



The Fisheries at Skagen Reef, 1892, Detail, By Carl Lecher, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Kon-Tiki

Status Report - March 2017

The art of common sense



Summary – March 2017

- SKAGEN Kon-Tiki* gained 1.5 % in March measured in SEK, in line with the MSCI Emerging Markets Index which was also up 1.5%.
- Our top three contributors in March were Samsung Electronics, Naspers and X5. Samsung was up on expectations of strong preliminary earnings. They also launched an impressive new flagship Galaxy S8 phone at the end of the month. Naspers was strong on signs of increased focus on portfolio rationalisation as well as good results from its holding company Tencent (their stake is worth 120% of Naspers' market cap alone). X5 reported good results, outgrowing the industry and delivering stronger margin performance than their competitors.
- The main detractors for the month were Banrisul, Johannesburg Stock Exchange (JSE) and Great Wall Motor. Banrisul and Great Wall Motor fell back slightly after an exceptional start to the year. JSE was impacted by the turmoil in South Africa caused by President Zuma firing the Finance Minister and reshuffling the cabinet. His actions prompted a downgrade of the nation's credit rating to junk by S&P and caused the currency to weaken.
- Emerging markets continue to trade at a discount to developed markets, with a 2017e P/E of 11.9x and P/B of 1.5x for EM, compared with 17x and 2.3x for DM, respectively.
- The top 12 positions account for almost 50% of the fund, and the top 35 account for 84%. The portfolio** remains attractively valued at a 2017e P/E of 9.9x and P/B of 1.2x. We currently see a 32% upside for our portfolio over a two-year horizon.

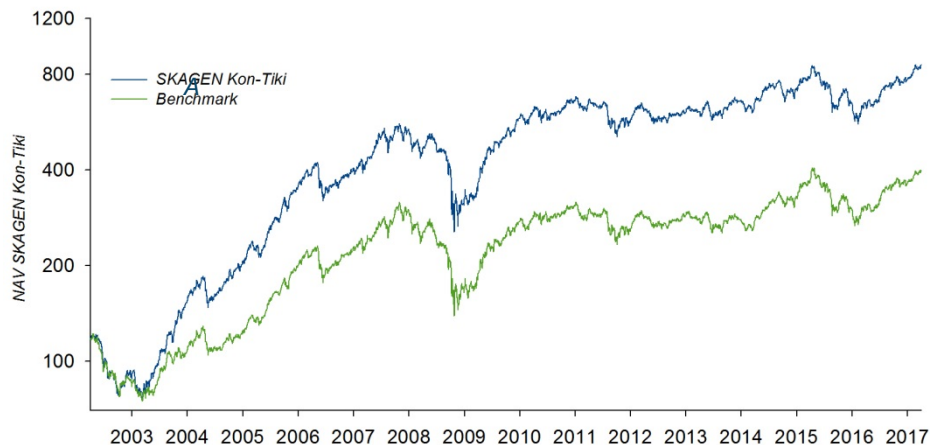
* Unless otherwise stated, all performance data in this report relates to class A units and is net of fees.

