Beach cyclists. 1894. Detail. By Einar Hein, one of the Skagen Painters. This image belongs to the Art Museums of Skagen.

SKAGEN Vekst

Statusrapport – april 2017

The art of common sense

Summary – April 2017

- The strong markets that we saw early in 2017 continued in the spring and, along with the French election results, gave rise to renewed optimism in Europe, which gained over 3% versus developed markets, which were up just over 1%. Although commodities started to slide and the oil price weakened, the Nordic markets delivered strong returns overall, with Denmark in the lead and Norway bringing up the rear. Growth also seemed to pick up in China, which eased the strain on other emerging markets and we saw positive developments in Russia and Brazil amongst others.

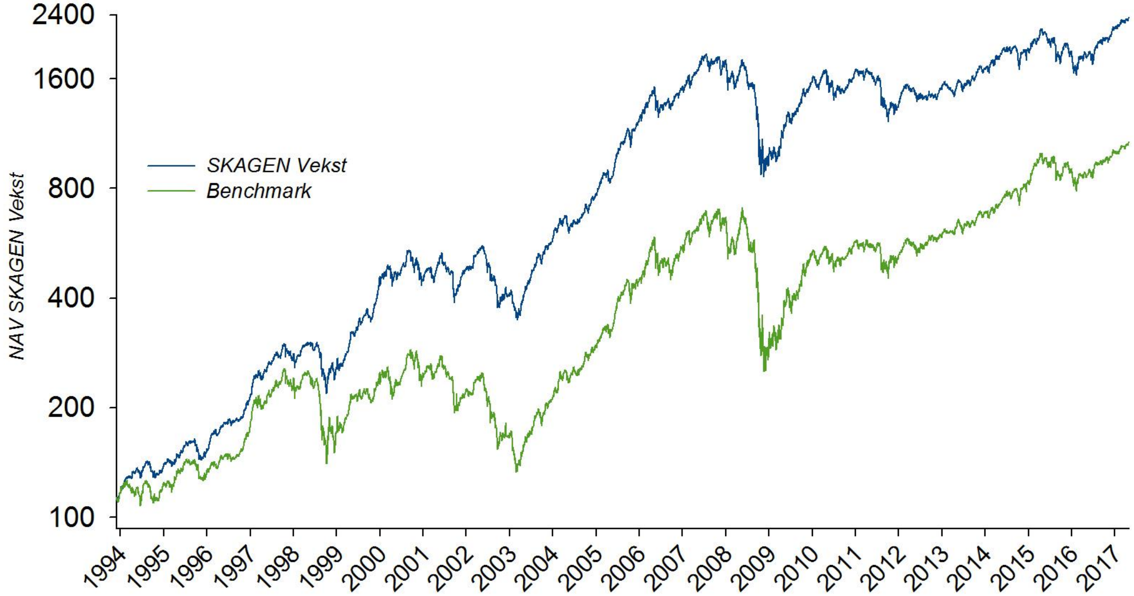
- SKAGEN Vekst* delivered a positive return of 1.0% in April, measured in EUR, which was somewhat weaker than the combined index** which returned 1.7%. Year to date SKAGEN Vekst is up 7.2% which is marginally better than the index gain of 7.1%.

- Measured in NOK, the largest contributors in April were the Danish-based diabetes-focused pharma giant Novo Nordisk, the Global/Danish brewer Carlsberg and the Korean based electronics giant Samsung Electronics. The fund's largest detractors were Kia, Ericsson and H&M.

- SKAGEN Vekst consists of 49 holdings with 88% of the fund invested in the 35 largest positions. We have increased our holdings in CF industries, SKF and H&M. In addition to these increases, we received shares in International Petroleum Company (IPCO), the new spin-off from Lundin Petroleum. We sold out of holdings that were approaching their price targets or where we see better risk/reward elsewhere. During the month we sold out of Credit Suisse, Sodastream and Photocure. At the end of April 2017, SKAGEN Vekst was valued at 14.3x 2016 earnings versus the market 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*

