SKAGEN Vekst
Status Report – November 2015

The art of common sense

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Summary – November 2015

- As the first of autumn storms hit in November, the cold Nordic winds also swept through the SKAGEN Vekst portfolio. The fund trailed the index in the month and delivered a return of 2.9% versus a gain for the combined Nordic/Global benchmark of 4.9% (EUR).

- Measured in NOK, the largest contributors in November were Norsk Hydro, Oriflame Cosmetics and Lundin Petroleum. The largest detractors were Samsung Electronics, Wilh. Wilhelmsen Holdings and Norwegian.

- Performance was hampered due to two main reasons. First, Norwegian companies have seen increased pressure on their stock prices despite decent quarterly reports. Second, risk-off momentum in emerging markets has hurt some of our holdings in these regions.

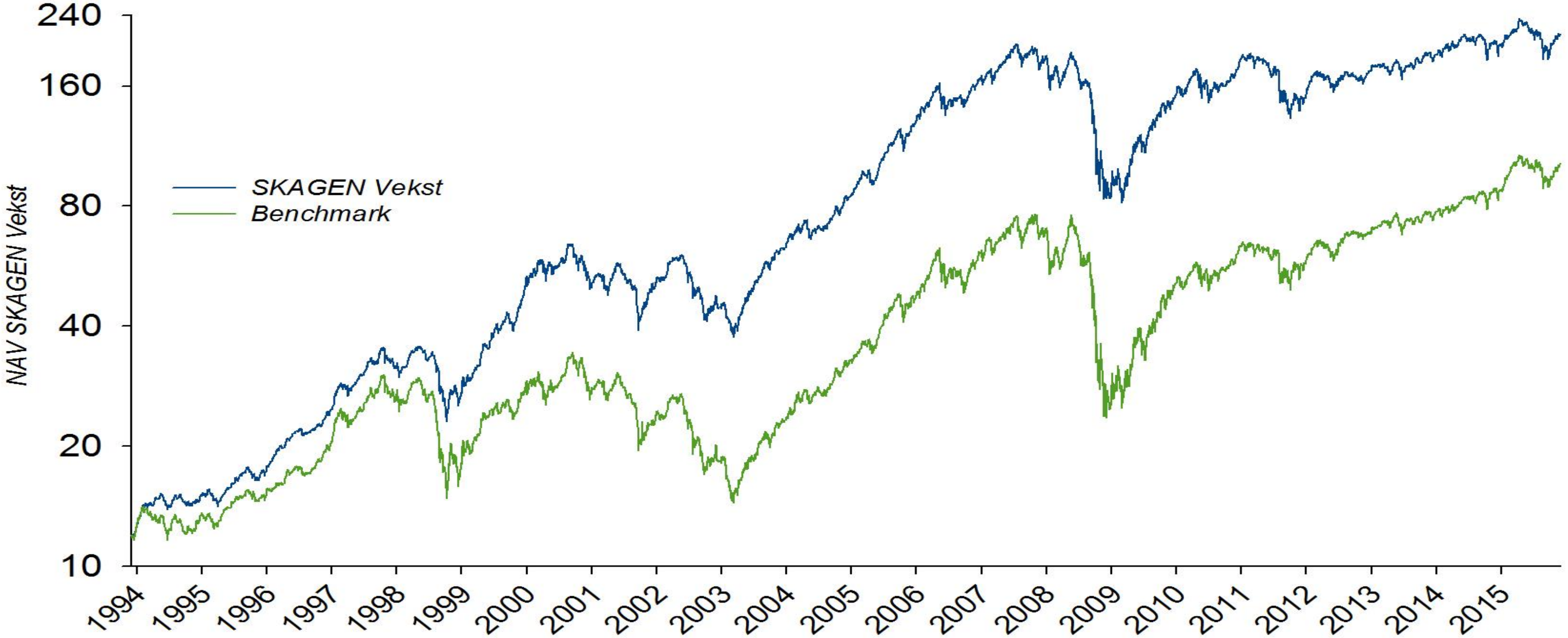
- SKAGEN Vekst initiated positions in the Swedish communication and technology company, Ericsson, and in the US egg producer, Cal-Main Foods. We also increased our holding in Norwegian Air as the share price fell on news of a potential new domestic seat tax and terror fears. We sold out of Air Asia and reduced our holdings in Kia Motors and Danske Bank.

- So far, 2015 has been a challenging year for SKAGEN Vekst, though our long-term holdings have performed well and we have a higher conviction portfolio. Together with new investment ideas (a couple mentioned in this report), we are confident we will be able to again create strong absolute returns for unitholders in SKAGEN Vekst.

