From the moors north of Skagen, 1885. By P.S. Krøyer, one of the Skagen Painters. This image belongs to the Skagens Museum.

SKAGEN Global

Status Report February 2017

The art of common sense

SKAGEN

Summary – February 2017

- SKAGEN Global underperformed its benchmark index by 0.9% in February. The fund delivered a return of 3.6% while the benchmark MSCI All Country World Index gained 4.5% (measured in EUR).*

- Unilever, Citigroup, and 3M were the three best monthly contributors to absolute performance while NN group, Autoliv, and Ageas were the three largest detractors.

- The fund initiated a new position in Golar LNG, a global provider of liquefied natural gas (LNG) transportation services.

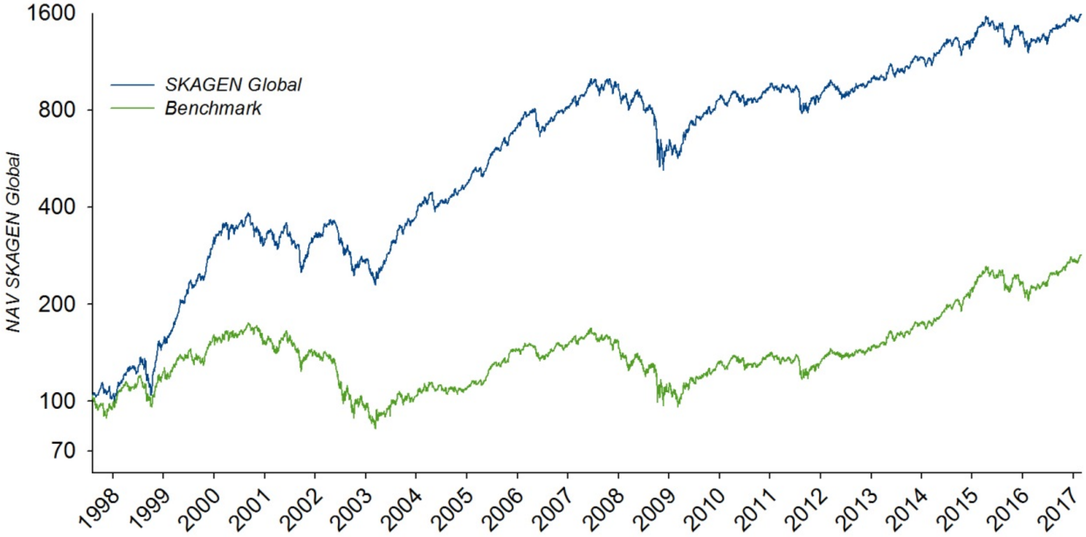
- We trimmed positions in Unilever and Comcast after favourable share price development. There were no significant buys during the period.

- The fund's top 35 holdings trade at a weighted Price/Earnings (2017e) of 14.0x and a Price/Book of 1.8x vs. the index at 20.4x and 2.2x, respectively.

- The weighted average upside to our price targets for the fund's top 35 holdings is 25%.

** Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.*

SKAGEN Global A results, February 2017

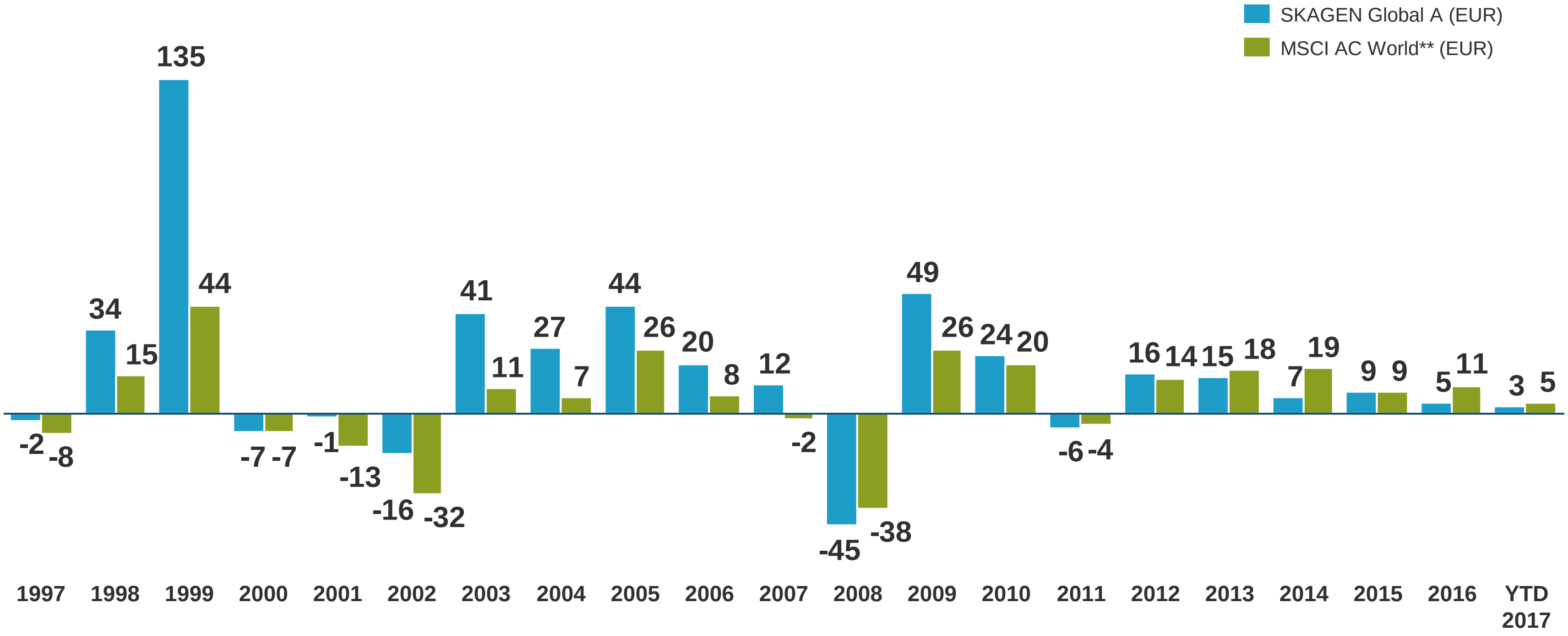


	February	QTD	2016	1 year	3 years	5 years	10 years
SKAGEN Global A	5,1%	3,3%	9,6%	22,1%	11,1%	10,7%	6,1%
World Index*	6,0%	4,9%	16,3%	27,6%	17,5%	15,3%	6,2%
Excess return	-0,9%	-1,6%	-6,7%	-5,5%	-6,4%	-4,6%	-0,1%

Note: All returns beyond 12 months are annualised (geometric return)
** Inception date: 7 August 1997*
*** Benchmark index was MSCI World in NOK from 7 August 1997 to 31 December 2009 and MSCI All Country World Index from 1 January 2010 onwards*

