



SKAGEN Vekst

Status Report – December 2016

The art of common sense

Summary – December 2016

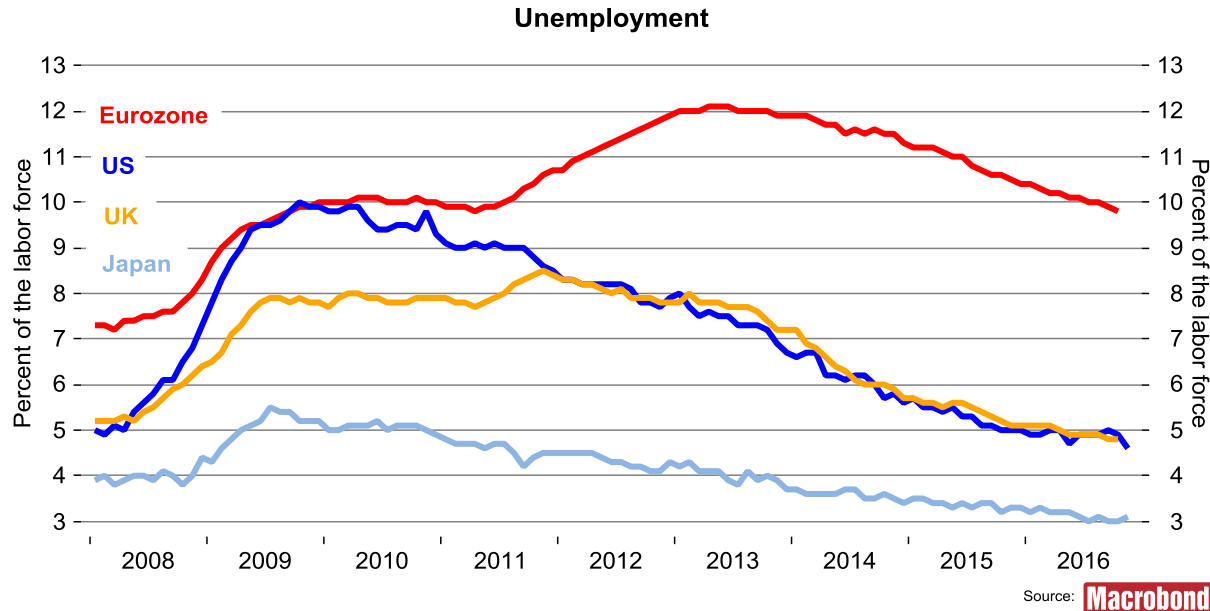
- As 2016 drew to a close, the world's equity markets continued their strong streak following the US election. The Nordic stock markets continued their recovery in December (+7% for the Nordic index) with Denmark and Finland leading the pack. SKAGEN Vekst* ended December up 5.8% (in EUR) versus 3.7% for the combined index**. For 2016 SKAGEN Vekst delivered a respectable 10.8%, which is more than 4.5% better than the combined index which returned 6%.
- Looking at the global markets in 2016 we see for the first time since 2012 that Emerging Markets this year provided a stronger return than Developed Markets, with the big markets in Brazil and Russia fighting their way back into investors' good books after a weak 2014 and 2015.
- The strong market development we saw after the US election in November continued in December. In addition, encouraging data came from both sides of the Atlantic indicating that the economy is on the right track. In the US we got the much anticipated increase in interest rates from the US Fed; the second interest rate hike in the past decade. This seems to confirm the Fed's belief in the robustness of the US economy's recovery. In the US, unemployment is now back to a level last seen in 2007/2008.
- Measured in NOK, the largest contributors in December were the Norwegian investment company Bonheur, Germany-based tyre/automotive manufacturing company Continental and the Swedish mobile technology giant Ericsson. The fund's largest detractors were H&M, GCL Polysilicon and Medistim.
- SKAGEN Vekst consists of 52 positions with 90% of the fund invested in the 35 largest positions. During the month we continued to buy into the Russian oil/gas producer/transporter Gazprom and increased our stake in Golar LNG. We trimmed holdings that have been approaching their price targets and two companies left the portfolio – Danish Solar AS and Japanese auto manufacturer Nippon Seiki. At the end of 2016, SKAGEN Vekst was valued at 13.6x current year earnings versus the market at over 18x.
- SKAGEN Vekst continues to be an active investment fund with solid foundations in SKAGEN's value based investment philosophy. We continue to buy companies we believe are undervalued and which will over time provide excess returns with focus on the Nordic region.