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

Results, November 2015

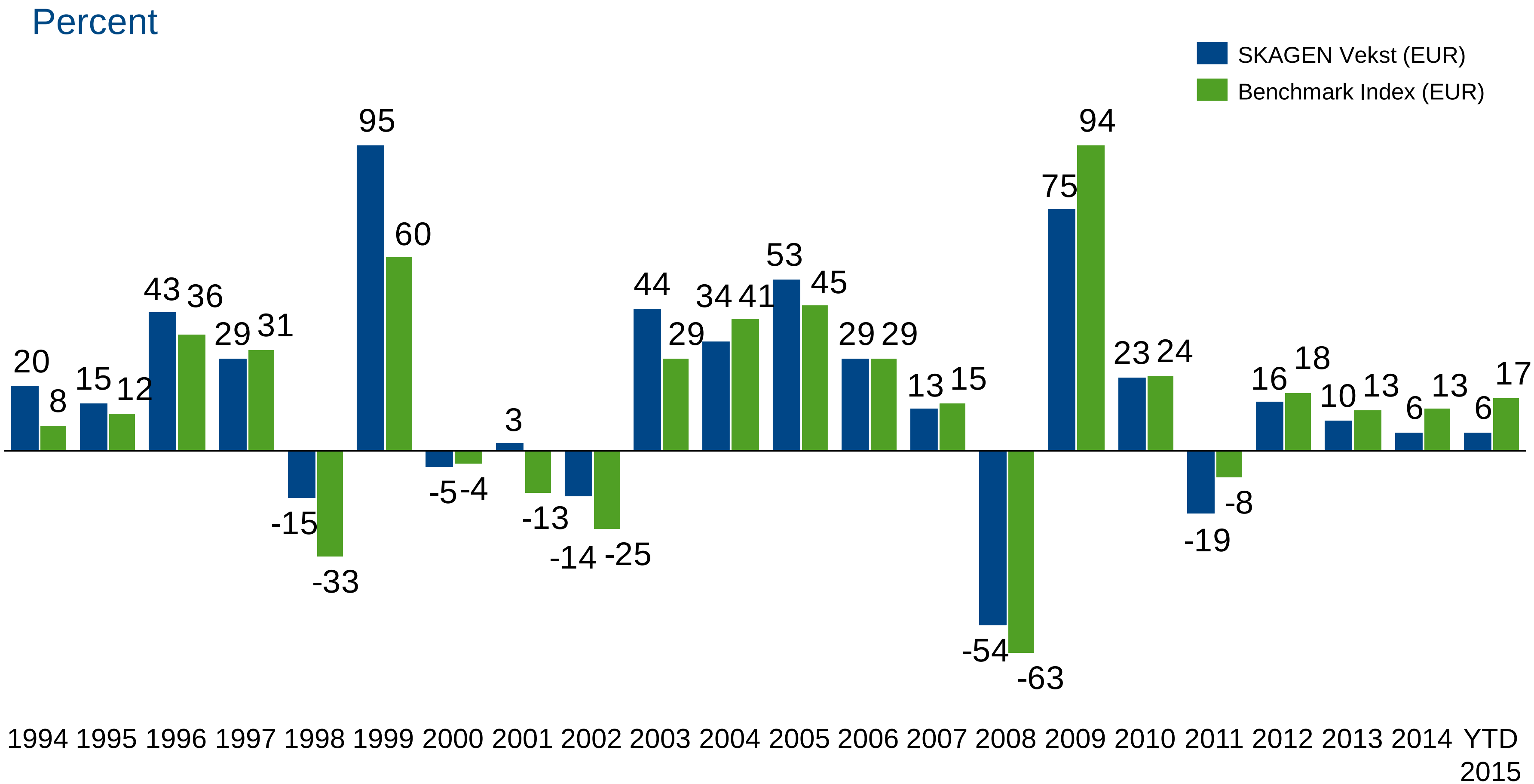
EUR, net of fees



	November	QTD	YTD	1 Year	3 years	5 years	10 Years	Since inception*
SKAGEN Vekst A	2,9%	12,3%	5,7%	4,7%	8,6%	4,8%	5,8%	14,0%