Annual performance since inception (%)*

SKAGEN Global A has beaten its benchmark 15 out of 20 years



Note: All figures in EUR, net of fees

** Inception date: 7 August 1997*

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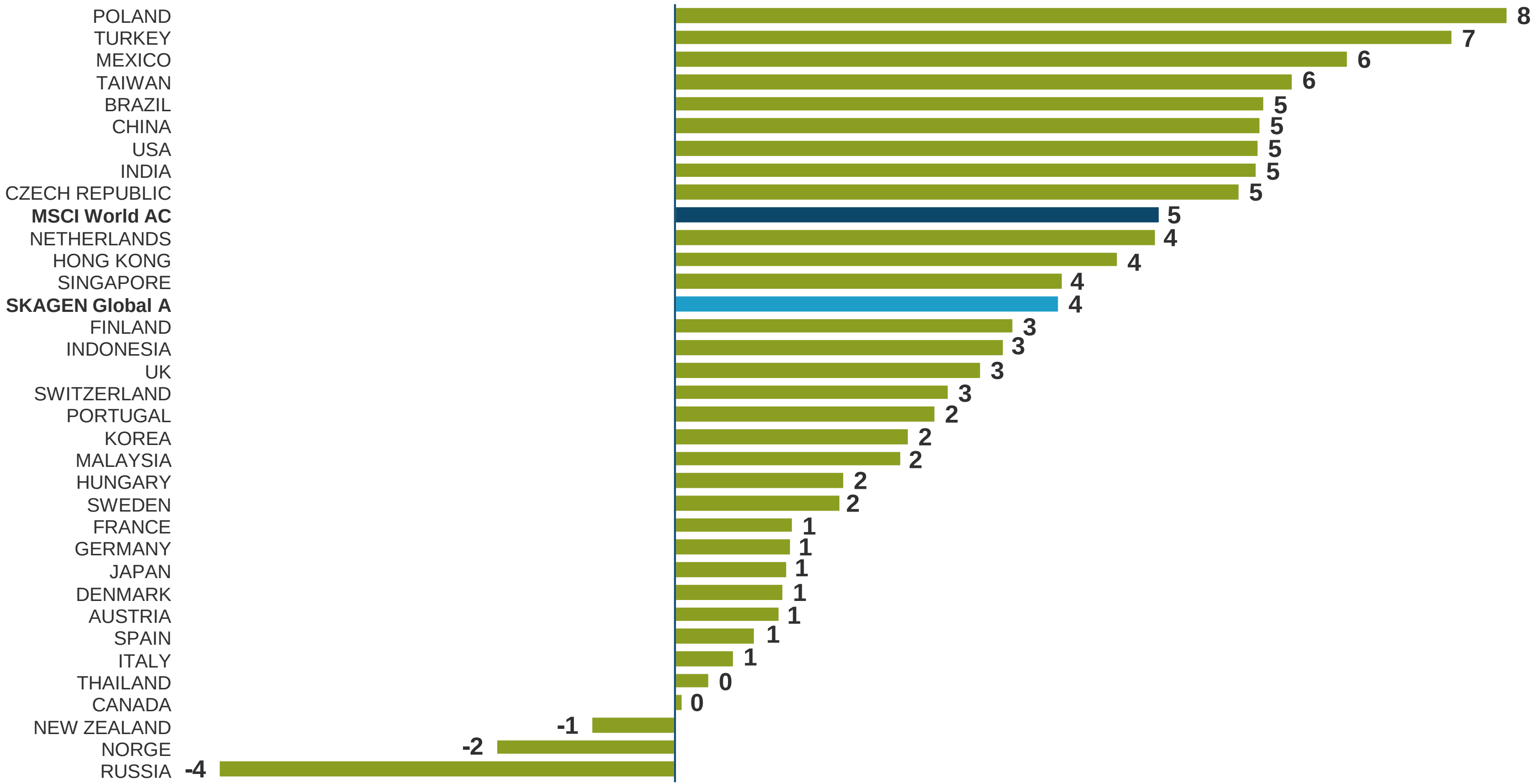
Markets in February 2017, EUR (%)



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Main contributors MTD

Largest positive contributors

Company	NOK Millions
Unilever	248
Citigroup	100
3M	90
Merck & Co	81
Teva	69
Medtronic	62
Roche	57
CK Hutchison Holdings	53
Cap Gemini	43
General Electric	32

Largest negative contributors

Company	NOK Millions
NN Group	-94
Autoliv	-40
Ageas	-39
Lenovo Group	-16
Samsung Electronics	-15
China Mobile	-14
Carlsberg	-10
Kingfisher	-6
Lundin Petroleum	-4
Akzo Nobel	-3

Value Creation YTD (NOK MM): 951

NB: Contribution to absolute return

Main contributors YTD 2017

Largest positive contributors

Company	NOK Millions
Unilever	165
Samsung Electronics	99
Merck & Co	90
CK Hutchison Holdings	78
Medtronic	72
G4S	69
IRSA	42
Roche	41
Comcast	41
Alphabet (Google)	25

Largest negative contributors

Company	NOK Millions
General Electric	-97
NN Group	-94
AIG	-65
Autoliv	-57
Teva	-49
Kingfisher	-30
Citigroup	-27
Ageas	-26
Dollar General	-24
Philips	-13

Value Creation YTD (NOK MM): 413

NB: Contribution to absolute return

Most important changes Q1 2017

Holdings increased

Q1

Hyundai Motor	(New)
Golar LNG	(New)

Holdings reduced

Q1

AIG
Samsung Electronics
Unilever
Comcast

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Holdings increased and decreased during February 2017

Key buys

- During the month we initiated a small position in **Golar LNG**, a global provider of liquefied natural gas (LNG) transportation services, as we think the market undervalues the company's new projects and pipeline. See attached fact sheet for more information.