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

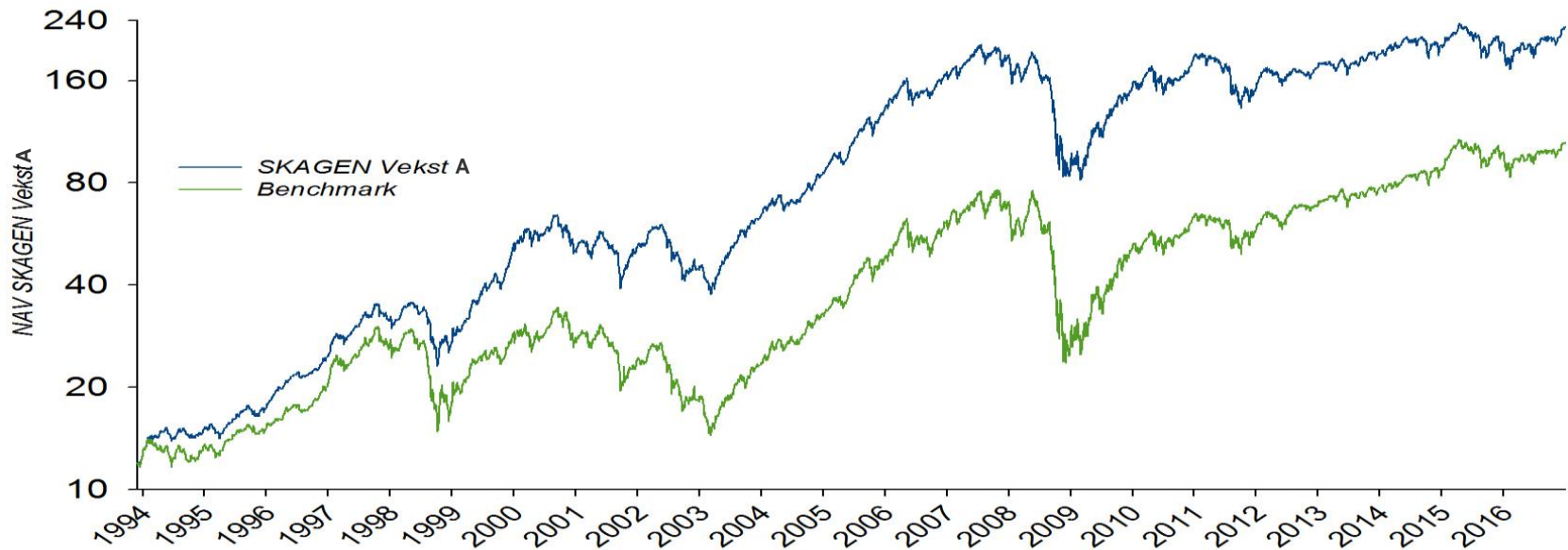
** SKAGEN Vekst's benchmark index is an evenly composed index consisting of MSCI Nordic Countries Index and MSCI All Country World Index

Unemployment is trending down and, combined with stronger figures from most economies, the outlook is brighter

The improved employment situation has not given rise to any bottlenecks or potential inflation risks of any magnitude