Benchmark index*	4,9%	12,9%	16,8%	16,5%	14,6%	12,1%	8,5%	10,2%
Excess return	-2,1%	-0,5%	-11,0%	-11,8%	-6,1%	-7,3%	-2,7%	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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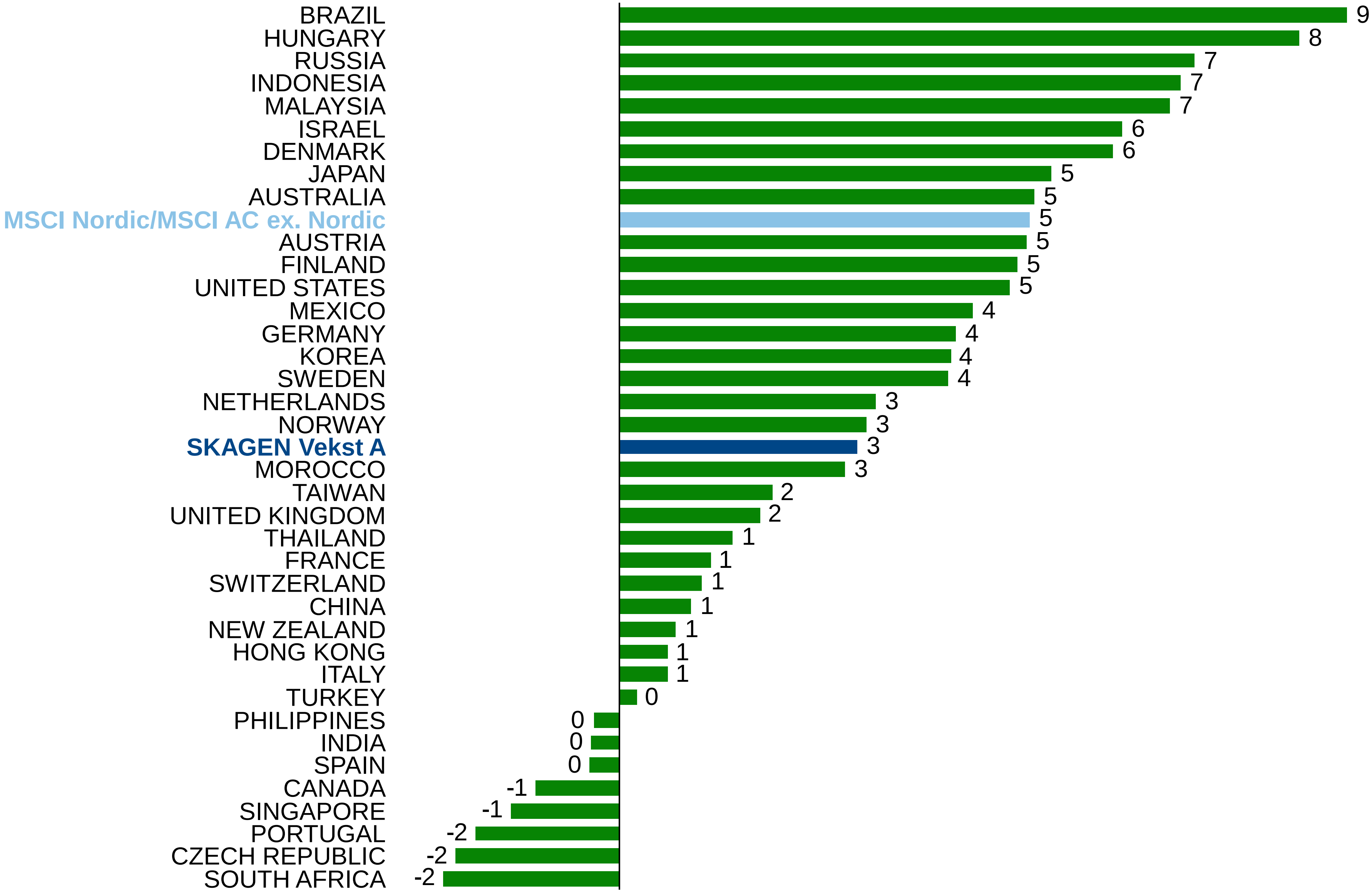
Markets in November in 2015 in EUR (%)