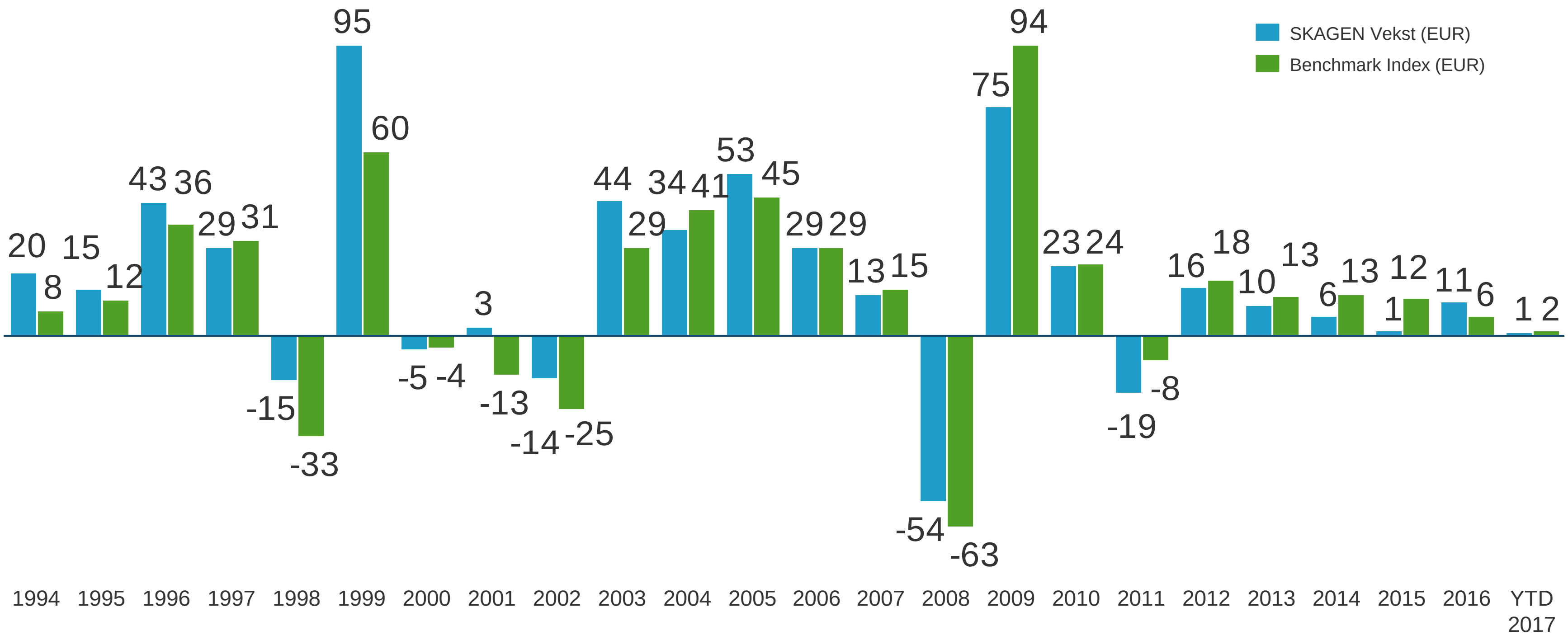
SKAGEN Vekst results, April 2017 (SEK, net of fees)



	April	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	**1,8%**	**1,8%**	**7,7%**	**26,5%**	**8,9%**	**9,3%**	**2,9%**	**13,8%**
Benchmark index**	**2,5%**	**2,5%**	**7,6%**	**23,7%**	**14,1%**	**13,6%**	**13,6%**	**10,1%**
Excess return	**-0,7%**	**-0,7%**	**0,1%**	**2,8%**	**-5,2%**	**-4,3%**	**-2,3%**	**3,7%**

