Quarterly Report

# SKAGEN Kon-Tiki A

All data in SEK as of 28/06/2019 unless otherwise stated.

## Rollercoaster ride in emerging markets

While 2019 got off to a strong start with seeming progress in trade negotiations, recession fears abating and the Federal Reserve taking a "patient" approach to monetary policy, Q2 evolved into a roller coaster ride in emerging markets. Trump's broadening of the trade war into a tech war sent investors fleeing to perceived safe(r) haven assets during the quarter. Ironically, the quarter ended with Trump agreeing to resume trade talks.

Tighter financial conditions last year combined with persistent trade policy uncertainty contributed to increased risk of lower global growth. This led to downgrades in global GDP forecasts during the quarter. Tariffs can have a real economic impact by disrupting supply chains and pausing investment plans. Investor confidence also abated on weaker than expected data coming out of China.

**Monetary policy turns more dovish**

Towards the end of the quarter, the Federal Reserve went from hitting the pause button to setting the stage for multiple interest rate cuts. This in turn helped the 10-year Treasury yield come to rest below 2%. The dollar has weakened following the Fed's policy meeting; normally a good sign for EM investors. Unlike previous periods when rates declined, this time it has been accompanied by an increased demand for gold, pushing prices to the highest level in more than six years.

EM central banks are also easing policy. In China, they stepped up liquidity support for small banks, and softer inflation will give the central bank room to guide interest rates lower. India cut rates for the first time in its current easing cycle, while in Russia there are also signs of a new easing cycle. More EM central banks are likely to follow suit. As an easing bias of policy stance has returned, this could support global growth rates amid the trade war. Equity markets therefore finished the quarter on a positive note.

**Contributors and detractors**

Geopolitical supply risks combined with concerns about reduced global growth led to a volatile oil price during the quarter. Poor sentiment impacted Kon-Tiki's oil related exposure negatively, and the holdings fell heavily along with the rest of the sector. Borr Drilling reported results in-line with expectations. Upcoming new bank facilities and a positive outlook statement did not help much, nor did insider buying. We do however expect Borr to secure more contracts as the jack-up market rebalances. For Golar LNG, seasonality and the restart of several nuclear facilities in Japan combined with a mild winter in Asia weighed on LNG prices. A corporate simplification – spinning off the LNG vessels into a standalone entity – should be the next catalyst for the share. The stock no longer discounts any new FLNG projects which could be an additional source of upside.

After a strong start to the year, China Unicom reversed its fortunes during the quarter. Recent results showed slightly disappointing mobile service revenue growth offset by robust industrial internet growth. 5G commercial licences were granted during the quarter, and Unicom and China Telecom reiterated their intention to share 5G network which should reduce construction costs.

Russian grocery retailer X5 recovered strongly during the quarter, supported by a healthy margin improvement in Q1 and strong momentum helped by accelerated food inflation in Russia. A strong customer value proposition is helping them gain market share in a tough market. With a slower expansion rate going forward we see support from increased cash flow and a strong dividend yield.

One of the newcomers in the portfolio, Ivanhoe Mining, also contributed strongly. Ivanhoe is an early-stage, pure play on increasing copper intensity of economic growth driven by the shift towards green energy, electrification of transport and continued urbanisation. They possess some of the most attractive undeveloped copper assets globally, and offer significant upside through the development and commercialisation of these assets. They continue to discover copper, and with CITIC Metal having taken an almost 30% stake, the financing overhang has been removed.

State Bank of India was also a strong contributor during the quarter, following the successful re-election of incumbent parties in national elections. New bad-debt rules released by the regulator were taken positively as they maintain the spirit of the original framework without diluting the reform agenda, while giving additional flexibility and time for banks to resolve stressed loans.