** Portfolio valuation refers to top 35 positions.

SKAGEN Kon-Tiki A results, March 2017

SEK, net of fees

A



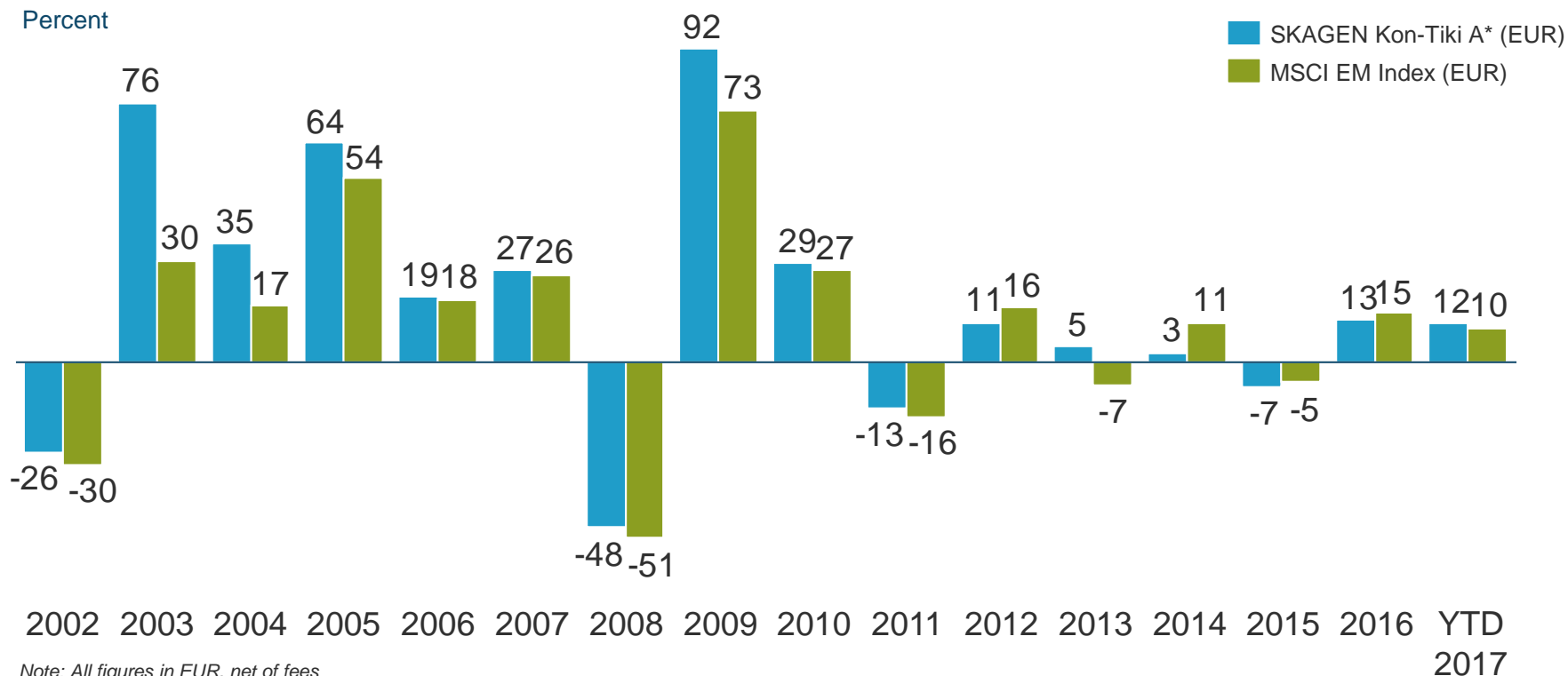
	March	Q1	1 year	3 years	5 years	10 years
SKAGEN Kon-Tiki A	1,5%	11,2%	32,3%	9,3%	6,8%	7,0%
MSCI EM Index	1,5%	9,7%	29,2%	12,7%	7,0%	5,2%
Excess return	0,0%	1,5%	3,1%	-3,4%	-0,2%	1,8%

Note: All returns beyond 12 months are annualised (geometric return)

