

Fertile ground for activist investors

Our focus is on generating strong long-term returns and we therefore make investments over a multi-year horizon. In retrospect, 2018 was a difficult year for activist investors globally. The short-term return of our shadow activism strategy was therefore also unsatisfactory. A significant proportion of the fund's relative underperformance versus the broader equity market last year was due to our exposure to activist campaigns – a market segment that we are explicitly targeting because it makes sense for the long term. Going forward we have high expectations that this underperformance will reverse due to the nature of these situations and the factors that have weighed on our short-term performance. It is important to remember that SKAGEN Insight is not an index fund, which is why it will outperform the market some years and likely underperform other years. We remain convinced that the strategy will prove itself over time.

Last year, we saw a broad-based devaluation of activist-led situations in the wake of the elevated market uncertainty. The key reason for this is that when mainstream investors get nervous, they tend to believe companies are incapable of positive change. We have taken a strong contrarian view and put emphasis on the fact that market volatility makes companies more susceptible to change, which increases activists' ability to be a positive catalyst in these situations. This reinvigorated opportunity for activists to be a force for change bodes well for medium-term performance and short-term volatility may actually turn out to be a good thing for the patient investor. As expected, we have also seen a steady rise in new activist campaigns globally. Activist investors are putting new money to work as the opportunity to change companies and make a difference is opening up.

Top contributors

Stock Spirits and Mondelez were the fund's largest positive contributors during the fourth quarter. Stock Spirits surprised the market with a set of strong results after having made its way back into SKAGEN Insight's portfolio a second time around. The company was part of our portfolio at fund inception in 2017 and we later exited the position as it approached its target price following strong share price performance. Stock Spirits later de-rated for no good reason and we took the opportunity to reinvest in the company.

On the negative side, ThyssenKrupp and Armstrong Flooring were the fund's largest detractors. We have actually been very encouraged by developments at these companies. Both holdings are high-conviction investments where we have seen activists play a decisive role in reshaping the companies' structure to make them less complex and release shareholder value. Clearly, the market has yet to appreciate the magnitude of value creation that we ultimately expect from these moves. It is worth highlighting that, as the share prices of these companies have fallen, so has the sense of urgency increased and helped activists to catalyse positive change.

Other portfolio situations with similar dynamics include General Electric, Hudson's Bay, ABB and Diebold Nixdorf. In fact, more than a third of SKAGEN Insight's current portfolio consists of companies where we have recently seen material change take place that we were generally only expecting to happen 2-3 years into the future, but where falling share prices have helped to frontload improvements. We are patiently waiting for the market to catch up.



Photo: Pasona Group

Corporate governance in Japan

Looking ahead to next year, one of the most interesting investment themes is the ongoing change of corporate governance in Japan. There is a real possibility this will make Japanese companies more competitive, especially from a capital allocation standpoint, and unlock hidden values for shareholders. Activists have an important role to play here. When we look at Japan today, we see many companies trading at valuations that do not seem to add up to us as value investors. One example, which recently made its way into the fund's portfolio is Pasona Group (currently around 3% weight). This is the third largest staffing company in Japan and is incredibly trading at an implied massively negative value as its market capitalisation is dwarfed by that of one of its listed subsidiaries.



Photo: Mondelez International Inc

Outlook

More broadly speaking, we see a lot of value potential across the portfolio given the fact that many of our holdings have traded down due to the nervousness of myopic investors and not to deteriorating fundamentals. SKAGEN Insight has a portfolio of deeply undervalued and underappreciated companies where fundamental trends are moving in the right direction and activists are increasingly becoming the catalyst for positive change. We see the potential for the portfolio to more than double over the next 2-3 years as markets stabilise.

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.

