense ratio (2018)	0.8%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	1970.91 SEK
Number of holdings	34
Portfolio manager	Jonas Edholm

Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	-0.2%	1.6%
Quarter to date	17.3%	17.2%
Year to date	17.3%	17.2%
Last year	1.3%	15.4%
Last 3 years	13.5%	15.6%
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	4.2%	8.6%

Quarterly Performance



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Pilgrim's Pride Corp	3.33	1.26
Ivanhoe Mines Ltd	3.67	1.20
SoftBank Group Corp	2.27	1.06
OMV AG	4.50	0.98
Pasona Group Inc	2.40	0.94

Largest detractors

Holding	Weight (%)	Contribution (%)
Canfor Pulp Products Inc	0.44	-0.19
Nova Ljubljanska Banka dd	1.71	-0.18
Aichi Bank Ltd/The	0.68	-0.16
West Fraser Timber Co Ltd	1.49	-0.12
Hyundai Motor Co	2.64	-0.08

Absolute contribution based on NOK returns at fund level

Quarterly Report

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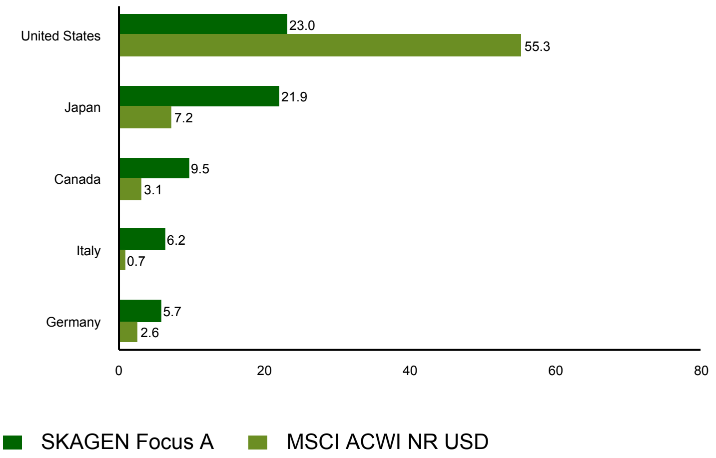
SKAGEN Part of Storebrand

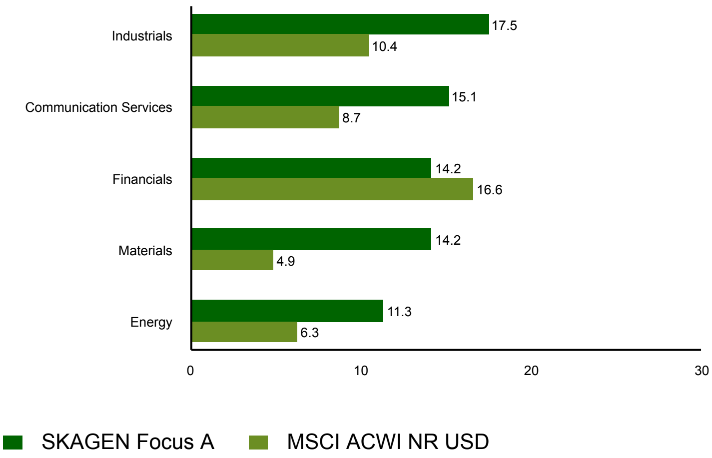
Top ten investments

Holding	Sector	Country	%
AIG	Financials	United States	6.6
OMV AG	Energy	Austria	5.1
CASH	CASH		5.1
China Unicom Hong Kong Ltd	Communication Services	China	5.0
Telecom Italia Spa	Communication Services	Italy	4.8
Bank of Kyoto	Financials	Japan	4.4
Ivanhoe Mines Ltd	Materials	Canada	4.0
Sao Martinho SA	Consumer Staples	Brazil	3.8
JBS	Consumer Staples	United States	3.6
Avaya Holdings Corp	Information Technology	United States	3.3
Combined weight of top 10 holdings			45.8

Country exposure (top five)



Sector exposure (top five)



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Important information