

Beach cyclists. 1894. Detail.  
By E. Hein, on of the Skagen  
painters. The picture is owned  
by the Skagens Museum



# SKAGEN Vekst Status Report – July 2016

The art of common sense



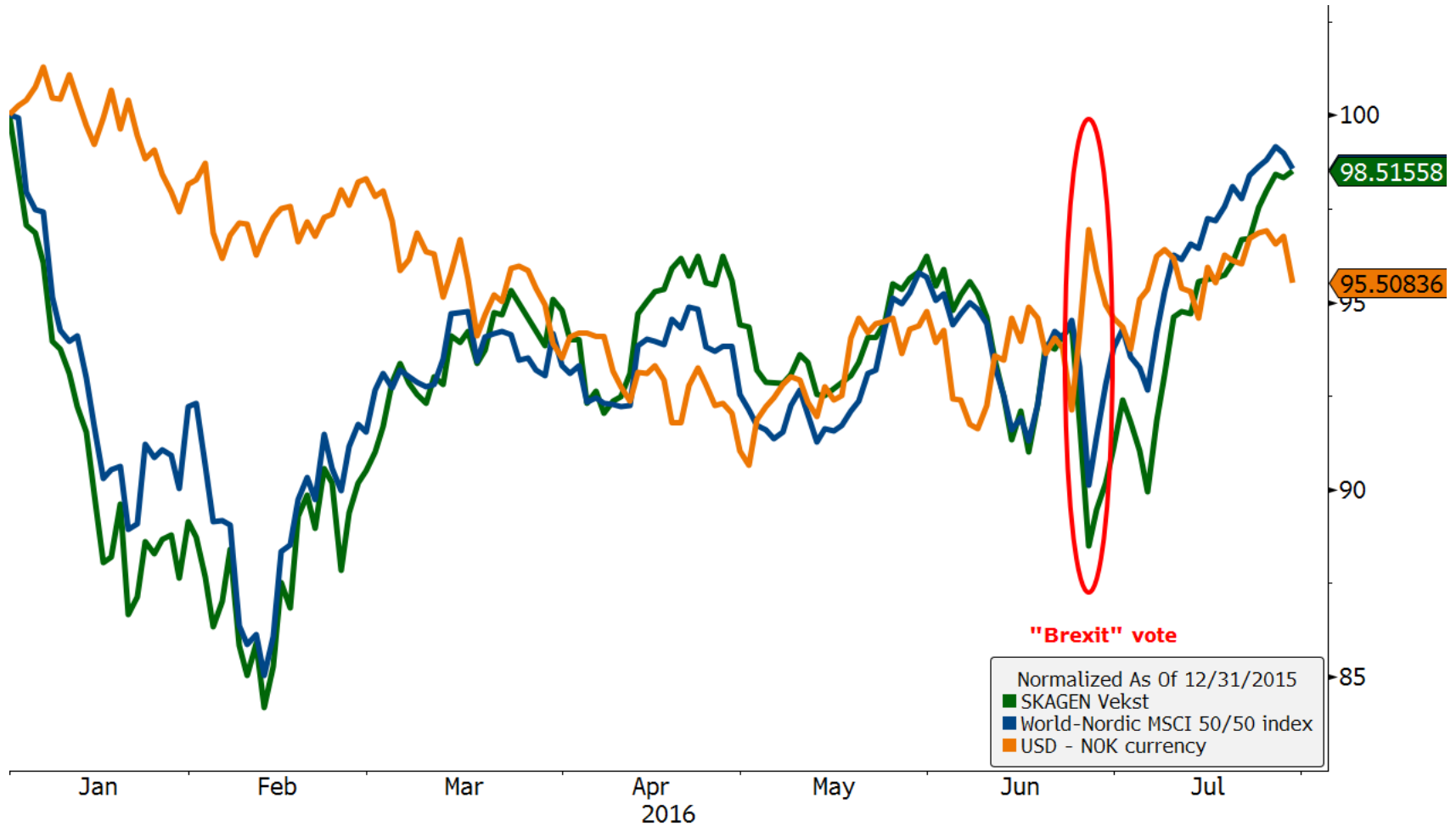
## Summary – July 2016

- What a difference a month of sunshine makes – with the Brexit election behind us the global market has truly shaken off the worst shock of the election results. The US broad index S&P 500 hit new records and the smaller Nordic markets followed suit. SKAGEN Vekst performance was strong with an increase of over 7,6% measured in SEK versus an increase in the combined index of 5,2%. Year to date the fund has increased by 4,3% versus the index which is up 4,2%.
- Measured in EUR, the largest contributors in July were SAP, Norsk Hydro and Samsung Electronics. The fund's largest negative contributors were Bonheur, Swatch and Lundin Petroleum.
- In the strong markets that have followed the unsettling referendum outcome in the UK, SKAGEN Vekst's portfolio has been performing very well, mainly thanks to the ten largest and highest conviction ideas in the fund which generated strong total returns, and outperformed the benchmark index.
- SKAGEN Vekst consists of 53 positions with 91% of the fund invested in the 35 largest positions. During the month no major changes were made in the portfolio; we continued to add to some of our newer investments and decreased in those approaching their price targets.
- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investment philosophy. We continue to buy companies we believe are undervalued and which will over time provide excess returns. Currently the 35 largest positions in the fund trade at 12x P/E for this year versus the index at over 17x.