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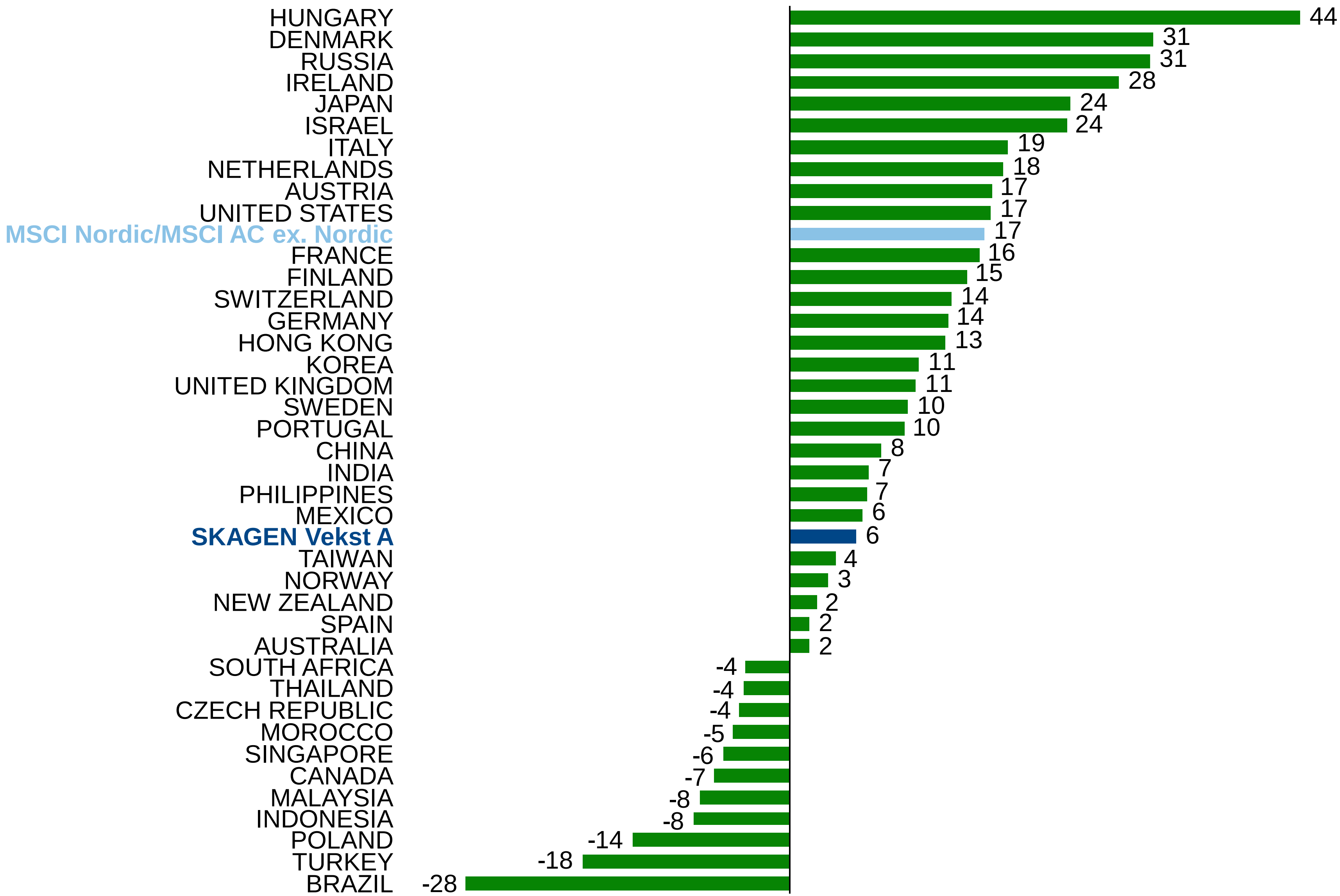
Markets YTD in 2015 in EUR (%)



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Largest holdings SKAGEN Vekst, end of November 2015

SKAGEN Vekst has 54% of its portfolio invested in the Nordic countries

	Weight in portfolio	Price	P/E 2015e	P/E 2016e	P/E 2017e	P/B trailing	Target price
Samsung Electronics	7,5 %	1 096 000	6,9	6,6	6,2	1,0	1 500 000
Continental AG	6,8 %	228	15,7	12,5	11,0	3,7	298
Norsk Hydro	6,0 %	34	16,8	13,4	9,6	1,0	45
Citigroup	5,6 %	54	8,6	8,4	7,6	0,8	77
Carlsberg	5,3 %	601	17,2	13,7	12,0	2,0	822
SAP	4,8 %	75	22,4	19,8	18,7	4,7	91
Teliasonera	4,2 %	43	10,7	10,7	11,0	1,8	50
Philips	4,1 %	26	21,6	18,5	12,9	2,2	30
ABB	4,1 %	165	14,9	11,0	9,7	3,1	250
Norwegian Air Shuttle	3,9 %	292	14,6	7,7	5,8	3,3	500
Weighted top 10	**52,4 %**		**12,5**	**10,6**	**9,2**	**1,57**	**35 %**
Weighted top 35	**91,9 %**		**13,0**	**10,8**	**9,3**	**1,35**	**45 %**
Benchmark index			**17,0**	**15,7**	**14,3**	**2,10**	

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

Main contributors MTD 2015

Largest positive contributors

Company	NOK Millions
Norsk Hydro ASA	46
Oriflame Cosmetics AG	31
Lundin Petroleum AB	28
Carlsberg A/S	22
Rec Silicon ASA	17
Citigroup Inc	16
Continental AG	14
Koninklijke Philips NV	11
Bang & Olufsen A/S	11
Fjord Line AS	10

Largest negative contributors

Company	NOK Millions
Samsung Electronics Co Ltd	-50
Wilh Wilhelmsen Holding ASA	-30
Norwegian Air Shuttle AS	-22
Credit Suisse Group AG	-21
Solstad Offshore ASA	-10
Kia Motors Corporation	-8
Teliasonera AB	-7
Bonheur ASA	-7
Yazicilar Holding AS	-5
Ganger Rolf ASA	-4

Value Creation MTD (NOK MM): 74

NB: Contribution to absolute return

Main contributors YTD 2015

Largest positive contributors

Company	NOK Millions
Continental AG	145
SAP SE	101
Samsung Electronics Co Ltd	86
Carlsberg A/S	72
Danske Bank A/S	65
Citigroup Inc	64
Norwegian Air Shuttle AS	63
Lundin Petroleum AB	57
Sberbank of Russia	56
Koninklijke Philips NV	45