Key sells

- We took a few chips off the table in the Anglo-Dutch transnational consumer goods company **Unilever** after the share price spiked 13% in response to the bid from Kraft-Heinz. Note that Unilever remains a large, high-conviction position in the fund.
- We trimmed the US media company **Comcast** after strong share price performance.

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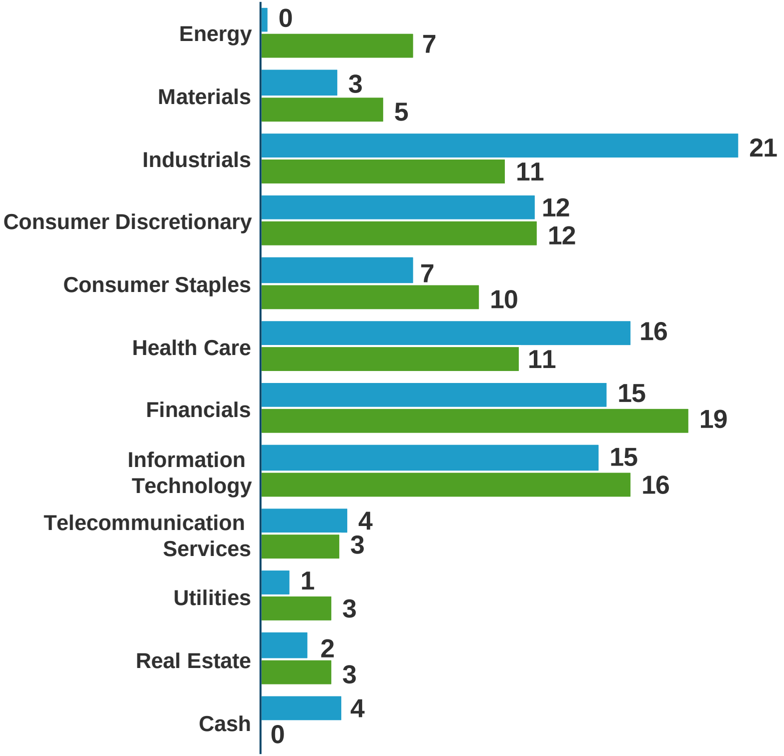
Largest holdings in SKAGEN Global

	Holding size, %	Price	P/E 2016a/e	P/E 2017e	P/BV last	Price target
CK HUTCHISON HOLDINGS	5,1	95,9	11,7	10,8	0,9	140
ROCHE	4,6	244,7	16,8	15,8	8,7	360
CITIGROUP	4,6	59,8	12,7	11,5	0,8	70
UNILEVER	4,6	44,6	23,7	21,7	7,7	52
AIG	4,6	63,9	16,3	12,8	0,8	90
GENERAL ELECTRIC	4,3	29,8	20,0	18,2	3,4	36
MICROSOFT	4,1	64,0	22,9	21,7	7,2	68
MERCK	4,1	65,9	17,4	17,3	4,5	76
3M	3,9	186,4	22,8	21,6	10,8	230
SAMSUNG ELECTRONICS	3,9	1 496 000	9,3	7,0	1,1	1 650 000
Weighted top 10	**43,8**		**15,8**	**14,0**	**1,8**	**25 %**
Weighted top 35	**90,1**		**15,4**	**14,4**	**1,7**	**31 %**
MSCI AC World			**20,4**	**16,4**	**2,2**	