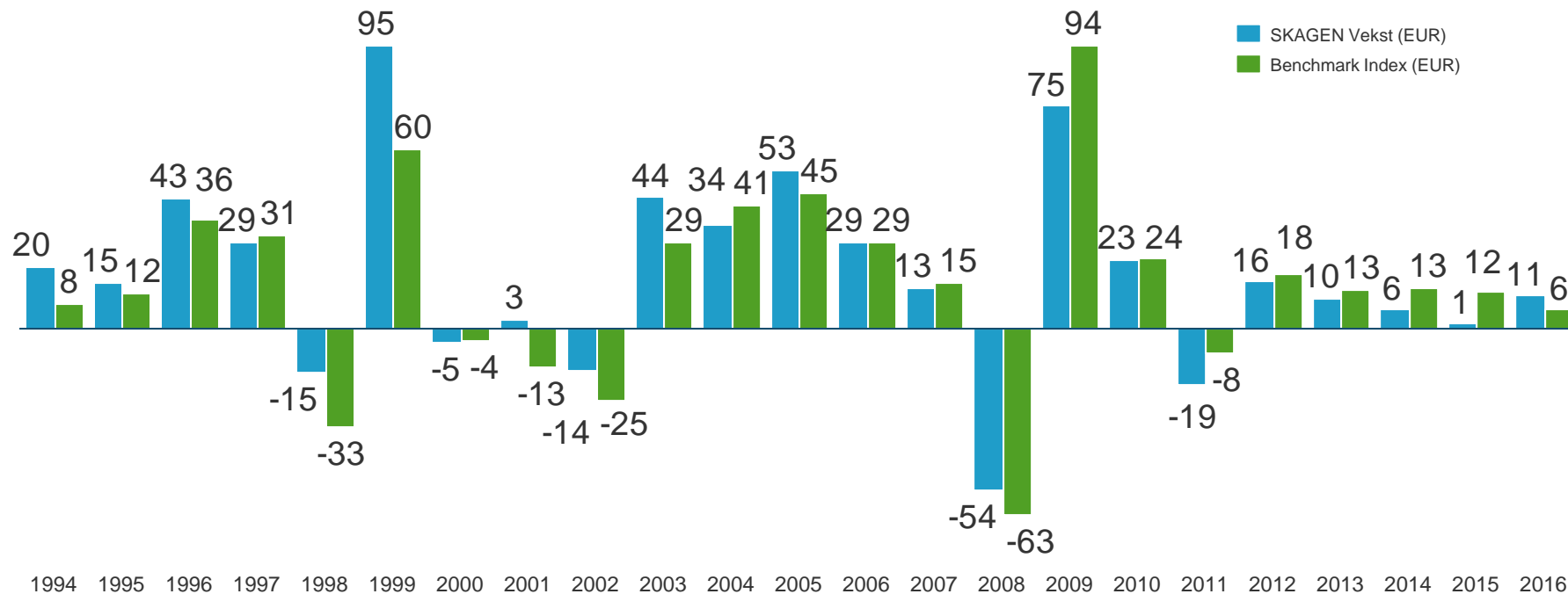
SKAGEN Vekst results, December 2016 (EUR net of fees)



	December	Q4	2016	1 year	3 years	5 years	10 years	Since inception*
SKAGEN Vekst A	5,8%	7,4%	10,8%	10,8%	6,0%	8,6%	3,1%	13,6%
Benchmark index*	3,7%	5,5%	6,0%	6,0%	10,4%	12,4%	5,4%	9,8%
Excess return	2,1%	1,9%	4,8%	4,8%	-4,4%	-3,8%	-2,3%	3,8%