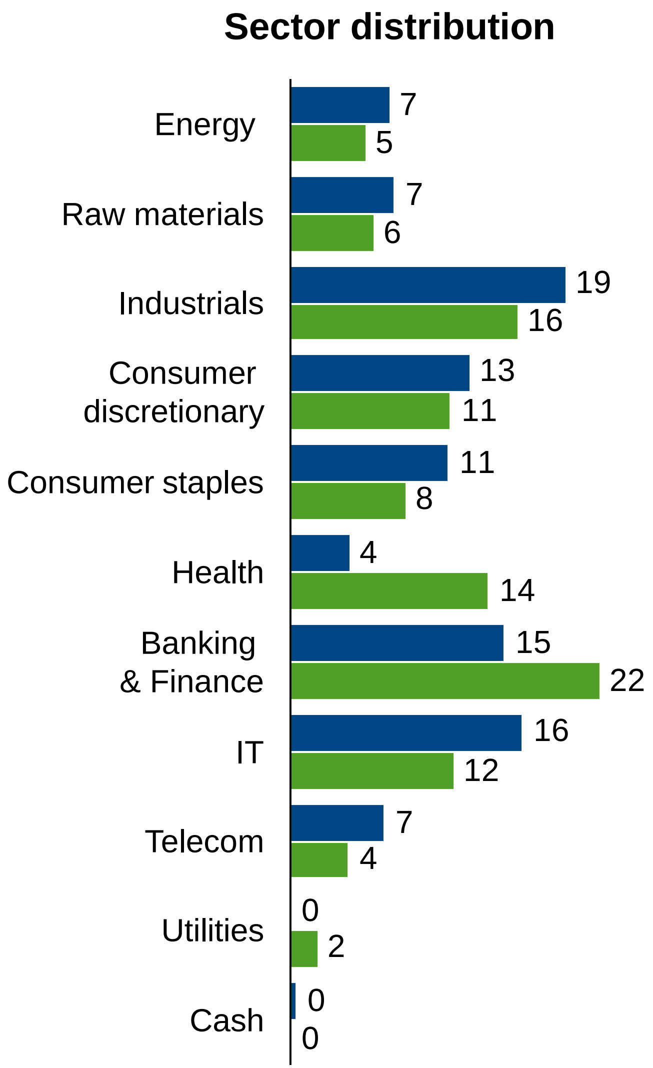
Largest negative contributors

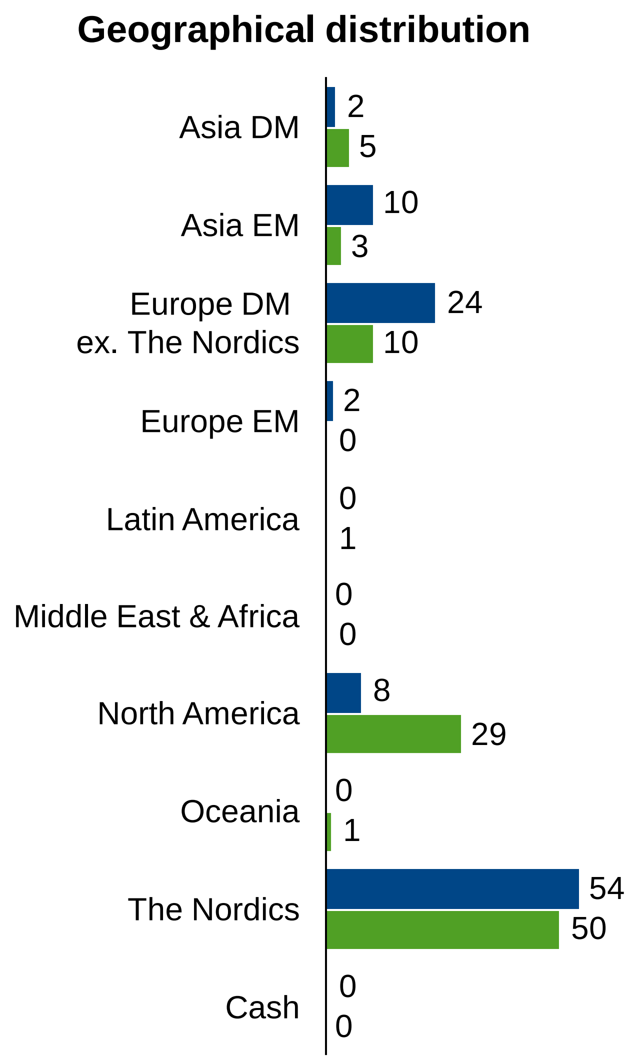
Company	NOK Millions
Norsk Hydro ASA	-111
Solstad Offshore ASA	-110
AirAsia BHD	-77
Casino Guichard Perrachon SA	-61
DOF ASA	-52
Toshiba Corp	-47
Wilh Wilhelmsen Holding ASA	-26
Bonheur ASA	-25
Ganger Rolf ASA	-23
Credit Suisse Group AG	-22

