

COVID-19 overshadows everything

The first quarter of 2020 will forever be remembered for the global spread of the Coronavirus (COVID-19) and the subsequent halt of the global economy. What started as a perceived local problem in Wuhan, China, quickly developed into the global pandemic that is currently unfolding. In order to arrest the spread of the virus, governments across the world have taken more or less coordinated steps to close down borders, restrict movement and reduce everyday activities to the bare minimum. The result has been a sudden and almost unprecedented drop in economic activity, partially offset by massive monetary and fiscal policy support. Global equity markets, which were flying high on the back of strong gains in 2019, have, unsurprisingly, recorded one of their sharpest and fastest corrections on record.

In addition to COVID-19, Q1 2020 also saw the breakdown of OPEC+ as Saudi Arabia announced in early March that it would offer price discounts to its oil customers in Europe, Asia and the US. This was followed by a statement of increased production at a time of weaker demand on the back of COVID-19. The result was a 30%+ collapse in the price of oil to a 17-year low with significant knock-on impacts on the FX, equity and fixed income markets. It truly has been a quarter for the record books.

At the time of writing, both the human tragedy and economic implications of COVID-19 and the oil price weakness remain highly uncertain. Needless to say, we share the consensus view that material economic headwinds are emerging and a global recession is looking increasingly inevitable. While the long-term implications of COVID-19 will depend on both the depth and duration of the current economic lockdown, we have already seen significant strain on certain countries, industries and companies, especially those with stretched balance sheets or near-term funding needs.

As a result, our focus for SKAGEN Kon-Tiki has been to ensure the robustness of the portfolio through a thorough re-assessment of its main constituents. We have spent the past few weeks running stress-testing scenarios and assessing the financial health of our investments under weakening economic conditions. On the whole, we believe that the portfolio remains robust, with a significant portion of the portfolio invested in companies with a large net cash position that should provide some downside protection.

Contributors

Our top contributor during the quarter was crude oil tanker company



Photo: Shutterstock

Key buys

We initiated a new position in Chinese appliance producer Hisense Home Appliances where we see material upside from the company's recently consolidated central air conditioning joint venture with Hitachi. We also increased some of our higher-conviction holdings as well as incubating a number of smaller positions that we hope will develop in the coming months.

Euronav, which stands to benefit from the glut of oil in the short term. Given the significant contango (where future prices are higher than current) situation in the oil market, Euronav is able to lock in highly attractive rates thanks to rising storage demand. With a strong balance sheet and committed dividend policy, we expect the company to deliver strong near-term earnings and return significant capital to shareholders. Despite weakening auto markets, Korean battery producer Samsung SDI also performed strongly as it continues to benefit from rising electric vehicle penetration on the back of tightening emission standards, especially in Europe. Investment holding companies Naspers and Prosus also performed well on the back of their direct and indirect shareholding in Chinese internet company Tencent, which is the world's largest video game publisher and therefore somewhat less impacted by COVID-19. Perhaps unsurprisingly, our investment in Russian airline Aeroflot fared poorly during the quarter as flights were cancelled and planes were grounded. While the company has robust liquidity and should benefit from lower fuel prices, it will clearly face significant demand weakness in 2020. Our investment in Indian agrochemical company UPL also fared poorly despite less obvious demand headwinds. While the company has increased financial leverage on the back of its acquisition of Arysta which closed last year, we believe that synergies remain on track and that the shares will rebound as sentiment on India improves.

Finally, two of our stronger performers of 2019 suffered from profit taking despite sound progress. Ivanhoe Mines announced that its Kamoakakula development in DRC remains on track while land-based salmon company Atlantic Sapphire looks set to secure additional financing and a full listing on the Oslo stock exchange. While it did suffer an incident of lost fish at its smaller Danish facilities, we note that this is covered by insurance and that insiders have subsequently added to their holdings.

Portfolio activity

In terms portfolio activity, we sold our last remaining shares in Tullow at the start of the year owing to the disappointing operational and governance related updates in 2019. We also exited two of our Brazilian holdings, rail operator Rumo and energy conglomerate Cosan, both of which performed strongly last year. With Brazil potentially suffering from a combination of weak finances and commodity dependency, we now see better risk-adjusted opportunities elsewhere.



Photo: Shutterstock

Outlook

As a result, the portfolio now consists of 48 attractively valued companies striking a balance between near-term downside protection while retaining significant upside potential. In terms of valuation, the portfolio now trades on 8x current year earnings and 0.8x P/B while offering a near 4% dividend yield. These represent discounts of c30% relative to the MSCI EM index.

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.

