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

SKAGEN Vekst

Status Report – March 2017

The art of common sense

Summary – March 2017

- The first quarter of 2017 was an eventful period with reasonably strong performance in global equity markets and in SKAGEN Vekst. Concerns around political popularity contests have subsided somewhat, helped by the election outcome in the Netherlands, and the stronger macro figures have continued. This had a positive ripple effect on equity markets around the world. SKAGEN Vekst delivered a return of 5,7%* in the quarter versus a gain of 5.0% for the combined benchmark index**. In March the fund was up 0.6% vs 0.7% for the index.

- Investors returned in strength in the first quarter, chasing returns across the globe. Emerging economies are once again back in favour. The fund's best contributor in the quarter was our long-term holding, Samsung Electronics. The company benefited from the strong pricing environment in semiconductors, the launch of the mobile Galaxy 8 and continued focus on shareholder returns. These factors all overshadowed the political unrest in Korea and the arrest of the company's deputy chairman.

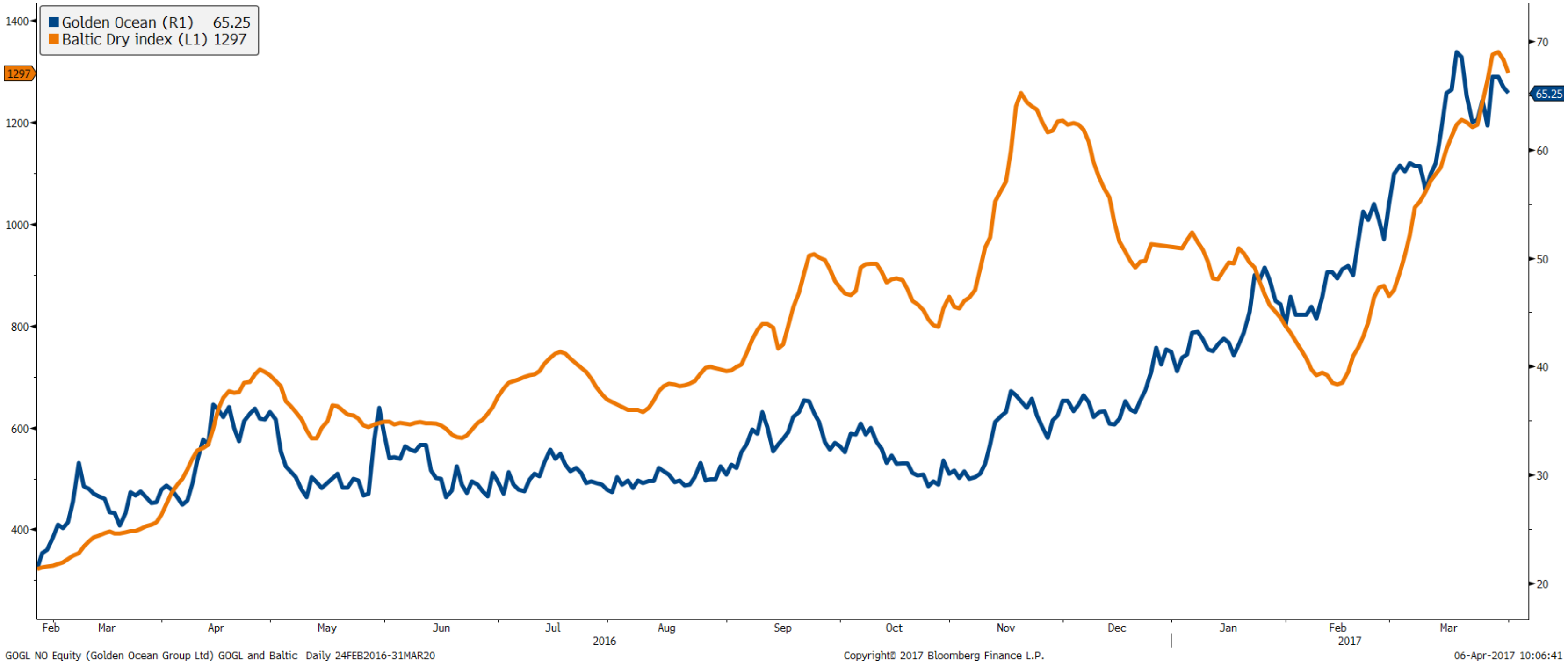
- March brought with it increased attention to new listings and opportunities in global markets. SKAGEN Vekst was fairly active in the capital raising market and took part in three large transactions. The first involved Northern Drilling, the John Fredriksen-backed asset play on the harsh drilling market environment. It is currently 1.1% of the Vekst portfolio. Second was the very accretive asset swap deal in another Fredriksen-controlled company, Golden Ocean, where SKAGEN Vekst participated and currently holds a 2.5% position. Third was the continued development of Borr Drilling, which raised capital to buy the entire jack-up fleet from Transocean at reasonable prices. As a result of the capital raise the company is now a 1.3% position in the portfolio.

