

Strong year for equities

2019 was a year of strong absolute performance for SKAGEN Insight and equity markets in general. Having said that, activists recorded another year of relative underperformance, making things difficult for us as shadow activists. While performance was an improvement on the previous year, it was not in-line with our expectations and the fund's relative underperformance was disappointing. This is not necessarily because activist strategies are proving ineffective to catalyse change. On the contrary, we have seen active minority investors make great strides to improve companies over the past year.

One of the best examples is at ThyssenKrupp, which has been SKAGEN Insight's largest holding throughout 2019. The company has gone through a complete governance overhaul and is now embarking on a strategy that is set to release massive shareholder value which was previously unthinkable for mainstream investors. However, we are yet to reap the benefits of all this work. With this in mind, we are optimistic that 2020 will be the year when markets come to appreciate Thyssen's transformation. This situation exemplifies our work: investing in positive change in the real world and waiting for investors in the equity market to recognise it. Sometimes our patience is tested, and 2019 was one of those years.

Largest contributors

The fund's largest positive contributors during the fourth quarter were Teikoku Sen-I and Rexel. The former company is one of our Japanese favourites that has been with the fund since inception. The stock performed strongly, recovering some of its lost ground since March, as people once again started to focus on the potential for positive

transformation of Teikoku's balance sheet. This development was supported by a new activist entering the shareholder register with a 5+% position. Clearly, the pressure is now on for the company to present material changes at its upcoming AGM in March 2020. We expect to support any shareholder proposals that translate into a better and more efficient Teikoku, including but not limited to higher dividends to instil stronger capital allocation discipline. Moreover, on the operational front we were not surprised when the company upgraded its fiscal year guidance by +20% across the board in late December. Other people were surprised, however, so the stock jumped +16% on the day of the news. Going forward, one should keep in mind that Teikoku, a leading provider of disaster prevention equipment in Japan, is likely to have another solid year in 2020 as it benefits from the preparations for the Tokyo Olympics.

On the last day of 2019 we also received positive news concerning another large holding, Hudson's Bay. We had flagged in our November update that we were expecting the insider group controlling around 57% of Hudson's to raise their takeover offer. We had also made our view clear to the management team that the two initial offers received from this group (and subsequently recommended by the board) were in fact too low. We were therefore pleased to see the insider group present a sweetened offer on New Year's Eve, which later caused the stock to rally to its highest level since we invested. We took this opportunity to fully exit our position at a solid profit.



Photo: Bloomberg

Largest detractors

SKAGEN Insight's largest negative detractors during the last quarter of 2019 were Armstrong Flooring and Eltel. The development at Armstrong has clearly been disappointing, and while some of the headwinds have been outside the company's control, it is becoming clear that the strategic shift implemented during 2018 has failed to bear fruit. The most noticeable headwind has been trade tariffs, as Armstrong has a production setup more skewed to imports from China than some domestic US-peers. With a seasoned new CEO in place, there may be reason for more optimism going forward. Also, it is difficult to ignore the fact that this is a company that bought back USD 50m worth of shares only six months ago (after having divested its Wood Flooring business for USD 100m - in line with our original investment thesis), versus its current market capitalisation of a meagre USD 90m. Hence, if things turn around operationally from here (and we believe they will), we would expect to see the stock to double several times over.



Photo: Bloomberg

Outlook

We continue to run a portfolio of deeply undervalued and underappreciated situations where minority investors are acting as the catalyst for positive change. This message is not news for people who have been following the fund since its inception two years ago. For 2020 we are likely to see a continuation of the long-term trends in the activist space; shareholders' voices will continue to grow in importance to shape companies' futures in a market that is otherwise ruled by passive and faceless capital. Our shadow activism-strategy taps right into this secular development where owners will trump investors.

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.

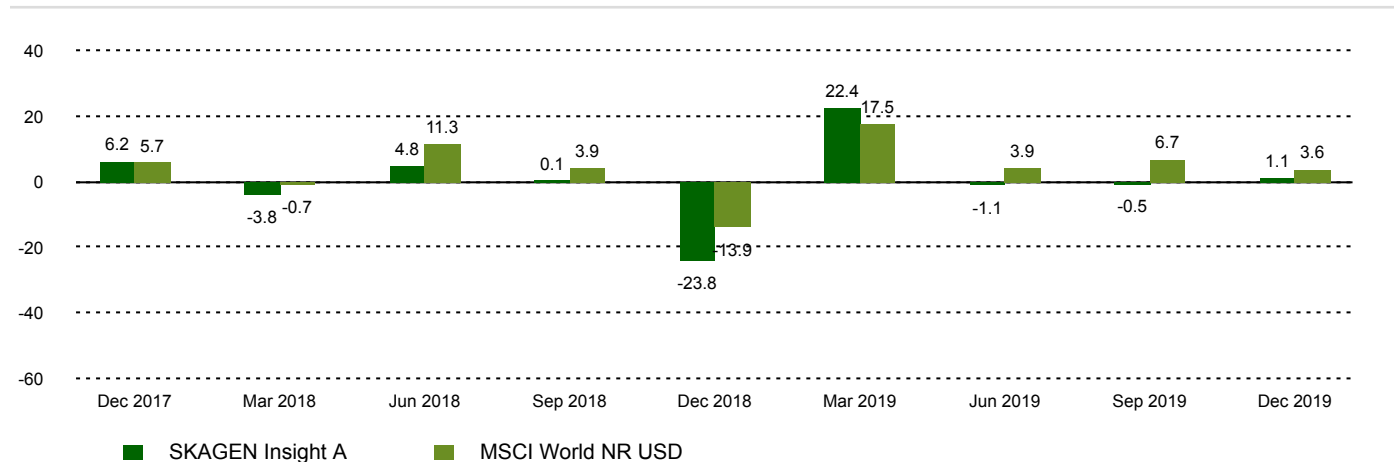
Historical performance (net of fees)