* Inception date: 5 April 2002

Annual performance since inception*

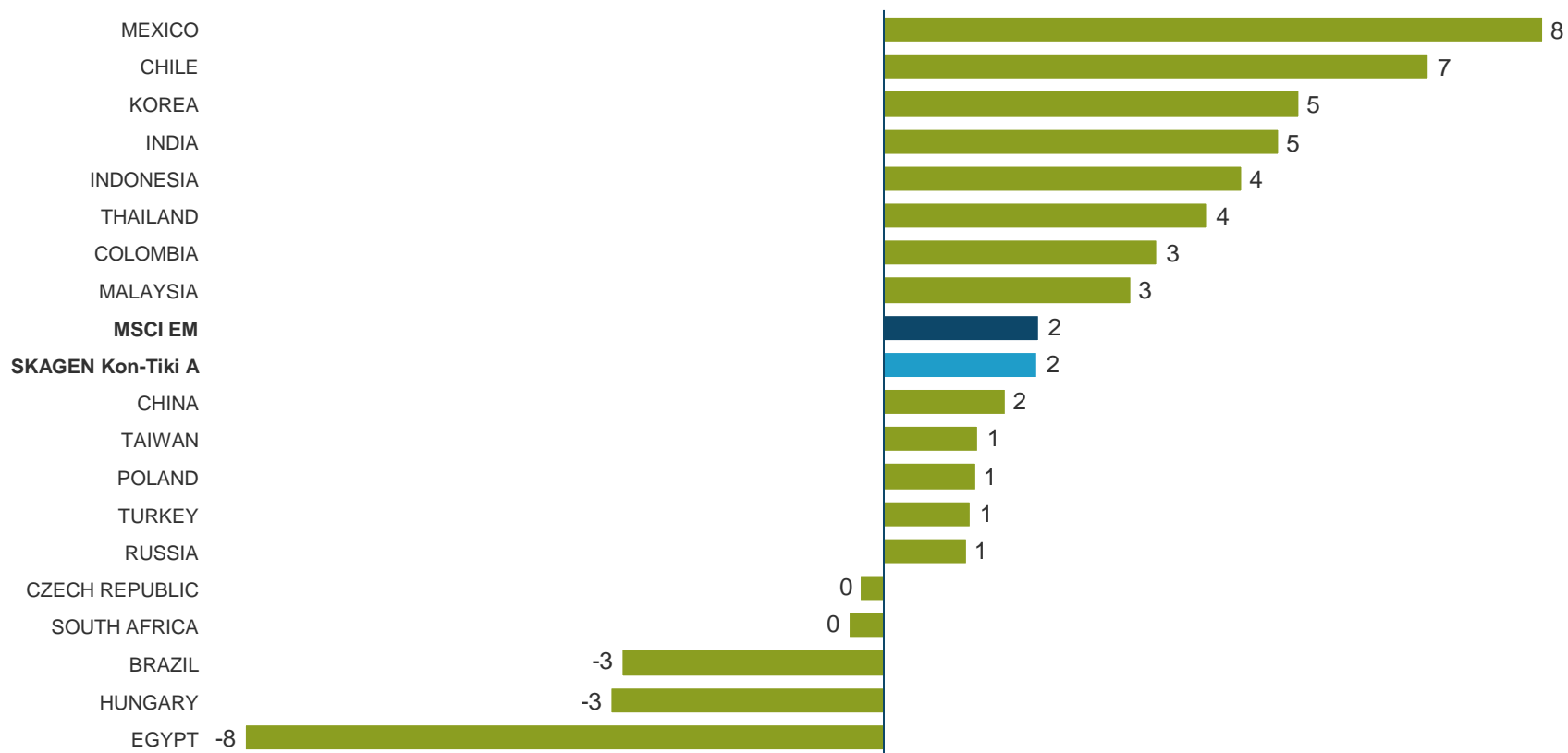
SKAGEN Kon-Tiki A has beaten the index in 11 out of 15 years



Note: All figures in EUR, net of fees

* Inception date: 5 April 2002

Emerging markets in March 2017, EUR (%)



Main contributors MTD

Largest positive contributors

Company	NOK Millions
Samsung Electronics	240
Naspers	157
X5 Retail Group	148
State Bank of India	146
Yazicilar Holding	137
Hyundai Motor	121
LG Electronics	74
Samsung SDI	70
Richter Gedeon	68
Mahindra & Mahindra	64

Largest negative contributors

Company	NOK Millions
Banrisul	-92
JSE	-64
Great Wall Motor	-38
Tullow Oil	-21
Norwegian Air Shuttle	-18
Marfrig Global Foods	-16
Tech Mahindra	-15
Massmart Holdings	-13
Norfinance	-4
OCI	-4

Value Creation MTD (NOK MM): 1719

NB: Contribution to absolute return

Main contributors YTD 2017

Largest positive contributors

Company	NOK Millions
Samsung Electronics	416
Banrisul	360
Hyundai Motor	256
Naspers	240
State Bank of India	204
Samsung SDI	189
Yazicilar Holding	174
Rumo Logistica Operadora	164
Mahindra & Mahindra	159
Great Wall Motor	140

