SKAGEN Vekst
Status Report – April 2016

The art of common sense

SKAGEN

Summary – April 2016

- Just as the Nordic spring has taken somewhat longer to arrive than hoped, so have calmer market conditions. In the month the combined benchmark index was up 1.2% while SKAGEN Vekst rose 2.2% in EUR. In the first month of the new quarter we have seen a weakening of the US dollar and less belief in a sharp rise in interest rates. In our view this normalised some of the more volatile markets such as currencies and raw materials. The Nordic currencies and the euro in particular had a decent recovery.

- Measured in NOK, the largest contributors in April were Norwegian, Citi and Volvo. The largest detractors were Samsung, Ericsson and Continental.

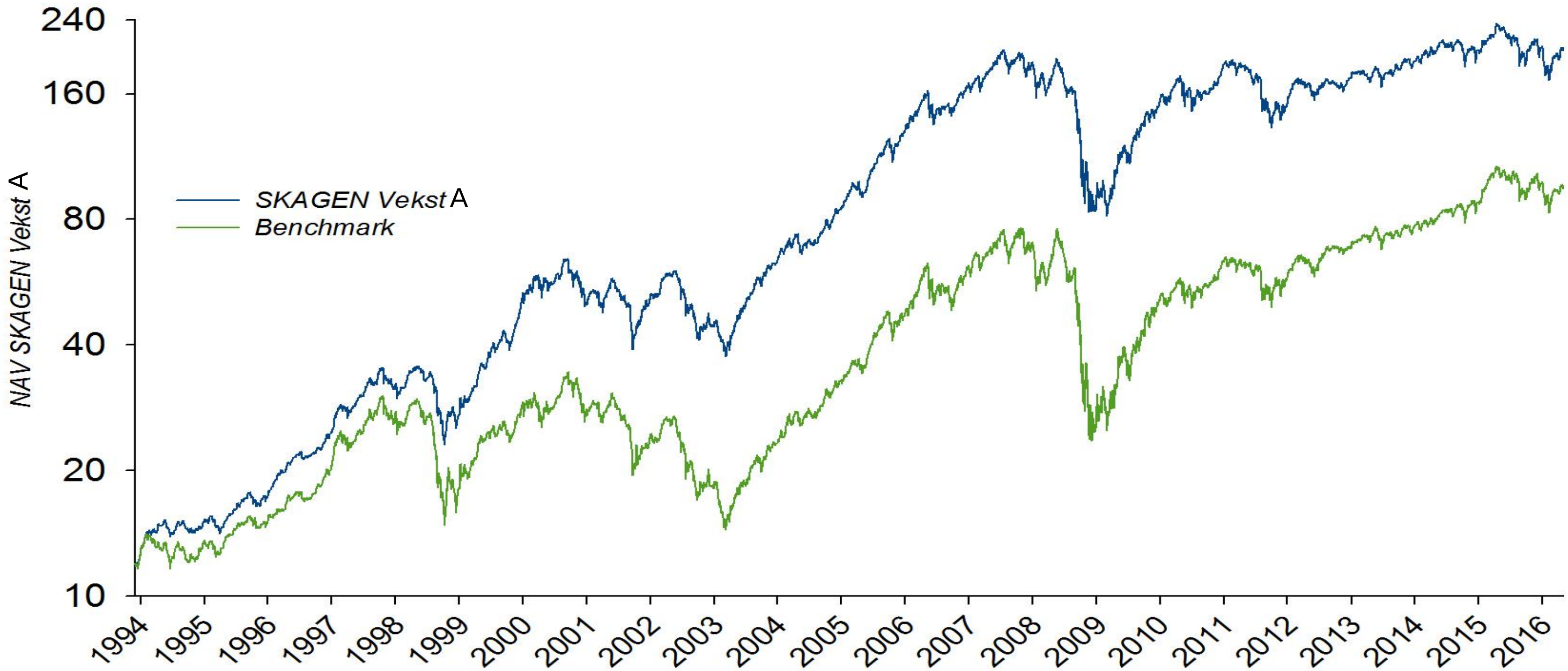
- In April markets once again became slightly more negative about the potential for global growth and with that any potential for inflation. This will prolong the current low interest rate market we have seen over the last couple of years. The SKAGEN Vekst portfolio consists of 53 positions with 91% of the fund invested in the largest 35 positions. We sold out of Casino Guichard the French grocery chain in the month and initiated one new position in the Swiss watchmaker Swatch.

- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investing philosophy. We continue to buy companies we believe are undervalued and will over time provide excess returns. Currently the top 35 positions in the fund trade at a P/E of 12x versus the index at over 16x for this year.

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*

Results, April 2016

EUR, net of fees

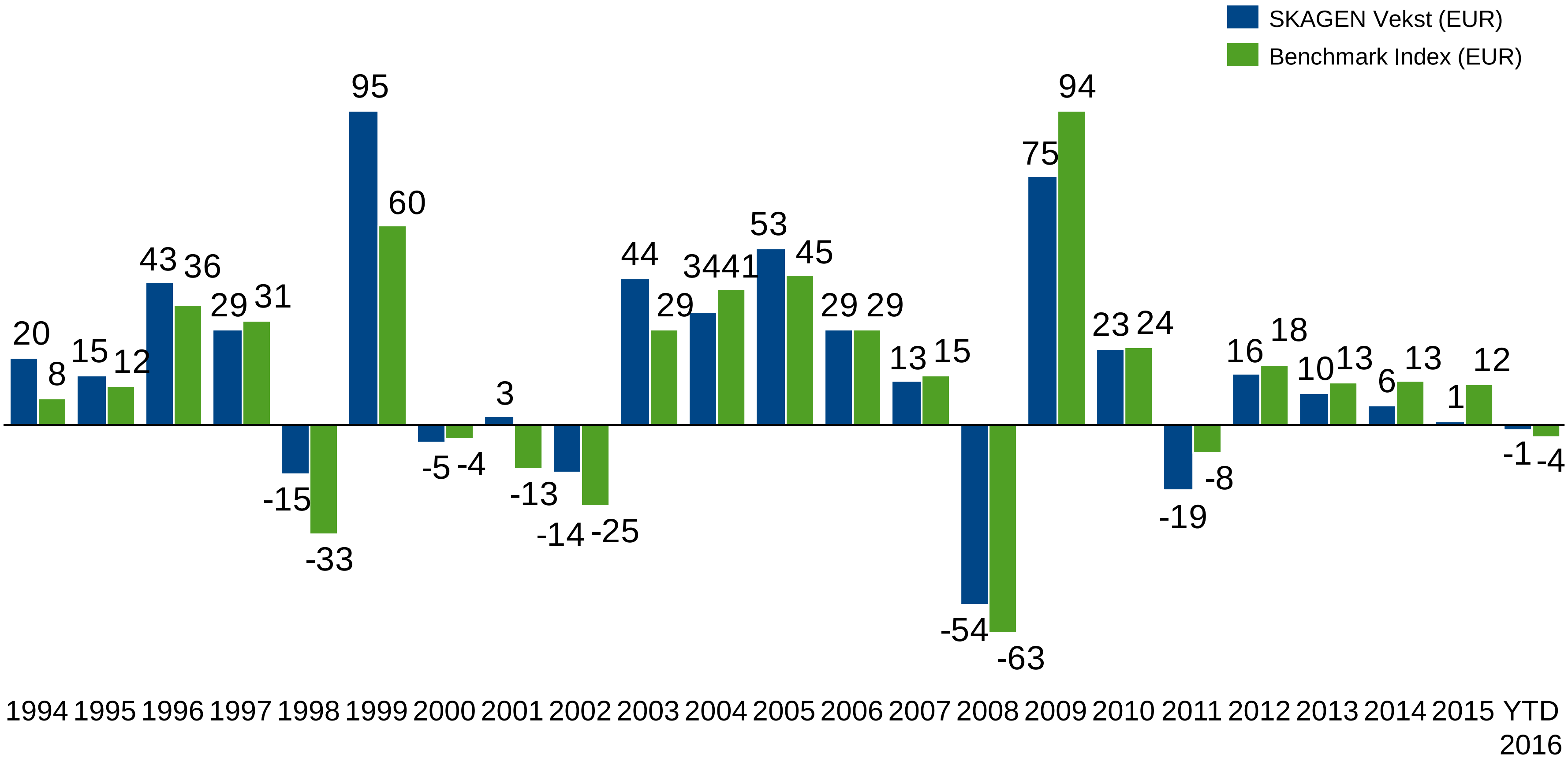


	April	QTD	YTD	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	2,2%	2,2%	-1,4%	-10,8%	4,9%	1,7%	2,6%	13,5%
Benchmark index*	1,2%	1,2%	-3,5%	-7,3%	9,0%	8,4%	4,7%	9,7%
Excess return	1,0%	1,0%	2,1%	-3,6%	-4,0%	-6,7%	-2,0%	3,8%