*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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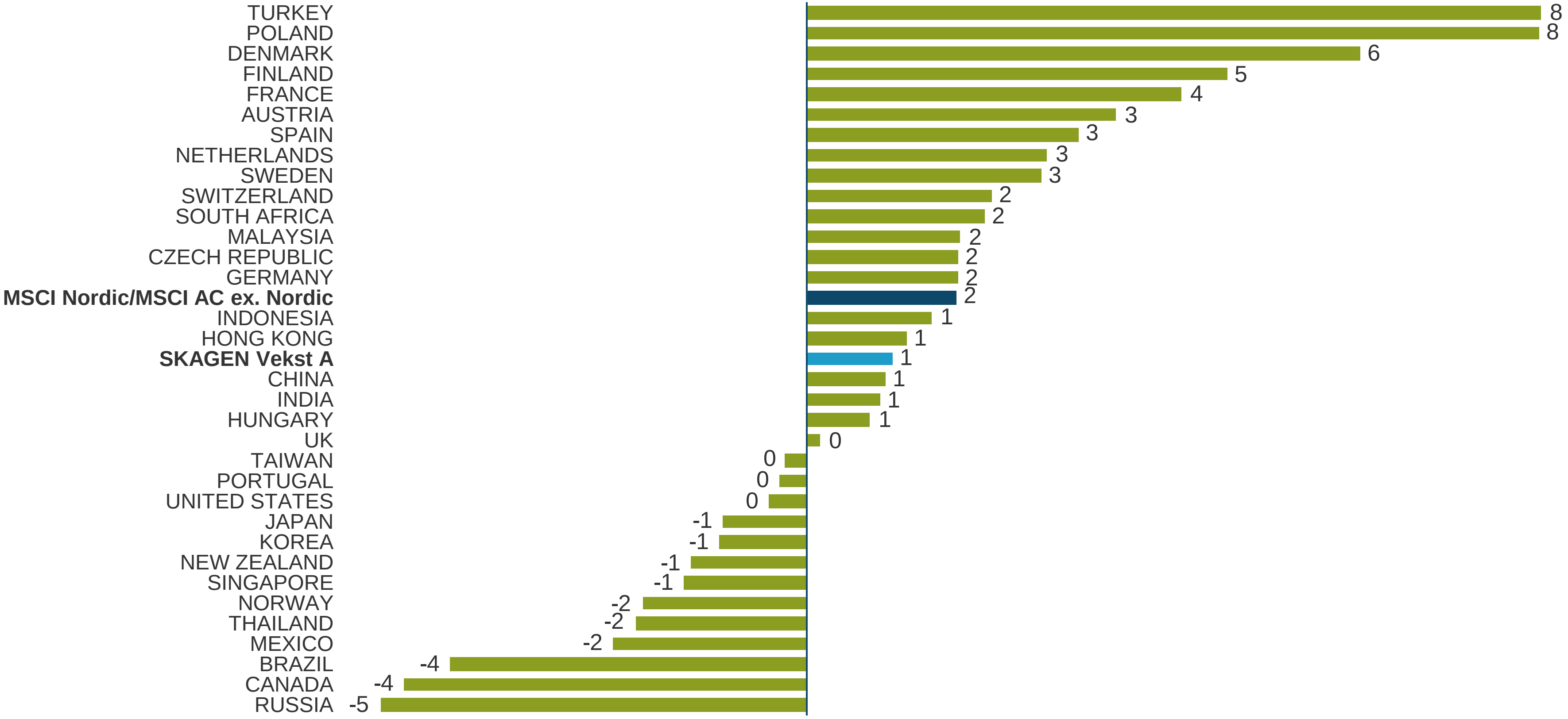
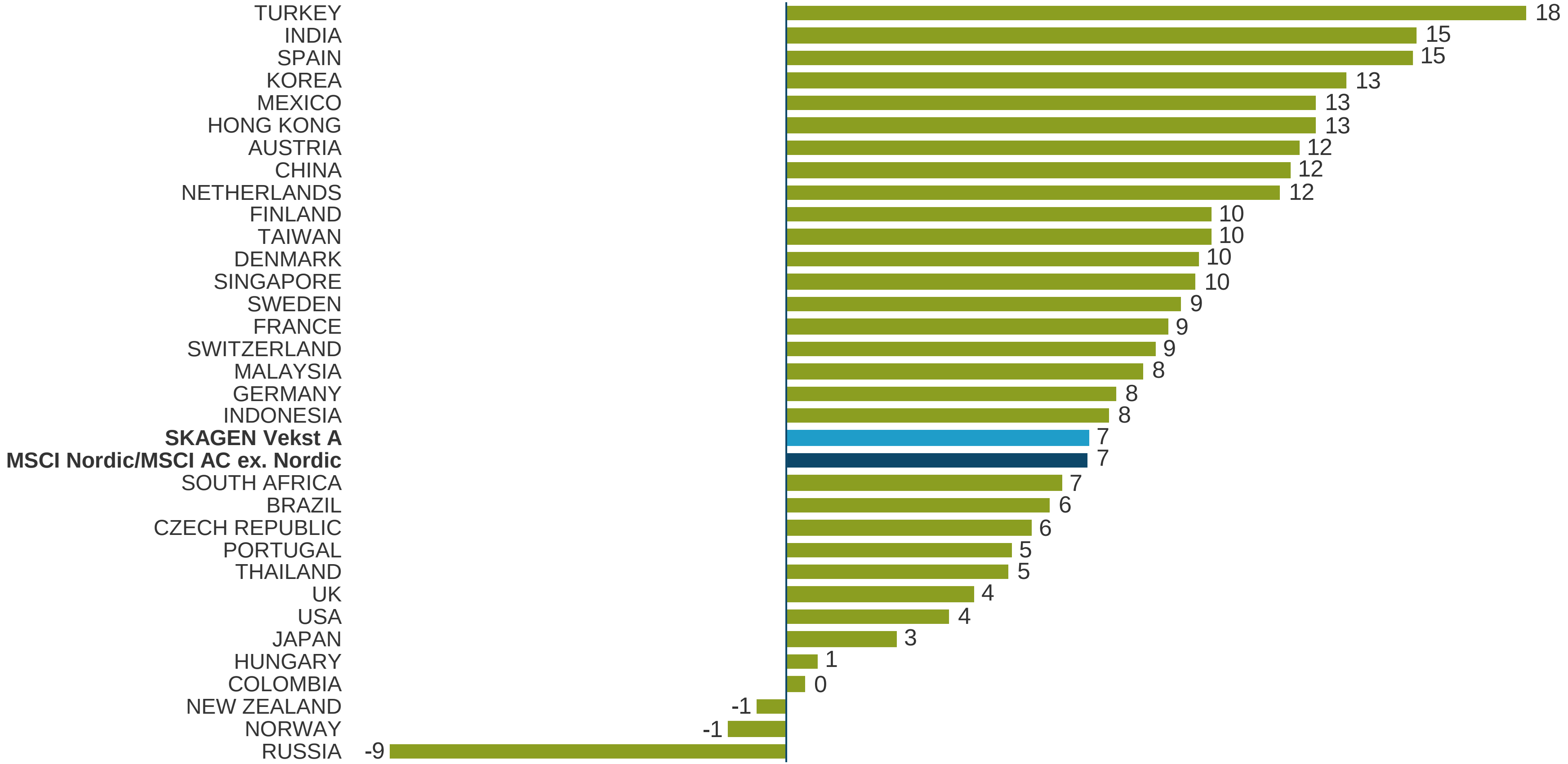
Markets in April 2017, EUR (%)



