SKAGEN Vekst A

All data in SEK as of 31/12/2019 unless otherwise stated.

Climbing the wall of worry

2019 was a classic example of markets climbing the wall of worry, following a weak end to 2018. The final quarter was no different as the market continued to rise, and SKAGEN Vekst delivered a solid absolute return for the quarter as well as for the full year. The themes in the fourth quarter remained the same as for the first three quarters, but now with everything moving in the right direction. In terms of the economy, data remained weak but turned less bad. In the political arena, there seemed to be progress in the US-China trade talks and the Brexit drama finally started to move towards a solution. Finally, with regard to monetary policy, comments from global central banks confirmed they are firmly in easing mode.

Contributors

The Danish windmill producer Vestas was among the fund's strongest performers in Q4 as the company reported record orders. Vestas continues to take market share, confirming our thesis that the company is using its scale benefits in R&D and costs to widen its gap to peers. Ultimately, we expect this to lead to a healthier industry structure with fewer players and higher margins. Samsung Electronics was another strong performer as the company benefitted from early signs that the memory cycle is finally turning. This also helped our related investments in Applied Materials and Broadcom.

The Danish pharmaceutical giant Novo Nordisk was once again among the best contributors to the absolute return of the fund. While it is still early days for the newly launched Rybelsus (a once-daily GLP-1 tablet), the drug has got off to a very strong start, which supports our thesis that Novo should see an acceleration of its growth trajectory.

On the weaker side we find the US multi-line insurer AIG whose Q3 numbers came in below expectations. This was mainly driven by shorter-term factors like higher catastrophe losses and lower than expected alternative investments income. What is important for our thesis is that general insurance, which has traditionally been the company's problem child, continued to show improvement in underwriting as well as costs. The Norwegian fertiliser company Yara was another weak performer in Q4 as lower coal prices and a weaker Chinese yuan resulted in increased price competition from China. Yara continues to provide us with a very attractive direct yield from dividends and buybacks at these levels. With few new Chinese plants under construction, we expect the more subdued supply conditions to lead to higher urea prices over the coming years.

Photo: Shutterstock

Photo: Bloomberg

Portfolio activity

SKAGEN Vekst added three new positions in the quarter, namely Sparebanken Vest, Telenor, and Equinor. Sparebanken Vest is very attractively priced versus its peers with the same level of profitability. The main reason is low liquidity in the stock. We have seen a clear trigger for this to change, following the conversion of ownerless primary capital into equity capital certificates, which drastically improved the liquidity of the equity certificates. While we expect a positive re-rating following this event, Sparebanken Vest already generates an attractive dividend yield. Telenor is another safe and strong dividend payer, providing an attractive yield in the current environment of ultra-low interest rates and high asset prices. On top of this, we see strategic opportunities to monetise the company's tower infrastructure assets as well as its Asian assets. We have seen a continued de-rating of oil producers globally as investor focus on ESG has increased. In this period, the major oil companies have done exactly what investors have asked for by lowering costs, strengthening balance sheets, and increasing management focus on shareholder return. The net result is that for a lot of these stocks, the dividend and buy-backs alone will provide a return in excess of what investors would expect in total return from the stock market overall. On this note, we added Equinor to the portfolio as recent management action has given us increased confidence in their commitment to a disciplined capital allocation. To fund these new investments, we reduced our holdings in some of our strong performers where we now see less upside. For this reason, Samsung Electronics, Citigroup, DSV, Orkla, Tyson Foods, Holmen and A.P. Moller-Maersk were all reduced in Q4.

Outlook

While stocks globally have done well since the end of the financial crisis, the performance has been unevenly distributed. This has resulted in a situation where quality growth stocks trade at historically high valuations, while more capital-intensive industries often trade at valuation multiples not far off financial crisis levels. Importantly, a number of these companies have now become so cheap that the dividend yield is comparable to the normalised total return you would expect from the stock market. Thus, while the overall market does not look particularly cheap, we find underlying pockets of opportunity. For this reason, we have continued to move the portfolio towards more classic value cases. As always, this is done on a bottom-up basis, favouring companies trading at depressed valuations, offering clear triggers, and paying an attractive dividend yield. It is also important to highlight that these stocks look very attractive versus other asset classes such as bonds and physical real estate.

Quarterly Report

SKAGEN Vekst A

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The fund selects low-priced, high-quality companies in the Nordic region and from around the world.

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.