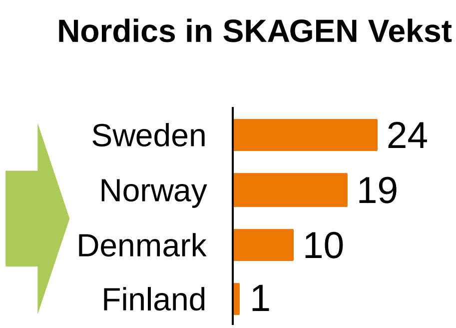
Value Creation YTD (NOK MM): 643

NB: Contribution to absolute return

Sector and geographical distribution vs. index (percent)







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Most important changes in 2015 (end November)

Holdings increased

Q1	Roche Holding AG	(New)
	Kemira OYJ	(New)
	Frontline 2012 Ltd	(New)
	Danieli & Officine Meccaniche SpA	(New)
Q2	Credit Suisse Group AG	(New)
	Elekta AB	(New)
	Solar A/S	(New)
	H Lundbeck A/S	(New)
	Golden Ocean Group Ltd	(New)
Q3	SKF AB	(New)
	Localiza Rent a Car SA	(New)
Q4	SAP SE	
	Credit Suisse Group AG	
	Ericsson	(New)
	Cal-Maine Foods	(New)

Holdings reduced

Q1	Teva Pharmaceutical Industries	(Out)
	Kongsberg Gruppen AS	(Out)
	Getinge AB	(Out)
	Q-Free ASA	(Out)
	Odfjell SE	(Out)
Q2	Toshiba Corp	(Out)
	Nokian Renkaat OYJ	(Out)
	Toto Ltd	(Out)
	Novo Nordisk A/S	(Out)
	Norwegian Finance Holding ASA	(Out)
	Stolt-Nielsen Ltd	(Out)
	Sparebanken Ost	(Out)
Q3	Korean Reinsurance Co	(Out)
	OCI Co Ltd	(Out)
	Royal UNIBREW A/S	(Out)
	Siem Offshore Inc	(Out)
Q4	Raiffeisen Bank International AG	(Out)
	Danske Bank A/S	
	AirAsia Bhd	(Out)

Key buy and sell, November 2015

Key buy

Ericsson

- The Swedish mobile technology, network and service company was brought into the portfolio after a 30% decline in share price since spring 2015 and disappointing the market in Q3.
- With the rapid growth of video streaming and increased use of mobile devices in daily life we expect both the service and sales of networks (4G+) to support continued growth.
- Since exiting handset and chip manufacturing and focusing on service and network, the company again seems to be able to revamp its margins in a potentially less competitive environment.

Key sell

AirAsia

- The Asian low cost airline has had impressive growth over the last decade, though the recent deceleration has unsettled some investors. This, combined with opaque information and the financing of loss-making affiliates, led us to exit the holding.
- The share price bounced back since the bottom in late summer 2015 and we used the opportunity to exit.
- The prospects for AirAsia are good for the longer term, but we regard the short to mid-term risk/return as less attractive than other investments.

Key earnings releases and corporate news, November 2015

Continental (6.8%)

Mixed results for Q3: tyre sales strong – Powertrain weak, guidance forward raised.

Investment case update

The investment thesis in the Germany-based tyre and car supplier is that it is a 5-8% growth company with good cash flow and a bit too much debt (when we bought the shares) with potential to improve its financial standing by its own means. The growth comes from a leading position in automotive technology (driver assistance and soon self-drive cars), while the cash flow comes from the new tyre and replacement tyre business.

Q3 was not as strong as the previous two quarters, but this is no change in trend. Q3 was negatively influenced by four factors: 1) weak China (down 13% QoQ), but market is back strongly so far in Oct-Nov (with some help from the government), 2) Weaker sales of winter tyres due to warm weather. This has changed in October, and they expect to see FY2015 sales of roughly 21 million winter tyres, on par with last year. 3) Negative mix, mainly due to Powertrain. 4) Very weak mining and oil exploration business. 17 mines closed worldwide in September and YTD there have been 71 closed mines. This has hit ContiTech in the conveyor belt business (c.25% of ContiTech's business) and they do not believe this business will pick up in the near future.

Conti increased FY2015 guidance to above EUR 39bn in revenues (Automotive 23.5 – Rubber 15.5) and hiked margin outlook from c.11% to above 11% (Auto above 8.5% and Rubber above 16%). Free cash flow is expected to be above EUR 2bn. ROE has been steady around mid-20s over the last 4 years, and we do not see any reason why this number should come down going forward. Cash flow generation is also strong (above 6% FCF yield).

Unpopular: Not exactly, but 56% sell/hold implies it does not have a crowded fan club
Under-researched: no, wide coverage (32 analysts)
Undervalued: yes, but not as much as it used to be. Even with no growth in rubber division and AutoTech continuing to grow 6%, this is a EUR 260-280 stock. In addition, ADAS (advanced driver assistant system) has rapid growth (will double revenue from 2015 to 2018).

