

Exceptionally strong quarter for the fund

The fund delivered exceptionally strong results in the quarter and substantially outperformed the underlying global equity markets. Global equity markets have started to show signs of increased volatility. This should come as no surprise given the potentially premature re-opening of the US and Latin America which increases the risk of a second wave. While we observed a violent rotation into quality growth at the outset of the Covid-19 outbreak, recently green shoots have emerged in the relative development of the value segment, both in the US and Europe. There are signs that flows are finally being more evenly distributed and small and mid-caps stocks have broadly outperformed the major indices. As value investors, we direct capital to undervalued segments of the global equity market and SKAGEN Focus currently has a record-high allocation towards small and mid-caps stocks at 70% of the portfolio. We believe that both valuation and risk/reward are currently tilted towards this space and are currently researching several new small and mid-cap investment opportunities in all geographies.

Gold and silver deliver

The fund's largest position, gold miner Roxgold, was the top contributor in the quarter. The company continued to deliver positive drilling results, reflecting the potential of its recently acquired asset Séguéla. Roxgold also increased financial flexibility by expanding and successfully extending its credit facility, firming up an already solid balance sheet. The company is on track to double production over the next 2 years while diversifying risk and improving liquidity, scale and relevance. Despite the recent re-rating, the shares still offer substantial value at 0.4x NAV versus peers at around 1x. We also think Roxgold is a reasonable target for larger mining companies or strategic investors to consider at the current

valuation in our mid-term timeframe. Our other precious metals mining company Fortuna Silver also contributed positively. We trimmed the position when it briefly reached our price target. Fortuna is moving closer to reaching production status for its Lindero asset, which will increase its gold exposure.

Our DIY store retailer Hornbach Holdings delivered strong results in the quarter. The German small-cap is trading at exceptionally cheap valuation levels, especially considering the massive real estate holding encapsulated within the holding company. Hornbach increased sales and EBIT in Q1 despite some stores being closed in the lockdown. The company has invested heavily in its online offering which delivered well in Q1. The pandemic has increased the overall sales climate positively as more money is being directed towards renovation projects. The shares still trade at attractive levels despite the recent rise in share price.

We added to our position in hazardous waste service company Befesa, which has continued to operate at high utilisation during the crisis due to its status as a critical service and continues to have a promising outlook, driven by structural trends and its hedged output strategy. We sold our last shares in Telecom Italia, as the position has exceeded our investment duration hurdle and the turnaround has taken longer than anticipated. The same goes for Bank of Kyoto, which has unfortunately not delivered our required improvement in capital allocation policies. China Unicom was a negative contributor and we trimmed the position as we struggle to see near-term catalysts for revaluation.



Photo: Shutterstock



Photo: Shutterstock

New positions

We added a position in German industrial company Norma, which is an international leader in joining technology and a single source supplier to a diversified set of end markets. This investment opportunity is a classic return-to-mean type of value situation, as our inception price point indicates an exaggeratedly pessimistic view in the mid-term. We think this underestimates the strength of Norma's solid market position in the value chain as well as their pricing power. We have also built a new position in the US-based cement and wallboard producer Eagle Materials. The share nosedived in the March-April downturn despite some very interesting dynamics in the company. We believe it has a unique advantage in being positioned in the middle of the US and is shielded from import pressure in Heavy Materials and consequently has a distinct pricing power. As a specialist in road and bridge renovation, we believe the company will be a primary beneficiary of increased US infrastructure spending, which is especially likely in an election year and as a component of stimulus packages to kickstart the US economy. The company is a low-cost producer in both Light and Heavy Materials and has also been unusually effective in capital allocation and returning capital to shareholders. Moreover, the process of splitting the company into two pure play entities has been initiated.

Outlook

We believe the stars are aligning towards a sustained potential for value to deliver outperformance. The massive economic stimulus currently being implemented will propel a substantial earnings growth from a depressed base in the cyclical value segments in particular, which should not go unnoticed by market participants. At quarter end, we have 34 substantially undervalued positions of which more than 70% are in the small and mid-cap segment. The concentration in the top 10 is 44%, right in the middle of our target range of 40-50%.

The fund is a concentrated global equity fund with a mandate to invest in all cap-sizes, geographies and sectors globally. With our concentrated portfolio of 30-35 core positions, we aim to generate absolute returns at a controlled level of absolute risk.

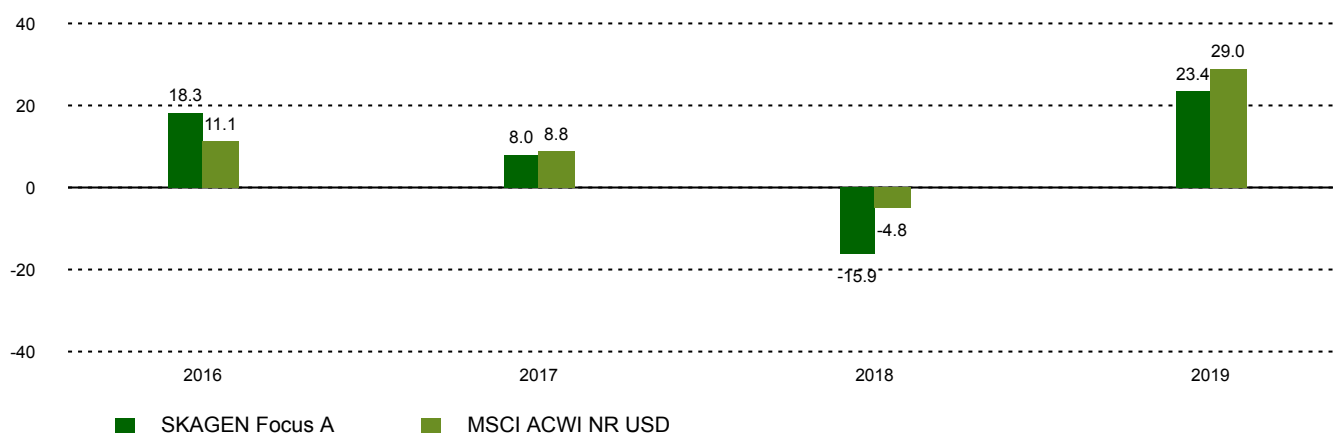
Historical performance (net of fees)