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

*\* SKAGEN Vekst's benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World Index*

# Summer of volatility – strong bounce back



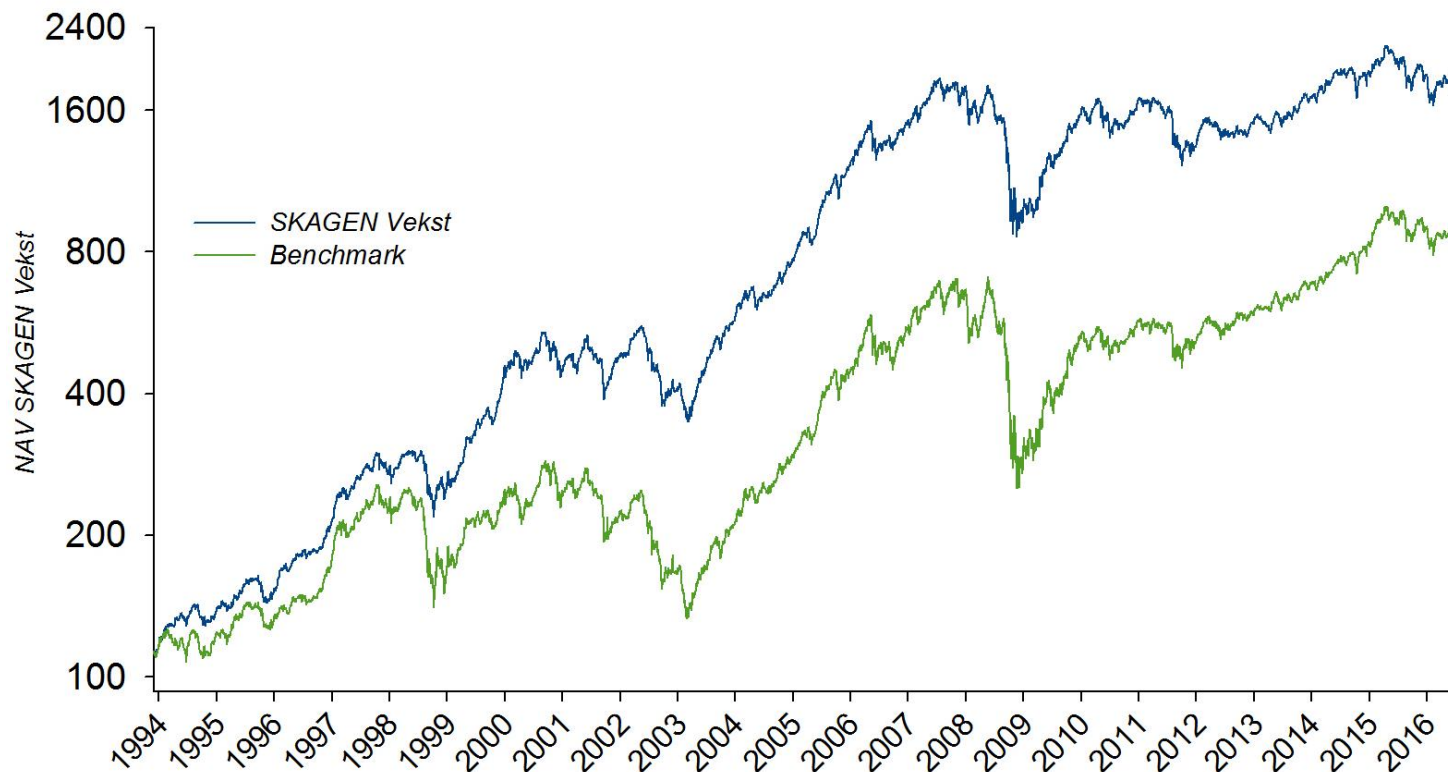
STVEKST NO Equity (Skagen Vekst) VEKST VS INDEX VS NOKUS Daily 31DEC2015-30JUL2