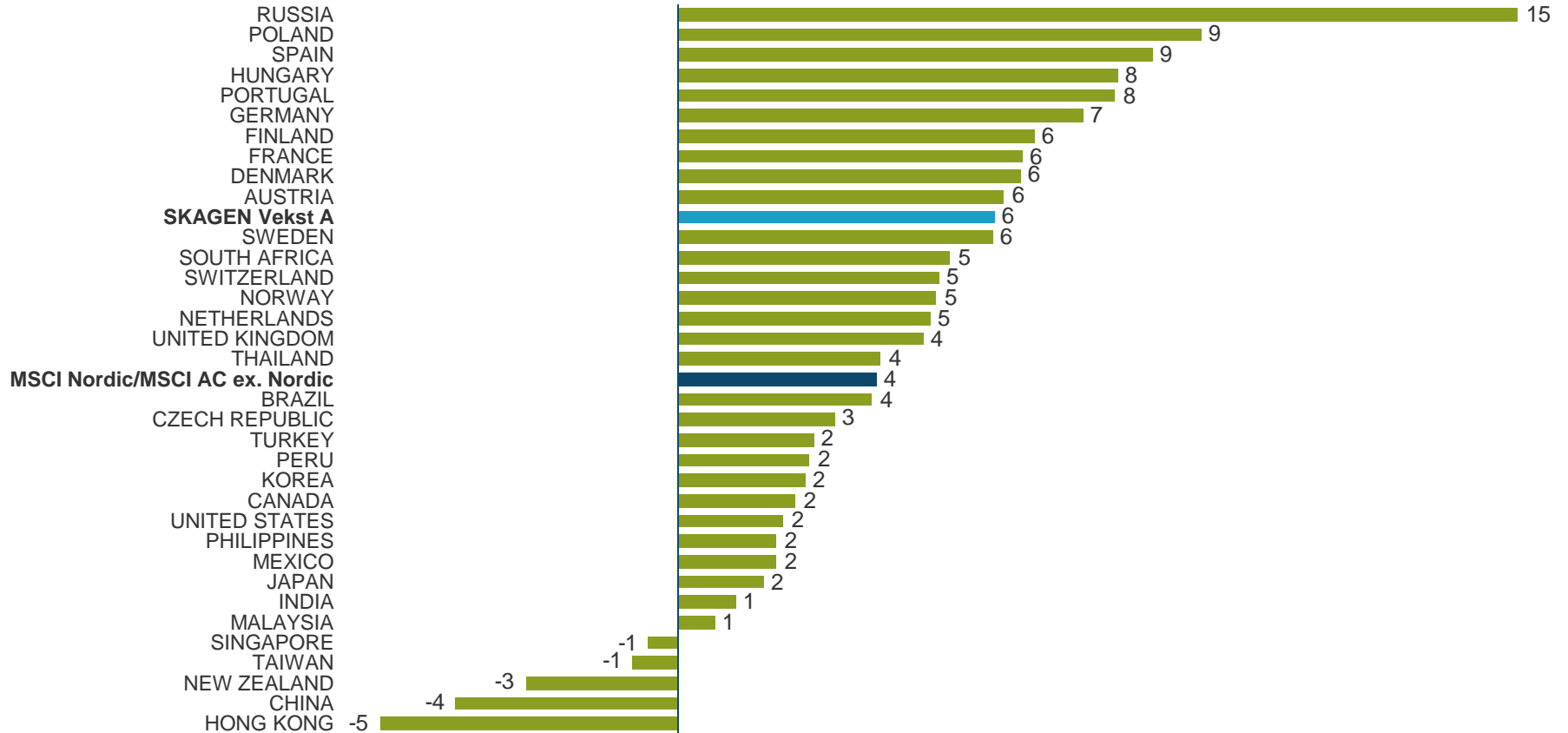
Note: All returns for periods exceeding 12 months are annualised. Inception date: 1 December 1993. Effective 1/1/2014, the Fund's investment mandate changed from investing a minimum of 50% of its assets in Norway to investing a minimum of 50% of its assets in the Nordic countries. This means that returns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