- Measured in NOK, the largest contributors in March were Samsung Electronics, Continental and Carlsberg. The fund's largest detractors were Norwegian, Bonheur and Teva.

- SKAGEN Vekst consists of 52 holdings and 89% of the fund is invested in the 35 largest positions. During the month we entered Borr Drilling and Northern Drilling and increased our holding in Golden Ocean. We reduced holdings that were approaching their price targets or where we see better risk/reward elsewhere, including Danske Bank and Norsk Hydro. At the end of March 2017, SKAGEN Vekst was valued at 13.2x 2016 earnings, versus the market which is valued at over 16.6x.

** 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*

Rising from the ashes – Golden Ocean steaming ahead together with rates. Restructuring at an attractive point in the cycle.



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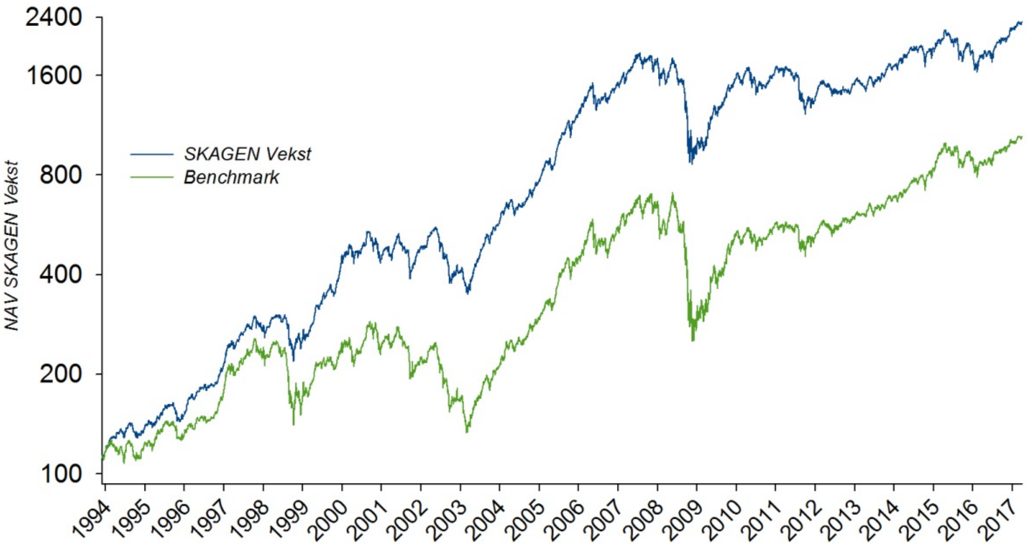
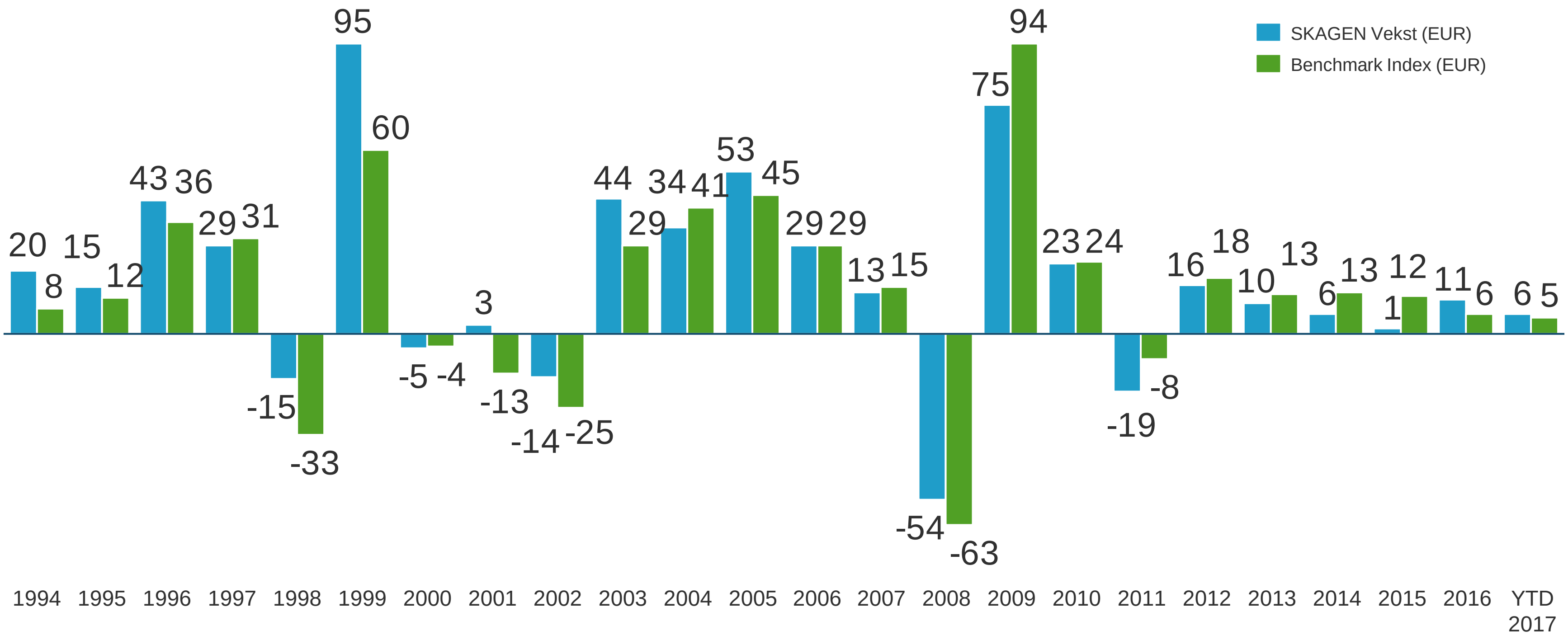
SKAGEN Vekst results, March 2017 (SEK net of fees)



	March	QTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	0,6%	5,7%	26,1%	8,3%	9,1%	3,4%	13,8%
Benchmark index*	0,7%	5,0%	21,2%	13,7%	13%	5,5%	10,0%
Excess return	-0,1%	0,7%	4,9%	-5,4%	-3,9%	-2,1%	3,8%