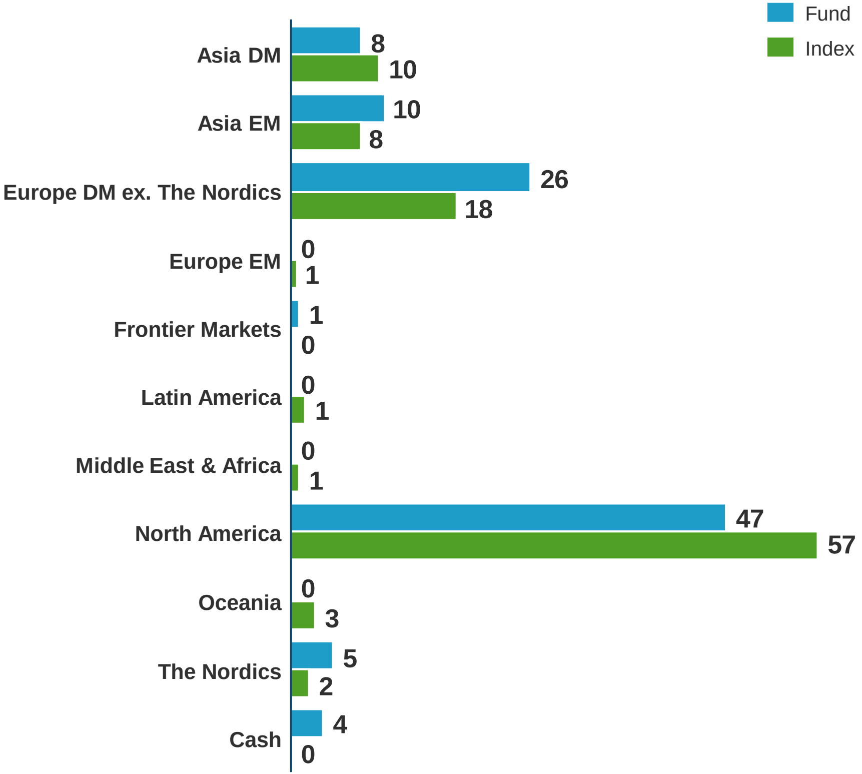
As of 28 February 2017

SKAGEN Global sector and geographical distribution

Sector distribution



Geographical distribution



Key earnings releases and corporate news, Feb 2017

Unilever

(4.6%)

Kraft-Heinz offers 18% premium to buy largest holding in SKAGEN Global

Summary: Kraft-Heinz announced that it made a “comprehensive proposal” to acquire (or merge with) Unilever. Unilever rejected the bid (€47/share, an +18% premium) citing that it “fundamentally undervalues” the company and added that the company “rejected the proposal as it sees no merit, either financial or strategic, for Unilever’s shareholders and sees no basis for any further discussions.” Unilever revealed that the offer comprised $30.23 per share in cash, payable in USD (60% of the bid price), and 0.222 new enlarged entity shares per existing Unilever share (40%). This represented a total equity value for Unilever of approximately $143bn (€134bn), valuing it at 15.4x on an EV/EBITDA basis. Unilever's stock was up +13% on the news.

Investment case implications: Very positive. There is clear upside to our base case target price if you assume the company optimises its underleveraged balance sheet and aggressively targets cost cutting. If the deal does not go through (note that Kraft-Heinz later withdrew the proposal), we would expect significant pressure on management to address these issues. We agree with Unilever’s management that the current bid significantly undervalues the company. It is a discount to major food and HPC deals. However, we have somewhat reduced our position following the strong share price reaction as: i) even at an improved price, we see a high likelihood of the board rejecting the offer. Unilever's culture has always been focused on long-term, socially responsible, environmentally friendly, and sustainable performance, with strong consideration of all stakeholders and the company culture – that does not seem well aligned with Kraft-Heinz’s current philosophy (short-term focus on extracting value and then moving on to the next deal). ii) a hostile bid would most likely be difficult as Unilever has a “Stichtung” (translation: Foundation) in place in the Netherlands, which is a trust office managed by an independent Board. There is precedent for a Stichtung being used to develop a "poison pill" defence to hostile takeovers in the Netherlands. We plan to engage with management of Unilever to make sure they understand our view of fair value and the consequences of not allowing shareholders to ultimately determine the outcome of the Kraft-Heinz proposal.

Merck

(4.1%)

Several shots at goal in 2017

Summary: The US drug company Merck reported in-line Q4 results with sales $10.1bn (-1% YoY), 32.2% operating margin (flat) and $0.89 EPS (-4% YoY). The novel cancer drug Keytruda is ramping up and contributed $483m in sales (+126% YoY) – note that it carries a gross margin above that of the group. If the latest Keytruda filing is approved in May 2017, it could increase the addressable US patient population by 4x to over 70,000. Conservative 2017 guidance in-line with expectations and the dividend hiked by 2% (3% dividend yield).