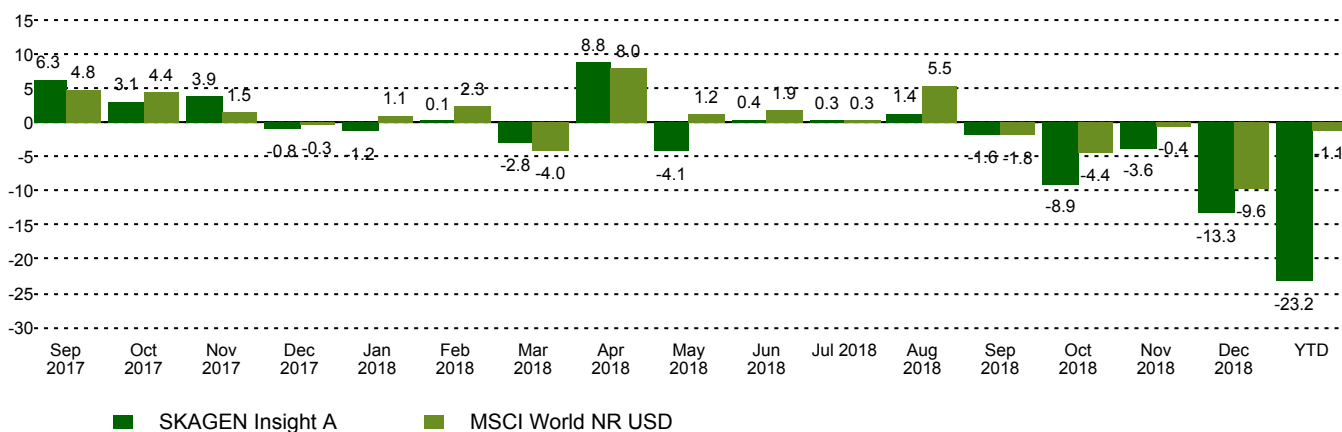
Historical performance (net of fees)

Period	SKAGEN Insight A	Benchmark index
Last month	-13.3%	-9.6%
Last 2 months	-16.4%	-10.0%
Quarter to date	-23.8%	-13.9%
Year to date	-23.2%	-1.1%
Since start	-9.8%	7.3%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	21.08.2017
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0010801558
NAV	88.87 SEK
Fixed management fee	1.5%
Total expense ratio (2017)	1.50%
Benchmark index	MSCI World NR USD
AUM (mill.)	194.83 SEK
Number of holdings	32
Portfolio manager	Tomas Johansson

Monthly performance



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Stock Spirits Group PLC	2.53	0.20
Mondelez International Inc	1.61	0.20
BHP Billiton Ltd	2.14	0.15
Ericsson	1.89	0.15
Newell Brands Inc	1.08	0.12



Largest detractors

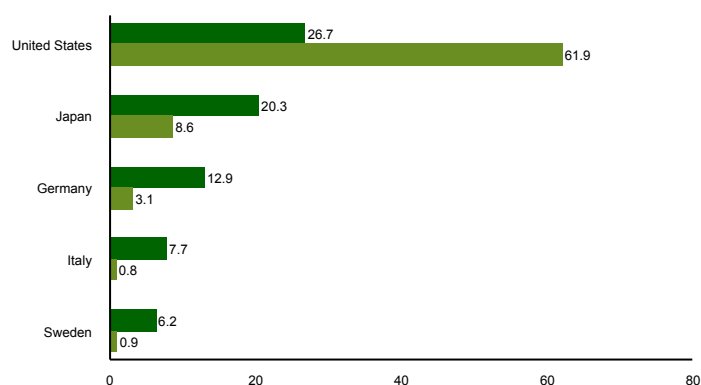
Holding	Weight (%)	Contribution (%)
thyssenkrupp AG	7.19	-2.15
Armstrong Flooring Inc	5.85	-1.91
Eitel AB	4.47	-1.75
Diebold Nixdorf Inc	2.90	-1.33
Teikoku Sen-I Co Ltd	7.00	-1.33

Absolute contribution based on NOK returns at fund level

Top ten investments

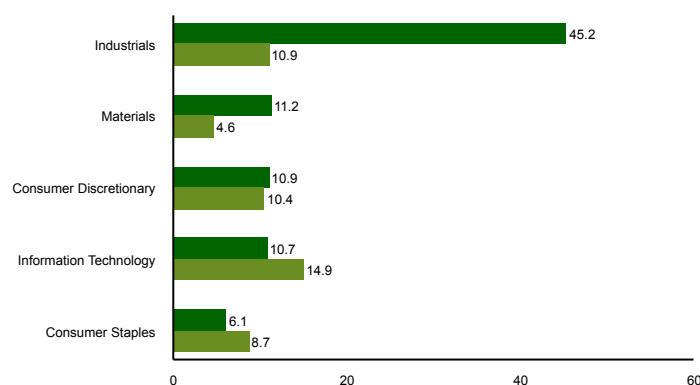
Holding	Sector	Country	%
Teikoku Sen-I Co	Industrials	Japan	7.5
thyssenkrupp	Materials	Germany	7.2
Hertz Global Holdings	Industrials	United States	5.6
Armstrong Flooring	Industrials	United States	5.3
Telecom Italia Spa	Communication Services	Italy	5.0
Rexel	Industrials	France	4.4
Eltel	Industrials	Sweden	4.2
Maxell Holdings	Information Technology	Japan	4.0
BHP Billiton Ltd	Materials	Australia	4.0
Katakura Industries Co Ltd	Industrials	Japan	3.9
Combined weight of top 10 holdings			51.2

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.