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

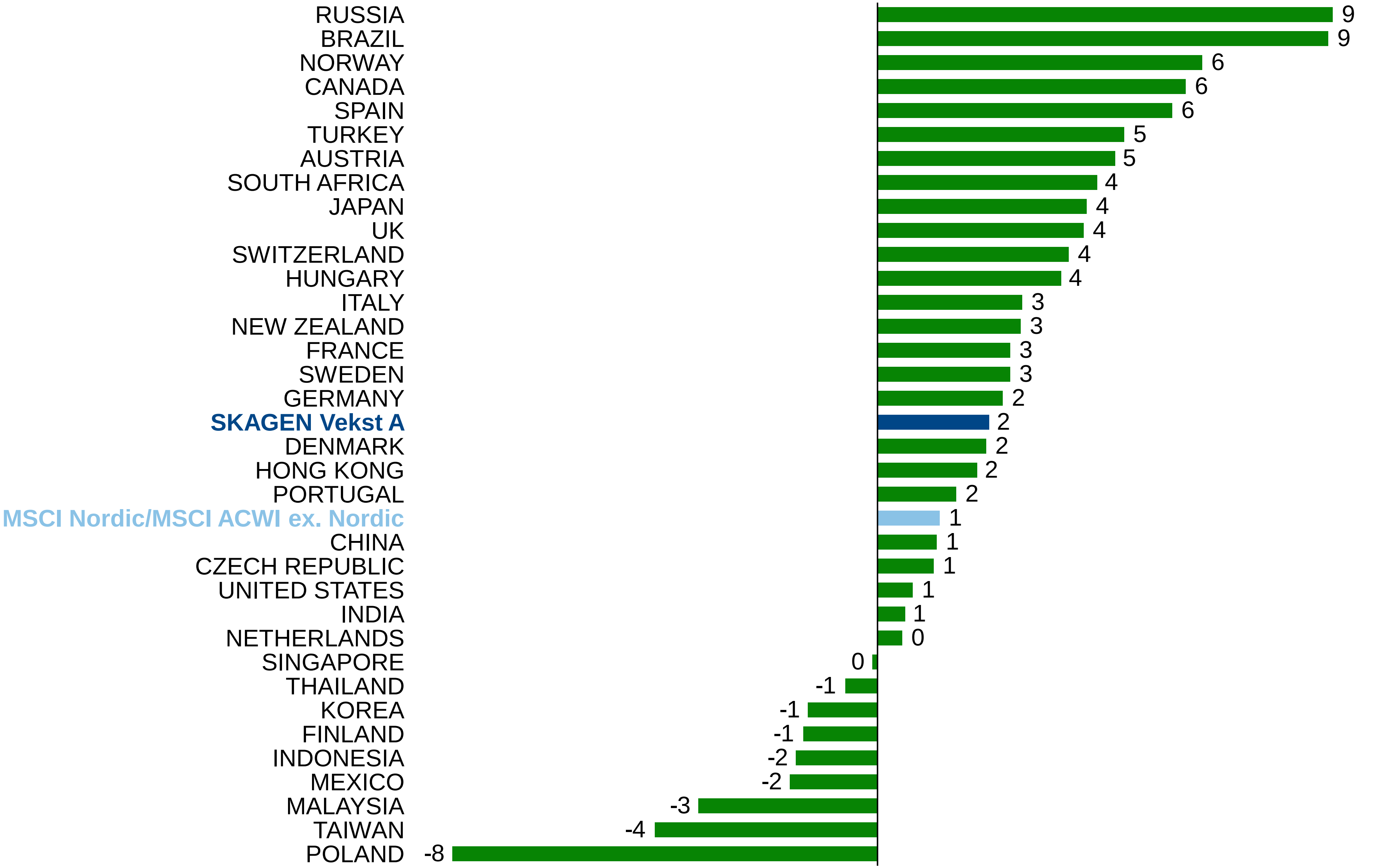
Annual performance since inception

Percent

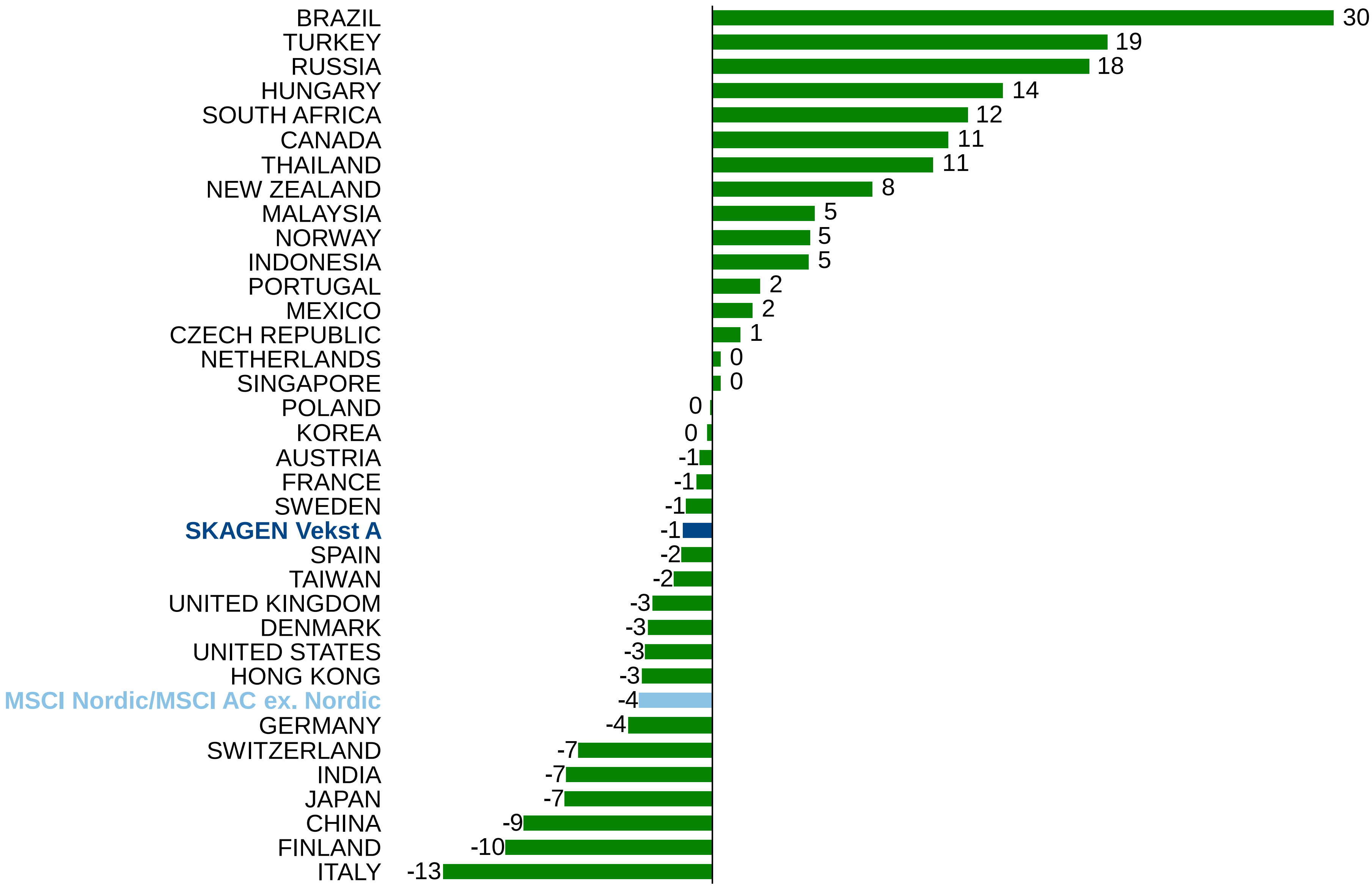


Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns 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

Markets in April in 2016 in EUR (%)



Markets YTD in 2016 in EUR (%)