Largest negative contributors

Company	NOK Millions
Tullow Oil	-68
JSE	-61
Norwegian Air Shuttle	-35
Marfrig Global Foods	-24
China Shineway Pharmaceutical	-13
Tech Mahindra	-10
East African Breweries	-7
Norfinance	-5
Diamond Bank	-4
Deep Sea Supply	-3

Value Creation YTD (NOK MM): 4008

NB: Contribution to absolute return

Most important changes Q1 2017

Q1 Holdings increased



Bangkok Bank (New)
Golar LNG
Borr Drilling Ltd
East African Breweries

Q1 Holdings reduced



ABB (Out)
Kiatnakin Bank (Out)
China Shipping (Out)
Development
Euronav (Out)
Frontline (Out)
Samsung Electronics
Richter Gedeon
Mahindra & Mahindra
X5 Retail Group
Banrisul
Bharti Airtel
Hyundai Motor

Holdings increased and decreased - March 2017

Key buys

- **Borr Drilling:** We participated in the funding in connection with their acquisition of Transocean's jack-up rig fleet. This is a transformational deal being carried out at prices well below the current stock market valuation of similar assets.
- **Tullow:** We took advantage of the share price weakness in the wake of a surprise launch of a big rights issue. We believe this is positive in the medium term as it will give them the flexibility they need to start drilling again after a long period of cost saving and capex reductions.

Key sells

- **Samsung Electronics:** We reduced the position on strength in order to keep the weighting down.
- **Kiatnakin (OUT):** We sold out after a profitable journey and switched into a position in Bangkok Bank which is trading at a P/B multiple of 0.8x compared to 1.3x for Kiatnakin.