Markets YTD in 2017, EUR (%)



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Largest holdings SKAGEN Vekst, end of April 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
Samsung Electronics Co	5,7 %	1 753 000	12,1	10,3	9,7	1,3	1 900 000
Carlsberg AS-B	5,3 %	682	21,4	18,7	17,8	2,0	847
Continental AG	5,0 %	205	14,9	12,9	11,7	2,9	265
Norwegian Air Shuttle	4,5 %	244	8,4	7,0	5,4	3,5	500
Citigroup Inc	4,1 %	59	11,3	10,0	8,7	0,8	74
Kinnevik AB-B	4,0 %	236	59,1	39,4	36,9	0,8	300
Novo Nordisk	3,7 %	266	17,6	16,5	14,9	14,7	325
Hennes & Mauritz AB	3,4 %	219	19,5	14,6	12,9	5,7	400
Ericsson LM-B SHS	3,2 %	57	98,4	23,9	14,5	1,5	75
Roche Holding	2,9 %	260	17,4	16,3	14,5	9,3	350
Weighted average 10	42,0 %		16,1	13,3	11,5	1,8	38 %
Weighted average 35	88,0 %		13,7	11,6	9,7	1,4	35 %
Reference index			17,1	15,4	14,0	2,8	

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

Main contributors April 2017

Largest positive contributors

Company	NOK Millions
Novo Nordisk	33
Carlsberg	31
Samsung Electronics	29
Volvo	25
Philips Lighting	22
SKF	18
Swatch Group	15
Norwegian Air Shuttle	11
Gazprom OAO	9
ABB	8

Largest negative contributors

Company	NOK Millions
Kia Motors	-15
Ericsson	-9
Hennes & Mauritz AB	-8
Citigroup	-6
Golar LNG	-6
eBay	-6
CF Industries Holdings	-5
Norsk Hydro	-4
Teva Pharmaceutical Industries	-3
Lundin Petroleum	-3

Value Creation MTD (NOK MM): 219

NB: Contribution to absolute return

Main contributors YTD 2017

Largest positive contributors

Company	NOK Millions
Samsung Electronics	115
Volvo	70
Golden Ocean Group	70
Continental	62
Norsk Hydro	61
Carlsberg	60
Philips Lighting	40
Roche Holding	34
SKF	34
Novo Nordisk	33

Largest negative contributors

Company	NOK Millions
Norwegian Air Shuttle	-60
Hennes & Mauritz AB	-34
Kia Motors	-10
CF Industries Holdings	-9
Cal-Maine Foods	-8
Lundin Petroleum	-8
Gazprom OAO	-6
Teva Pharmaceutical Industries	-5
PhotoCure	-3
Rec Silicon	-1

Value Creation YTD (NOK MM): 835

NB: Contribution to absolute return

Most important changes 2017

Holdings increased

Q1	Northern Drilling Ltd	(New)
	Teva Pharmaceutical	(New)
	Borr Drilling Ltd	(New)
	Fujitec	(New)
	Novo Nordisk	
	Gazprom OAO	
	Kia Motors	
Q2	CF Industries Holdings	
	SKF	
	Hennes & Mauritz AB	
	International Petrol. Co.	(New)

Holdings reduced

Q1	Medistim	(Out)
	GCL-Poly Energy Holdings	(Out)
	Nordic Mining	(Out)
	SAP	
	Norsk Hydro	
	Samsung Electronics	
Q2	Sodastream International	(Out)
	Credit Suisse Group	(Out)
	PhotoCure	(Out)

Key buys and sells in April 2017

Key Buy

CF Industries

- We added to our holding in North America's largest producer of nitrogen-based fertiliser in April. We had a small position but the stock price rallied 40% within a couple of months. It then fell back to levels where we found the risk-reward appealing.
- The US cost advantages due to low US gas prices and the favourable distance to market put the Deerfield, Illinois based company in an attractive position, both geographically and economically speaking.

Key Sell

Sodastream

- SodaStream International Ltd. is an Israeli drinks company best known as the maker of the home carbonation product of the same name.
- We sold out of our holding in Sodastream, which has been an interesting as well as fruitful investment. The share price is up 280% over the past 12 months.

Key earnings releases and corporate news, April 2017

Samsung (5.7%)

Cancelling treasury shares and strong memory are key takeaways from Q117 report

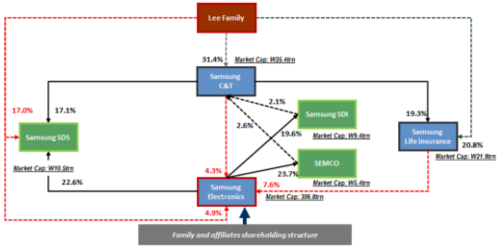
Implications for Investment Case: Result in line with preliminary result. Continuous strength in memory prices is supportive and consensus expectations continue to move upwards, now expecting operating profit of KRW 47tr for FY17 versus KRW 44tr in early April and KRW 29tr for FY16. A number of analysts were surprised by the decision to cancel the 13% treasury shareholding and had to raise their EPS estimates materially on the back of this. The cancellation of the treasury shares is positive as it removes governance risk and is actually a better solution than a holding company structure. It signals that the Lee family is comfortable with its holding which will be raised gradually through ongoing share buy-backs and cancellation.