Largest holdings SKAGEN Vekst, end of April

SKAGEN Vekst has 55.5% 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	6,6 %	1 043 000	7,6	7,2	7,0	0,9	1 300 000
Continental AG	6,3 %	192	11,2	9,9	9,4	3,0	275
Norsk Hydro	5,8 %	35	14,0	10,8	10,0	1,0	45
Carlsberg	5,2 %	633	20,4	15,8	14,7	2,2	822
Norwegian Air Shuttle	4,9 %	371	9,8	7,4	6,7	6,7	500
SAP	4,8 %	68	19,5	15,7	14,5	3,5	92
Citigroup	4,5 %	46	9,1	8,3	7,3	0,7	65
Ericsson	3,9 %	65	12,7	11,2	10,7	1,4	130
Philips	3,8 %	24	17,1	13,9	12,3	1,9	30
ABB	3,4 %	170	21,1	16,1	14,2	3,0	220
Weighted top 10	**49,1 %**		**12,2**	**10,3**	**9,6**	**1,51**	**38 %**
Weighted top 35	**91,0 %**		**11,7**	**9,1**	**8,0**	**1,11**	**45 %**
Reference index			**16,5**	**14,7**	**13,3**	**2,12**	

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

Main contributors April 2016

Largest positive contributors

Company	NOK Millions
Norwegian Air Shuttle AS	65
Citigroup Inc	24
Volvo AB	20
ABB Ltd	13
Rec Silicon ASA	13
Norsk Hydro ASA	12
Golden Ocean Group Ltd	12
Lundin Petroleum AB	9
Medistim ASA	8
Sberbank of Russia	6

Largest negative contributors

Company	NOK Millions
Samsung Electronics Co Ltd	-50
Ericsson LM-B SHS	-49
Continental AG	-28
SAP SE	-22
Telia Co AB	-20
Koninklijke Philips NV	-18
Kia Motors Corporation	-7
Strongpoint ASA	-7
GCL-Poly Energy Holdings Ltd	-6
Danske Bank A/S	-6

Value Creation MTD (NOK MM): -27

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

Company	NOK Millions
Norwegian Air Shuttle AS	52
Volvo AB	42
Lundin Petroleum AB	29
Norsk Hydro ASA	26
Casino Guichard Perrachon SA	19
Oriflame Cosmetics AG	18
Wilh Wilhelmsen Holding ASA	13
Catena AB	12
Sberbank of Russia	10
Golden Ocean Group Ltd	9

Largest negative contributors

Company	NOK Millions
Continental AG	-99
Credit Suisse Group AG	-86
Citigroup Inc	-74
Samsung Electronics Co Ltd	-66
Ericsson LM-B SHS	-60
SAP SE	-42
Roche Holding AG	-33
Frontline Ltd	-30
Kia Motors Corporation	-26
Investment AB Kinnevik	-26

Value Creation YTD (NOK MM): -438

NB: Contribution to absolute return

Most important changes 2016

Holdings increased

Q1

Hennes & Mauritz AB	(New)
eBay Inc	(New)
Catena AB	(New)
Golden Ocean Group Ltd	
Investment AB Kinnevik	
Roche Holding AG	
Ericsson LM-B SHS	

Q2

Swatch Group AG	(New)
Nirvana Asia Ltd	(New)
Ericsson LM-B SHS	
eBay Inc	
Kemira OYJ	
Hennes & Mauritz AB	