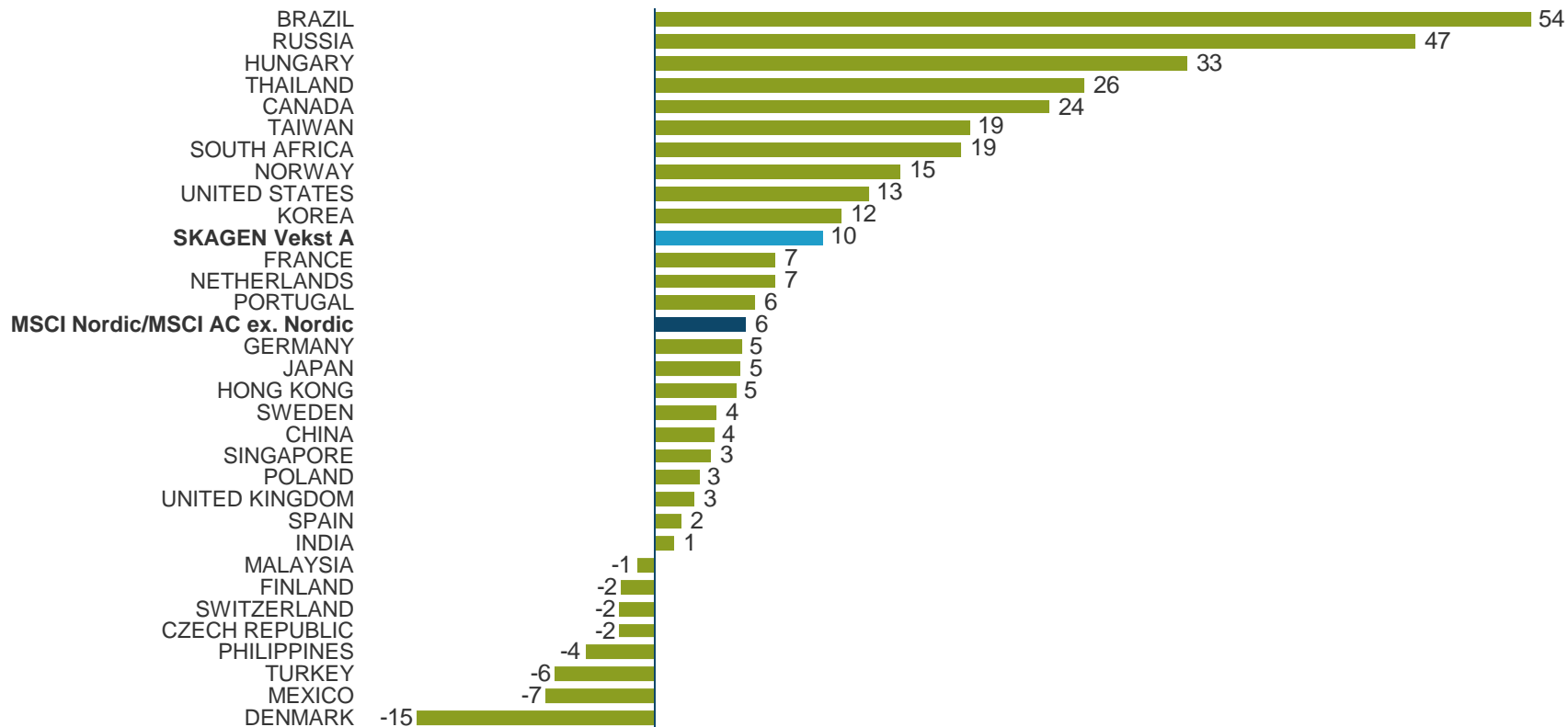


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Markets in December 2016, EUR (%)



Markets in 2016, EUR (%)



Largest holdings SKAGEN Vekst, end of December 2016



SKAGEN Vekst has 53% 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 Ltd	6,5 %	1 433 000	9,9	8,4	8,0	1,2	1 680 000
Continental AG	5,6 %	184	13,5	11,3	10,5	2,8	265
SAP SE	5,2 %	83	21,6	19,5	17,7	4,4	102
Norwegian Air Shuttle ASA	5,0 %	287	9,9	6,4	5,2	2,9	500
Citigroup Inc	5,0 %	59	11,2	10,5	9,4	0,8	75
Carlsberg AS-B	4,6 %	610	16,7	14,8	13,4	2,0	847
Norsk Hydro ASA	4,4 %	41	15,3	12,5	11,8	1,1	45
Hennes & Mauritz AB	4,0 %	253	20,3	16,9	14,9	7,7	400
Kinnevik AB-B	4,0 %	218	54,6	36,4	34,1	0,8	295
Ericsson LM-B SHS	3,1 %	54	21,2	15,4	12,0	1,3	75
Weighted average 10	47,3 %		14,6	11,8	10,5	1,6	36 %
Weighted average 35	90,8 %		13,6	11,1	9,7	1,5	36 %
Reference index			18,1	16,1	14,6	2,1	