Investment case implications: Minor positive as the potential of the immunotherapy (cancer) drug Keytruda is starting to get some recognition in the market. A sell-side report (Bernstein) recently described Merck as a stock that “still remains out of favour with many investors”. We have taken a contrarian view since investing in Merck in 2015 as we see its pipeline ascribed a very low value by the market. The former ice-hockey star Wayne Gretzky once said “*You miss 100% of the shots you don't take*”. We see Merck taking several shots at goal in 2017 and if they score one or two of them, that will likely be sufficient to drive the share up towards our target price. To that point, over the next few quarters there will be filings on Keytruda approvals and read-outs of an Alzheimer’s study and a cholesterol study; the latter two are predicted by the market to fail and hence a positive outcome would be a positive surprise that is not in the current share price.

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

AIG

(4.6%)

Swings to a net loss in Q416 as major reserve charge is announced

Summary: The company reported a net loss of $3bn including a $5.6bn reserve charge. Approximately $3.0bn returned to shareholders in Q4 2016 through buybacks and dividends. Book value at the end of the quarter was $76.6/share.

Investment case implications: The US multi-line insurer AIG was bailed out by the US government following the financial crisis and has since then started a transformation process aimed at reaching peer-group profitability and exiting non-core assets. The reserve charge, which was significantly larger than we and the market expected, covers the majority of the US long tail line reserves for accident years 2015 and prior. The charge was taken in relation to a retroactive reinsurance agreement with Berkshire Hathaway which should reduce concerns regarding AIG's US long-tail commercial reserve adequacy going forward, an area which has been an overhang on the stock. Underlying fundamental trends continued to be weak with normalised ROE of 4.8% vs. 6.6% a year ago. The company also lowered its 2017 ROE target to 9.5% from 10.0%. AIG reaffirmed its commitment to return $25bn to shareholders but cautioned that actions from regulators and rating agencies might impact the capital return capacity following the weak results. The share traded off post-results but we think in a mid-term perspective the recent actions may pave the way for a more predictable earnings stream. Also, considering the weak results it is not impossible that AIG activist investors, including Carl Icahn, will renew their push for structural and/or management changes. The stock is trading at 0.8x book value with continued bright prospects for capital returns and with a longer term ROE potential in line with the peer group, even in a non-split scenario.

Teva

(3.1%)

Teva loses court case on Copaxone patent #4

Summary: A US court has invalidated Teva's #4 patent on 40mg Copaxone, potentially allowing generic competitors to launch at their own risk. Teva will appeal the decision.

Investment case implications: Negative, but in-line with expectations for this deep value case. After losing Copaxone lawsuits on patents #1-3 in 2016, we (and the market) largely expected the judge to invalidate patent #4 as well. However, the litigation saga is not yet over as Teva may appeal this verdict and thus prevent competitors from launching generic products for another 12+ months. Additionally, Teva has patents #5 and #6 that have not yet been ruled on by a court of law, so any generic competitor which chooses to take the risk of selling a generic copy of Copaxone at this point may face material damage claims if patents #5 and #6 were to be upheld. Note that patent #5 was issued as recently as Aug 2016. It is also unclear how many generic competitors would and could enter the market (they still need FDA approval for the generic version). From a financial point of view, losing exclusivity on the high-margin Copaxone (>80% GM vs. generics c. 50%) drug will obviously impact group margins and earnings negatively. In early January, Teva guided that the launch of two generic Copaxone 40mg products would reduce the group's $4bn Copaxone revenues by $1bn and EPS by c. 15%. While this sounds and is negative, we note that the share has priced in significantly negative news and the Teva share has actually already recouped the loss (-3%) it suffered on the day of the court verdict.

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

CMS Energy

(1.3%)

Steady and solid results from the Michigan utility CMS Energy

Summary: CMS Energy reported FY 2016 EPS at $2.02, +7% YoY. 2017 guidance assumes 6-8% EPS growth, 7% dividend growth and 62% payout ratio.

Investment case implications: In-line with thesis. CMS Energy is a single-state (Michigan) mid-sized ($12bn market cap) regulated utility. It is commonly seen by analysts and investors alike as a boring company without big-boom triggers. However, we take a contrarian view (stock is 71% SELL/HOLD) and see several mini-triggers underpinning a reasonably attractive investment case (with 7% EPS and 7% DPS growth) where reliability and predictability are underpriced at current levels. The next trigger is the electric rate case order which will be announced next month.