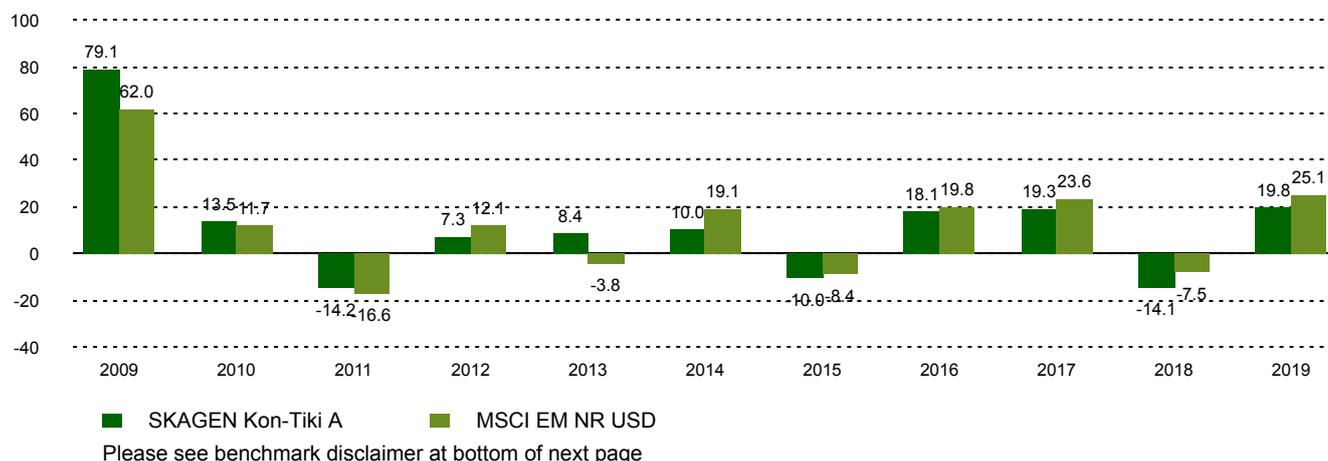
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	-14.3%	-12.5%
Quarter to date	-22.4%	-18.3%
Year to date	-22.4%	-18.3%
Last year	-20.1%	-11.0%
Last 3 years	-5.0%	2.1%
Last 5 years	-1.4%	2.6%
Last 10 years	1.8%	4.1%
Since start	10.7%	7.4%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	734.05 SEK
Fixed management fee	2.00%
Total expense ratio (2019)	1.51%
Benchmark index	MSCI EM NR USD
AUM (mill.)	12158.61 SEK
Number of holdings	48
Portfolio manager	Cathrine Gether Fredrik Bjelland

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Euronav NV	2.51	0.38
Samsung SDI Co Ltd	1.79	0.37
Naspers Ltd	3.66	0.28
Bank of China Ltd	3.25	0.25
Prosus NV	1.62	0.21



Largest detractors

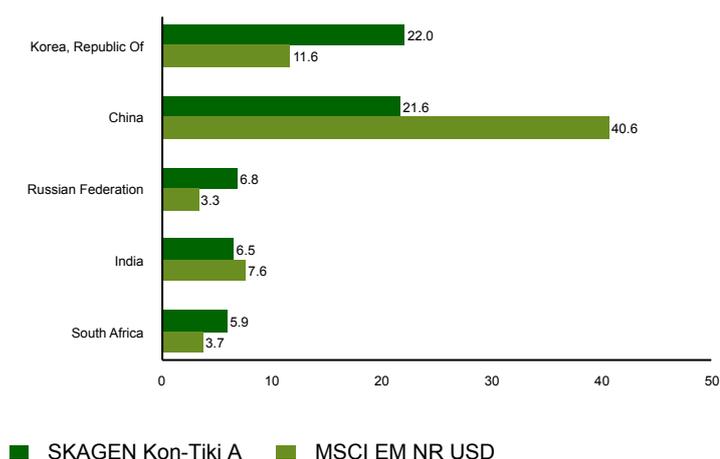
Holding	Weight (%)	Contribution (%)
Ivanhoe Mines Ltd	2.81	-1.42
UPL Ltd	2.35	-1.22
LG Electronics Inc	3.29	-1.14
Aeroflot PJSC	2.62	-1.12
Mahindra & Mahindra Ltd	2.07	-1.07

Absolute contribution based on NOK returns at fund level

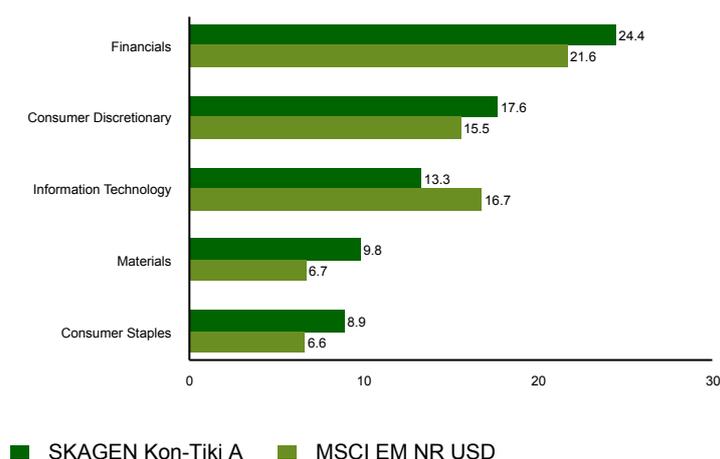
Top ten investments

Holding	Sector	Country	%
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	7.7
Ping An Insurance Group Co of China Ltd	Financials	China	7.1
Naspers Ltd	Consumer Discretionary	South Africa	5.4
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	4.1
Bank Of China Ltd	Financials	China	3.8
Royal Dutch Shell PLC	Energy	Netherlands	3.2
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	3.1
UPL Ltd	Materials	India	3.0
Atlantic Sapphire AS	Consumer Staples	Norway	2.8
Ivanhoe Mines Ltd	Materials	Canada	2.7
Combined weight of top 10 holdings			42.8

Country exposure (top five)



Sector exposure (top five)



Contact



0200-11 22 60



kundservice@skagenfonder.se



SKAGEN AS, Box 11, 101 20
 Stockholm

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.