Holdings reduced

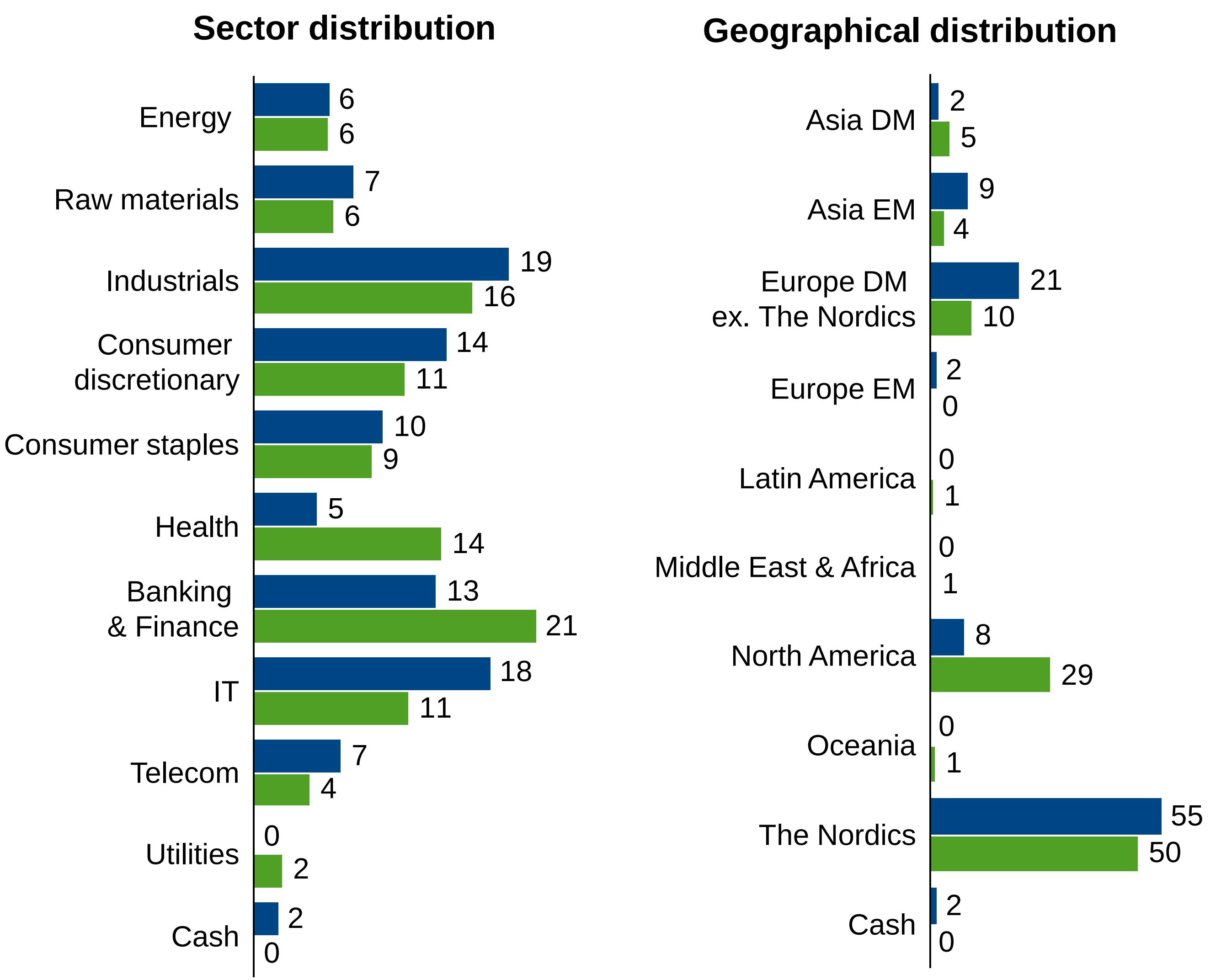
Q1

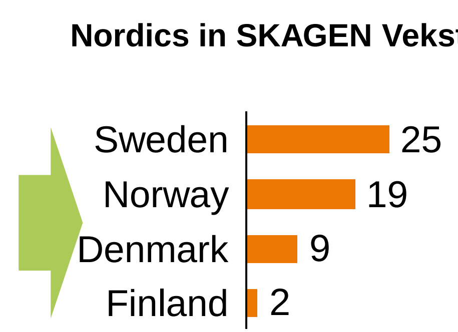
FLSmidth & Co A/S	(Out)
Localiza Rent a Car SA	(Out)
Bang & Olufsen A/S	(Out)
YIT Oyj	(Out)
Tribona AB	(Out)
Casino Guichard Perrachon SA	
ABB Ltd	

Q2

Casino Guichard Perrachon SA	(Out)
Norwegian Air Shuttle AS	
Lundin Petroleum AB	

Sector and geographical distribution vs. index (percent)





SKAGEN

Key buy and sell, April 2016

Key buy

Swatch Group AG

- SKAGEN Vekst bought into the Swiss-based watchmaker in April after it came down in valuation and analyst followers. It is also worth mentioning that the company has been one of the most shorted shares in Switzerland over the last 12 months.

- With lower growth in China and much of EM, there are fears that much of the growth market for high end watches has been saturated. We view the current currency headwind and potential stabilisation going forward as an attractive entry point.

