

## Divergence between markets and the real world

While we remain pleased with the progress of corporate transformation across the portfolio, the fund continued to face headwinds during the third quarter. The relative performance was negatively impacted by the same factors as in the previous quarter, including the fact that myopic investors are shying away from activist-type situations in times of elevated market uncertainty (such as US-China trade tensions and political uncertainty in Italy). This is because short-term/mainstream investors do not believe these companies are capable of positive change to begin with and are certainly not keen to take the risk when equity markets are in turmoil.

As a result, Insight's portfolio is even more undervalued than at the start of the year – fundamental trends remain positive, but the price at which we are able to buy into these situations has come down materially. Importantly, recent market stress has also increased the sense of urgency within our portfolio companies, which is expected to improve the trajectory of corporate transformation. This reinvigorated opportunity for activists to catalyse positive change bodes well for medium-term performance.

### ThyssenKrupp catches a break(-up)

The most obvious recent example that change is accelerating in the real world is the announced break-up of ThyssenKrupp. This route, while highly value-accretive for shareholders, was widely considered by mainstream investors to be extremely unlikely (the announcement triggered a +17% intraday spike in the share price). We had taken a contrarian view and held ThyssenKrupp as our largest holding because we believed stars were in fact aligning for a near-term simplification of this industrial conglomerate. This situation is now a case in point that the sense of urgency and openness for change goes up when the share price goes down. The change that was announced is quite simply so groundbreaking that it puts ThyssenKrupp on a completely different track with investors; lots of people who had given up on the company will now come back and look at the situation with fresh eyes. We are sure many of them



We believe that the share price in ThyssenKrupp has potential to more or less double from here. Photo: Bloomberg

On the negative side, Diebold Nixdorf and General Electric were the fund's largest detractors. Diebold was caught up in a negative tailspin as hedge funds were betting it would run out of cash. Encouragingly, the situation has now been resolved with a new debt-financing deal in place. In fact, this financing deal makes Diebold even more valuable for shareholders than before, while putting pre-existing bondholders in a worse position as they have effectively been subordinated by the new first lien debt. This is because the company was able to buy out some minority shareholders on the cheap using its new cash resources. Importantly, the new deal also buys management time to focus on fixing the business turnaround instead of worrying about speculative hedge funds. The stock price has not yet recovered, however.

will come to realise just how deeply undervalued this company is. Our view remains that the share price has potential to more or less double from here, which is why we have yet to sell any shares.

### Top contributors

Armstrong Flooring and Teikoku Sen-I were the fund's largest positive contributors. Armstrong surprised the market with a strong set of results. The second quarter seemed to be a turning point for the company, with management doing all the right things to restore growth and improve margins. We had opportunistically added to the position beforehand and were handsomely rewarded as the stock leapt into Insight's number 1 position. We have subsequently scaled back our exposure as the stock is now closer to our target price.

Teikoku is another interesting company that took most people by surprise when it posted an astonishing revenue growth of +126% YoY in the second quarter – not bad for a Japanese domestic supplier of disaster prevention equipment that is normally quite predictable. While results were boosted by an earthquake hitting the Osaka region during June and heavy rainfall in western parts of Japan, they illustrate the company's strong position in preparing the country for the upcoming Tokyo Olympic Games in 2020. The stock is up close to 70% from its March lows but remains deeply undervalued due to its overcapitalised balance sheet. Before the recent share price surge, investors were actually not paying anything for Teikoku's business as the value of its financial assets surpassed the company's market capitalisation. We believe this situation has the potential to become a future textbook example of successful activist investing in Japan. The upcoming proxy season early next year may well be the time when Teikoku's shareholder value potential is unlocked. We have therefore not yet sold any shares and Teikoku remains one of Insight's largest holdings.



Armstrong Flooring surprised the market with a strong set of results and were the fund's largest positive contributor. Photo: Armstrong Flooring

### Outlook

Insight's portfolio trades at a deep discount on normalised earnings versus the broader market: P/E (t+3) of 8.7x versus 13.6x. We view this as a good recipe for longer-term excess returns, especially as the globalisation of shareholder activism is now accelerating. These are indeed exciting times for the fund.

SKAGEN Insight invests in a diversified and actively managed portfolio of companies exposed to some of the most attractive activist campaigns globally. Activists seek to unlock value by urging companies to make improvements. SKAGEN Insight "shadows" activists by investing in these companies. The objective is to provide the best possible risk adjusted return. The fund is suitable for those with at least a five year investment horizon.

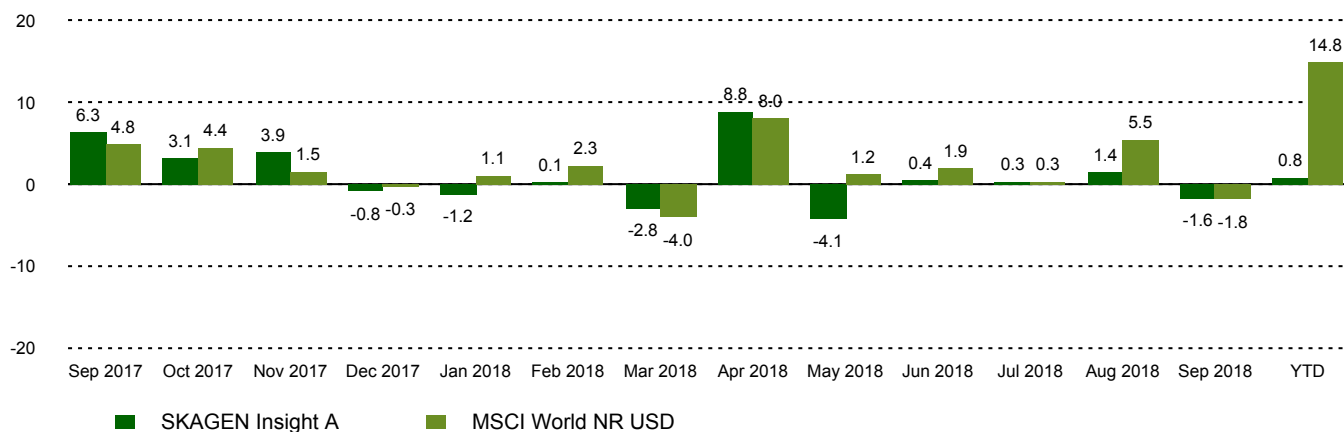
## Historical performance (net of fees)