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# Results, July 2016

SEK, net of fees

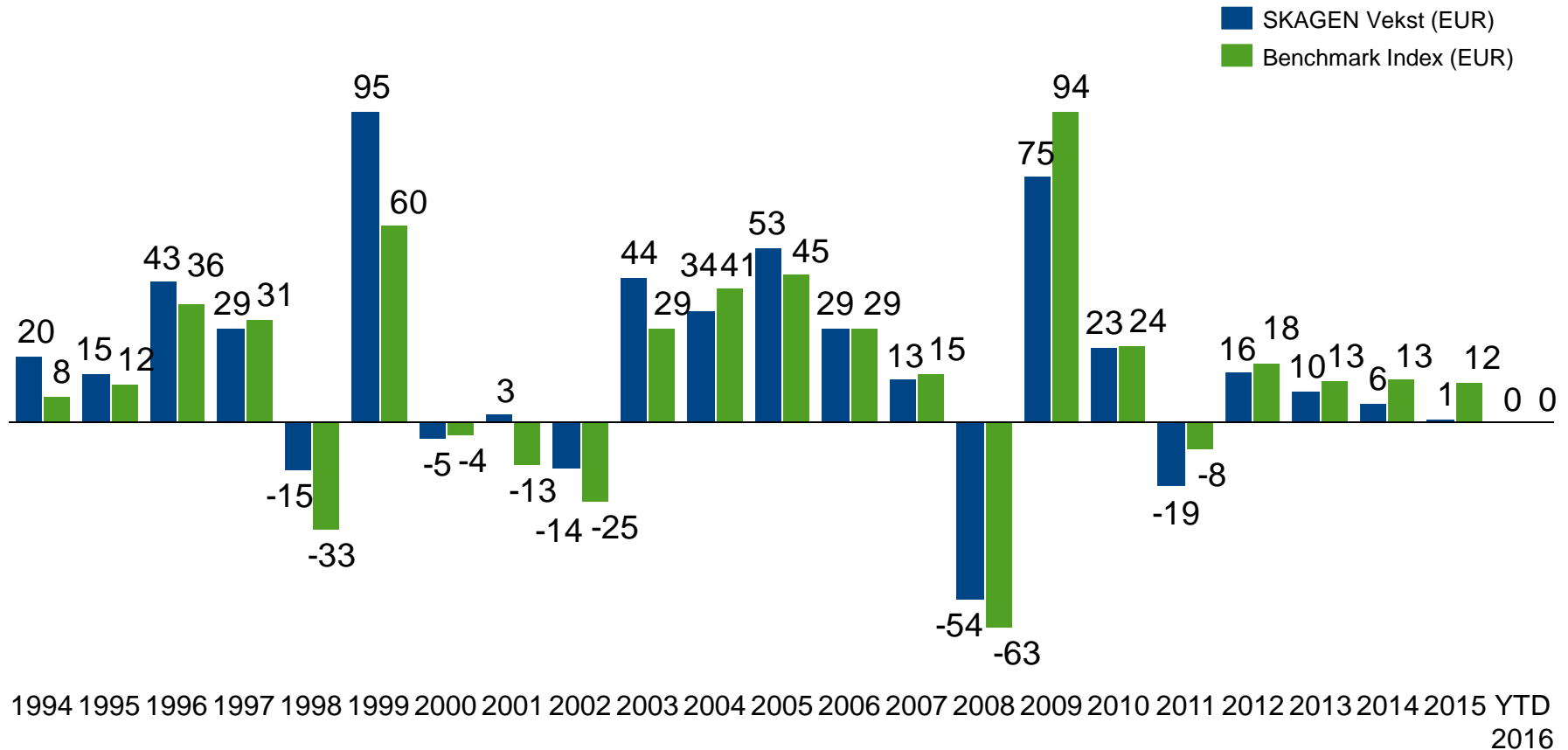


	July	QTD	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Vekst A	7,6%	7,6%	4,3%	-3,0%	8,1%	4,6%	3,6%	13,4%
Benchmark index*	5,2%	5,2%	4,2%	-2,2%	13,6%	11,3%	6,5%	9,8%
<b>Excess return</b>	<b>2,4%</b>	<b>2,4%</b>	<b>0,1%</b>	<b>-0,8%</b>	<b>-5,5%</b>	<b>-6,7%</b>	<b>-2,9%</b>	<b>3,7%</b>

Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than exist today. The Fund's benchmark index prior to 1/1/2014 was an evenly composed benchmark index consisting of the Oslo Stock Exchange Benchmark Index (OSEBX) and the MSCI All Country World. The benchmark index prior to 1/1/2010 was the Oslo Stock Exchange Benchmark Index (OSEBX). Today the benchmark is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World