Photo: Bloomberg

Fed Chairman Jerome Powell. Photo: Bloomberg

**Portfolio activity**

After the manager change one year ago, the fund's portfolio turnover has increased and new investments have contributed positively to results. The relative performance has been healthy in both positive and negative markets in 2019, as an improved risk management approach and focus on right-sizing positions have led to a more robust portfolio with an attractive risk-reward proposition.

**Outlook**

We continue to take a constructive view of EM, which trade in-line with historical averages and at a major discount to global markets. Our value-based philosophy continues to be a key factor in setting us apart from many other EM funds. With Kon-Tiki trading at 8x 2020e P/E and 1.0x P/B, this is a material discount to EM at 11.5x and 1.6x, respectively. Value stocks in emerging markets now trade at a historically high discount to growth stocks, which puts the risk-reward in favour of Kon-Tiki's value philosophy.

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SKAGEN
Part of Storebrand

The fund selects low-priced, high-quality companies, mainly in emerging economies.

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.

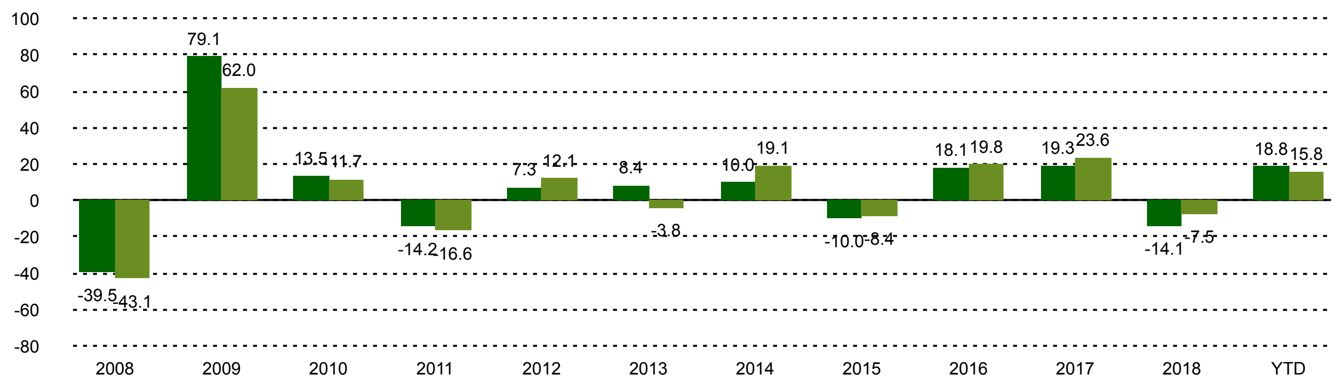
## Historical performance (net of fees)

| Period | SKAGEN Kon-Tiki A | Benchmark index |
|---|---|---|
| Last month | 3.5% | 3.7% |
| Quarter to date | 2.2% | 0.8% |
| Year to date | 18.8% | 15.8% |
| Last year | 3.1% | 4.9% |
| Last 3 years | 11.2% | 14.1% |
| Last 5 years | 5.3% | 9.4% |
| Last 10 years | 7.4% | 7.7% |
| Since start | 12.8% | 8.5% |

## Fund Facts

| | |
|---|---|
| Type | Equity |
| Domicile | Norway |
| Launch date | 05.04.2002 |
| Morningstar category | Global Emerging Markets Equity |
| ISIN | NO0010140502 |
| NAV | 938.40 SEK |
| Fixed management fee | 2.00% |
| Total expense ratio (2018) | 1.16% |
| Benchmark index | MSCI EM NR USD |
| AUM (mill.) | 20558.36 SEK |
| Number of holdings | 48 |
| Portfolio manager | Cathrine Gether<br>Fredrik Bjelland |

## Performance last ten years




SKAGEN Kon-Tiki A    MSCI EM NR USD

Please see benchmark disclaimer at bottom of next page

## Contributors in the quarter

### Largest contributors

| Holding | Weight (%) | Contribution (%) |
|---|---|---|
| X5 Retail Group NV | 2.73 | 0.98 |
| Ivanhoe Mines Ltd | 1.88 | 0.58 |
| PING AN | 4.10 | 0.49 |
| Hyundai Motor Co | 4.36 | 0.42 |
| State Bank of India | 3.12 | 0.40 |