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

Main contributors MTD 2016

Largest positive contributors

Company	NOK Millions
Bonheur	49
Continental	40
Ericsson	33
Samsung Electronics	28
Norwegian Air Shuttle	27
Citigroup	23
SAP	20
Volvo	20
Telia	17
Sberbank of Russia	15

Largest negative contributors

Company	NOK Millions
Hennes & Mauritz AB	-9
GCL-Poly Energy Holdings	-4
Medistim	-3
PhotoCure	-2
Solstad Offshore	-2
Kinnevik	-2
Shire	-2
TTS Group	-1
Golar LNG	-1
Goodtech	-0

Value Creation MTD (NOK MM): 467

NB: Contribution to absolute return

Main contributors QTD 2016

Largest positive contributors

Company	NOK Millions
Citigroup	112
Bonheur	66
Norsk Hydro	55
Samsung Electronics	50
Sodastream International	40
Sberbank of Russia	30
Danske Bank	24
Golden Ocean Group	23
Lundin Petroleum	20
SKF	20

Largest negative contributors

Company	NOK Millions
Ericsson	-30
Solstad Offshore	-9
Catena	-8
Oriflame Holding	-8
Kia Motors	-7
Carlsberg	-6
Shire	-6
Norwegian Air Shuttle	-5
eBay	-4
Goodtech	-3

Value Creation QTD (NOK MM): 625

NB: Contribution to absolute return

Main contributors YTD 2016

Largest positive contributors

<i>Company</i>	<i>NOK Millions</i>
Oriflame Holding	126
Samsung Electronics	116
Norsk Hydro	89
Sberbank of Russia	72
Sodastream International	60
Bonheur	58
Volvo	53
Lundin Petroleum	46
Wilh Wilhelmsen Holding	42
Golden Ocean Group	40

Largest negative contributors

<i>Company</i>	<i>NOK Millions</i>
Ericsson	-124
Continental	-121
Credit Suisse Group	-95
Kia Motors	-48
Telia	-45
Roche Holding	-40
Norwegian Air Shuttle	-34
Frontline	-31
Kinnevik	-26
Hennes & Mauritz AB	-22

Value Creation YTD (NOK MM): 339

NB: Contribution to absolute return

Most important changes in 2016

Increased positions

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) Philips Lightning NV Shire PLC (New) Nirvana Asia Ltd (New) CF Industries (New) Ericsson LM-B SHS eBay Inc Kemira OYJ
Q3	Investment AB Kinnevik Hennes & Mauritz AB Shire Plc-ADR Danske Bank A/S CF Industries Holdings Inc Norwegian Air Shuttle
Q4	Novo Nordisk (New) Gazprom (New) Hennes & Mauritz AB Golar LNG

Reduced positions

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) DOF ASA (Out) Eidesvik Offshore ASA (Out) Sevan Drilling AS (Out)
Q3	Norsk Hydro ASA Samsung Electronics Co Ltd Oriflame Cosmetics AG Koninklijke Philips NV Frontline (Out)
Q4	Oriflame (Out) Philips ABB Solar (Out) Nippon Seiki (Out)

Key sells in December 2016

Key Sell

Nippon Seiki

- Japanese automotive display and instrument company left the portfolio having delivered a 47% investment return.
- Nippon Seiki joined the Vekst portfolio in September 2013. The company's fundamental performance has been very close to our forecast from early 2014.
- The stock price has been on a more volatile journey despite the less volatile fundamental performance.