Period	SKAGEN Insight A	Benchmark index
Last month	-1.6%	-1.8%
Last 2 months	-0.3%	3.6%
Quarter to date	0.1%	3.9%
Year to date	0.8%	14.8%
Since start	12.5%	24.7%

## Fund Facts

Type	Equity
Domicile	Norway
Launch date	21.08.2017
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0010801558
NAV	116.58 SEK
Fixed management fee	1.5%
Total expense ratio (2017)	1.50%
Benchmark index	MSCI World NR USD
AUM (mill.)	301.17 SEK
Number of holdings	31
Portfolio manager	Tomas Johansson

## Monthly performance



## Contributors in the quarter



### Largest contributors

Holding	Weight (%)	Contribution (%)
Armstrong Flooring Inc	5.35	1.71
Teikoku Sen-I Co Ltd	5.52	1.38
Conduent Inc	3.80	0.97
Ericsson	3.72	0.70
Dai-ichi Life Holdings Inc	3.61	0.57



### Largest detractors

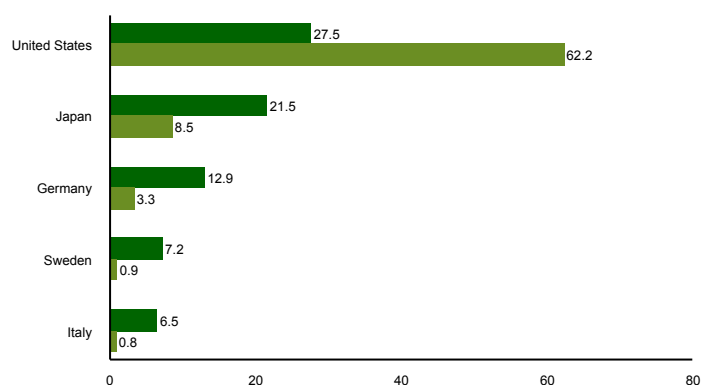
Holding	Weight (%)	Contribution (%)
Diebold Nixdorf Inc	3.50	-3.14
General Electric Co	3.83	-0.64
Hudson's Bay Co	3.72	-0.62
Telecom Italia SpA/Milano	3.54	-0.62
General Motors Co	1.71	-0.30

Absolute contribution based on NOK returns at fund level

## Top ten investments

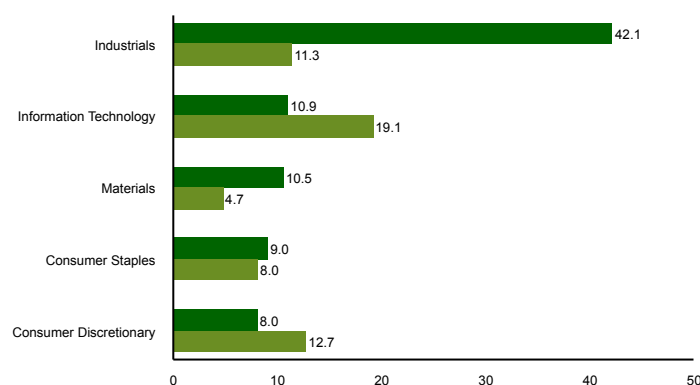
Holding	Sector	Country	%
thyssenkrupp	Materials	Germany	7.5
Teikoku Sen-I Co	Industrials	Japan	7.1
Armstrong Flooring	Industrials	United States	5.2
Eltel	Industrials	Sweden	4.9
Hertz Global Holdings	Industrials	United States	4.8
Rexel	Industrials	France	4.4
Dai-ichi Life Holdings	Financials	Japan	4.3
Telecom Italia Spa	Telecommunication Services	Italy	4.0
General Electric	Industrials	United States	3.7
Hudson's Bay Co	Consumer Discretionary	Canada	3.6
Combined weight of top 10 holdings			49.4

## Country exposure (top five)



■ SKAGEN Insight A ■ MSCI World NR USD

## Sector exposure (top five)



■ SKAGEN Insight A ■ MSCI World NR USD

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## Important information

Unless otherwise stated, performance data relates to class A units and is net of fees. AUM data as of the end of the previous month. Except otherwise stated, the source of all information is SKAGEN AS. Historical returns are no guarantee for future returns. Future returns will depend, inter alia, on market developments, the fund manager's skills, the fund's risk profile and subscription and management fees. The return may become negative as a result of negative price developments. You can download more information including subscription/redemption forms, full prospectus, Key Investor Information Documents (KIID), General Commercial Terms, Annual Reports and Monthly Reports from our local websites or our local representatives. Statements reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. This report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN AS does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of this report. Employees of SKAGEN AS may be owners of securities issued by companies that are either referred to in this report or are part of a fund's portfolio.