Event summary: Samsung reported a final Q117 result with operating profit of KRW 9.9tr which is in line with the preliminary result and up 48% YoY/7% QoQ in a seasonally weak quarter. As expected the Semiconductor segment was the key driver with operating profit of KRW 6.31tr up 27% QoQ and 140% YoY. Mobile profit of KRW 2.07tr weakened QoQ from KRW 2.5tr despite lower costs related to Note 7 and revenues barely flat QoQ. We suspect high promotional costs related to the Galaxy S8 launch is a key factor. Display profit of KRW 1.3tr was flat QoQ in a seasonally weak quarter. Net cash fell from KRW 73tr to KRW 60.2tr amid the USD 8bn (KRW 9tr) acquisition of Harman International and high capex of KRW 8.9tr (KRW 24.1tr for FY16). The company will buy back 1.155m shares through the second batch of FY17 buyback. Of this, 22% will be pref. shares, up from 20% in 1Q17. A 23% discount to pref. share, pre-announcement, is clearly appealing.

Samsung announced that the board has approved the cancellation of its treasury shares. These are shares owned before the ongoing buy-back program where the shares purchased are immediately cancelled. The company holds 17,981,686 ordinary shares and 3,229,693 pref. shares which combined accounts for 13% of the current share count. 50% will be cancelled now with the balance through a board resolution in 2018. The company also announced that the board has concluded that Samsung Electronics will not transform into a holding company structure.

Share price target and rationale: We raised our target price from approx. KRW 1.7m to KRW 1.9m, factoring in the impact of the ongoing share buyback. Our target price (14% upside plus 1.6% dividend yield) is based on a 12x mid-cycle operating profit after tax for each division (total KRW 30tr operating profit before tax versus consensus of KRW 48tr for FY17), i.e. operating profit of KRW 13tr for Semiconductor versus an expected KRW +25tr for 2017. We add net cash as well as the value of listed and unlisted holdings to arrive at a value per share of KRW 2.64m. We deduct a 15% “conglomerate” discount to this and a further 15% discount to pref. share.

Figure 3: Samsung Group ownership structure



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

eBay (2.6%)

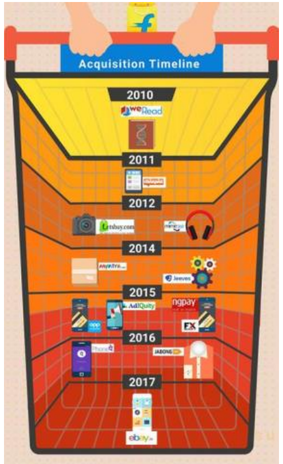
USD 500m cash investment in Flipkart and sale of eBay.in to Flipkart

Investment case implications

Positive – the IT giants eBay, Microsoft and Tencent seem to be joining forces to compete against the global hegemony of Amazon in the global ecommerce space, starting in India. eBay has been losing market share in the fairly competitive new and innovative market. The last financial statement we have for ebay’s revenue in India is from 2015 and was approx. USD 20m, though growing between 20-30% annually. We see this as a competitive move by eBay which, together with other online commerce companies (Flipkart, Snapdeal, etc.), has suffered from Amazon’s USD 5bn commitment to India over recent years. India’s online penetration in ecommerce is currently only approx. 2%.

Summary

eBay announced an agreement with India's Flipkart, whereby eBay will make a USD 500m cash investment in Flipkart and sell eBay.in to Flipkart. The two companies also entered into a joint agreement whereby eBay will make its global inventory accessible to Indian consumers while eBay's users across the globe will have access to the inventory from Flipkart. In addition to access to eBay's global inventory, Flipkart is likely to benefit from eBay's management expertise, which we understand will be much needed after recent exits. Flipkart raised a total of USD 1.4bn in the latest financing round, which valued the company at USD 11.6bn The deal should close later in the year and have no material impact on guidance for FY17 – as the company has strong cash generation and is also able to utilise the debt market should it be needed.