Period	SKAGEN Focus A	Benchmark index
Last month	3.2%	1.9%
Quarter to date	25.4%	15.2%
Year to date	-18.2%	-6.9%
Last year	-12.0%	3.1%
Last 3 years	-3.4%	6.4%
Last 5 years	-0.2%	6.1%
Last 10 years	n/a	n/a
Since start	-1.7%	5.0%

Fund Facts

Type	Equity
Domicile	Norway
Launch date	26.05.2015
Morningstar category	Global Flex-Cap Equity
ISIN	NO0010735129
NAV	10.88 EUR
Fixed management fee	1.60%
Total expense ratio (2019)	1.23%
Benchmark index	MSCI ACWI NR USD
AUM (mill.)	100.48 EUR
Number of holdings	34
Portfolio manager	Jonas Edholm

Performance last ten years



Contributors in the quarter



Largest contributors

Holding	Weight (%)	Contribution (%)
Roxgold Inc	6.47	3.65
Ivanhoe Mines Ltd	4.50	2.11
Fortuna Silver Mines Inc	2.34	1.74
OZ Minerals Ltd	3.94	1.69
West Fraser Timber Co Ltd	3.16	1.69



Largest detractors

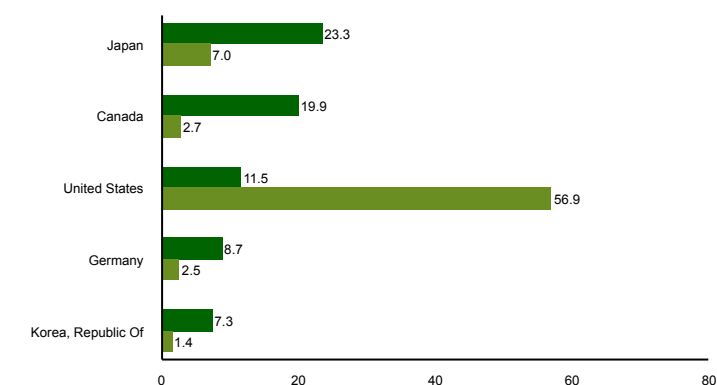
Holding	Weight (%)	Contribution (%)
China Unicom Hong Kong Ltd	4.91	-0.38
Telecom Italia SpA/Milano	1.68	-0.24
Korean Reinsurance Co	4.27	-0.22
Pilgrim's Pride Corp	2.40	-0.22
KB Financial Group Inc	2.02	-0.15

Absolute contribution based on NOK returns at fund level

Top ten investments

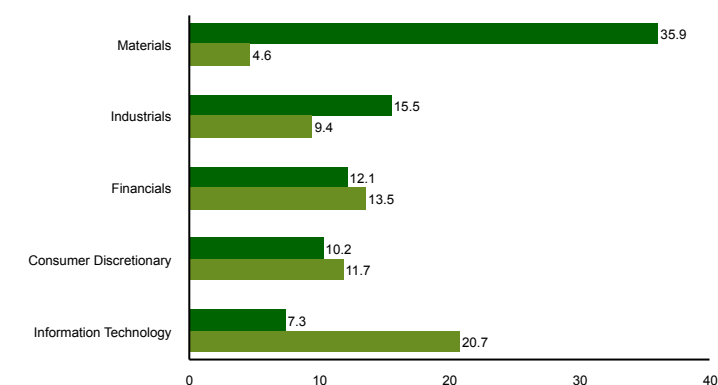
Holding	Sector	Country	%
Roxgold Inc	Materials	Canada	8.0
Ivanhoe Mines Ltd	Materials	Canada	5.5
Hitachi Ltd	Information Technology	Japan	5.4
Oz Minerals Ltd	Materials	Australia	4.7
Toyota Industries Corp	Consumer Discretionary	Japan	4.5
West Fraser Timber Co Ltd	Materials	Canada	4.0
Korean Reinsurance Co	Financials	Korea, Republic Of	3.8
UPM-Kymmene Oyj	Materials	Finland	3.8
Pasona Group Inc	Industrials	Japan	3.4
Hitachi Construction Machinery Co Ltd	Industrials	Japan	3.4
Combined weight of top 10 holdings			46.5

Country exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Sector exposure (top five)



■ SKAGEN Focus A ■ MSCI ACWI NR USD

Contact



+47 51 80 37 09



contact@skagenfunds.com



SKAGEN AS, Post Box 160, 4001, Stavanger, Norway

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.