Fact

Conti reported 9M sales up 14% to EUR 29bn (org sales +3%) and EBIT up by 16% to EUR 3.4bn (EBIT margin at 12%). Free cash flow at EUR 316m, and FCF before acquisitions of EUR 1.5bn. Net debt slightly up to EUR 4.3bn, equity ratio at 38%. Trailing ROCE up by 230 bps to 21.6%.

Key earnings releases and corporate news, November 2015 (cont.)

Carlsberg (5.3%)

Setting sail for a more profitable future – self-help case getting clearer. Stock up 7% on the news

Investment case update

The Danish brewer Carlsberg's investment case core is that it is a stable earner with sub-par profitability to peers and on route to be improved.

The Q315 report confirms the path. Organic sales grew 3% and operating profit grew 9% to an 18.9% margin. Carlsberg's annual OP-margin is 14%, while that of the three large peers (InBev, SAB Miller and Heineken) is 32%, 20% and 17% respectively. Geographical mix will not enable Carlsberg to reach more than 17-18%, but the investment thesis requires only 15.5% to reach the DKK 856 target price.

Sail 2022 strategy plan will be communicated in March 2016, so over the next few months the stock will likely move higher as Nordic investors have a large underweight in a stock with market level valuation and 3 times the growth rate.

Unpopular: yes – it is shorted, few domestic institutions hold it and it is perceived as the 'Danish Ministry of Beer'. Sell-siders are 84% sell/hold. Perfect for SKAGEN.

Under-researched: partly – 35 analysts and it is a beer company most people know. However, focus is on the poor historical track record and investors do not buy into the better profitability coming.

Undervalued: yes – EPS is likely to grow 15-20% over the next few years and stock trades at 16x earnings – in line with overall market, which has 7% growth. It is a well-known business model, so execution risk in future should be limited. Carlsberg has net debt of DKK 32bn (most of it from 2007 acquisition of Baltika in Russia), they pay DKK 1.4bn in dividend, so it will take them 4-5 years to become debt free (which would again lift net cash earnings by DKK 1bn per year), so good upside leverage.

Facts

Q315 report – main elements;

- Sales DKK 18bn +1%, OP DKK 3.5bn +2%.West Europe sales up 5%, however lower profitability. East Europe/Russia sales down 23%, but much better profitability as Q314 was impacted by write-downs. Asia 18% sales growth and better profitability due to scale effects.
- Restructuring/impairment charge of DKK 8.5bn. 97% non-cash. Will improve profitability by DKK 1.5-2.0bn by 2017 (2/3 will be visible in 2016) to fund investment in future profitability. More details in March 2016 with Sail 2022 strategy plan including working capital improvements.
- Will reduce debt and increase shareholder remuneration. M&A off the agenda – very good news and Carlsberg's M&A history is a textbook of how not to do it.

Key earnings releases and corporate news, November 2015 (cont.)

Oriflame (1.6%)

Solid Q3 numbers and strong start into Q4, stock rallied 15% on the report

Investment case update

The cosmetics company's performance has been hit by a decline in the Russian cosmetics business, while the company is continuing to gain share in Asia and Latin America. In 2015 the non-Russia growth offset the Russia decline and in 2016 the two revenue and profitability drivers will evolve further and hence give Oriflame a good growth profile.

Challenges remain in CIS and Europe, but the situation is improving slightly. Nevertheless, Oriflame once again reported double digit growth in LatAm, Turkey, Africa and Asia. These markets now account for close to half of the total sales with an increased contribution to the overall earnings. The YTD sales development is 2% in local currency and so far in Q4 sales have grown 9% in local currency. Oriflame aims to achieve sales growth of 10% (local currency) per annum with an operating margin of 15% (twice today's margin). If we assume a 10% margin and 3-4% sales growth going forward, ORI SS should be valued above SEK 200.

Unpopular: yes, 82% sell/hold. Huge short interest in the stock
Under-researched: no, 11 analysts cover the company.
Undervalued: yes, as most focus continues to be on CIS/Russia while the strongly growing business (50% of revenues) is overlooked.

Facts

Oriflame reported a sales increase in local currency of 4% while EUR sales decreased 4% to EUR 263m. Sales development was impacted by the 9% increase in productivity while the number of consultants decreased by 5% to 2.8m. Unit sales were down by 10%, while the price/mix effect was positive at 14%. The mix effect is driven by a combination of geography and product mix, primarily thanks to the fact that Wellness, Skin Care and China are still growing in triple digits.

The largest companies in SKAGEN Vekst

Samsung Electronics, the Korean electronics group, has enjoyed very solid growth in consumer electronics, especially smartphones. It holds pole position in the 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.

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. In the longer term Continental's pole position in global auto technology provides a good backdrop for substantial growth.

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.

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

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.