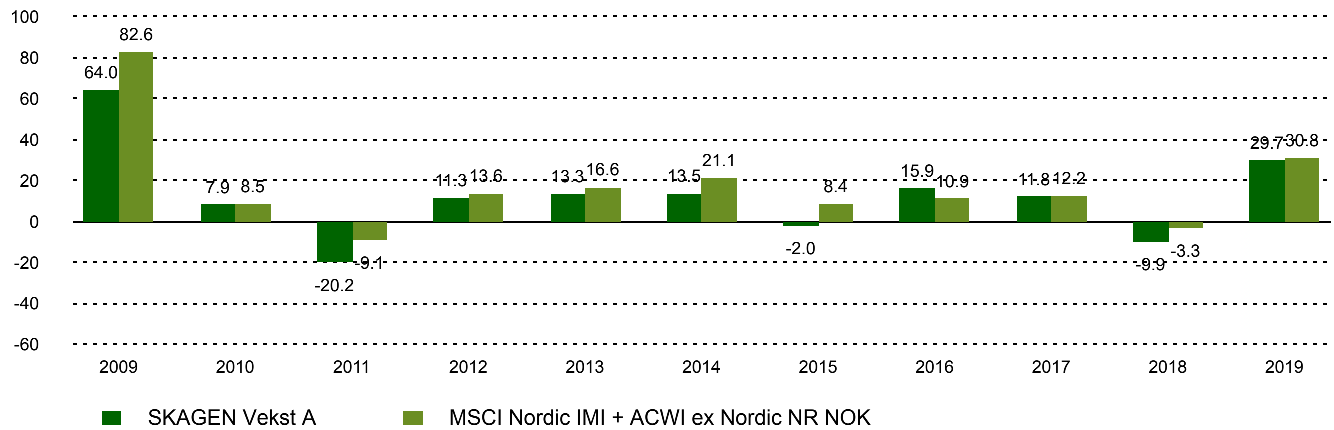
Historical performance (net of fees)

Period	SKAGEN Vekst A	Benchmark index
Last month	4.0%	2.4%
Quarter to date	5.0%	5.1%
Year to date	29.7%	30.8%
Last year	29.7%	30.8%
Last 3 years	9.3%	12.4%
Last 5 years	8.2%	11.3%
Last 10 years	6.2%	10.4%
Since start	13.2%	10.2%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	01.12.1993
Morningstar category	Global Flex-Cap Equity
ISIN	NO0008000445
NAV	2864.84 SEK
Fixed management fee	1.00%
Total expense ratio (2018)	1.00%
Benchmark index	MSCI Nordic IMI + ACWI ex Nordic NR NOK
AUM (mill.)	8056.09 SEK
Number of holdings	54
Portfolio manager	Søren Christensen

Performance last ten years



See next page for info about fund's mandate change.

Contributors in the quarter

Largest contributors

Holding	Weight (%)	Contribution (%)
Vestas Wind Systems	2.94	0.66
Samsung Electronics	4.40	0.63
Novo Nordisk A/S	6.68	0.58
Citigroup Inc	4.37	0.53
Kinnevik AB	3.09	0.47

Largest detractors

Holding	Weight (%)	Contribution (%)
American International Group	2.81	-0.31
Yara International ASA	3.59	-0.25
Northern Drilling Ltd	0.84	-0.14
Chubb Ltd	1.67	-0.12
Hyundai Motor Co	1.77	-0.11

Absolute contribution based on NOK returns at fund level

Quarterly Report

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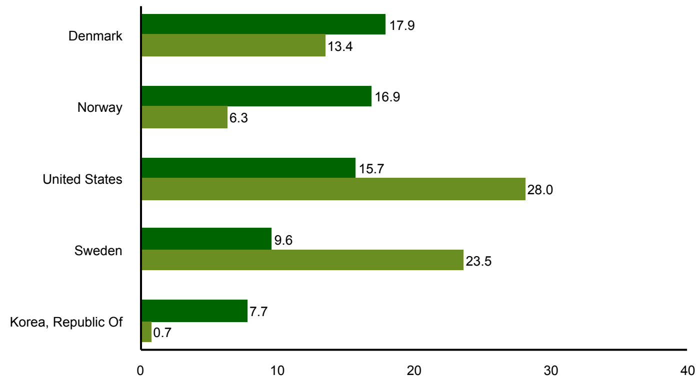
Top ten investments

Holding	Sector	Country	%
Novo Nordisk A/S	Health Care	Denmark	6.6
Bonheur ASA	Industrials	Norway	4.4
Samsung Electronics Co Ltd	Information Technology	Korea, Republic Of	4.2
Citigroup Inc	Financials	United States	4.1
Yara International ASA	Materials	Norway	3.8
Royal Dutch Shell PLC	Energy	Netherlands	3.7
CK Hutchison Holdings Ltd	Industrials	Hong Kong	3.1
Vestas Wind Systems A/S	Industrials	Denmark	3.1
Gazprom PJSC	Energy	Russian Federation	2.8
Broadcom Inc	Information Technology	United States	2.6
Combined weight of top 10 holdings			38.4

Country exposure (top five)



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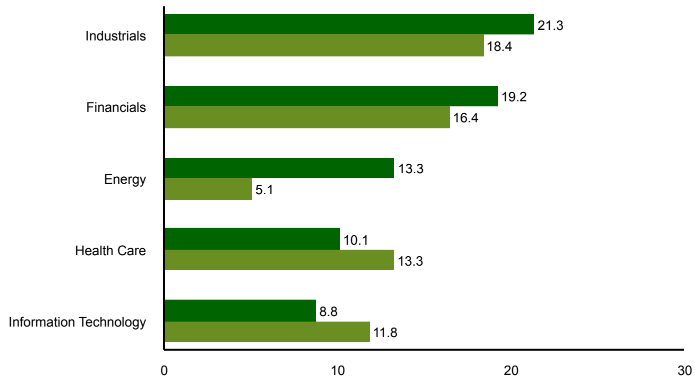
Sector exposure (top five)



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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.

Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its funds in Norway to investing a minimum of 50% of its funds in the Nordic countries. This means that returns prior to the change were achieved under different circumstances than they are today. Prior to 1/1/2014, the benchmark index 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).