Key sell

Casino Guichard Perrachon SA

- The France-based grocery chain was sold out after a rebound in the first quarter. Their global operations outside France have focused on South East Asia (Thailand and Vietnam) and Latin America (mainly Brazil and Columbia), though strategic changes have been made over the last year.

- Over the last couple of months there have been several rumours surrounding the company, its accounting practices and the future of its global presence.

- With the announcement of the sale of their BigC brand in Thailand, we used the opportunity and the initial price increase to exit our position at an acceptable price.

Swatch Group AG (UHR VX) EUR 314

History and description of business

The Swatch Group was formed in 1983 through the merger of two Swiss watch manufacturers, ASUAG and SSIH. With a vertically integrated business model, the group manufactures watches, watch components, jewellery, batteries, displays and scoreboards. The group holds 18 watch brands. Sales are currently mainly wholesale, but they are increasingly using their own retail channels. Greater China represents 37% of revenue, and Asia in total above 50% of sales. CEO is GN Hayek Jr. and the Hayek family controls 48% of the company. They have over 36 000 employees. Brands:

Top end: Breguet, Harry Winston, Blancpain, Glashütte Original, Jaquet Droz, Leon Hatot and Omega

High end: Longiness, Rado and Union Glashütte

Mid end: Tissot, Balmain, Certina, Mido, Hamilton, Calvin Klein watches and jewellery.

Basic range: Swatch and Flik Flak

Business model and investment thesis

Swatch has a vertically integrated business model, best in class industry technology and is a key supplier to competitors. A wide range of brands enables market share gains and protects high barriers to entry. Attractive exposure to a growing Chinese middle class. Long-term strategy focuses on market share gains, op margins currently at the low end of group potential. Underlying market in weak phase of cycle, but less bad for Swatch due to their mix (more mid-range/affordable).

Triggers:

1. Improved growth in demand for Swiss watches and especially from a growing Chinese middle-class
2. Continued increase in market share, due to expansion of its own retail network.
3. Depreciation of the CHF as well as margin expansion to full potential of the group.
4. Launch of the Mobile Payment Watch in 2016 (US, Switzerland and Brazil). Agreement with VISA.

Risks

1. Further slowdown in demand for affordable luxury, especially from Asia.
2. Continued appreciation of the CHF, all domestic production.
3. Consumers switch from traditional watches to other accessories (mobile phones, smartwatches, Google-glasses and other).

Target price

The CHF currency shock in January created an imbalance in sales prices compared to Switzerland, particularly in euro countries. Despite this extraordinary situation, the group will maintain its long-term strategy of defensive price adjustment policy over short-term profit. Hence, operating margin will be at around 18% for FY 2015. Beyond 2015, Swatch Group should be able to increase margin above 20%, but of course this depends somewhat on the currency. The best of the Swiss watch industry might be behind us, but as China is getting less bad and destocking is finally happening in HK, there should be recovery potential for the Swiss watch industry and in particular Swatch as they have been outperforming the industry since 2009.

Key figures:

Market cap	CHF	19.8bn
	EUR	18bn
Net debt (cash)	EUR	(1.4bn)
No. of shares		30.8m
P/E 2016		15.7x
P/E 2017		14.4x
P/BV trailing		1.7x
ROE LTM		10%
Yield		2.2%
Altman Z score		10
Daily turnover	EUR	90m
No of analysts		35
with sell/hold		60%

Owners

Hayek family 48%, Harbor Capital 4.7%, Harris Associates 2.8, Norges Bank 2.3%

www.swatchgroup.com

Key earnings releases and corporate news, April 2016

Samsung Electronics (6.8%)

Good report, contemplating substantial investments in OLED.

Investment case update

Headline numbers indicated in early April so this report is more about details and the share buyback announcement. There is no doubt that this was a good report as group margins expanded 70bps, primarily driven by good mobile performance (successful launch of the flagship mobile S7 propelled mobile margins to 15%). Group cash flow was also very strong (adjusted free cash flow KRW 4tr, reported free cash flow KRW 5tr) and net cash position increased to KRW 61tr. (Positive)

Having completed KRW 7tr of its KRW 11tr share buyback program, the company announced the third tranche which will be somewhat smaller than previous quarters at c. KRW 2tr. Given the decent outlook for remainder of 2016 in combination with a highly inefficient balance sheet, there is certainly room for more shareholder returns than has been announced. (Neutral)

After seeing strong demand for its OLED screens products, the company is now considering substantial investments in 2016 and our hopes for free cash flow above KRW 17tr thus need to be revised to KRW 12-13tr. (Negative)

Given the low valuation, the market is obviously concerned about DRAM price pressure (nobody is buying PCs anymore and DRAM sales declined 18% YoY) and how sustainable the 15% mobile margin is. This, in combination with a potential increase in shareholder returns, gives decent risk reward towards at least KRW 1.3m for the preference shares.