Key Sell

Solar AS

- Solar A/S operates as a wholesaler and service provider of ventilation systems, IT and electric infrastructure for buildings and homes. Active in Denmark, the Netherlands, Norway and Sweden.
- The investment thesis is a moderate cyclical improvement in revenues and much better profitability as their wholesale offering gets integrated into the construction and refurbishment process.
- Profitability in 2016 has been impacted by higher costs related to the preparation and integration of two acquisitions for better digital interface with their customers.
- The position was exited through company share buyback and later in opportunities that arose in the market. The investment has given a total return of 17% including dividends since spring 2015.

Key earnings releases and corporate news, December 2016

SAP
(5.1%)

SAP to provide a standard core bank IT system to Helaba – important move into financials

Investment case implications

Positive. SAP is a world leader in corporate software and the key investment thesis is profitable growth at an attractive valuation. The German daily Frankfurter Allgemeine Zeitung reports that Helaba, the German Landesbank for the States of Hessen and Thuringia, has chosen SAP as a provider for a new core bank IT system. SAP won this order in a contest with several competitors.

Helaba will spend triple digit millions of euros on this, so this is both a large ticket and a benchmark order for SAP.

Helaba is the first large German bank to choose standardised software from SAP. Being a Landesbank, it focuses on retail and small businesses, which are less complex than large banks, so a well-functioning standard system can be sold to a lot of banks.

Good for SAP and not so good for legacy basement mainframe system providers.

54% of global IT spend is on the financial industry and there are no standard systems to speak of. The SAP/Helaba deal therefore appears to be an important breakthrough into the financial IT spend pool for SAP. Target price for SAP is around EUR 100 by the end of 2018 and, if anything, the Helaba deal moves the target up a notch or two.

3U Update

Unpopular: A liquid, EUR 107bn market cap company (12th largest in Europe) with decent 8% growth over 20 years at market valuation makes it popular with many investors. Founders led by Hasso Plattner control 20% and company has 3% of own shares. 47 sell side analysts monitor the performance.

Under-researched: SAP transformation from on-premises software to subscription and cloud-based solutions lowered profitability visibility in the medium term as the objective gross margins for Cloud were 20 percentage points lower than the on-premises software. In 2016 the visibility has improved and the stock is up 13% YTD reflecting increasing confidence among investors. 47 sell side analysts follow the company and 61% have 'buy' recommendations.

Undervalued: Assuming the transition towards subscription-based software revenue continues as we have seen over the last two years, then we get to an end of 2018 target price of EUR 101 (unchanged since last update) based on a 5.5% return requirement. The simple 20x year end earnings (25 year history) imply EUR 93 by end 2017, up 13%.

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

Catena
(1.4%)

Catena buys properties for SEK 474m

Investment case implications

Positive. Catena continues growth strategy and acquires logistics assets for SEK 474m. This is a follow-up on recent acquisitions in Mölnlycke (SEK 200m and Helsingborg SEK 103m). All these assets are strategically located and confirm that the companies' growth strategies are catching up with a faster logistics chain driven by fast-growing e-commerce. With the acquisitions come capex obligations, but also leasing commitments and running cash flow.

Event Summary: Catena is biggest logistics player in Sweden with a clear focus on e-commerce and city logistics. Supply is low in large modern facilities and demand increasing. In the new property DHL (as largest client and seller of assets) has an average lease term of 13 years. Acquisition (pre capex) yield >7%. Transaction brings confidence since money from placement in October is now capitalised.