### Largest detractors

| Holding | Weight (%) | Contribution (%) |
|---|---|---|
| Borr Drilling Ltd | 1.80 | -0.87 |
| China Unicom Hong Kong Ltd | 3.01 | -0.43 |
| Turquoise Hill Resources Ltd | 1.11 | -0.34 |
| Golar LNG Ltd | 2.09 | -0.29 |
| Hollysys Automation Technologi | 2.27 | -0.25 |

Absolute contribution based on NOK returns at fund level

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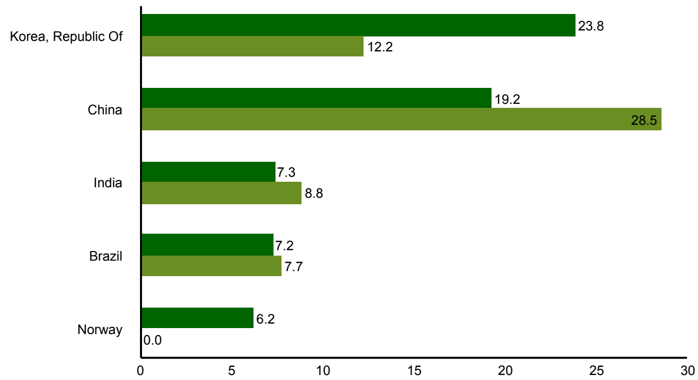
## Top ten investments

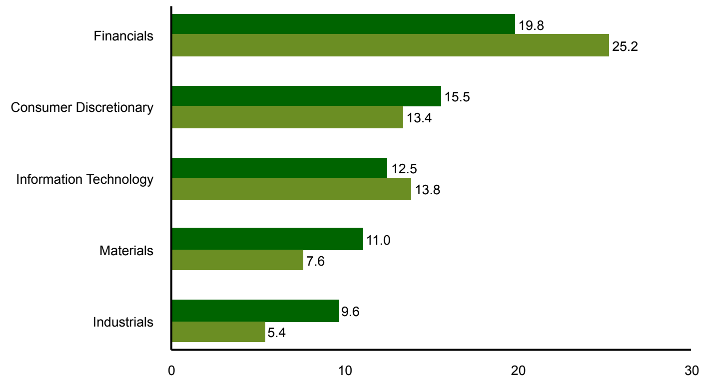
| Holding | Sector | Country | % |
|---|---|---|---|
| Samsung Electronics | Information Technology | Korea, Republic Of | 8.4 |
| Ping An Insurance Group | Financials | China | 5.3 |
| Hyundai Motor Co | Consumer Discretionary | Korea, Republic Of | 4.5 |
| Naspers Ltd | Consumer Discretionary | South Africa | 4.3 |
| Bank Of China | Financials | China | 4.2 |
| LG Electronics | Consumer Discretionary | Korea, Republic Of | 3.7 |
| State Bank of India | Financials | India | 3.1 |
| China Unicom Hong Kong | Communication Services | China | 2.8 |
| Atlantic Sapphire AS | Consumer Staples | Norway | 2.8 |
| X5 RETAIL GROUP GDR(USD) | Consumer Staples | Russian Federation | 2.7 |
| Combined weight of top 10 holdings | | | 41.6 |

## Country exposure (top five)




SKAGEN Kon-Tiki A  MSCI EM NR USD

## Sector exposure (top five)

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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.

The benchmark index is the MSCI EM Index (net total return), this index did not exist at the inception of the fund and consequently the benchmark index prior to 1/1/2004 was the MSCI World AC Index. This is not reflected in the table/graph above which shows the MSCI EM Index since the funds inception.