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 (%)*



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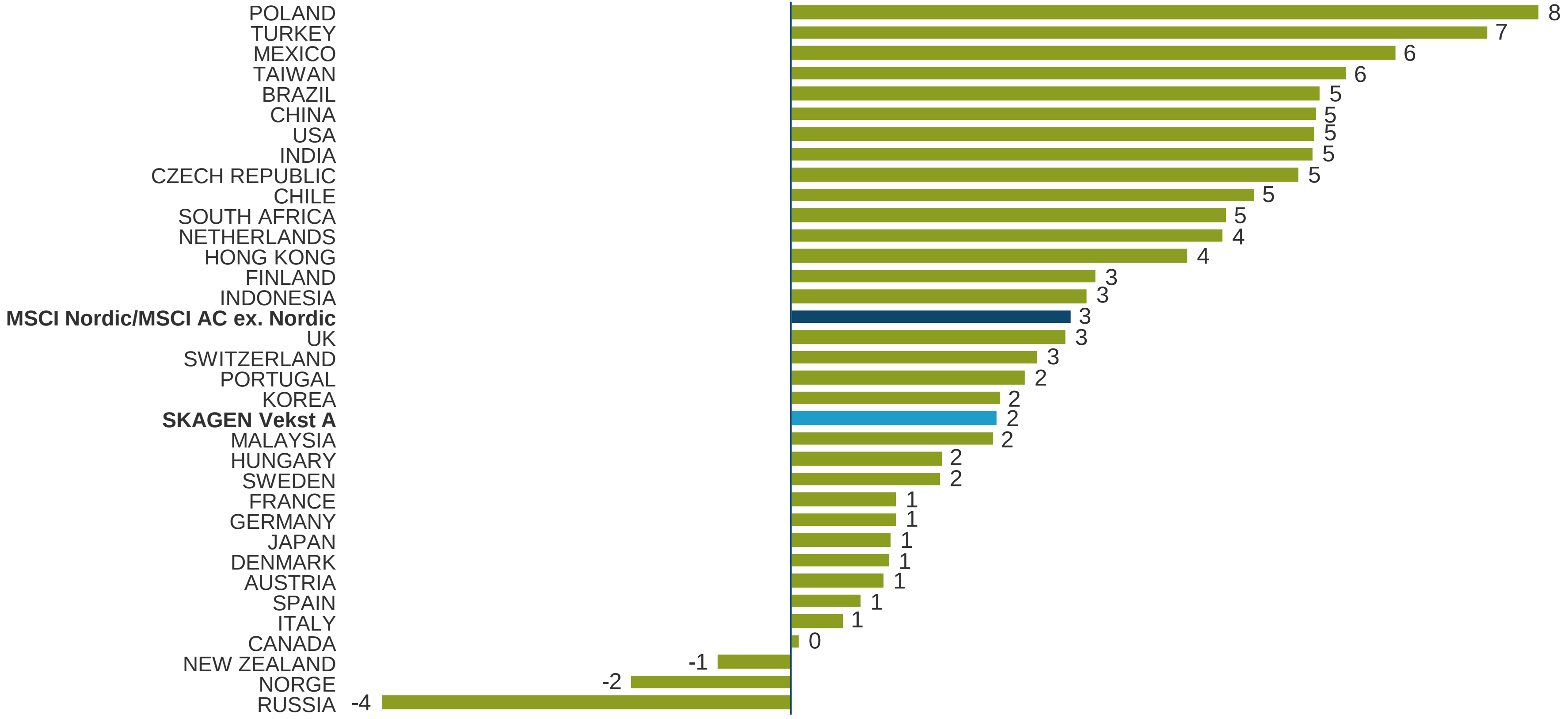
Markets in March 2017, EUR (%)



Largest holdings SKAGEN Vekst, end of March 2017

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
Continental AG	6,0 %	206	14,9	12,9	11,7	3,1	265
Samsung Electronics	5,5 %	1 603 000	11,1	9,4	8,9	1,3	1 680 000
Carlsberg AS-B	5,1 %	644	20,3	17,6	16,8	1,9	847
Norwegian Air Shuttle	4,5 %	237	8,2	6,8	5,3	2,1	500
Citigroup Inc	4,3 %	60	11,4	10,1	8,8	0,8	75
Kinnevik AB-B	4,2 %	239	59,8	39,8	37,3	0,9	295
Hennes & Mauritz AB	3,5 %	229	20,3	15,3	13,5	6,2	400
Ericsson LM-B SHS	3,4 %	60	103,1	25,0	15,2	1,4	75
Novo Nordisk	3,4 %	240	15,9	14,9	13,5	13,3	325
Roche Holding	3,0 %	256	17,1	16,0	14,2	10,4	350
Weighted average 10	**42,7 %**		**13,2**	**11,2**	**9,8**	**1,3**	**44 %**
Weighted average 35	**89,0 %**		**13,8**	**11,5**	**9,6**	**1,3**	**38 %**
Reference index			**16,6**	**14,9**	**13,5**	**2,2**	