3U Update

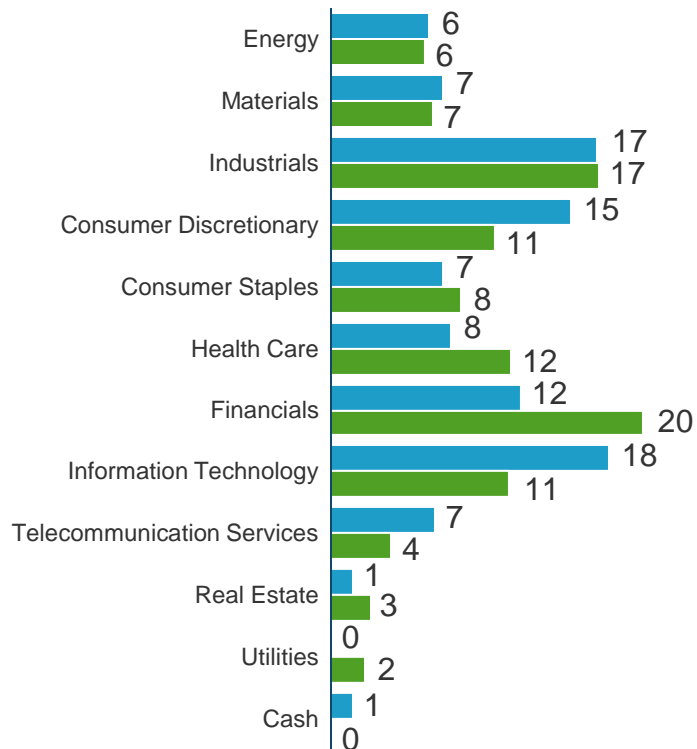
Unpopular: Yes, 1 small local analyst covering the company

Under-researched: Yes, few local followers

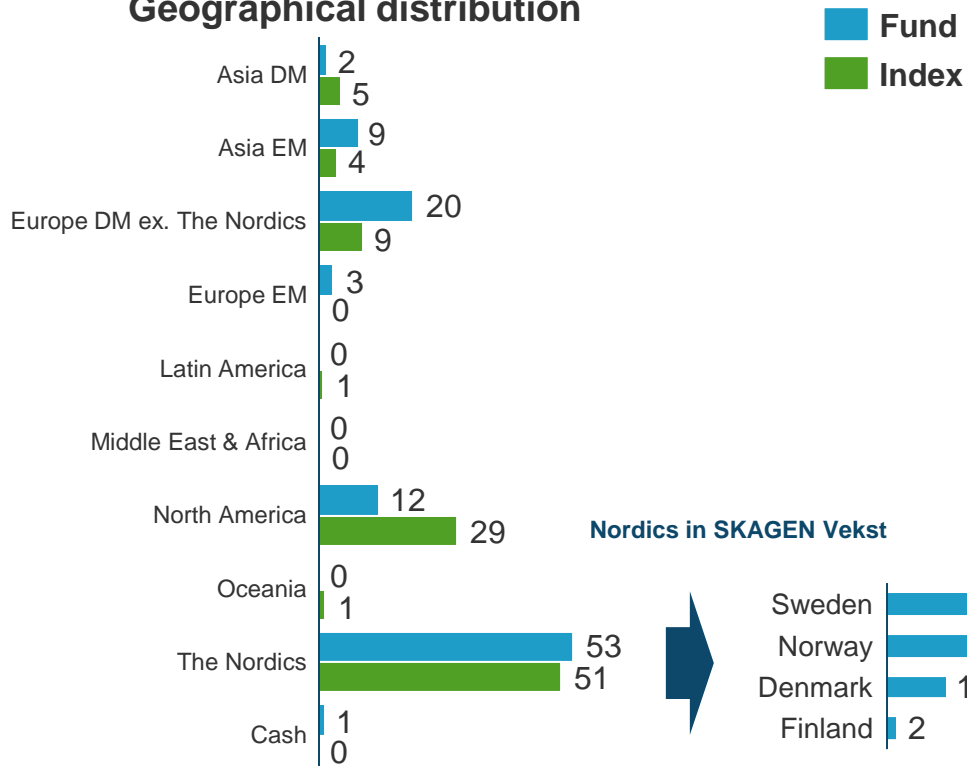
Undervalued: Yes, company is undervalued considering its defensive but strong cash flow generation, growth/restructuring potential and unique market position with reasonable leverage. Company is trading at a 6% discount to spot NAV and LTM P/CEPS is ~6x (adj for share issue in Oct.)

SKAGEN Vekst sector and geographical distribution

Sector distribution



Geographical distribution



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



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



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)



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.



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.



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.



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.



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.

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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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