

Value recovery continues

2021 got off to a good start as global equity markets continued their recovery from the COVID-induced sell-off in Q1 2020. Although news headlines remain dominated by infection rates and vaccine rollouts across the world, company reporting has generally been robust with many portfolio holdings preparing for improved operating conditions. The improved outlook is also increasingly reflected in the bond market, which has seen longer rates rise on the expectation of normalising monetary conditions and a potential acceleration in underlying inflation.

This change in market backdrop has benefited growth-sensitive and cyclical assets as shown by value's continued outperformance of growth that started towards the end of last year. With its clear value tilt, SKAGEN Kon-Tiki outperformed its benchmark by a wide margin.

In terms of region, Emerging Markets underperformed Developed Markets as increased political and regulatory intervention led to selloffs in Brazil and Turkey as well as Chinese internet stocks. While SKAGEN Kon-Tiki was not immune to these pressures, the impact was contained through swift portfolio adjustments in line with our investment process.

Contributors

SKAGEN Kon-Tiki's performance in the quarter was driven by some of our long-standing holdings where company-specific drivers continued to develop favourably. Indian crop protection company UPL rose as it reiterated its financial guidance and debt reduction plans for the year. We expect the shares to continue to re-rate as management rebuilds credibility following last year's governance and tax issues.

Naspers also contributed strongly despite Tencent facing potential regulatory headwinds as the holding company discount narrowed modestly. While the recent underperformance of Alibaba in the face of regulatory changes warrants caution, we believe that Naspers's 40%+ discount to its listed holdings offers significant downside protection. With management having taken numerous steps to reduce the discount in recent years, we continue to see material upside to the shares.

Brazilian retailer GPA has more than doubled so far this year as the market welcomed the spin-off of its highly regarded cash & carry operations Assai as a separate listed entity. Both companies continue to perform well and we expect the simplified corporate structure to better

highlight the underlying values of the Group.

The biggest detractor during the quarter was Chinese financial conglomerate Ping An Insurance despite reporting solid financial results. We suspect the shares have been left behind during the recent rally as it is neither an obvious re-opening play nor a working-from-home winner. However, with strong underlying profitability and a long runway for growth, we consider the shares to be deeply undervalued at current levels.

As highlighted above, Turkish equities and the Turkish currency suffered a big drawdown during the quarter as President Erdogan fired the central bank governor following another rate hike. As a result, our position in Sabanci Holding suffered in line with the market. Political interference also re-surfaced in Brazil as president Bolsonaro forced the CEO out of the state oil company Petrobras. This also affected our position in Bannisul, which is controlled by the State of Rio Grande do Sul.

Portfolio activity

We made a number of changes to the portfolio during the quarter with the most notable of these in Chinese companies. We initiated a position in Alibaba Group on the back of significant weakness over the last six months as we expect regulatory pressures to abate, at least on a relative basis going forward. We also added West China Cement as we see improved competitive dynamics and disciplined supply in the regions in which it operates. Priced at 3x EV/EBITDA and with a 5% dividend yield, we see both significant re-rating potential and income support at current levels.

Another new holding with income support is China Mobile where capex discipline during the 5G rollout means the 6%+ dividend yield is sustainable, especially in light of the company's significant net cash position.

Outside of China, our most significant new holding is Brazilian pulp producer Suzano, which we expect to de-lever rapidly on the back of improving commodity prices. The company is the world's largest producer of hardwood market pulp, a key ingredient in tissue and other forms of paper.



Photo: Unsplash

Key sells

As previously communicated, we exited a number of cyclical holdings such as Lundin Mining and Micron as they reached our target prices, as well as Petrobras on the aforementioned government intervention. As a result, the portfolio now consists of 50 companies, up from 48 at the end of 2020.



Photo: Unsplash

Outlook

Through disciplined selling and making good use of our robust pipeline of attractively valued opportunities, the portfolio has maintained its value characteristics while delivering strong returns. Based on our proprietary estimates, the portfolio trades on 10x current year earnings and 1.1x P/B while offering a near 3% dividend yield. This represents a discount of approximately 40% relative to the MSCI EM index. Given improving fundamentals and the still significant valuation discrepancy between growth companies and value companies, we believe SKAGEN Kon-Tiki continues to offer attractive upside for long-term investors.

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.

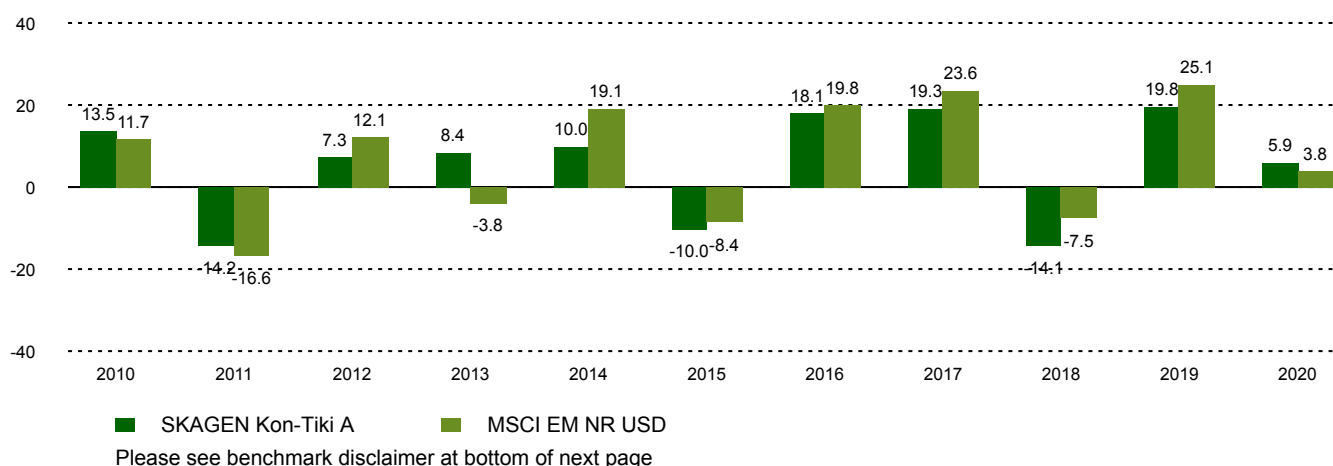
Historical performance (net of fees)