Skechers

(1.2%)

Solid quarter for the second largest footwear brand in the US

Summary: Q4 earnings below expectations but quarterly sales numbers and sales outlook are what dictates the direction of the share price. International wholesale grew by 17% vs. the market's expectation of 2% as Asian market sales are expanding much faster than anticipated. Skechers' conference call commentary suggested that FY17 International sales could climb by 25%, well above market expectations. So for business outside the US, the future looks bright. The US, on the other hand, is not doing so well with wholesale down 12%, missing market estimates. Again, commentary on the call suggests Q4 could be the bottom as Skechers guided Q1 to be flat to slightly positive for wholesale. Many US retailers are struggling, but Skechers is experiencing significant Amazon growth. The new product will debut in early April. No more clarity on use of cash on the balance sheet, but when they start doing so it will likely be share buybacks over dividends according to the CFO.

Investment case implications: Skechers' international opportunity looks very compelling. The company targets international sales to be more than 50% of total sales within 2-3 years from today's 46%. China sales have grown from $80m in 2014 to $220m in 2015 and reached $375m in 2016. Most likely they will surpass $500m in sales for 2017. So with continued expansion internationally we think they could grow topline by 10%+ annually. Gross margins have improved as they have been able to keep costs flat while increasing ASP by a 4% CAGR since 2011. This includes FX headwinds as they are not hedged. So we would look for healthy topline growth and gross margin improvement over the next few years. This leads to better earnings, better cash flow and an even better balance sheet which today holds a cash position of roughly $4.6 per share. The stock trades at 13x earnings and if we strip out the cash this is less than half the multiple compared to its peers. We see Skechers being able to close some of this gap.

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The 10 largest companies in SKAGEN Global

Founded in 1950 as a plastics manufacturer by its current main shareholder Li Ka Shing, CK Hutchison Holdings is now a multinational conglomerate. The company holds the non-property businesses of the former Cheung Kong and Hutchison group. The group owns assets in (as % of 1H 2015 total EBITDA): Infrastructure (37%), Telecom (20%), Retail (15%), Ports 13%), and Energy (11%).

Roche is a leading pharmaceuticals and diagnostics company based in Switzerland. Half of group sales and 2/3 of EBIT are derived from the company's Big 3 oncology franchises: HER2 (breast cancer), Avastin (colorectal cancer), and MabThera/Rituxan/Gazyva (blood cancer), each about USD 7bn of revenue. These businesses all come from Genentech, in which Roche has been a majority owner since 1990, and bought the last 46% in 2009.

Citi is a US financial conglomerate with operations in more than 100 countries worldwide. The bank was bailed out by the US government during the credit crisis and subsequently raised USD 50bn of new capital. Consists of two units: Citi Holdings which is a vehicle for assets that are to be run down and sold and Citi Corp which is the core of the going concern business. In Citicorp 60% of revenues are derived from outside the US - mainly from emerging markets.

Unilever is a manufacturer of branded and packaged consumer goods. Main segments are food (24% of sales), refreshment (19%), personal care (38%), and home care (19%). The company operates in more than 180 countries and emerging markets now account for more than 50% of sales. We think the market underestimates the long-term organic growth in emerging markets and Unilever's ability to increase margins. Due to very high ROIC, growth will be produced with a minimal "growth" CAPEX, enabling the company to grow and maintain a high pay-out ratio.

AIG is an international insurance company serving commercial, institutional and individual customers. The company provides property-casualty insurance, life insurance and retirement services. AIG was at the very centre of the financial crisis as the central bank for mortgage insurance – it was bailed out in a USD 180bn bail out. The company has two core insurance holdings that it intends to keep: Sun America and Chartis.

The 10 largest companies in SKAGEN Global (continued)

Founded in 1892 by Thomas Edison et al., General Electric (GE) operates two divisions (GE Industrial and GE Capital) contributing approximately the same proportion of group earnings. GE is the world's 10th largest publicly-traded company and boasts the 6th most valuable brand. The industrial segment is a play on global infrastructure with a high-margin service business and a large installed base producing a wide variety of capital goods ranging from aircraft engines and power turbines to medical imaging equipment and state-of-the-art locomotives.