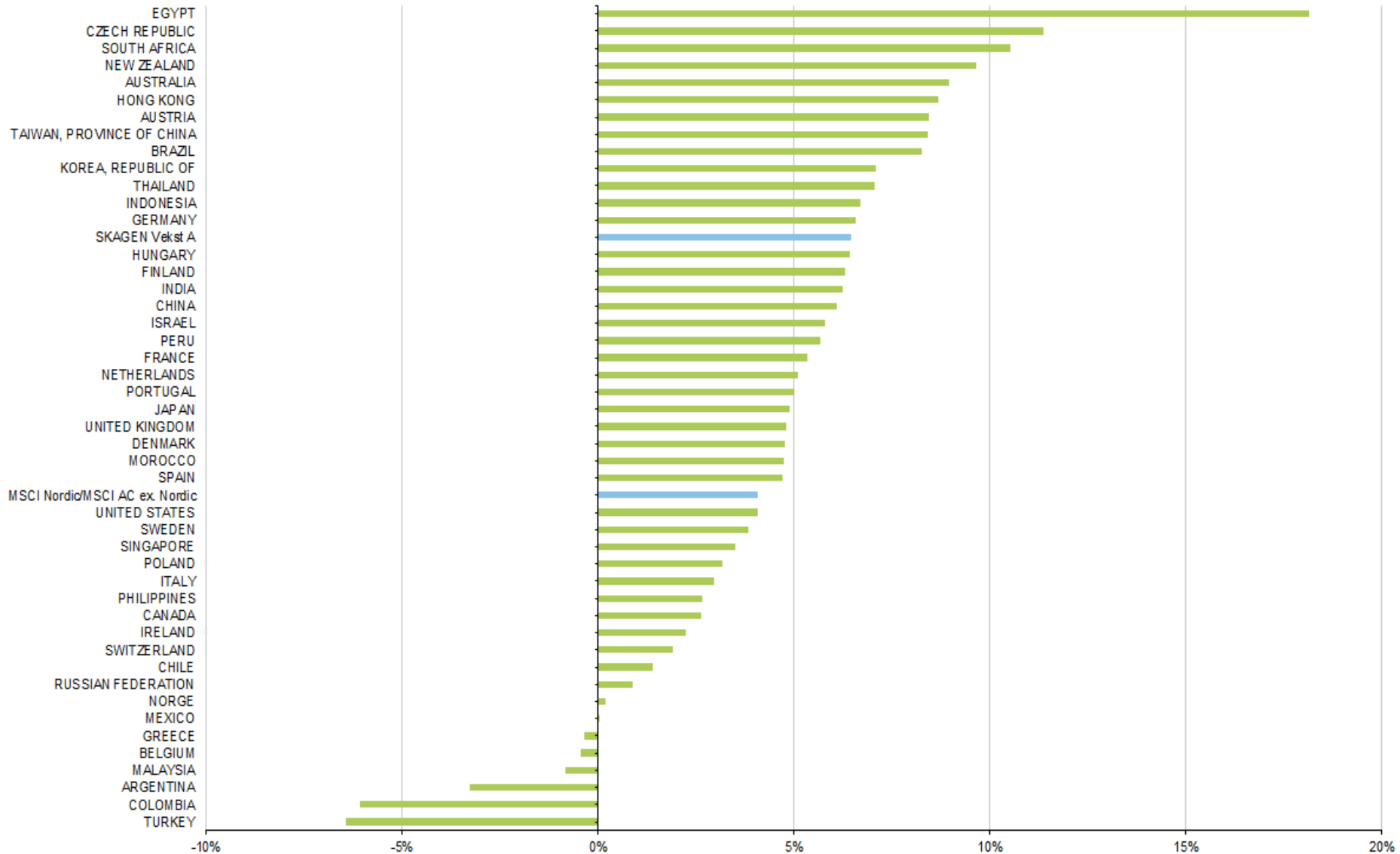
# Annual performance since inception

Percent

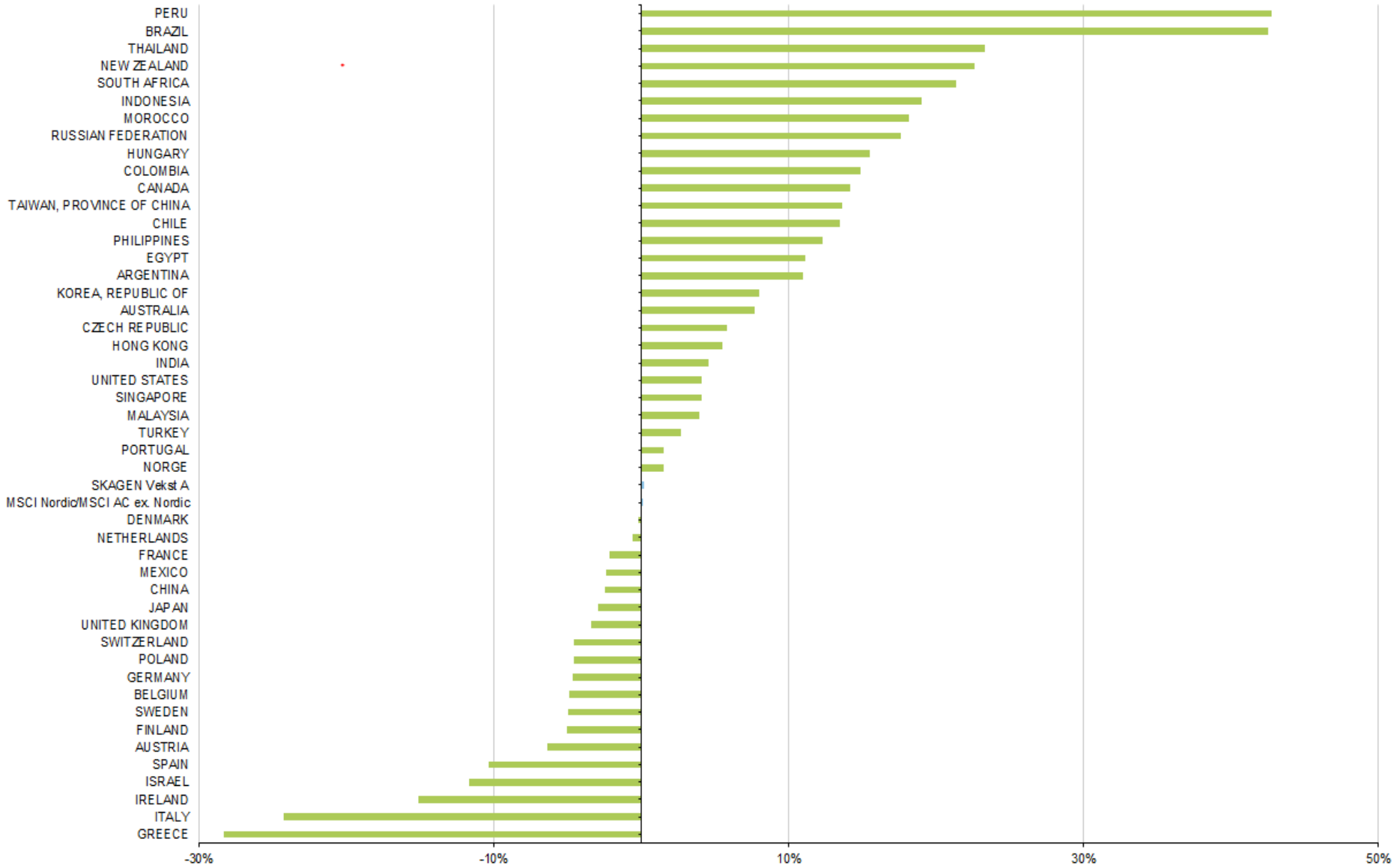


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# Markets in July 2016 in EUR (%)



# Markets YTD in 2016 in EUR (%)



# Largest holdings SKAGEN Vekst, end of July 2016

SKAGEN Vekst has 52% of its portfolio invested in the Nordic countries.



	Weight in portfolio	Price	P/E 2016e	P/E 2017e	P/E 2018e	P/B trailing	Target price
Samsung Electronics	7,8 %	1 265 000	8,7	8,7	8,5	1,1	1 500 000
Continental AG	6,0 %	188	12,6	10,7	9,9	2,9	275
SAP	5,4 %	78	20,4	18,5	16,8	4,2	95
Norsk Hydro	5,3 %	36	14,4	11,1	10,3	1,0	45
Carlsberg	4,9 %	661	19,4	16,7	14,7	2,3	817
Citigroup	4,7 %	44	8,6	7,8	7,0	0,6	65
Norwegian Air Shuttle	4,2 %	303	9,5	6,1	5,5	3,9	500
Ericsson	3,6 %	64	18,9	14,6	11,8	1,5	88
Philips	3,4 %	24	17,1	13,8	12,2	2,0	30
ABB	3,2 %	182	22,6	17,3	15,2	3,3	220
<b>Weighted top 10</b>	<b>48,5 %</b>		<b>12,8</b>	<b>10,8</b>	<b>9,8</b>	<b>1,52</b>	<b>33%</b>
<b>Weighted top 35</b>	<b>90,6 %</b>		<b>11,9</b>	<b>10,0</b>	<b>9,1</b>	<b>1,16</b>	<b>39%</b>
<b>Reference index</b>			<b>17,0</b>	<b>15,1</b>	<b>13,5</b>	<b>2,10</b>	

Earnings estimates are based on net cash earnings when meaningful.  
Multiples are calculated using the same method as the index.