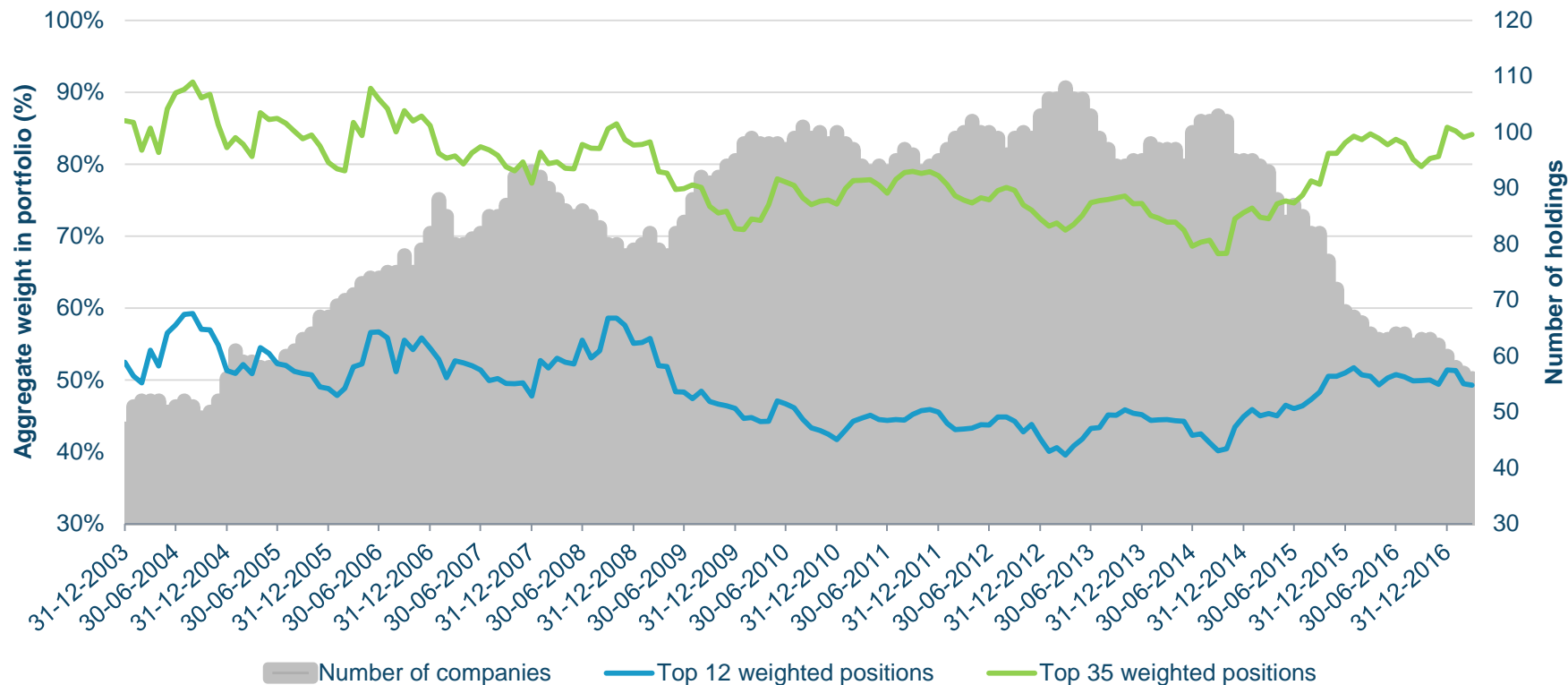
Largest holdings in SKAGEN Kon-Tiki

	Holding size, %	Price	P/E 2016e	P/E 2017e	P/BV last	Div. yield 15 (%)	Price target	Upside %
Hyundai Motor	7,4	99 300	4,7	4,0	0,4	4,1	170 000	71
Samsung Electronics	6,7	1 603 000	10,0	6,4	1,2	1,3	1 900 000	19
Naspers	4,9	172	38,3	26,5	6,7	0,2	223	29
Sabancı Holding	4,1	10,0	7,7	6,3	0,9	1,5	14	40
Mahindra & Mahindra	3,9	1 287	17,2	13,5	2,7	0,9	2 000	55
Richter Gedeon	3,8	6 621	20,1	18,1	1,8	1,1	7 500	13
X5 Retail Group	3,7	1 889	20,3	14,5	4,0	0,0	2 187	16
Cosan Ltd.	3,5	26,5	16,6	7,6	1,1	1,3	31	18
State Bank of India	3,4	293	19,6	13,3	1,0	0,9	350	19
SBI Holdings	2,8	1 552	9,7	10,3	0,8	2,9	2 500	61
Banrisul	2,7	14,8	9,2	7,4	0,9	5,5	18	22
Kinnevik	2,5	239	-19,1	39,9	0,9	3,2	312	30
Weighted top 12	49,3		11,3	8,3	1,0	1,3		35
Weighted top 35	84,2		14,9	9,9	1,1	1,5		32
Emerging market index			14,5	11,9	1,5	2,6		
Top 35 @ price target			15,9	13,3	1,5	1,3		