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

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Main contributors MTD

Largest positive contributors

Company	NOK Millions
Samsung Electronics	49
Continental	47
Carlsberg	35
Golden Ocean Group	30
Volvo	27
Northern Drilling Ltd	26
Roche Holding	24
Ericsson	18
Borr Drilling Ltd	15
SKF	15

Largest negative contributors

Company	NOK Millions
Norwegian Air Shuttle	-39
Bonheur	-26
Teva Pharmaceutical Industries	-6
Rec Silicon	-4
Solstad Offshore	-3
HitecVision	-3
CF Industries Holdings	-2
Hennes & Mauritz AB	-2
IM Skaugen	-2
Catena	-1

Value Creation MTD (NOK MM): 368

NB: Contribution to absolute return

Main contributors Q1 2017

Largest positive contributors

Company	NOK Millions
Samsung Electronics	86
Golden Ocean Group	66
Norsk Hydro	65
Continental	55
Volvo	44
Ericsson	36
Kinnevik	33
Roche Holding	31
Carlsberg	30
Northern Drilling Ltd	26

Largest negative contributors

Company	NOK Millions
Norwegian Air Shuttle	-71
Hennes & Mauritz AB	-25
Gazprom OAO	-15
Cal-Maine Foods	-13
Lundin Petroleum	-6
CF Industries Holdings	-3
Rec Silicon	-2
PhotoCure	-2
Teva Pharmaceutical Industries	-1
Fujitec	-1

Value Creation YTD (NOK MM): 617

NB: Contribution to absolute return

Most important changes Q1 2017

Holdings increased

Q1

Northern Drilling Ltd	(New)
Teva Pharmaceutical Industries	(New)
Borr Drilling Ltd	(New)
Fujitec	(New)
Novo Nordisk	
Gazprom OAO	
Kia Motors	
Cal-Maine Foods	
Norwegian Air Shuttle	
Carlsberg	
Golden Ocean Group	
Shire	

Holdings reduced

Q1

Medistim	(Out)
GCL-Poly Energy Holdings	(Out)
Nordic Mining	(Out)
SAP	
Norsk Hydro	
Samsung Electronics	
Danske Bank	
Volvo	
Citigroup	
ABB	
Sodastream International	
H Lundbeck	
Strongpoint	

Key buys in March 2017

Key Buy

Borr Drilling

- Newly established drilling company coming out of former Seadrill, with main sponsor Tor Olav Trøim in the driver's seat.
- Thanks to attractive asset values, the company has developed from a small, two semi-sub rigs player to a fully-fledged company, after buying Transocean's jack-up fleet helped by good connections with the Keppel yard.
- Current pricing of fleet suggests a solid discount to new build parity and the potential for hefty revaluations when contracting gets closer.
- 20% ownership by one of the world's largest oil service companies, Schlumberger, installs confidence in set-up.

Key Buy

Northern Drilling

- The "master of cyclical businesses" over the past decade, John Fredriksen, has re-started his venture into ultra deep water rigs. A pure asset play with no debt.
- Several drilling companies have run into trouble due to lack of contracts and high debt. Lower oil price has made the situation more difficult – the current market for drilling assets is in upheaval.
- The current fleet is a one-rig company. There is an option for an additional asset. Both to be delivered in 2018.
- Potential to be part of Seadrill restructuring, which was postponed again and could transform the universe for drilling once again.

Key earnings releases and corporate news, March 2017

Golden Ocean (2.5%)

Acquisition of 16 vessels increases fleet by 26% at accretive values to current shareholders

Investment case implications

Positive. The acquisition of 16 ships from Quintana and Seatankers is executed at a price roughly the same as recent ship value quotes. However, as GOGL is trading well above NAV and financing is partly through equity, the deal is accretive, raising NAV by +15%. Buying the assets on the water clearly signals the shipping magnate's views that the market continues to strengthen in the near-term. Given the improved shipping rates, the company also announced they will be able to start to honour their debt pile from 2Q '17.