# Main contributors MTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
SAP SE	67
Norsk Hydro ASA	67
Samsung Electronics Co Ltd	62
Continental AG	52
eBay Inc	46
ABB Ltd	31
Koninklijke Philips NV	23
Carlsberg A/S	22
Investment AB Kinnevik	22
Volvo AB	20

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Bonheur ASA	-15
Swatch Group AG	-8
Lundin Petroleum AB	-5
Cal-Maine Foods Inc	-4
Roche Holding AG	-4
Yazicilar Holding AS	-2
Telia Co AB	-1
Ericsson LM-B SHS	-0
CF Industries Holdings Inc	-0
Golden Ocean Group Ltd	-0

**Value Creation MTD (NOK MM): 560**

*NB: Contribution to absolute return*

# Main contributors YTD 2016

## Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Samsung Electronics Co Ltd	80
Oriflame Cosmetics AG	74
Norsk Hydro ASA	47
eBay Inc	43
Sberbank of Russia	34
Volvo AB	31
ABB Ltd	28
Carlsberg A/S	27
Lundin Petroleum AB	24
SAP SE	24

## Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Credit Suisse Group AG	-110
Continental AG	-96
Citigroup Inc	-75
Ericsson LM-B SHS	-70
Kia Motors Corporation	-34
Frontline Ltd	-28
Nippon Seiki Co Ltd	-24
Roche Holding AG	-21
Telia Co AB	-19
Norwegian Air Shuttle AS	-18

**Value Creation YTD (NOK MM): -115**

*NB: Contribution to absolute return*

# Most important changes 2016

## Holdings increased

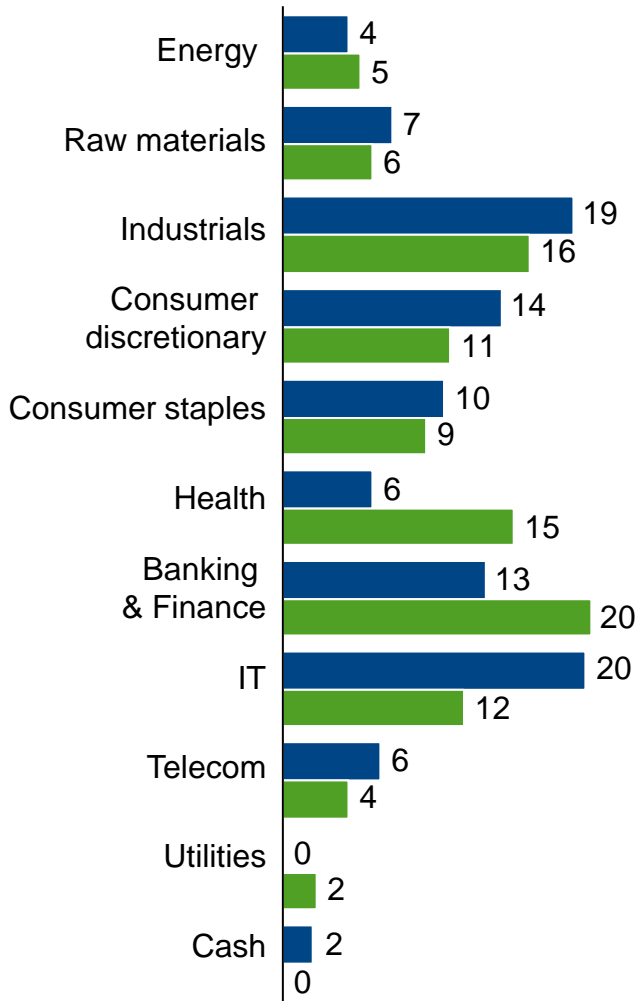
Quarter	Holdings	Status
Q1	Hennes & Mauritz AB	(New)
	eBay Inc	(New)
	Catena AB	(New)
	Golden Ocean Group Ltd	
	Investment AB Kinnevik	
	Roche Holding AG	
	Ericsson LM-B SHS	
Q2	Swatch Group AG	(New)
	Philips Lightning NV	(New)
	Shire PLC	(New)
	Nirvana Asia Ltd	(New)
	CF Industries	(New)
	Ericsson LM-B SHS	
	eBay Inc	
	Kemira OYJ	
Hennes & Mauritz AB		
Q3	Philips Lightning NV	