Period	SKAGEN Insight A	Benchmark index
Last month	1.4%	0.8%
Quarter to date	1.1%	3.6%
Year to date	21.8%	34.9%
Last year	21.8%	34.9%
Last 3 years	n/a	n/a
Last 5 years	n/a	n/a
Last 10 years	n/a	n/a
Since start	2.4%	18.2%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	21.08.2017
Morningstar category	Global Large-Cap Blend Equity
ISIN	NO0010801558
NAV	108.25 SEK
Fixed management fee	1.5%
Total expense ratio (2018)	1.50%
Benchmark index	MSCI World NR USD
AUM (mill.)	210.08 SEK
Number of holdings	34
Portfolio manager	Tomas Johansson

Quarterly Performance



Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Teikoku Sen-I Co	4.00	0.79
Rexel SA	3.96	0.75
Hain Celestial Group Inc	3.31	0.62
ABB Ltd	3.12	0.56
Banca Popolare di Sondrio	1.96	0.54

Largest detractors

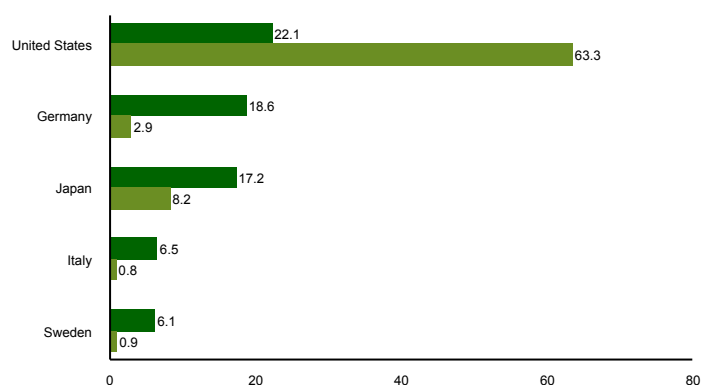
Holding	Weight (%)	Contribution (%)
Armstrong Flooring Inc	1.99	-1.10
thyssenkrupp AG	8.11	-0.35
Eitel AB	4.50	-0.32
Stock Spirits Group PLC	3.72	-0.30
Maxell Holdings Ltd	3.89	-0.24

Absolute contribution based on NOK returns at fund level

Top ten investments

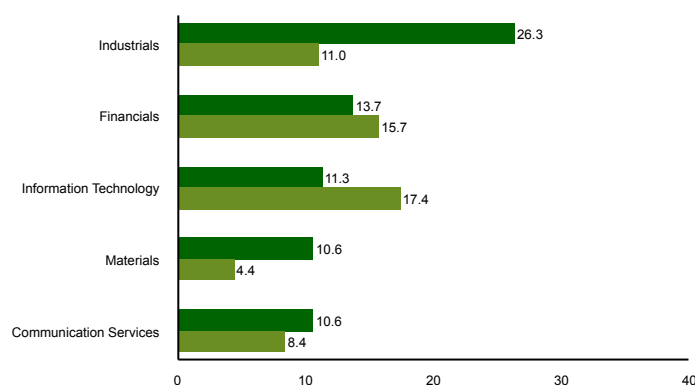
Holding	Sector	Country	%
Thyssenkrupp AG	Materials	Germany	8.0
Dai-ichi Life Holdings Inc	Financials	Japan	8.0
Telecom Italia SpA/Milano	Communication Services	Italy	5.5
AT&T Inc	Communication Services	United States	5.1
Nordea Bank Abp	Financials	Finland	4.7
ABB Ltd	Industrials	Switzerland	4.4
Conduent Inc	Information Technology	United States	4.2
E.ON SE	Utilities	Germany	4.2
Telefonaktiebolaget LM Ericsson	Information Technology	Sweden	4.1
Gea Group AG	Industrials	Germany	3.9
Combined weight of top 10 holdings			52.2

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.