Event summary: GOGL announced the acquisition of 6 Capesize and 8 Panamax vessels from Quintana Shipping, as well as 2 ice class Panamax vessels from Hemen Holding (its largest shareholder). The acquisition is financed through the issue of 17.7m shares (USD 123m) to ship owners and the assumption of USD 285m in debt. Financing is on favourable terms with amortization frozen until mid-2019. GOGL furthermore issued 8.6m shares for USD 60m through a private placement. After this deal, GOGL owns 77 vessels and has 6 Capesize new build contracts. In addition, it manages 45 vessels on behalf of third parties. The acquired vessels are on average 4 years old.

3U Update

Unpopular: No

Under-researched: No

Undervalued: Following the deal, NAV is about USD c4.9 per share (up from USD c2.6 in November), meaning GOGL is valued at P/NAV of 1.6x. A strengthening of rates, especially in the time-charter market, has supported ship values recently. 1y TC rates for a five year old Capesize vessel is up from USD 7.5k/d mid-2016 to USD 15k. The news that China will stop further import of coal through 2017 from North Korea has added to strength. While the value of a 5y Capesize vessel has moved up from USD c22m at the lowest point in 2016 to USD c27m recently, this is still near a 20 year low. A 10% increase in fleet values would increase NAV by USD 1.6 per share to USD 6.5. If we assume mid-cycle prices we still have 70% upside from current fleet prices.

Key earnings releases and corporate news, March 2017 (cont.)

Sberbank Pref (1.4%)

In line with guidance and impressive execution

Investment case implications

Positive. Russia's largest bank continues to deliver impressive figures despite the sanctions. Much has already been disclosed in the market as the release of Russian accounting figures is two weeks earlier than IFRS. The improvement in the underlying business continues and reliability loan book and values seem to be on track. The lower cost of capital (CoR) has significantly helped income generation. Solid progress in operations continues and enables the bank to have an ROE of 20%. There is still a lot to be done with efficiency (expenses/income) which is around 40%, but Sberbank is able to harvest the strong margins from high domestic interest rates of 5.7%. The company is starting to rebuild capital which is currently 12.3%. This either means that the bank is over-capitalised and/or preparing itself for Basel II/III regulation/new regulation with its higher capital requirements (this was eluded to by management). Fee income was not as strong as expected, mainly due to less FX than in 2015. Cost savings continue and we should expect another RUB 30bn of efficiencies to be found in 2017. Company confirmed it is well positioned for stronger US rates and lower RUB rates (100bp decline = RUB 20bn income over 12 months).

3U update

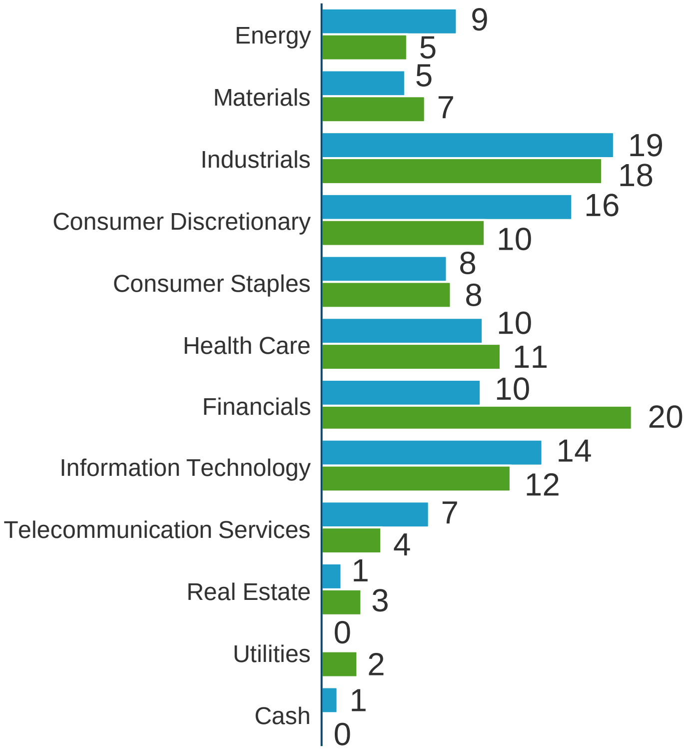
Unpopular. Less so than a year ago – with a 65% increase in share price (+24% increase in RUB/USD). Today 90% of all analysts who follow Russia have the company as a buy (11 in total).