## Holdings reduced

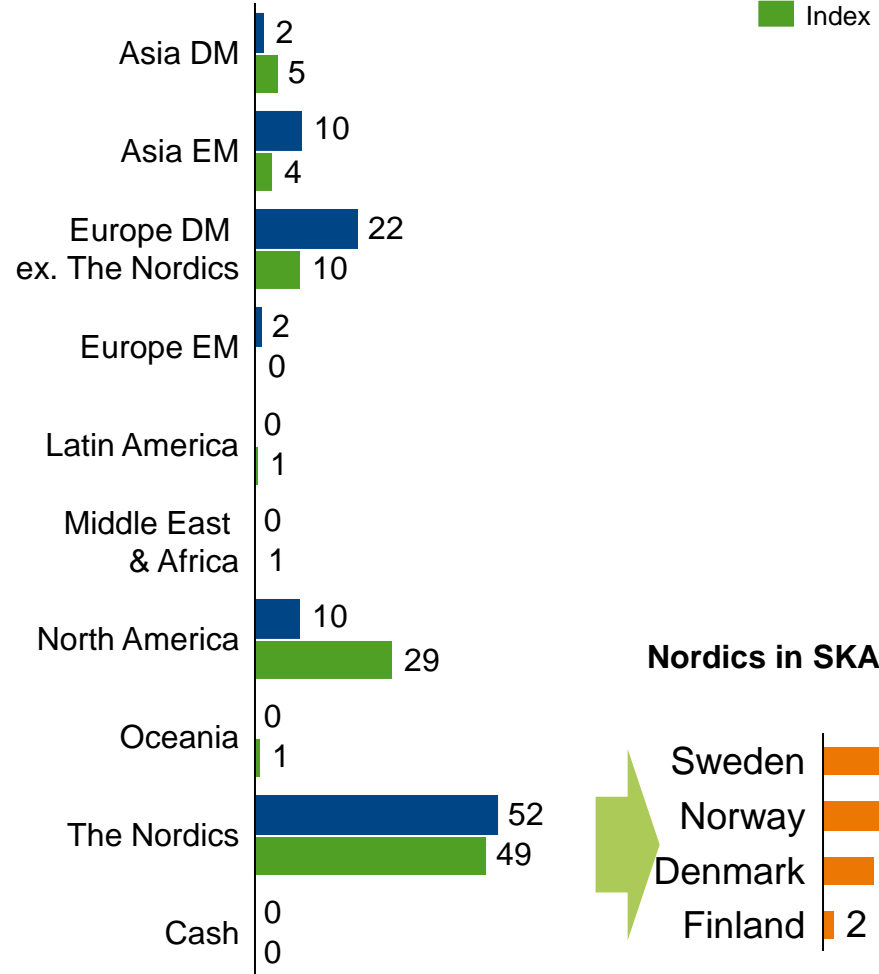
Quarter	Holdings	Status
Q1	FLSmidth & Co A/S	(Out)
	Localiza Rent a Car SA	(Out)
	Bang & Olufsen A/S	(Out)
	YIT Oyj	(Out)
	Tribona AB	(Out)
	Casino Guichard Perrachon SA	
	ABB Ltd	
Q2	Casino Guichard Perrachon SA	(Out)
	DOF ASA	(Out)
	Eidesvik Offshore ASA	(Out)
	Sevan Drilling AS	(Out)
	Lundin Petroleum AB	
	Telia AB	

# Sector and geographical distribution vs. index (percent)

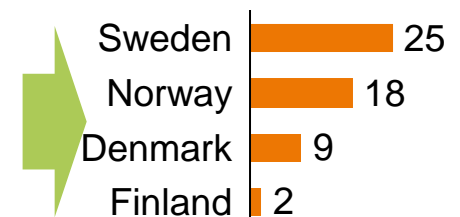
## Sector distribution



## Geographical distribution



## Nordics in SKAGEN Vekst



# Key buy in July 2016

## Key buy Philips Lighting

- SKAGEN Vekst continued to increase its exposure towards the Dutch based lightning and LED producer
- The company's first reported results as a standalone entity were encouraging
- Key to the investment case is that the company continues to grow it's LED business while expanding margins (operational leverage on SG&A costs). Following the report we maintain our view that there is 50% probability that 2018/2019 earnings exceed EUR 3/share which validates target price of EUR 30.



# Key earnings releases and corporate news, July 2016

SAP  
(5.4%)

## SAP performs well as their clients move to new software suite

### Investment thesis update

SAP is the world leader in corporate software. The key investment thesis is profitable growth and at attractive valuation. 2Q2016 performance was as expected and confirms the steady value build for SAP. Revenues grew 5% (9% in constant currency) to €5.24bn and operating profit grew 9% to €1.52bn, beating the €1.45bn consensus estimate.

Cloud subscriptions grew 30% and are a key driver for the future value creation for SAP. New Cloud bookings grew 28%, which was a faster pace than the previous quarter.

Data analytics software HANA is now on 3.700 customer platforms, up from 500 during 2Q 2016.

Guidance was reiterated for €3bn in cloud revenues and total revenues of €18bn, up 7%. Operating profit expected at €6.3-6.7bn.