Microsoft is the world's largest software company and delivers software to a number of applications from PCs to servers and cell phones – its most famous product is Windows and the affiliated Office Software Suite. In recent years the company has also diversified into video game consoles, ERP systems, internet search and cloud-based computing. Despite a strong push for diversification, 80% of the company's revenues and nearly all its profits come from three main areas: Windows OS, Windows Server and the business division (Office Suite).

Founded in 1891, Merck & Co is a US large-cap pharma company (and #7 worldwide by revenue) with a broad pharma portfolio and a solid pipeline (R&D 16-17% of sales). HQ in New Jersey and 70,000 employees. Sales by division (2014, USD 42bn): Diabetes (14%), Infectious Diseases (18%), Vaccines (13%), Animal Health (8%), Oncology (2%), Other (45%). Consensus expects legacy drugs sales to shrink by single-digit percent annually.

3M is a US-based conglomerate selling products ranging from medical devices and office Post-it© notes to purification filters and safety harnesses. Since its inception in 1902, 3M has paid a dividend without interruption for 99 years and raised it for 58 consecutive years. 3M is headquartered in St. Paul's, MN and employs 90,000 people. Key objectives of 2016-2020 Strategic Plan: 2-5% Sales / 8-11% EPS CAGR, 20% ROIC and 100% FCF conversion.

Samsung Electronics is one of the world's largest producers of consumer electronics. The company is global #1 in mobile phones and smartphones, the world's largest in TV and a global #1 in memory chips. Samsung also produces domestic appliances, cameras, printers, PCs and air conditioners.

GOLAR LNG LTD (GLNG US) $24.8

History, business model and source of investment idea

- Golar LNG is a global provider of liquefied natural gas (LNG) transportation services with over 30 years of experience. Golar developed the world`s first Floating Storage and Regasification Unit (FSRU) project based on the conversion of existing LNG carriers. It has plans to grow the business further upstream via Floating liquefaction (FLNG). The goal is to become an integrated midstream player in the LNG industry. Golar has JVs with Schlumberger (One LNG) and Stonepeak (Golar Power). In addition, Golar owns 33% of US listed Golar LNG Partners.

- Case identified through SKAGEN Global internal proprietary research.

ESG

- Golar does not face any ESG controversies.

Rationale for investment

- Gas is significantly cheaper than oil to produce. Gas will be the long-term complement to renewable power generation and a key part of an environmentally friendly power grid. FLNG works when traditional LNG does not due to lower costs.
- The start-up of export facilities in Australia and the US should drive demand for carriers. In addition, there are more FSRU units that potentially could lead to a better spot market for LNGC. Golar LNG Q3 2016 fleet utilisation is at 37% so there is clearly room to improve.
- First FLNG project on track. Will start up from Q3 2017. Second FLNG project expected FID in H1 2017 (Ophir).
- Growing FSRU pipeline with the Sergipe project in Brazil already signed. Second project to provide a FSRU to a consortium led by Total in Equatorial Guinea with start up mid 2018.

Triggers

- More FLNG contracts
- Consolidation
- Splitting out LNGC

Risks

- FLNG building issues and delays
- Emerging markets counterparties

Target price: Legacy fleet + MLP ($15), Golar Power($5.5), Hilli ($9.5) and One LNG ($8) takes current value to $38. Adding $10+ upside on risked new projects is conservative and takes our base case target price to $48

Key Figures	
Market cap	USD 2.48bn
Daily turnover	USD 40m
No. of shares	101.1m
ROE 2016	n/a
P/E 2016	x
P/B 2016	1.5x
EV/EBITDA 2017	58x
DY 2016	0.8%
# of analysts	21
with Sell/Hold	5%

Largest Owner

1. Vanguard 11.2%
2. Blackrock 7.5%

www.golargas.com

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3U acid test

Unpopular

- The transportation market for LNG (which is GLNG’s primary activity) is currently facing tough industry dynamics. Additionally, the market fears that low energy prices will impact future returns for the FLNG business.

Under-researched

- Well covered by 21 analyst but most of them focus on the short-term transportation business and not on the future business opportunity within FLNG in which the company has a leading position.

Under-valued

- Current value omits the FLNG opportunity and with this included we see a share price close to $50.

For more information please visit:

Our latest Market report
Information on SKAGEN Global A on our web pages

Unless otherwise stated, performance data 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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