Under-researched. Probably not, but many moving parts distracts a lot of people from focusing on the road ahead.

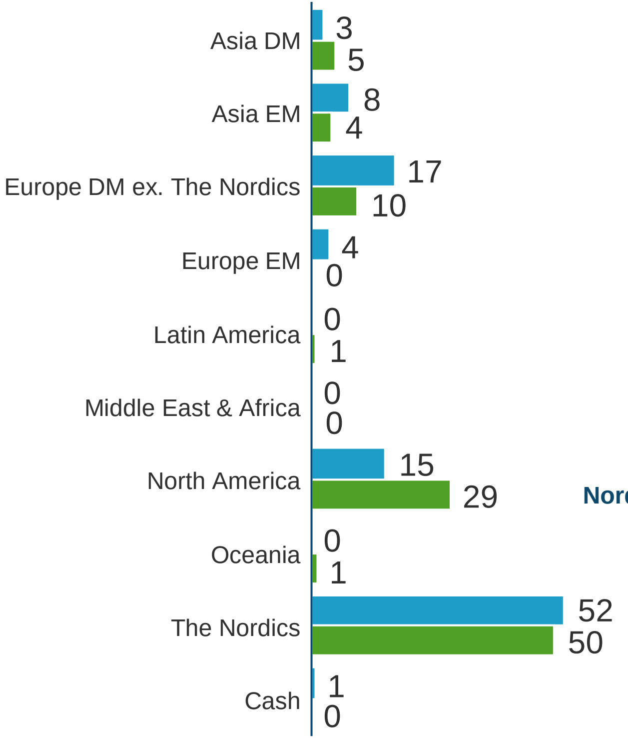
Undervalued. Yes – but our very prudent price target might have been too pessimistic. One of the most well-run banks with growing market share and efficiencies means there is room for a higher price – albeit with some political and macro risk. Price target maintained at RUB 150 (1.4x P/B). Some analysts are starting to talk about a potential buy-back of pref. shares if the bank continues to over-deliver on its targets.

SKAGEN Vekst sector and geographical distribution

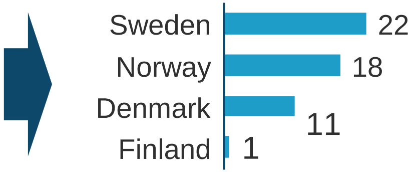
Sector distribution



Geographical distribution



Nordics in SKAGEN Vekst



The largest companies in SKAGEN Vekst

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.

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.

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.

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.

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.

The largest companies in SKAGEN Vekst (continued)

Kinnevik AB is a Swedish investment company that was founded in 1936 by the Stenbeck, Klingspor and von Horn families. Kinnevik is an active and long-term owner and its investments are made primarily in technology-based services aimed at consumers.

H&M (Hennes & Mauritz) is a Swedish multinational clothing-retail company, known for its fast-fashion clothing for men, women, teenagers and children. H&M operates in 62 countries (ranked 2nd in the world) with over 4,000 stores and as of 2015 employed around 132,000 people. The first store was opened on the high street of Västerås, Sweden in 1947.

Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and today has a revenue of SEK 227bn. Ericsson had a 33% market share in the 2G/3G/4G mobile network infrastructure market in 2015.

Novo Nordisk is a global healthcare company with more than 90 years of innovation and leadership in diabetes care. The multinational pharmaceutical company is headquartered in Bagsværd, Denmark, and has production facilities in eight countries, and affiliates or offices in 75 countries.

F. Hoffmann-La Roche AG is a Swiss multinational health-care company that operates worldwide under two divisions: Pharmaceuticals and Diagnostics. Family controlled and amongst world leaders in cancer drugs; including new developments within immunotherapy.

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.