### 3U update

- **Unpopular:** A liquide, €92bn market cap company with a decent 8% growth over 20 years makes it popular with many investors; however the largest holders are mainly it's founders and passive funds. Fidelity and Norges Bank are among the top active investors.
- **Under researched:** SAP transformation from on-premise software to subscription and cloud based solutions lowered profitability visibility in the medium term. When we stress test the business model for fast decline in on-premise revenue stream going forward and a move to subscription revenue streams with lower profitability (though profitability could be the same as on-premise, we just haven't seen it yet) then the target price is around current level. 43 sell side analysts follow the company and 63% have rated it a 'buy'.
- **Undervalued:** Assuming the transition toward subscription based software revenues continues, a trend from the last two years, then we get to a 2018 target price of €100. If there's growth in subscription and profitability we can see a much higher target price. If the on-premise solution declines by more than 10% per year and subscription profitability declines we get to €75. To conclude, a lot of controversy is factored into the stock price. Sell-side has a 12 month target of €78, spot on the current share price.



# Key earnings releases and corporate news, July 2016 (cont.)

**Norsk Hydro**  
**(5.3%)**

## Strong ending to first half 2016

### Investment case implications

Positive. The Q2 results beat estimates by a decent margin, mainly due to the company's ability to get good prices, and strong results from Sapa (50% owned by Norsk Hydro) which contributed to a strong Q2. The company was somewhat cautious on their outlook and they believe the market is roughly balanced. There is still a risk of restarting production in China (look at Bauxite imports). The strong Sapa figures have restarted rumors of disinvestment (JV with Orkla) and combined with the good results overall the share price recovered strongly.

### Summary Q2 results

- Hydro reported strong Q2 results, with EBITDA coming in 11% above consensus, driven by strong results in Primary Metal. The company raises its outlook for global aluminum demand from 3-4% to 4-5% but sees market balance unchanged at +/-0.5mt. Primary Metal, where EBIT came in at NOK702m versus expectations of NOK331m, drove the outperformance. Energy and the Sapa JV were also stronger than expected while Bauxite & Alumina were weaker than expected due to Chinese substituting imports of Bauxite from Indonesia to Guinea.

### 3U update

- **Unpopular:** Mixed bag, though 74% hold/sell and 26 analyst follows the world 9<sup>th</sup> largest aluminum producer.
- **Under-researched:** No, crowded
- **Undervalued:** Yes, given their low cost production, net cash and above 3% yield. However, need to see a recovery in alu-price to get it rocketing.



# The largest companies in SKAGEN Vekst

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Samsung Electronics, the Korean electronics group, has enjoyed very solid growth in consumer electronics, especially smartphones. Pole position in global semiconductor market. Cash generation is very strong and the company has historically wisely invested in new business areas – solar power and healthcare are on the roadmap for the future.

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Continental AG produces tyres for cars and trucks and makes auto technology such as power trains, safety systems and automated drive systems. The replacement cycle for tyres is becoming stretched in some markets, so near-term earnings look promising. Longer term Continental's pole position in global auto technology provides a good backdrop for substantial growth.

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SAP SE is a German multinational software corporation that makes enterprise software to manage business operations and customer relations. SAP is headquartered in Walldorf, BadenWürttemberg, with regional offices in 130 countries.

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Norsk Hydro ASA is a Norwegian aluminium and renewable energy company headquartered in Oslo. Norsk Hydro is one of the largest aluminium companies worldwide. It has operations in some 50 countries around the world and is active on all continents. The Norwegian state holds a 34.3% ownership interest in the company, which employs approximately 13,000 people.

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Carlsberg A/S is an international brewing company. The company produces branded beers and regional brands. Carlsberg makes most of its beer outside of Denmark and it is sold in markets around the world. The company also markets and produces soft drinks, water and wine.

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# The largest companies in SKAGEN Vekst (continued)

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Citigroup Inc. or Citi is an American multinational banking and financial services corporation headquartered in Manhattan, New York City. Citigroup was formed from one of the world's largest mergers in history by combining the banking giant Citicorp and financial conglomerate Travelers Group in October 1998.

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Norwegian Air Shuttle is the leading Nordic-based low cost airline, which in 2015 flew over 26m passengers. The fleet of airliners and the route network are growing rapidly proving the concept of Norwegian local low cost airline, to Nordic, to European and to Global reach.

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Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and has today a revenue of 227bn SEK. Ericsson had 33% market share in the 2G/3G/4G mobile network infrastructure market in 2014.

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Koninklijke Philips N.V. is a Dutch diversified technology company headquartered in Amsterdam with primary divisions focused in the areas of electronics, healthcare and lighting. In May 2016 it listed their lighting division as a separate company.

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ABB (ASEA Brown Boveri) is a Swedish-Swiss multinational corporation headquartered in Zurich, Switzerland, operating mainly in robotics and the power and automation technology areas. ABB is one of the largest engineering companies as well as one of the largest conglomerates in the world. ABB has operations in around 100 countries, with approximately 135,000 employees in December 2015 and reported global revenue of USD 35.5 billion for 2015.

## For more information please visit:

Latest [Market report](#)  
Information about [SKAGEN Vekst](#) on our website

Unless otherwise stated, all performance data in this report 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. KIIDs and Prospectuses for all funds can be found on our website.

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