3U update

Unpopular: Yes, fears regarding semiconductor cycle and competition on phones.
Under-researched: No.
Undervalued: Yes. Mcap KRW 180tr with a huge cash pile of KRW 60tr on balance sheet. Pref shares trade below book with P/E below 7x going forward.

Samsung Q116

Sales +6% YoY, Group OP margin 13.4% (12.7% Q115), adj free cash flow KRW 4tr
Telecom margins 14.1% (10.6% Q115), Semi margins 23.6% (28.5% Q115)
3rd tranche of share buyback program: 1.3m ord, 0.3m pref (April to July)
Net cash: KRW 61.4tr

Key earnings releases and corporate news, April 2016 (cont.)

Norsk Hydro (5.6%)

Lower realised alumina and all-in aluminium prices

Investment case update

Neutral. A slightly disappointing Q1 does not rock the boat. Norsk Hydro should be able to deliver FY 2016 EBIDTA of NOK 12bn. Global demand for primary aluminium is expected to grow 3-4% this year. Risk is as usual on the supply side, and we might see some potential re-starts of Chinese capacity due to higher prices in China during Q1. This is enhanced by power tariff discounts across several regions in China, which will lower production costs. However, we see declining global oversupply and the aluminium market expected to be in balance towards year end. We keep our target of NOK 45.

3U Update

Unpopular: getting closer, 40% buys (down from 57%) – and conviction is still fading among analysts

Under-researched: no, crowded

Undervalued: yes, given their low cost production, net cash and above 3% yield. But need to see a recovery in aluminium price to get it rocketing.

Fact

NHY reported underlying EBIT of NOK 1.5bn. Bauxite & alumina weaker due to lower price as well as lower volume. Operating cash flow NOK 100 mill, including a working capital build of NOK 1.8bn. Net cash used for investment activities NOK 1.3bn. Net cash position down from NOK 3.9bn to NOK 1.2bn.

Key earnings releases and corporate news, April 2016 (cont.)

Continental (6.2%)

Good start to the year and profitability guidance for 2016 raised

Investment case update

The investment thesis is for Continental to become a structural winner in automotive technology, funded by good profitability in the tyre business. The initial investment thesis of improved cash flow to reduce net debt and hence make value in the EV transition has played out as the company will be debt free in 2017.

Conti released preliminary operating data for their AGM today. Sales grew 3% in 1Q 2016 and the EBIT margin was 11.3% vs 10.6% in 1Q 2015. Hence the company raised guidance for the 2016 EBIT margin from 'above 10.5%' to 'around 11.0%'. The bulk of the profitability improvement came from tyres and ContiTech (the unit that makes baggage conveyor belts in airports, etc.).

3U update

Unpopular: it saves lives and prevents traffic injuries so everybody should like it. The investment community is all over the place with active investors selling out and being replaced by passive funds. Half of the sell-side analysts are positive.

Under-researched: Conti is followed by analysts that also cover Michelin, BMW, etc., so the tech side of Conti is most likely less appreciated.

Undervalued: More than 50% upside based on 5% revenue growth, 11% EBIT margin, good cash conversion and cash back to shareholders as dividends and stock buybacks as the company is almost debt free. Due to mix of growth, sound financial position and cyclical nature of parts of its business, the target price is around EUR 300 including dividends or more than 50% upside.

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.

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.

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.

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.

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.

Ericsson is a Swedish multi-national corporation that provides communication technology and services. Founded in 1876 and has today a revenue of SEK 227bn. Ericsson had 33% market share in the 2G/3G/4G mobile network infrastructure market in 2014.

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 (ASEA Brown Boveri) is a Swedish-Swiss multinational corporation headquartered in Zürich, 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 135,000 employees in December 2015 and reported global revenue of USD 35.5 billion for 2015.

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.