As of 31 March 2017

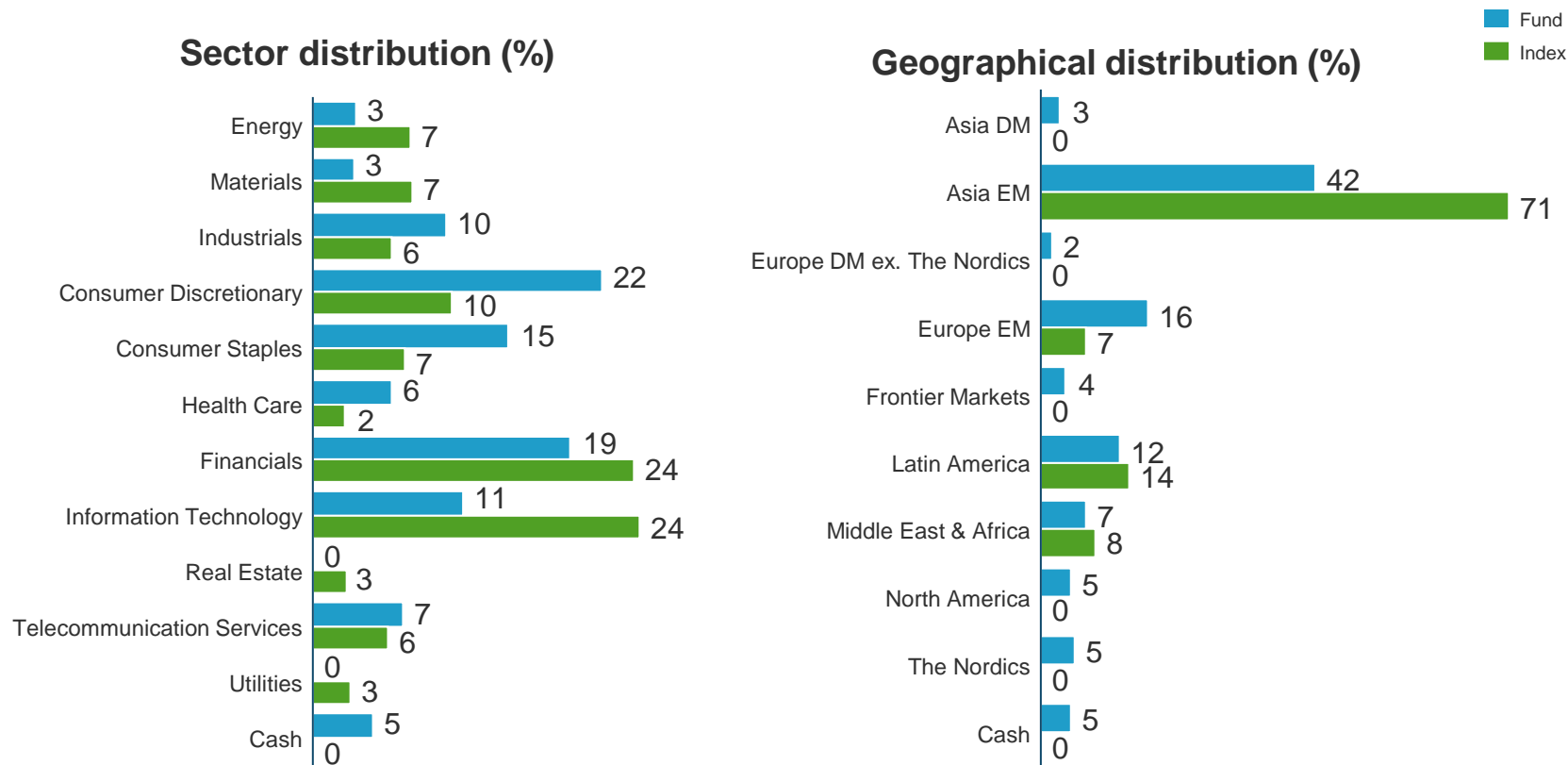
Note: Valuation estimates are based on SKAGEN Kon-Tiki's independent analysis and may vary from consensus estimates. Converted share prices to reporting currency for Naspers, X5 and Cosan.

SKAGEN Kon-Tiki portfolio concentration



Source: SKAGEN AS as of 31 March 2017

SKAGEN Kon-Tiki sector and geographical distribution



Key earnings releases and corporate news - March 2017

X5 Retail

(3.4% weight)

X5 Retail Group posts 4Q16 results showing continued good execution

Implications for Investment Case: Slightly positive, yet again. The company is outgrowing the industry and at the same time delivering stronger margin performance than competitors. The story is now slightly different than it was a year ago since the scope for positive top-line surprises is becoming more limited (we therefore reduced the sizing). Still, there is no change to the investment case.

Event summary: X5 delivered results more or less in line with expectations and cash flow generation was very strong for the quarter.

Investment rationale: Intact. Even though they have been significantly outperforming competitors since the beginning of 2016, there is still a valuation gap.

Samsung Electronics

(6.9% weight)

Samsung Electronics unveils impressive new flagship Galaxy S8

Implications for Investment Case: Important launch after failure of Note 7 last autumn. Reviews have been very positive. While success is key, it is likely more important for their reputation than near-term earnings.

Event Summary: Samsung showcased their new Galaxy S8 phone. The phone will go on sale on 20 April, with preordering starting now. The price will be approximately 10% higher than Galaxy S7 (USD 720-840) due to higher material costs.