The largest companies in SKAGEN Vekst (continued)

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

Swedish/Finnish incumbent telecom operator offering services primarily in the Nordic region. History goes back to 1853 as the Royal Swedish Electrical Telegraph. The company is Europe's fifth largest telecom operator and offers services across Eurasia, including stakes in mobile phone operators in Turkey and Russia.

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 2016 it is expected to list their lighting division in a separate company.

ABB is a 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 150,000 employees.

Norwegian Air Shuttle is the leading Nordic-based low cost airline, which in 2015 expect to fly 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.

Mean reversion	Special situation	Long term value builder
20%	0%	80%

Ericsson LM (ERICB SS) 83 SEK

History and description of business

Founded in 1876 and headquartered in Stockholm, Sweden, Ericsson is a global leader in mobile communication network products, solutions and services. 2015e revenues SEK 245bn and OP SEK 20bn.

Networks (52% of revenues and 50% of operating income) develop, produce and market mobile communication infrastructure for voice and data. Radio panels, base-stations, transmission/backbone solutions via microwave, fibre, etc.

Services (43% of revenues and 48% of operating income) provide outsourcing of mobile network operation, management and maintenance. Network migration from 3G to 4G/LTE and next step into 5G mobile networks.

Support solutions (5% of revenues and 2% of operating income) provide network services that enable network operators to integrate content services on their platforms (media, payment, hosted services).

Geo-split: Americas 34%, Asia 25% (China 13%), Europe 24%, RoW 17%

Number of employees: 118,000 employees – SEK 2m revenue/pax, down from SEK 2.8m in 2003-09 period.

Well-known investment case for years – new VoIP services triggered renewed interest

Business model and investment thesis

Swedish engineering with global reach. Mobile communication networks are seeing ever higher data capacity needs driven by video streaming on smartphones, tablets, etc. All mobile comm. payment platforms moving towards data only – voiceover IP. Company more streamlined towards networks and service /support and less on production and consumer hardware. Partnership with Cisco.

Thesis: Ericsson didn't get full benefit of 3G, coming back in 4G, but with Huawei rocking the boat and 5G position is good.

ESG: no issues identified – for sub-suppliers Ericsson is ISO 14.001 compliant.

Triggers:

1. Shorter term triggers are improved profitability despite soft patch revenues. Apple patent case with SEK 20bn compensation to Ericsson plus SEK 6bn in annual royalty fee potential.
2. Share count reduction/higher dividends
3. Nokia/Alcatel merger will preoccupy the management team with integration issues. Huawei price dumping being addressed by EU and new 'better ROIC' policies in China. More leverage of patent pool.
4. 5G mobile network build-out and ever more small-cell infrastructure inside buildings.
5. Cisco partnership to materialise further (USD 1bn increased sales expected in 2018).

Risks

1. Insufficient efficiency gains and continued low price market approach from Huawei and others of the like.
2. Patchy record in M&A. Rumoured that Samsung's networks are for sale.
3. Technologically obsolete patent pool (very low likelihood).

Target price

With revenue growth of 5% and improved profitability (peers have 13-14% OP-margin) we can see operating earnings going from SEK 20bn to SEK 30bn in 2018. At EPS level this will be from SEK 3.60 to SEK 6.25 and with 16x multiple (market level) there is a 20% upside. In addition, there is a 4% dividend per year for 33% upside over 2-3 years.

ERICSSON

Key figures:

Market cap	SEK	273bn
	NOK	273bn
Net debt (cash)	SEK	(25)bn
No. of shares		3.3bn
A and B shares		3 251m
P/E 2015		16.8x
P/E 2016		13.4x
P/BV trailing		1.97x
ROE 2014-16		10%
Yield		4.3%
Altman Z score		3.53x
Daily turnover	SEK	850m
No of analysts		34
with sell/hold		43%

Owners

A-shares: Investor 44%, Industrivärden 33%, Handdelsbanken pension 10%
B-shs: Swedbank 6%, Norge Bank 4%

www.ericsson.com

3Us for Ericsson

Unpopular

- Well-known business but with underperformance over the last 10-12 years.
- Sell-side is mixed and after a disappointing Q315 report (lower sales in China, etc.). The stock is down 30% since the April 2015 high in line with other Swedish global exporters.
- Due to long-term performance many Swedish investors (e.g. Investor and Industrivärden) have lost patience

Under-researched

- No – as a global leader in mobile communication infrastructure Ericsson and its 118,000 engineers are good ambassadors for their technological excellence. Investor trust in management delivering on better profitability is not seen in the stock-price implying it is somewhat under-researched.

Under-valued

- Given its historical earnings profile and path ahead, fair value is about SEK 83-87. The earnings profile for 2018 could well be above 7.00 per share driven by profitability improvements, new products, harvesting the patent pool and less price dumping by Chinese competitors.
- Compared with peers Ericsson has more potential for internal improvements, so even with difficult market conditions, earnings can improve.

* In USD

For more information please visit:

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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.

The art of common sense

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