Period	SKAGEN Kon-Tiki A	Benchmark index
Last month	4.4%	2.8%
Quarter to date	11.2%	8.7%
Year to date	11.2%	8.7%
Last year	51.7%	38.1%
Last 3 years	6.8%	8.5%
Last 5 years	11.5%	13.7%
Last 10 years	5.5%	7.1%
Since start	12.5%	8.8%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	05.04.2002
Morningstar category	Global Emerging Markets Equity
ISIN	NO0010140502
NAV	1113.85 SEK
Fixed management fee	2.00%
Total expense ratio (2020)	2.22%
Benchmark index	MSCI EM NR USD
AUM (mill.)	16305.29 SEK
Number of holdings	50
Portfolio manager	Fredrik Bjelland Cathrine Gether

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
UPL Ltd	4.48	1.39
Naspers Ltd	7.23	0.99
Cia Brasileira de Distribuicao	2.38	0.66
Hon Hai Precision Industry	1.85	0.46
Turquoise Hill Resources	1.54	0.41



Largest detractors

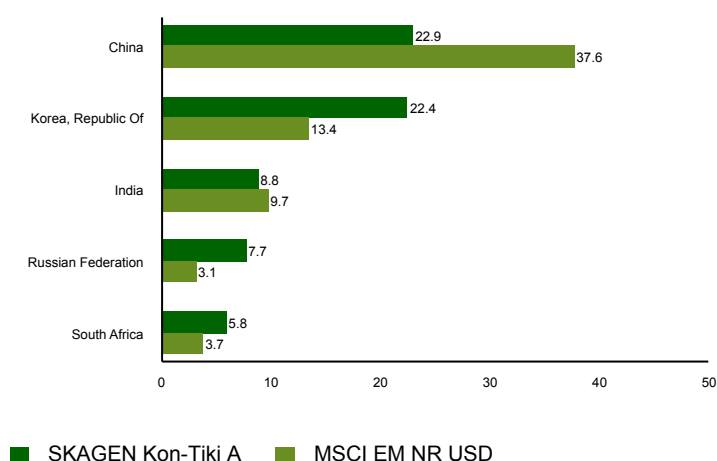
Holding	Weight (%)	Contribution (%)
Petroleo Brasileiro SA	1.01	-0.57
Ping An Insurance Group	7.39	-0.46
Haci Omer Sabanci Holding AS	1.11	-0.37
Media Nusantara Citra Tbk PT	1.18	-0.24
Banco do Estado do Rio Grande	0.86	-0.24

Absolute contribution based on NOK returns at fund level

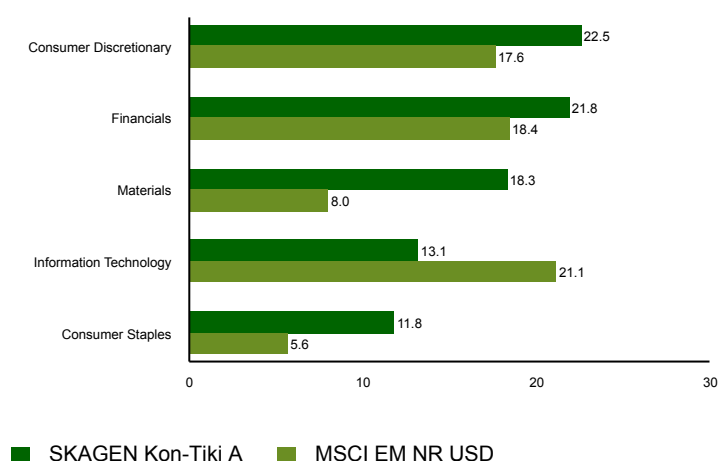
Top ten investments

Holding	Sector	Country	%
Ping An Insurance Group Co of China Ltd	Financials	China	7.4
LG Electronics Inc	Consumer Discretionary	Korea, Republic Of	7.0
Naspers Ltd	Consumer Discretionary	South Africa	5.8
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	5.6
UPL Ltd	Materials	India	5.2
Hyundai Motor Co	Consumer Discretionary	Korea, Republic Of	3.7
Ivanhoe Mines Ltd	Materials	Canada	3.6
Sberbank of Russia PJSC	Financials	Russian Federation	3.1
Orbia Advance Corp SAB de CV	Materials	Mexico	3.1
Atlantic Sapphire AS	Consumer Staples	Denmark	3.0
Combined weight of top 10 holdings			47.5

Country exposure (top five)



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.