Investment rationale: We recently raised our price target for the preference share from KRW 1.7m to 1.9m. This was not linked to the launch of the new Galaxy 8. Our target price is based on a 12x mid-cycle operating profit after tax for each division (total KRW 30tr operating profit before tax versus consensus of KRW 44tr for FY17), i.e. operating profit of KRW 13.5tr for Semiconductor versus an expected KRW +25tr for 2017. We add net cash as well as listed and unlisted holdings to arrive at a value per share of KRW 2.64m. We deduct a 15% “conglomerate” discount to this and a further 15% discount to the pref. share. The potential creation of a holding/operating company structure could further narrow the discount by reducing the governance discount as the family ownership will be sorted out. Given the recent political developments, however, the timing of this is uncertain.

The 10 largest companies in SKAGEN Kon-Tiki



Hyundai Motor is the world's 4th largest car maker, including their 39% stake in Kia Motor. Sold 5m cars in 2015 and has a c5% global market share. Focus on smaller/less expensive cars. Strong position in several countries and in emerging markets such as India and China.



Samsung Electronics is one of the world's largest producers of consumer electronics, with over 155,000 employees. 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 appliances, cameras, printers, PCs and air-conditioning units.



South African listed media and internet holding company incorporated in 1915. They have a strong Pay-TV business in South Africa and Sub-Saharan African countries and a fast growing internet division focused on commerce, communities, content, communication and games. They hold a 34% stake in Chinese Tencent and 29% of Russian Mail.ru.



Turkey's leading and financial conglomerate in sectors including financial services, energy, cement, retail and industrials. The company has 10 companies currently listed on the Istanbul Stock Exchange and operates in 18 countries across Europe, the Middle East, Asia, North Africa and North and South America. Controlled by the Sabanci family



Mahindra & Mahindra is the largest manufacturer of utility vehicles in India (with a 50% market share) and tractors (40% market share). It has several listed subsidiaries including Tech Mahindra and M&M financial services (largest financier of utility vehicles and tractors in India).

The 10 largest companies in SKAGEN Kon-Tiki (continued)



Hungarian pharmaceutical company established in 1901 with focus on Central and Eastern Europe. Transitioning from a generic-focused manufacturer to a more specialised one through higher margin, innovative products within its women's health division (Esmya) and nervous system treatments (Vraylar). Significant upside potential from US marketing approval of Vraylar and extended usage of Esmya is not reflected in the current valuation.



X5 is a leading Russian food retailer, operating through several retail formats: discount stores under the Pyaterochka brand, supermarkets under the Perekrestok brand, hypermarkets under the Karusel brand and convenience stores under different brands. Modern retail is gaining share in the Russian retail market, and X5 is well positioned with their formats in the current difficult trading environment. They are also in the middle of an aggressive expansion and refurbishment period.



Cosan is one of the largest Brazilian energy conglomerates with almost 80 years of history. Present within gas distribution, fuel distribution (5800 gas stations), convenience stores (950 stores at gas stations), sugar and ethanol production (24 mills with 68m ton crushing capacity), lubricants, land development and railways/logistics (25% market share of grain transportation for export).



Largest bank in India with 17% market share (c25% including 5 associate banks). Also present in the life insurance, asset management and investment banking sectors. 15,000 branches, 32,000 ATMs, 400 mil+ accounts and over 220,000 employees. Upside potential from banking and economic reforms in India.



SBI Holdings is a holding company based in Tokyo. It operates in three business segments; financial services, asset management and biotechnology-related segment. It has over the past few years sold or listed businesses to reduce complexity and lower the conglomerate discount that is on the business as a whole. The company remains committed to shareholder value.

For more information please visit:

Our latest [Market report](#)
[Information on SKAGEN Kon-Tiki 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.

SKAGEN seeks to the best of its ability to ensure that all information given in this report is correct. However, it makes reservations regarding possible errors and omissions. Statements in the report reflect the portfolio managers' viewpoint at a given time, and this viewpoint may be changed without notice. The report should not be perceived as an offer or recommendation to buy or sell financial instruments. SKAGEN does not assume responsibility for direct or indirect loss or expenses incurred through use or understanding of the 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 the fund's portfolio.