3U update

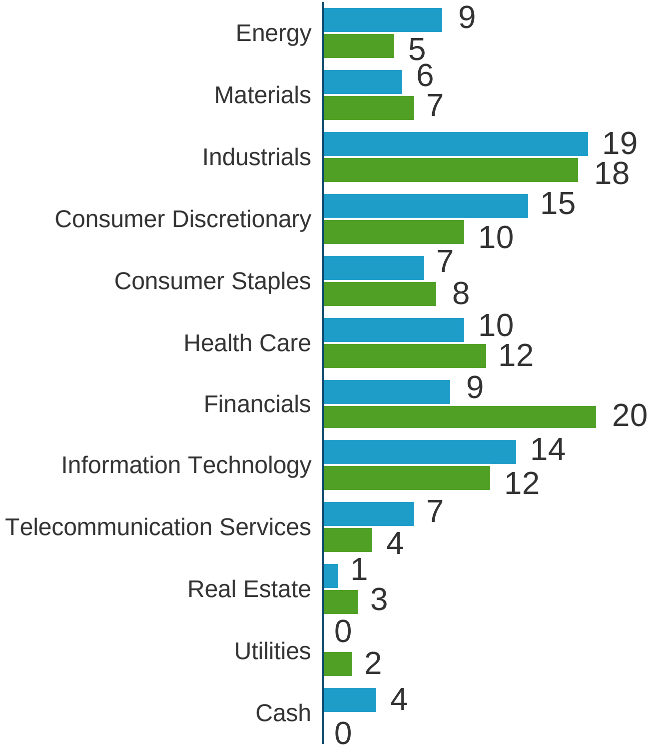
Unpopular: Yes, although it is increasingly returning to favour after their Q2 report, and confirmed after Q4 report.

Under-researched: no, 44 analysts following (35% buy), with most turning positive over the last couple of months. Clearly divided market view as to whether there is a place in the digital age for more than one platform for buying/selling goods.

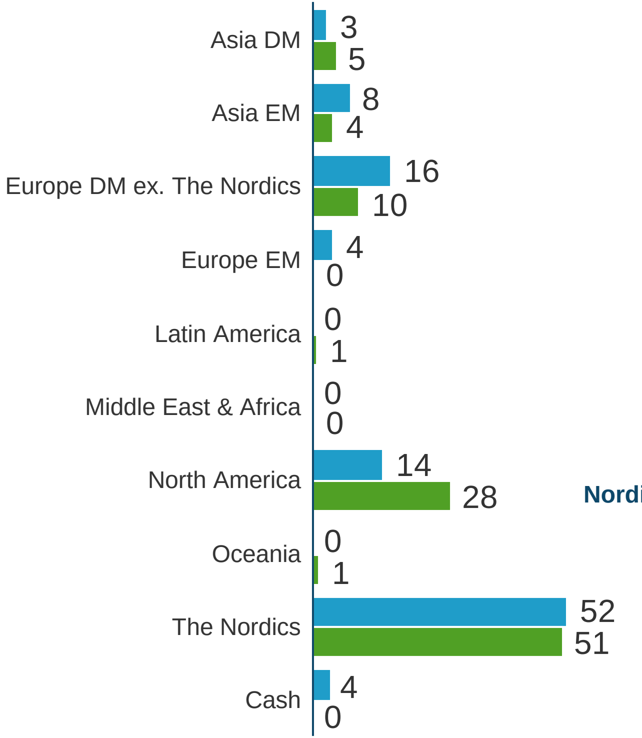
Undervalued: Company should be able to make USD 2/share in 2017. Adding some growth and share buy backs, company could make at least USD 3/share within our investment period (buy-back USD 1.4bn left) which renders a target price north of USD 38 (still very conservative compared to rest of sector).

SKAGEN Vekst sector and geographical distribution

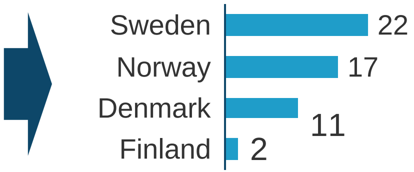
Sector distribution



Geographical distribution



Nordics in SKAGEN Vekst



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The largest companies in SKAGEN Vekst

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.

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.

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.

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.

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.

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:

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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.

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